



Vulnerability Profile of Bangladesh

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of the list of least developed countries (LDCs)

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Executive summary

The present study documents how Bangladesh is approaching the 2021 Triennial Review after a period of sustained economic growth, underpinned by robust progress in terms of productive capacity development, as measured through UNCTAD's multidimensional Productive Capacity Index (PCI). Economic growth during the last couple of decades has been pulled by the expansion of manufacturing and services, both in terms of composition of output and of labour share, while on the demand side consumption and gross capital formation have been the main drivers of growth. The process of capital deepening has been accompanied by rapid sectoral labour reallocation, away from agriculture and into manufacturing and services, as well as a significant rise in agricultural productivity, resulting in so-called "growth enhancing structural change". Bangladesh has also witnessed a remarkable boom in its international trade, with merchandise exports growing fourfold between 2005 and 2019, and imports growing at a slightly higher pace; accordingly, the country has consistently remained in net trade deficit, with respect to both goods and services. Although the outbreak of COVID-19 has triggered multiple shocks hitting both aggregate demand and aggregate supply, existing forecasts suggest that Bangladesh may weather the downturn much better than neighbouring countries, maintaining a positive GDP growth (between 1.6 and 5 per cent, depending on the sources). Several factors can explain this performance, including most importantly: the resilience of the agricultural sector; the adaptability of businesses (e.g. textiles and clothing firms repurposing their factories to produce personal protective equipment); the increase in remittances and some support by multilateral donors; the coordinated stimulus package enacted by the government, notwithstanding limited fiscal space. In spite of this, heightened uncertainty looms large on the future outlook, and the COVID-19 shock may well exert long-lasting effects in terms of poverty and employment destruction.

Against this background, the Vulnerability Profile finds that Bangladesh is expected to meet all the established LDC graduation criteria for the second time at the 2021 Triennial Review by the Committee of Development Policy. Of particular interest, is the progress recorded by the country in terms not only of GNI per capita – itself a reflection of the rapid growth – but also of the Human Asset Index (HAI). Broad-based improvements in health- and education-related indicators testify the long-term investments made in broadening access to related services. Meanwhile, in terms of Economic and Environmental Vulnerability Index (EVI), Bangladesh will continue to meet the graduation threshold in spite of its traditionally high export concentration and its heightened proneness to climate change and natural hazards. Given the amplitude of low-lying coastland areas and related communities, environmental vulnerability remains, however, a critical source of concern for the years to come, with attendant investment needs in climate change adaptation and disaster preparedness.

The Vulnerability Profile highlights how, even though Bangladesh is approaching LDC graduation on the back of sustained progress and with strong political will, there is no time for complacency. In particular, four lingering sources of vulnerability which will continue to shape Bangladesh's trajectory towards graduation and beyond:

1. Heightened reliance on LDC-specific International Support measures (most notably in terms of preferential market-access);
2. Lack of export diversification, and over-reliance on low-tech textile and clothing products;
3. Dependence on external development finance, predominantly in the form of migrant remittances, to support capital accumulation; and
4. Exposure to the far-reaching effects of climate change, notably in terms of sea level rise and heightened frequency/intensity of natural disasters.

Accordingly, the study outlines key policy priorities, in the context of LDC graduation and beyond: (i) enhancing domestic resource mobilization; (ii) investing in climate-resilient and digital infrastructure; (iii) improving the business environment; (iv) mobilizing renewed investments in human capital and Science Technology and Innovation (STI) ecosystem; and (v) anchoring LDC graduation in the national policy strategies and industrial policy framework.

1. Introduction

This report presents the Vulnerability Profile (VP) of Bangladesh, as mandated by the General Assembly resolution 59/209 of 20 December 2004, which stated that "after a country has fulfilled the criteria for graduation for the first time, UNCTAD is mandated to prepare a vulnerability profile on the identified country to be considered by the Committee for Development Policy (CDP) at its following triennial review" (para 3(b)). The study is meant to be used as background document for the CDP deliberations (to be held in 2021) on the preparedness of Bangladesh for graduation from the least developed country (LDC) category. As such, the VP serves a dual purpose:

- a) to inform CDP in its assessment of the economic and social progress observed in Bangladesh, first through the country's performance under the three eligibility criteria considered for LDC inclusion/graduation, namely per capita income, human asset index (HAI), and economic and environmental vulnerability index (EVI), and secondly through other evidence-based considerations as deemed necessary;
- b) to provide the Government of Bangladesh with a broad range of findings that may enrich the debate on preparations for LDC graduation; and
- c) to offer some concrete insights on potential elements of a smooth transition strategy to the post-LDC status, in line with corresponding mandate enshrined in the General Assembly resolutions 59/209 (20 December 2004) and 67/221 (21 December 2012).

The report is structured as follows. The next section contextualizes the trajectory of Bangladesh through an analysis of its growth and structural transformation pattern, as well as of its trade performance, globally and regionally; finally it outlines the key impacts of the COVID-19 pandemic on the economy highlighting the main channels of transmission and the initiatives adopted to respond to the crisis. Section three assesses Bangladesh performance against the criteria for inclusion/graduation from the LDC category, as well as their underlying dimensions. Section four takes a more forward-looking stance and analyses some of the key development challenges the country faces towards graduation from the LDC category and beyond. Finally, the concluding section summarizes the findings of this report and provides some elements of potential policy priorities.

2. Situation analysis

This section situates the Bangladesh performance towards graduation from the LDC category in the broader context of the country's structural transformation trajectory. The purpose of this contextualization is to go beyond a simplistic assessment of performance against LDC criteria and focus the attention of the long-term process,

which should ultimately underpin successful progress towards the graduation milestone, in the spirit of so-called “graduation with momentum” (UNCTAD, 2016a).¹

The section begins by using UNCTAD’s Productive Capacity Index (PCI), along with other indicators, to assess the Bangladesh performance, highlight its broad-based progress and benchmark it against other developing countries, in the region and across the world. It then provides a bird-eye view of the country’s regional integration as well as of geopolitical risks. Finally, it provides a situation analysis of the impact of COVID-19 and of the ensuing economic crisis.

2.1 Contextualizing the country’s structural transformation trajectory

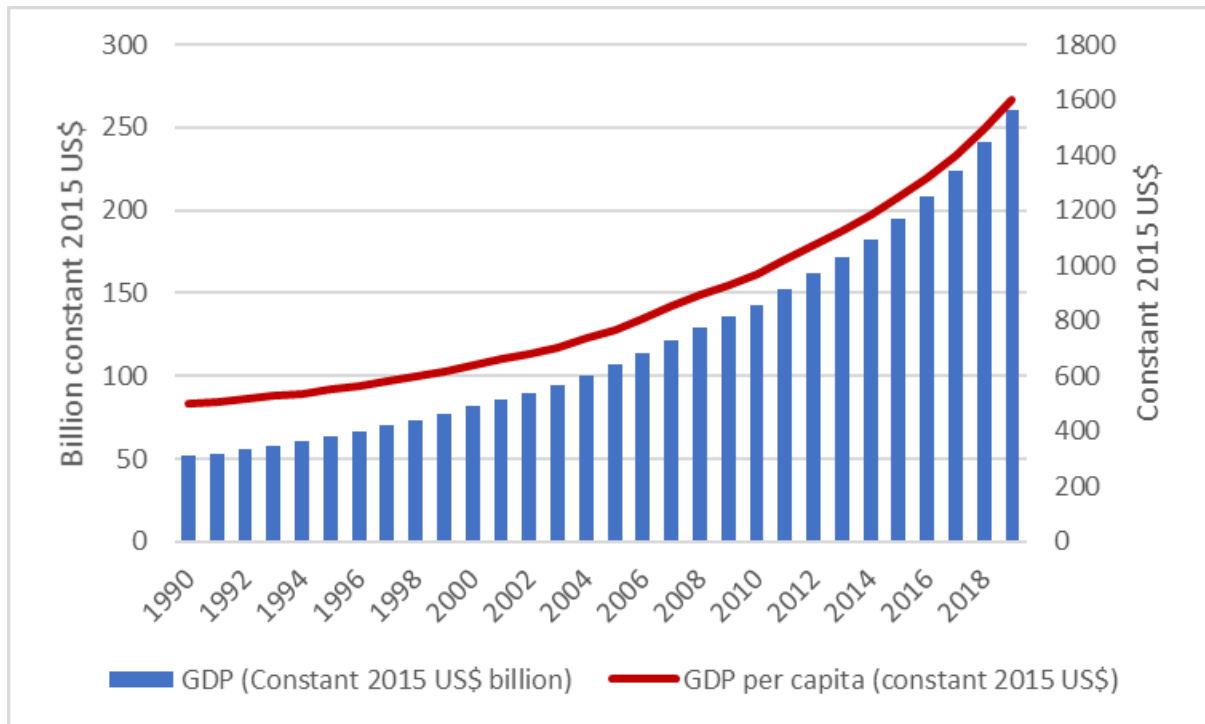
Over the last two decades, Bangladesh has achieved remarkable economic progress, as can be epitomized by the fact that the country’s GDP has more than trebled in real terms from the year 2000 to 2019.² Over the same period, GDP per capita increased by a factor of 2.5, portending considerable improvements in the standard of living (Figure 1). The main factor behind this economic boom has been the sustained and steady dynamism of the economy over the last three decades, with an average GDP growth rate of 4.8% 5.8% and 6.8 in 1990s, in 2000s, and in 2010s, respectively. Growth opportunities unleashed by trade liberalization reforms in the 1990s (Williamson, 1999; Raihan, 2008), have consolidated more recently, and the pace of growth accelerated further, pulled by the successful expansion of export-oriented industries, buoyant remittances inflows and rapid improvements of agricultural productivity .

In recent years Bangladesh has featured among the fastest growing economies in the world, with GDP expanding at a rate of more than 7 per cent between 2016 and 2019 (Figure 2). As a matter of fact, the country outperformed the average annual GDP growth rate of LDCs since 2010, and that of South Asia in the last 2-3 years prior to the pandemic. Moreover, unlike other LDCs, Bangladesh has not suffered any contraction in real GDP per capita since 1989, notwithstanding some slowdowns and occasional political crises. Besides, a gradual decline in the rate of demographic expansion has gone hand in hand with economic buoyance, with the population growth rate falling steadily from 2.35% in 1991 to 1.90 % in 2001, 1.15% in 2011 and 1.03% in 2019 (Figure 3). This decline, and the associated demographic transition, have also contributed to amplifying the effect of economic boom in terms of average income per capita .

¹ The notion of “graduation with momentum” refers to a situation whereby graduation from LDC category follows naturally from a successful long-term process of structural transformation and is regarded as a milestone in the broader developmental context. This is opposed to a narrow perspective focused predominantly on meeting the graduation criteria and adopting measures aimed at achieving statistical eligibility for graduation, regardless of the underlying development trajectory (UNCTAD, 2016a).

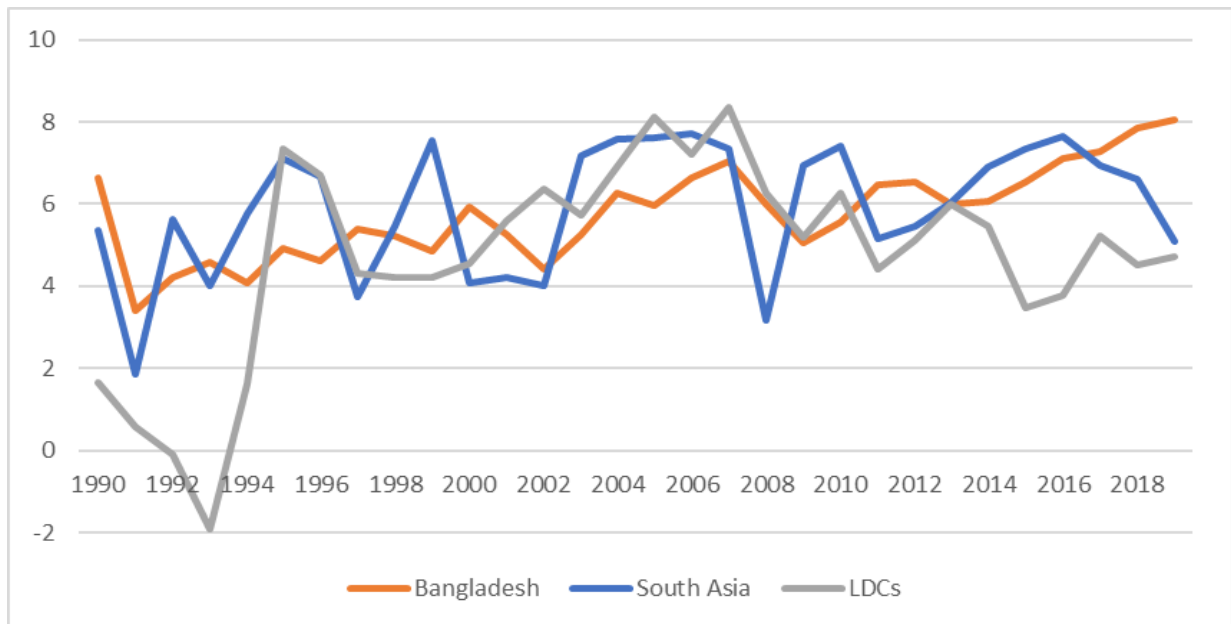
² Notice that unlike international statistics, the official statistics of Bangladesh usually refer to fiscal year data which starts in July and ends in June.

Figure 1: Bangladesh real GDP and real GDP per capita (1990-2019; Constant 2015 \$)



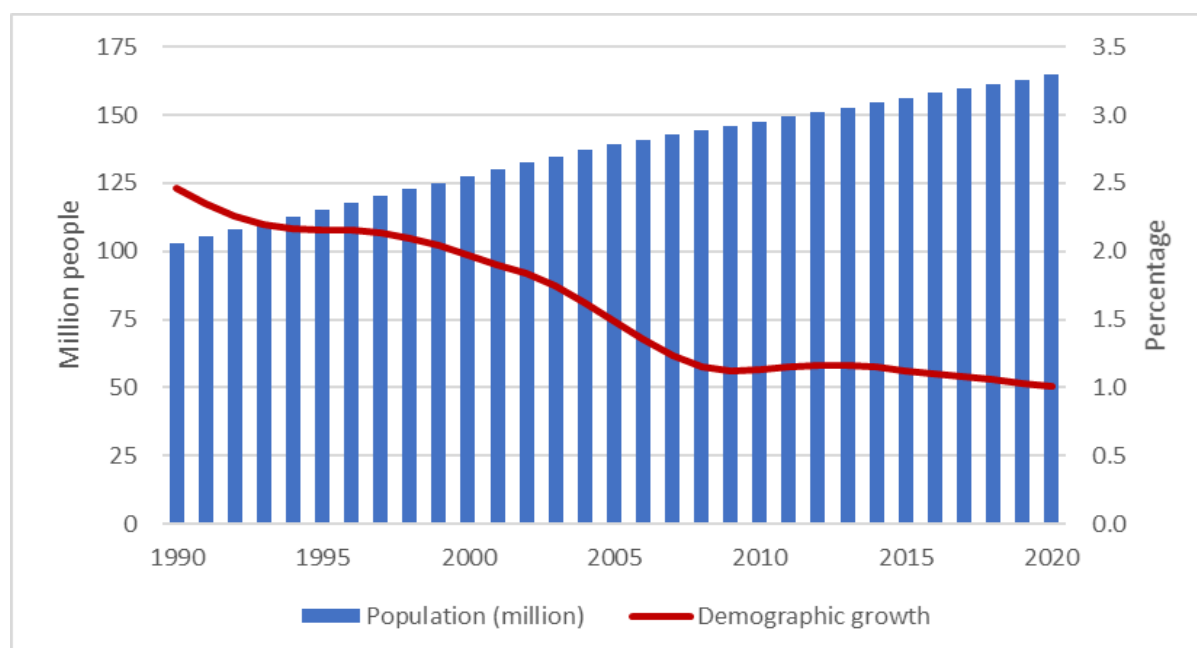
Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Figure 2: Real GDP growth in Bangladesh, LDC and South Asia (1980-2019)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Figure 3: Population and annual demographic growth rate



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Whilst the pace of economic growth is certainly an important indicator, the pattern of such dynamics is at least as important. In particular, several studies have noted that the sustainability of growth is largely determined by the extent to which countries achieve the development of their productive capacities, defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006). Productive capacity development operates both within firms / sectors, as the profit-investment nexus fosters capital deepening and productivity gains, as well as across sectors, as the acquisition of productive capabilities, itself contingent on the existing pattern of production, paves the way for the emergence of new products and higher value-added activities.

UNCTAD has recently developed a composite index to capture this articulated process of expansion of a country’s productive capabilities (Box 1) and this metric is used here to assess Bangladesh’s performance as compared to that of other LDCs, of South Asian economies and of other (i.e. non-LDC) developing countries (ODC). As illustrated in Figure 4, Bangladesh displays a steady improvement in its PCI, with the only exception of the year 2009 (when the fallout from the global recession, coupled with Aila cyclone, adversely affected the country’s performance), after which progress resumed at roughly a similar pace as before the crisis. The trend in PCI also shows that Bangladesh has systematically outperformed the median LDC, not only with a significantly higher score, but also with faster improvements, evidenced by the widening gap between its own score and the PCI score of the median LDC. Bangladesh is also reducing its gap vis-à-vis

the median ODC value of the PCI, suggesting some degree of upward convergence that bodes well for the sustainability of the country's graduation prospects. Overall, Bangladesh's trajectory appears similar to that of its South Asian neighbours: if anything, Bangladesh has recorded slightly faster improvements in its PCI score, even though its overall score is still lower than the median South Asian country.

Box 1: The UNCTAD Productive Capacities Index

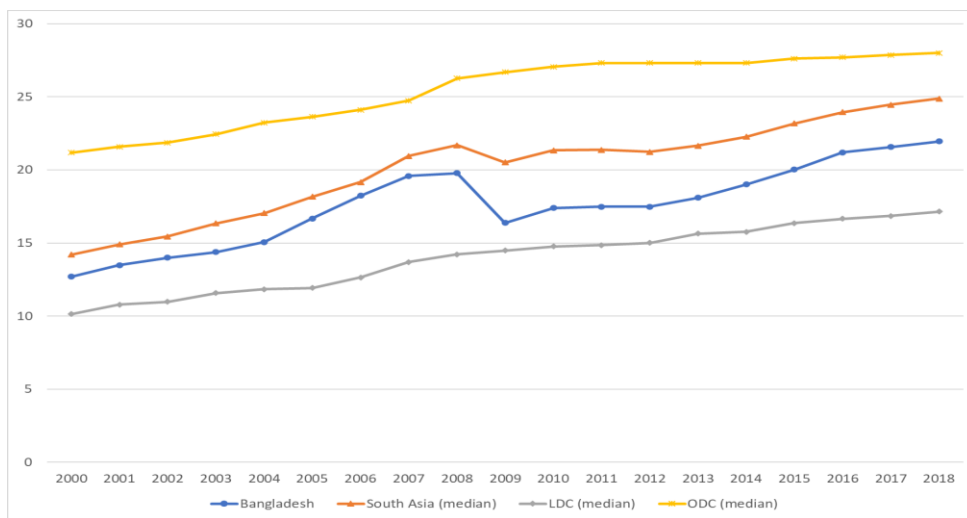
The UNCTAD Productive Capacities Index (PCI) is the first comprehensive attempt to measure productive capacities in all economies, LDCs and non-LDC, developed and developing. The index builds on the conceptualization of productive capacities defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006).

As such, the PCI is a composite index of forty-six indicators belonging to eight components, namely, natural capital, human capital, energy, transport, ICT, institutions, structural change and the private sector. A detailed description of the methodology for the construction of the PCI is provided elsewhere (UNCTAD, Forthcoming), but for the purpose of this publications suffices to say that – after imputation and/or forecasting of missing data as required – principal component analysis is applied to reduce the dimensionality of the data. The resulting factor weights are then used in the weighting of the individual indicators to construct each PCI component, which is subsequently standardized using the max-min normalization. The overall PCI score is finally obtained as a geometric mean of the eight components, whereby the geometric mean is chosen to reduce the level of “substitutability” across components. The PCI scale, both for the aggregate index and its components, ranges from 0 to 100, with 100 being the best score.

To investigate more thoroughly the underpinnings of Bangladesh progress on productive capacity development, it is instructive to examine the eight individual components of the PCI (Figure 5). Starting with the infrastructural components, the figure points to the persistence of supply-side bottlenecks, which by their very nature weigh down the overall competitiveness of the economy exerting negative spillover across enterprises and sectors. This finding appears to be common to both LDCs and to other South Asian countries but is exacerbated, in the case of Bangladesh, by the heightened exposure to natural disasters. Infrastructural gaps are patent in relation to transportation and ICT provision, which were identified as a binding constraint also in the context of the Diagnostic Trade Integration Study (DTIS) (Kathuria and Malouche, 2016a). Furthermore, although Bangladesh has made significantly more progress than other LDCs in extending access to electricity, energy poverty remains an issue in rural areas, and more needs to be done to achieve a level of energy provision and reliability commensurate to the needs of a diversifying economy.

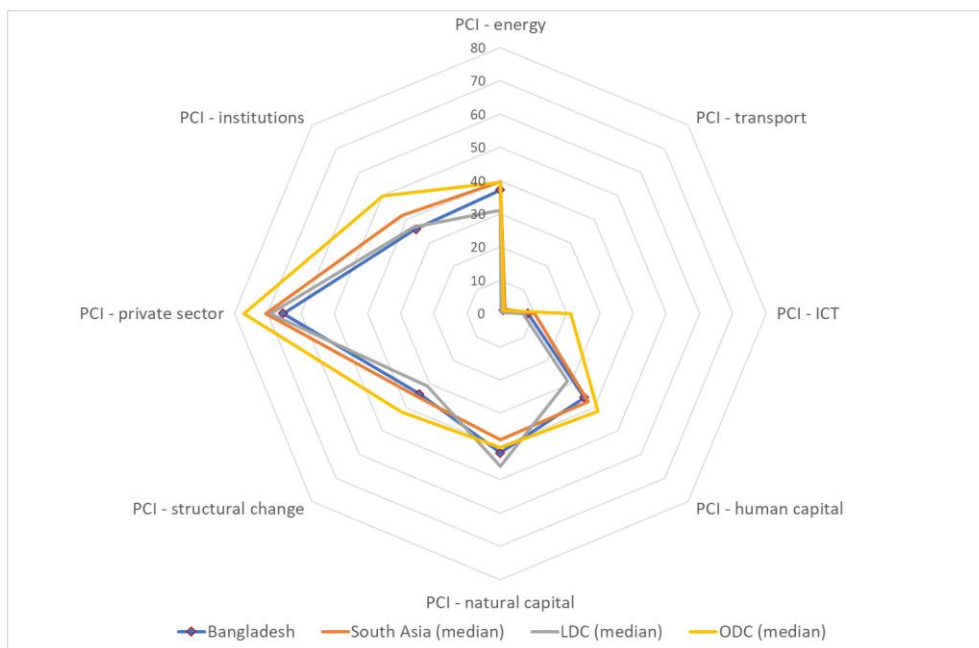
Broadly in line with other South Asian economies, Bangladesh outperforms the LDC median score in relation to several PCI components related to structural transformation, notably human capital and structural change. This reflects the advancements achieved in terms of education (see later discussion on the Human Asset Index), as well as the inroad made in fostering the emergence of viable manufacturing and services sectors. Conversely, Bangladesh underperforms compared to the median South Asian country in relation to the institutional and private sector components of the PCI, reporting in these dimensions overall scores that are broadly in line with those of the median LDC.

Figure 4: Productive capacity index for Bangladesh and related benchmarks (2000-2018)



Source: UNCTAD secretariat calculations, based on data from UNCTAD (UNCTAD, Forthcoming)

Figure 5: Components of the Productive Capacity Index for Bangladesh and related benchmarks



Source: UNCTAD secretariat calculations, based on data from UNCTAD (UNCTAD, Forthcoming)

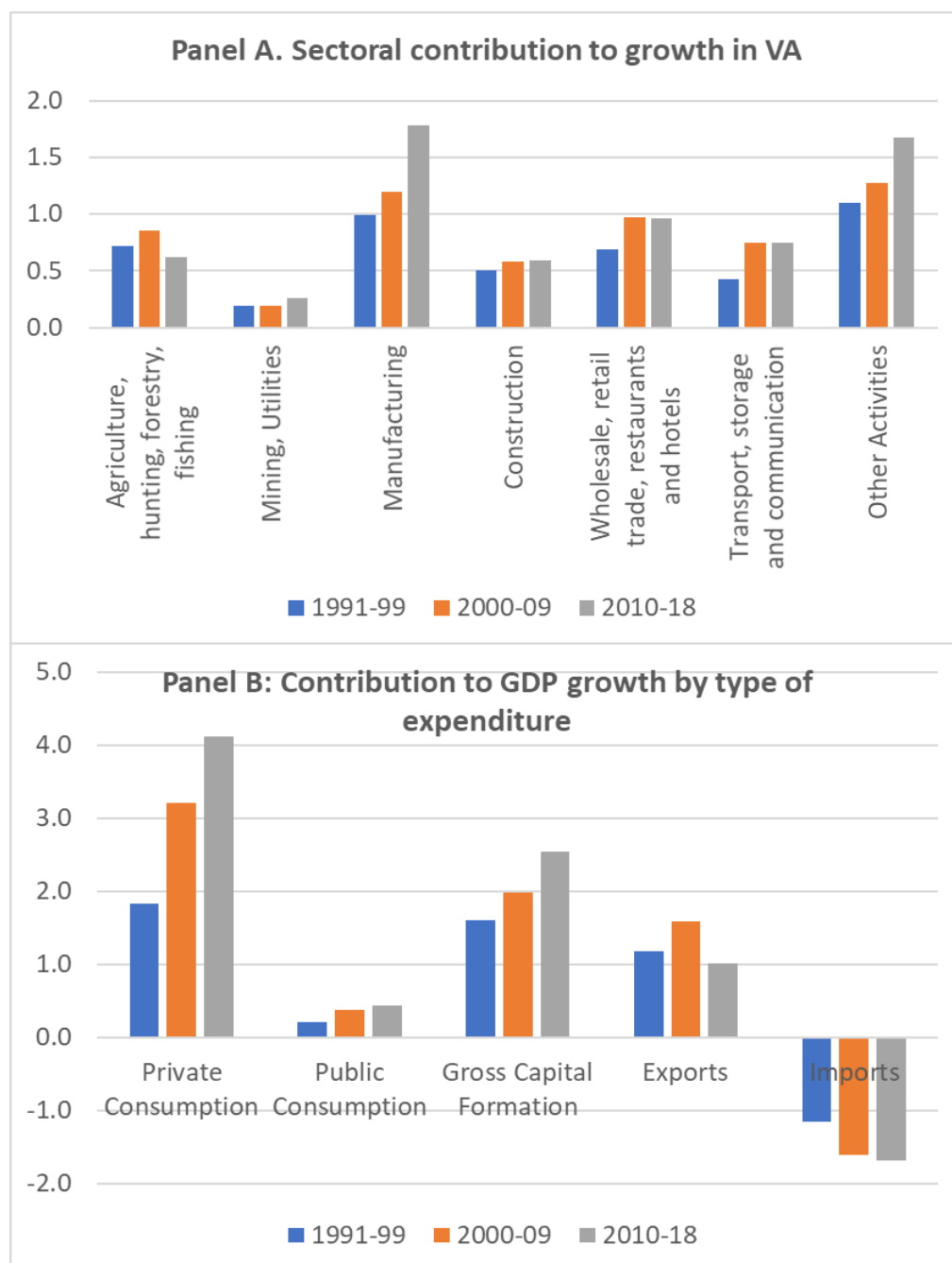
Examining the pattern of economic growth followed by Bangladesh in the recent decades allows a better understanding of the trajectory that underpinned the improvements of the PCI documented above (Figure 6). It also points to the successes of the country in spurring the process of structural transformation. Throughout the period considered manufacturing and services sector – in particular the residual category of services, encompassing among the residual group labelled “other activities” also high value-added services such as finance and ICT – have been the main drivers of economic dynamism (Panel A). It is in the 2010-2018 period, however, that their role stood out the most, with contribution to growth exceeding 1.5 per cent per year. Importantly, the primary sector (and to a lesser extent construction) have also displayed a significant contribution to growth in value added, with positive effect on unskilled workers. The agricultural sector, in particular, has benefitted from the so-called Third Agricultural Revolution, hinging on improvements in agricultural productivity and output resulting from the introduction of high-yield varieties of grains, and more intensive use of pesticides (see below).

Coming to the expenditure side (Panel B), the figures suggest that private consumption has been by far the main engine of Bangladesh expansion after the year 2000, followed by gross capital formation.³ Both these expenditure categories displayed an increasing contribution to GDP growth over time, with the latter reaching as much as 2.5 percentage points in the 2010-2018 period thus signalling faster capital accumulation. It is also worth noting that international trade, overall, has represented a widening demand leakage, as demonstrated by the fact that the negative contribution of import outweighed the positive injection of aggregate demand via exports.

The above-mentioned graphs confirm the picture provided by the PCI, and indicate an accelerating process of capital accumulation, as well as the rise of industrialization (manufacturing representing 19 per cent of GDP in 2018) and above all a rise in the services share of value added. This pattern of structural change in the composition of output is mirrored by trends in sectoral labour reallocation, as the interplay of the latter with capital deepening (which increases productivity within sectors) ultimately determines the evolution in average labour productivity across the whole economy (McMillan and Rodrik, 2011; McMillan et al., 2014).

³ Available data do not allow distinguishing between gross fixed capital formation and changes in inventories for all the years.

Figure 6: Contribution to growth by supply and demand components (annual percentage change)

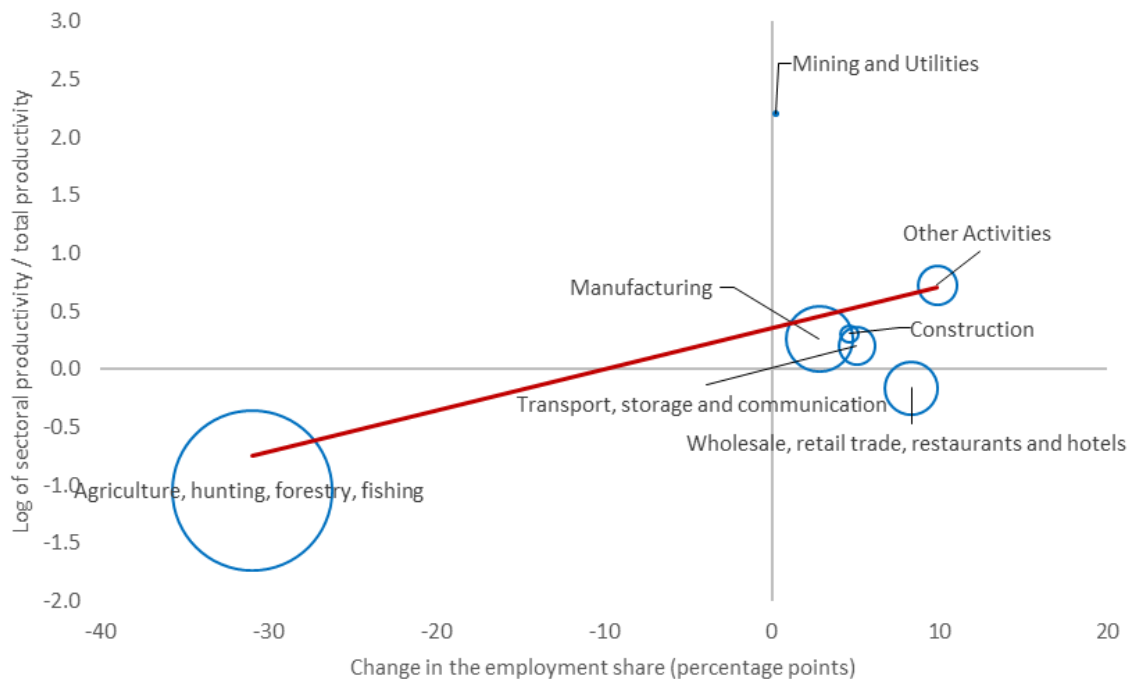


Source: UNCTAD secretariat calculations, based on data from UNSD

To capture the labour reallocation process, Figure 7 displays on the horizontal axis changes in sectoral employment share, and on the vertical axis the (log of) sectoral labour productivity relative to the economy-wide labour productivity. The chart shows that labour reallocation outside agriculture implied a contraction in the latter's employment share by some 30 percentage points (over nearly 30 years), to the advantage of all other sectors except for mining and utilities which tend to be relatively

capital-intensive and whose employment share remained virtually unchanged. A key point in Bangladesh pattern of labour reallocation is the fact that, because of productivity differentials across sectors, labour ultimately flowed towards sectors with relatively higher productivity (notably manufacturing and other activities) leading to so-called “growth enhancing structural change” (McMillan and Rodrik, 2011).

Figure 7: Dynamics of sectoral employment shares and labour productivity (1991-2018)

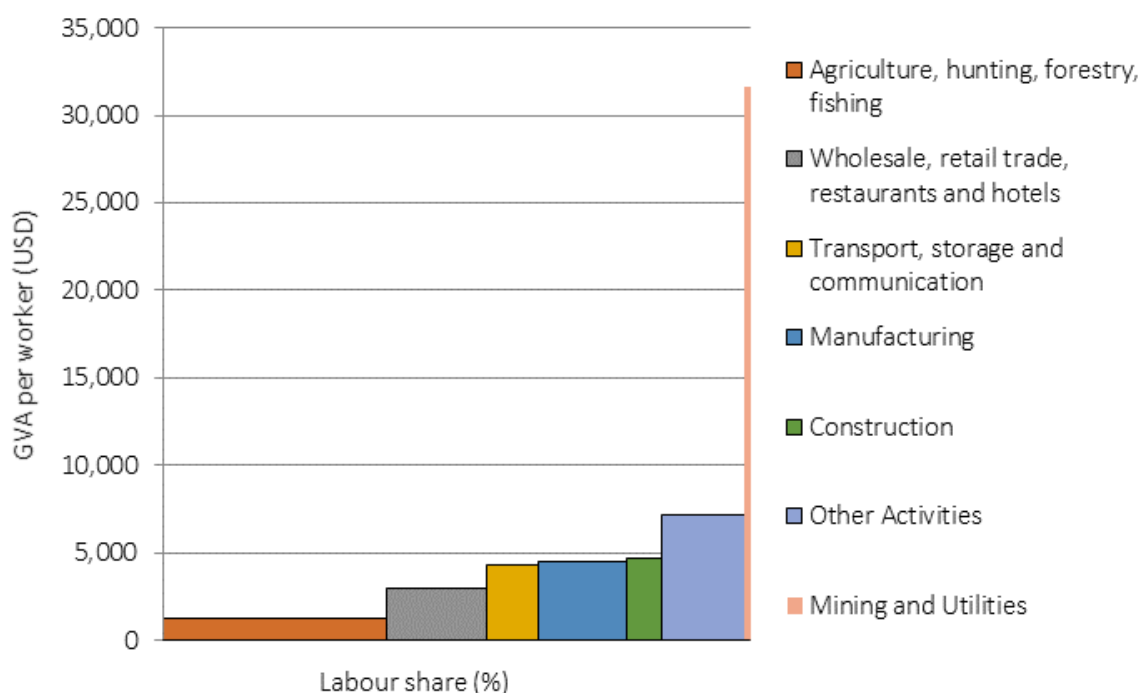


Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

Note: the size of the bubble is proportional to each sector’s employment share in 1991

Further insights can be gauged from Figure 8, which reports sectoral employment shares and labour productivity levels at the end of the period considered (i.e. in 2018). In line with the intuition of the Lewis dual model, the graph suggests the persistence of significant productivity gaps across sectors, with agriculture – and to a lesser extent trade and hospitality – displaying lower than average levels of gross value added per worker. Read in conjunction with Figure 7, the graph also suggests that labour reallocation has to some extent contributed to closing productivity differential across sectors. Interestingly, the graphs also show that the productivity levels in the trade and hospitality sector are larger than in agriculture, but still lower than the economy-wide average. This is consistent with the fact that significant pockets of activities within the wholesale and retail trade and hospitality sector consist of (often informal) low-productivity jobs.

Figure 8: Sectoral employment share and labour productivity (2018)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

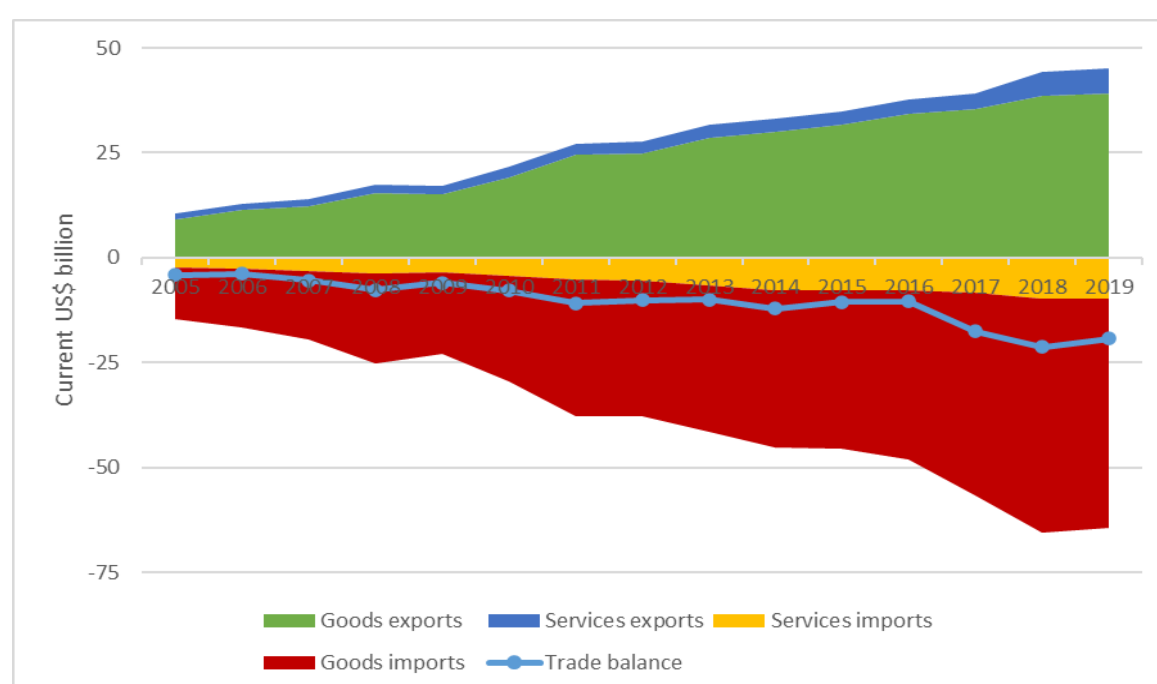
Against this backdrop, and considering long-term demographic factors such as the youth bulge in the population structure and the rising labour force participation among women, it remains critical for Bangladesh to generate sufficient employment to absorb new entrants in the labour market and accommodate the rise in labour supply. According to ILO estimates the labour force is expected to rise from 71.2 million in 2020 (of which 49.4 million men and 21.8 million women) to a total of 80.7 million in 2030. In this context, productive employment creation will remain a key imperative for sustainable development; all the more so, in light of the recent slow-down of employment creation in the manufacturing sector, and of longstanding concerns on working conditions (Bhattacharya, 2018; CDP and DESA, 2019). Vulnerable categories will thus continue to deserve adequate attention, considering that the unemployment rate for women (6.2 per cent in 2019) is nearly double that of for men (3.3 per cent in 2019), and youth unemployment is nearly five times higher than for adults (PRI, forthcoming).

2.2 International trade and regional integration

The above discussion has documented the unquestionable successes of Bangladesh in igniting a process of economic growth and structural transformation, harnessing the combined effect of capital deepening and cross-sectoral labour reallocation. With an eye on the process of graduation from the LDC category, and its ensuing consequences on the prevailing trading regime, it is useful to examine more in depth the role international trade played in the above context.

The last decades have witnessed a significant rise of Bangladesh’s participation in international trade. The trade-to GDP ratio has augmented from an average of nearly 25 per cent in the 1990s to over 40 per cent in the 2010-2019 period. Merchandise exports have skyrocketed from \$ 6.3 billion in 2000, to \$ 39.3 billion in 2019, while services exports rose from \$ 1.5 billion in 2005 to \$ 6.1 billion in 2019.⁴ Conversely, merchandise imports have surged from \$ 8.8 billion in 2000 to \$ 59 billion in 2019, with services adding other \$ 9.7 billion to the 2019 import bill. The factors behind these trends include a broadly similar rise in export and import volumes combined with a gradual decline in the terms of trade. This has generated a widening trade deficit, in relation to both goods and services.

Figure 9: Exports and imports of goods and services (2005-2019; BPM6)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

In terms of composition, the overwhelming majority of exports are accounted for by manufactures (Figure 10, Panel A), notably textiles and clothing. In 2019, textiles fibres, yarn, fabrics and clothing items accounted for 90 per cent of exports, with the rest mainly accounted for by miscellaneous manufactured articles (representing roughly another 5 per cent), food items (3 per cent) and agricultural raw materials (1 per cent).

⁴ Because the conceptual framework used for the compilation of trade in services has changed with the publications of IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), data for the earlier period are not directly comparable.

This lopsided composition has remained virtually unchanged over the last 20 years, with apparel products driving the lion's share of the export boon.

The composition of import products is more balanced, as can be seen in Figure 10 Panel B. In 2019, Bangladesh's imports consisted for roughly two thirds of manufactures (including 25 per cent of the total of textiles fibres, yarn, fabrics and clothing, and 20 per cent of machinery and transport equipment), plus some 16 per cent of food items, 8 per cent of agricultural raw materials, 7 per cent of fuels, 3 per cent of ores and metals. Again, the different proportions accounted for by each product group have remained relatively stable over time.

Read in conjunction with the earlier discussion, the analysis of Bangladesh's trade specialization pattern suggests that structural transformation is yet to translate into meaningful diversification of exports beyond the notable exception of garments. By implication, many of the comparatively high value-added activities cater for the (relatively protected) domestic market, on which the public sector exerts a considerable influence through its involvement services and utilities (Kathuria and Malouche, 2016a; Mercer-Blackman et al., 2017).

In terms of directions of trade, Bangladesh predominantly exports to developed markets (mainly EU, which accounts for over half of the total, but also USA and Canada), and to a far lesser extent to China, India and Middle Eastern countries. This pattern is partly driven by the fact that Bangladesh was remarkably effective in capitalizing on the existence of some LDC-specific preferential trade regimes such as the EU's Everything But Arms (EBA) scheme. Imports, however, are mainly sourced from Asia, and in particular from China and India (which jointly supply nearly half of Bangladesh merchandise imports), with developed countries playing a more subdued role, typically in relation to the trading of capital goods.

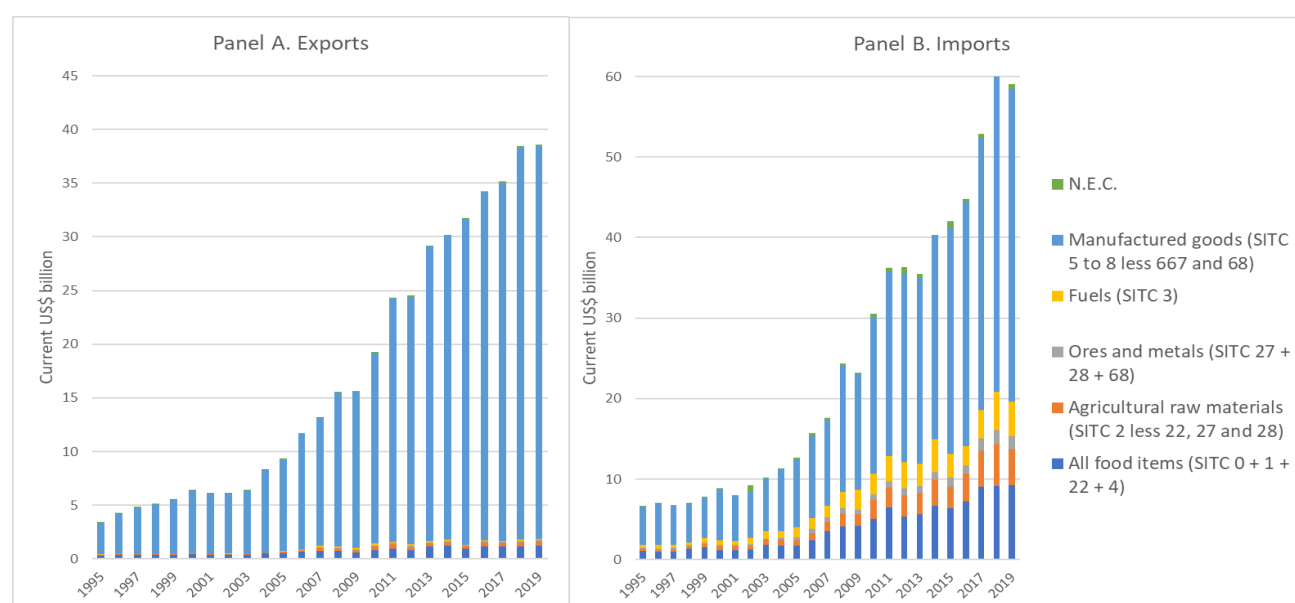
Bangladesh is party to the Asia-Pacific Trade Agreement (APTA)⁵ and the South Asian Association for Regional Cooperation (SAARC)⁶. Notwithstanding its membership of these two long-established trade blocks, Bangladesh regional integration appears to be relatively shallow or at least somewhat lop-sided. The country continues to export only a low share of its merchandises to its regional partners, with only marginal increases in

⁵ APTA is a preferential regional trade agreement signed in 1975 by Bangladesh, India, Lao PDR, Republic of Korea, and Sri Lanka, as an initiative of United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP). Formerly known as the Bangkok Agreement, it is the oldest preferential trade agreement between countries in the Asia-Pacific region and aims at promoting economic development through mutually beneficial trade liberalization measures. In addition to the original members, China acceded to APTA in 2001, and Mongolia in 2013 (though it obtained full membership only in 2020).

⁶ SAARC is the regional and economic organization of South Asian countries, founded in Dhaka on 8 December 1985 and consisting of Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. SAARC launched its trade agreement, the South Asian Free Trade Area (SAFTA) in 2006. It is noted that Bangladesh, India and Sri Lanka are both members of Asia-Pacific Trade Agreement (APTA) and South Asian Association for Regional Cooperation (SAARC).

their weight (Figure 11, Panel A). In 2019, SAARC countries accounted for only 3.3 per cent of Bangladeshi merchandise exports, while APTA countries absorbed roughly twice as much (6.1 per cent of the total). The significance of the broader Asian market is slightly larger and has increased somewhat more visibly over time; nevertheless, it remains again relatively circumscribed with Asia only absorbing 16 per cent of Bangladeshi merchandise exports. Besides, it is worth pointing out that part of the exports to regional partners (notably to China and the Republic of Korea) are in fact traded under duty-free-quota-free LDC-specific schemes, rather than under regional trade arrangements.

Figure 10: Merchandise exports and imports by main product group



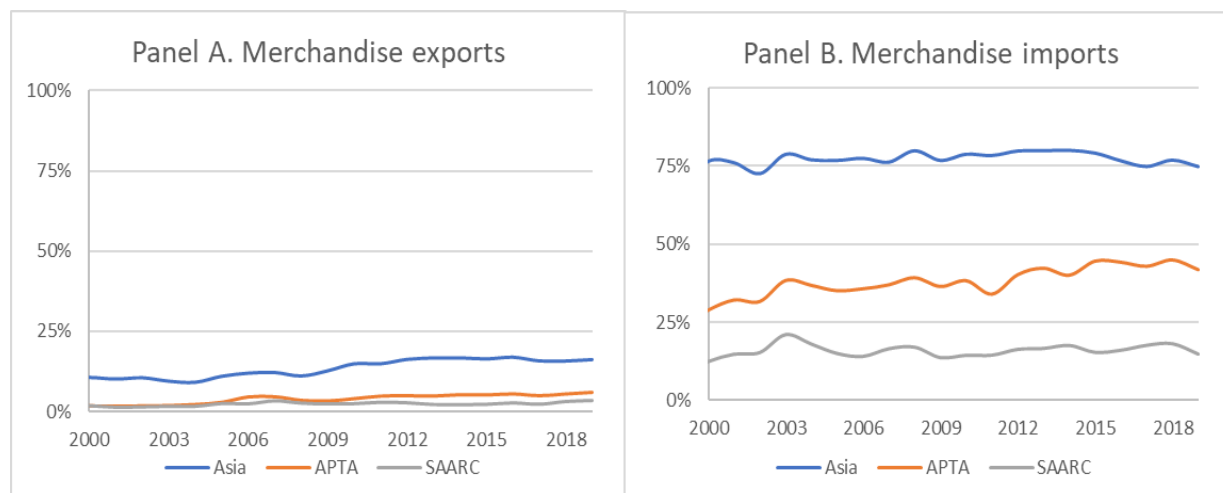
Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Conversely, the degree of regional trade integration appears to be remarkably higher on the import side, and this applies for all regional blocks considered, without much variation over time. In recent years, Bangladesh sourced some 17 per cent, 43 per cent and 75 per cent of its merchandise imports from SAFTA, APTA and Asia respectively. In this context, only APTA partners were capable of boosting their market share, while the weight of other groups remained broadly constant since the turn of the century.

Interestingly, regional trade appears to be somewhat more diversified than Bangladesh trade with the rest of the world, even though the preponderance of textile and clothing remains extremely pronounced (Figure 12). In 2019, fiber textiles, yarns, fabrics and clothing accounted for 70 per cent of Bangladesh exports to the Asian continent, 65 per cent to its APTA partners, and 58 per cent to its SAARC markets. The regional market appears to be an important destination for the export of food and agricultural raw material, with Asia

absorbing between 40 and 80 per cent of the corresponding exports. This suggests that closer regional integration may offer some opportunities to bolster these sectors.

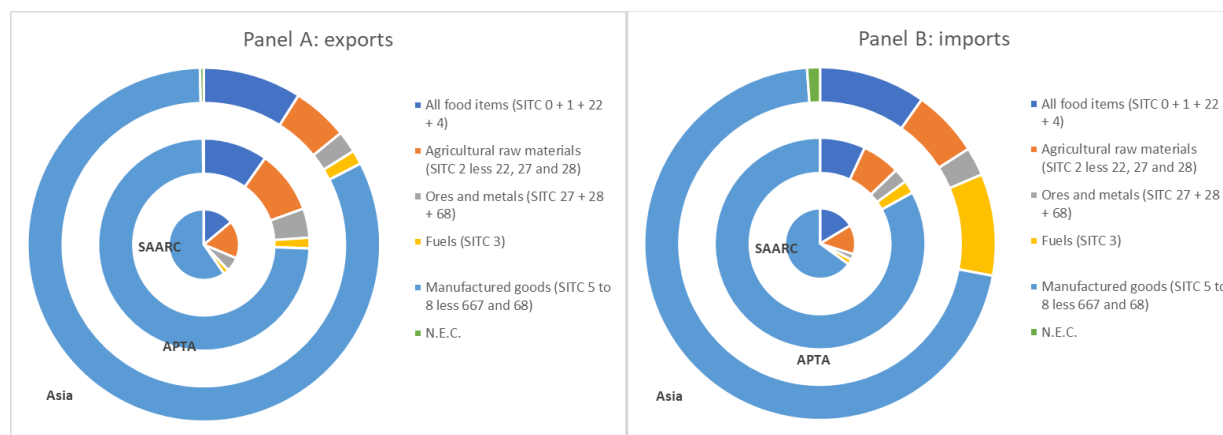
Figure 11: Proportion of Bangladesh merchandise trade with regional partners



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Conversely, the Asian continent – and to a lesser extent the two regional trading blocs – represent fundamental supplier of all kinds of imports, not only intermediates for the ready-made garment industry, but also fuels (in the case of Asia), machinery and transport equipment (APTA), food and agricultural raw material (SAARC). Overall, as discussed more in detail below, this pattern of trade is indicative of the fact that the regional arena plays a fundamental role for the supply of final goods, intermediates and to a lesser extent capital goods, thus shaping Bangladesh backward value chain participation (see below). Conversely, export opportunities to the regional market remain largely untapped.

Figure 12: Composition of merchandise trade with regional partners (2017-2019)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

More broadly, heightened uncertainties, lingering trade wars, and ongoing tensions between China and India could reverberate in the geopolitical dimensions of South Asia, leading to an evolving dynamic in the region. As noted by Rabiul Islam et al. (2018), with its strategic geopolitical location, population, markets, and manufacturing progress, Bangladesh could take advantage of deeper regional integration and capitalize on its “Look East Policy”. Participation to the Belt and Road Initiative promises to enhance connectivity along the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, thereby potentially unlocking opportunities for greater participation to regional value chains (Khatun, 2020). The government has also eyed the opportunities regional cooperation among South Asian countries could unlock, calling for reform, strengthened collaboration and greater investment (Financial Express, 2020a). Capitalizing on these initiatives, however, will hinge on a cost-effective and sustainable implementation of related investment projects, as well as on forging a long-term strategy to leverage regional integration for structural transformation.

It also remains to be seen how the recent conclusion of the Regional Comprehensive Economic Partnership (RCEP) – which does not include Bangladesh – will reshape regional value chains and whether it will entail some degree of trade diversion. At a time when LDC graduation might entail some losses of preferential market access for Bangladesh, some of its competitors will likely see their market access improve – or at least maintained, in the case of countries on the verge of LDC graduation, such as Lao PDR and Myanmar. Considering Bangladesh’s trade pattern, however, direct first-round effects should be relatively circumscribed as RCEP member countries barely represent some 10 per cent of Bangladesh overall merchandise exports. Nevertheless, more sizeable second-round impacts might occur in the long-run, as the establishment of RCEP will gradually shape investment decisions and potentially standard-setting, for an area that supplies roughly half of Bangladesh’s imports. More broadly, this development signals how other graduating LDCs are leveraging regional integration as a way to mitigate the impact of losing LDC-specific preferential treatment. Bangladesh policymakers may consider fostering a national debate on a similar long-term strategy, with the involvement of private sector and business associations, as part of the country’s smooth transition.

2.3 The impact of COVID on Bangladesh’s economy

According to WHO figures, as of 19 November 2020, Bangladesh registered roughly 438’000 confirmed cases of COVID-19 and 6’000 deaths, broadly in line with the incidence of the disease in other South Asian countries. Beyond the health emergency, which threatens above all people living in densely populated areas, the outbreak of the pandemic hit the Bangladeshi economy, abruptly interrupting a prolonged period of sustained growth. It has also triggered a deep recession throughout most of the world’s economies, including the EU and the US, or even India.

Before the COVID-19 pandemic, economic growth in FY2019/20 was projected to continue expanding at around 7.5 per cent, albeit slightly lower than 8.2 per cent in FY2018/19 (IMF, July 2020).⁷ According to most recent projections from the IMF (October, 2020), Bangladesh's GDP will increase by only 3.8 per cent in FY2019/2020 due to the COVID-19 shock. The Asian Development Bank (ADB), on the other hand, projects a slightly higher growth of 5.2 per cent for Bangladesh, despite the contraction in the South Asia region (by 6.8 per cent) in 2020. The Bangladesh Bureau of Statistics (BBS) also provided a provisional GDP growth estimate of 5.2 per cent for FY2019/20, a figure significantly higher than the projections by the IMF (3.8 per cent) and the World Bank (1.6 per cent) in June 2020.

Regardless of the uncertainty surrounding the precise magnitude of the fallout from the pandemic, what remains clear is that it will lead to a sizeable slowdown of the economy performance, with potential lingering effects over the medium term, if the global conjuncture remains dull. As in the rest of the world, the coronavirus pandemic has triggered multifaceted shocks, simultaneously hitting aggregate supply and aggregate demand, with potentially far-reaching ramifications both domestically and through the balance of payments. On the supply side, sudden stops to production activities, value chain disruptions, border closings and travel bans have taken a toll on the level of activity; meanwhile, reduced working hours, layoffs, confinements, lower international trade flows and heightened uncertainties have dampened aggregate demand (UNCTAD, 2020a, 2020b, 2020c; Baldwin and Weder di Mauro, 2020a). In addition, the inevitable drop of economic activity is expected to lead to deteriorations in public revenues, as government expenditures are badly needed to cushion the socio-economic costs of the downturn, and bankruptcies might spill over on the financial sector. If Bangladesh's remittance inflows appear to have been somewhat spared by this spiralling downturn (Box 2), the shock is compounded by plummeting global demand, declining FDI and most likely ODA flows; all of which added further pressure to their balance of payments (UNCTAD, 2020a, 2020d, 2020e, 2020b; Baldwin and Weder di Mauro, 2020a, 2020b).

In this context, several studies have raised grave concerns about the challenges faced by enterprises and small businesses coping simultaneously with the effect of the global recession, and the disruptions caused by lock-downs and related measures to respond to the health emergency (*Reuters*, 2020; ITC, 2020). Others have warned that, because of inadequate access to credit, in many developing countries a protracted recession may threaten enterprise survival, causing permanent job destruction – with related losses in terms of tacit knowledge and productive capabilities – and possible long-term effect on potential output (Bosio et al., 2020). Considering the features of Bangladesh's entrepreneurship landscape, characterized by large prevalence of relatively small establishments and informal

⁷ <https://www.imf.org/en/Publications/CR/Issues/2020/06/03/Bangladesh-Requests-for-Disbursement-under-the-Rapid-Credit-Facility-and-Purchase-under-the-49483>

self-employed individuals running “me-too businesses” (UNCTAD, 2018a), these concerns cannot be taken lightly despite the relatively encouraging growth projections.⁸

Against this background, the contraction of employment opportunities, especially for the youth, are likely to take a toll on the living standards of urban and peri-urban dwellers, large numbers of whom are informal workers or self-employed. According to a joint study conducted by the International Labour Organisation (ILO) and the Asian Development Bank (ADB) in 2020 the country’s youth unemployment rate could rise two-fold to 24.8 percent in 2020 from 11.9 percent in 2019 (ILO and ADB, 2020). Similarly, a host of studies have underscored the dramatic impact the downturn could have on global poverty and food insecurity, especially if the pandemic were to disrupt agricultural activities (Gerszon Mahler et al., 2020; Sumner, Hoy, et al., 2020; Sumner, Ortiz-Juarez, et al., 2020; Valensisi, 2020a; UN, 2020b; Laborde et al., 2020; Vos et al., 2020).

While the situation is still unfolding and it is too early to have a full picture, the emerging evidence suggests that Bangladesh may actually weather the storm better than many other countries including its South Asian neighbours, recording a modest, but still positive, rate GDP growth in 2020. Some of the factors which contributed to this relatively benign outcome include:

- Despite the inevitable disruptions, the agricultural sector has weathered the downturn reasonably well, thanks also to the timely support measures adopted by the government and to some innovative business-practices in peri-urban areas, where the impact of lock-downs were more pronounced (Mostafa, 2020; Bangladesh Bank, 2020). This has ensured the viability of food supply chains while supporting the livelihoods of rural communities (which tend to be poorer and hence most vulnerable).
- A number of Bangladeshi producers have display remarkable resourcefulness and adaptability in order to repurpose their plants and/or adapt their business practices to enhance their resilience to the crisis. Examples of this attitude include the 33 textile and clothing companies, which according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) exported personal protective equipment (PPE) including face masks, medical gowns, gloves worth \$11.5 million during the July-May period (Textile Today, 2020). Similarly, innovative businesses that were able to adapt to the evolving situation have seen remarkable expansions, including digital and e-commerce businesses (Humayan Kabir, 2020; Mostafa, 2020)
- Amongst the slump in other kinds of external financial flows, remittances – a key source of foreign exchange for Bangladesh - have displayed considerable resilience and are set to expand compared to 2019, notwithstanding the crisis (Box 2). Besides, multilateral donors and international financial institutions have provided some

⁸ The expression “me too businesses” refers to activities with limited entry barriers and low margins, which people typically pursue by imitation.

concessional financing to cope with the crisis.⁹ Although – in Bangladesh as in the rest of the developing world – these resources alone are insufficient to foster a sustained and inclusive recovery (UNCTAD, 2020c, 2020b), they have nonetheless provided some support to both the balance of payments and the public coffers, enabling the government to react to the crisis.

- Bangladesh’s government and the Bangladesh Bank undertook a range of coordinated fiscal, monetary, and macro-prudential policy stimulus packages to ease credit availability, minimize the negative impacts of the pandemic and foster a rapid recovery (Bangladesh Bank, 2020). Examples of these measures include the creation of a fund to pay the wages of salaried workers in export-oriented firms during the lockdown, the establishment of several loan facilities for firms, and of safety net programmes for vulnerable categories, as well as – in relation to the monetary policy – the reduction in reserve requirements and the cut to interest rates (ibidem). In spite of the limited fiscal space, these multipronged countercyclical interventions have contributed to reduce the impact of the crisis, notwithstanding some concerns about the extent to which related measures effectively managed to protect employment and reach the most vulnerable (Towfiqul, 2020).

Box 2: Short-term impact of COVID-19 on Remittances Inflows

In the wake of the COVID-19 pandemic, experts have predicted large and generalized drops in workers’ remittances, due, on the one hand, to the sharp decline in migrants’ income, and on the other to the predictable fall in the stock of international migrants (IMF, 2020a; Takenaka et al., 2020; World Bank, 2020). Strict social distancing, lockdowns, travel bans, and other disruptions have led worldwide to huge losses in terms of working hours. Moreover, as migrants tend to have more precarious working conditions and be disproportionately exposed to infection, they were more likely to be laid off; all of which reduced their income. Besides, thousands of migrants who lost their jobs have returned to their countries of origin, or – worse – have been deported or left stranded (ILO, 2020).

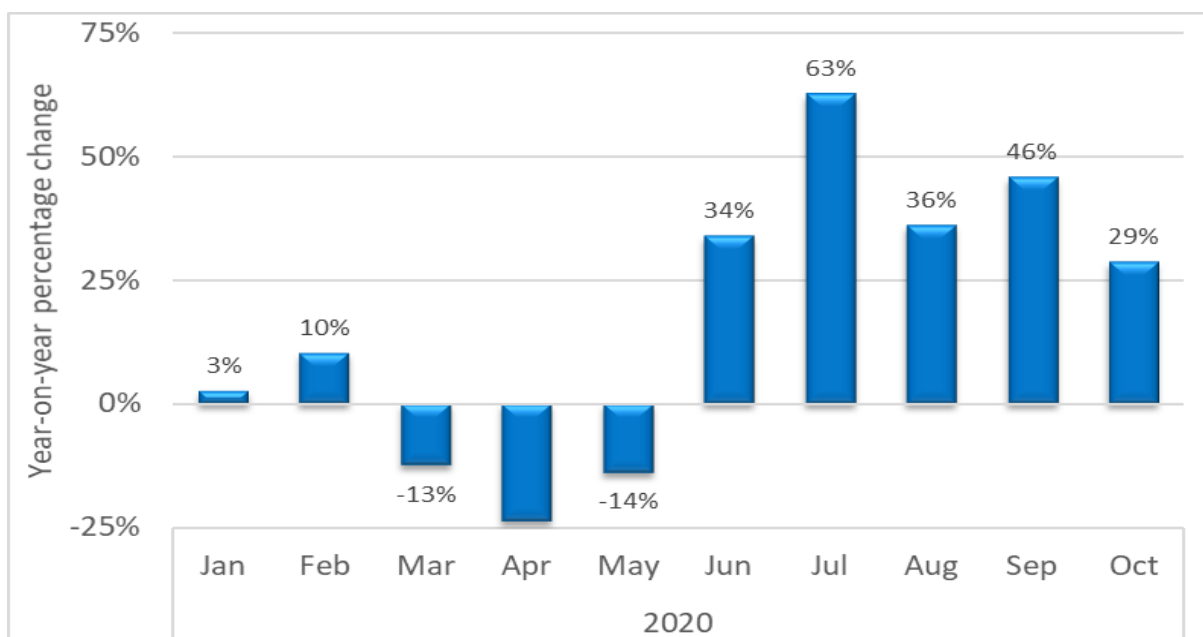
Against this background, in its latest update (October 2020) the World Bank estimates that remittances inflows would decrease in 2020 in all regions of the world, with South Asia suffering a -4 per cent decline compared to 2019. The predictions of the Asian Development Bank are more pessimistic, as South Asia is estimated to lose \$ 18.3 billion in 2020, equivalent to a fall in remittances of 15.8 per cent, in their baseline case (Takenaka et al., 2020).

Notwithstanding the generalized negative outlook, the World Bank predicts that remittance inflows to Bangladesh will display a remarkable resilience, slowing down significantly but still expanding by 7 per cent compared to 2019. Monthly data from the Central Bank of Bangladesh seem to confirm the idea that so far remittances held up much better than initially feared, though with a very volatile trend (Figure 13). The modest year-on-year increases in January and February gave way to sharp

⁹ The IFM, for instance, has approved the disbursement of funds under the Rapid Credit Facility and Rapid Financing Instrument; similarly, the World Bank has disbursed some emergency support under its COVID-19 Fast Track Facility.

contractions in the next three months, followed by even larger expansions from June to October. Four factors appear to be plausible explanations of this trend: (i) the so-called “Haj effect” – namely the fact that Bangladeshi migrants unable to do their pilgrimage to Mecca because of COVID decided to send home part of the money saved for this purpose; (ii) the altruistic desire to help relatives affected by the floods that inundated more than one-quarter of the country’s landmass, affecting nearly 1 million homes and 4.7 million people; (iii) the pent-up remittances after the shutdown in Q2 and a shift in flows from informal to formal channels, as travel restrictions reduced the money carried by hand; (iv) government incentives to encourage more migrant workers to send money into Bangladesh; and (v) the fact that migrant forced to leave their country of destination brought with them their savings (World Bank, 2020).

Figure 13: Year-on-year change in remittances inflows



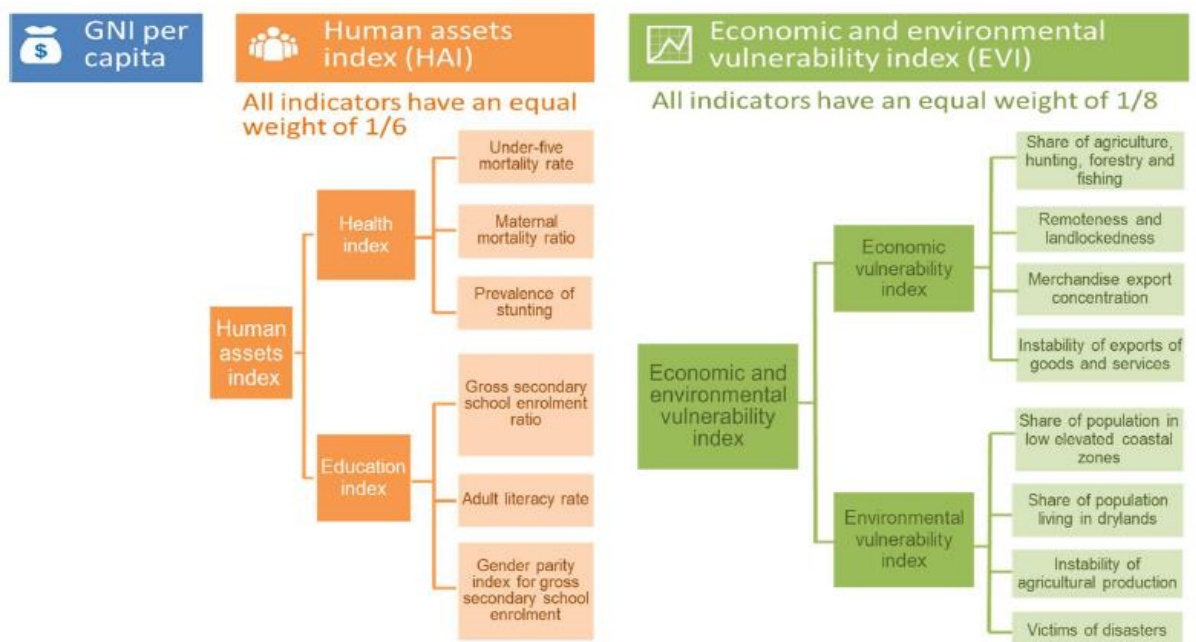
Source: UNCTAD secretariat calculations, based on data from the Bangladesh Bank

If the situation in 2020 seems reasonably encouraging, the medium-term future remains far more uncertain, since a V-shaped rebound in remittance flows is increasingly unlikely (World Bank, 2020). Remittance outflows from the United States, the United Kingdom, the European Union and many Gulf countries are not expected to bounce back soon, because the pandemic will likely persist through 2021. In addition, the very stock of international migrants has significantly contracted, with over one million international migrants returning to Bangladesh, especially from the GCC countries, and outward migration being substantially lower than in previous years (UNCTAD, 2020b; World Bank, 2020). As a consequence, the adverse effects of the pandemic may well linger on the migration and remittances outlook for a protracted period of time.

3. Progress against the LDC criteria

Having outlined the broader transformational context in which the graduation from the LDC category takes place, this section assesses more specifically Bangladesh’s performance under the three criteria for LDC graduation (and inclusion): namely the per capita income criterion, the Human assets index (HAI) and the Economic and Environmental Vulnerability Index (EVI). A detailed discussion of the mechanics of graduation and of the methodology to compute the criteria is beyond the scope of this publication; interested readers can refer to UNCTAD (2016a), CDP and UN DESA (2018) and CDP (2020). As a way of introduction, here suffices to say that following the outcome of the comprehensive review of the LDC criteria by the Committee of Development Policy, the structure of the HAI and EVI have been simplified compared to earlier vintages of the criteria (CDP, 2020). Accordingly, the structure of the LDC criteria applicable in the 2021 Triennial Review is summarized in Figure 14.

Figure 14: Structure of LDC criteria after the comprehensive review



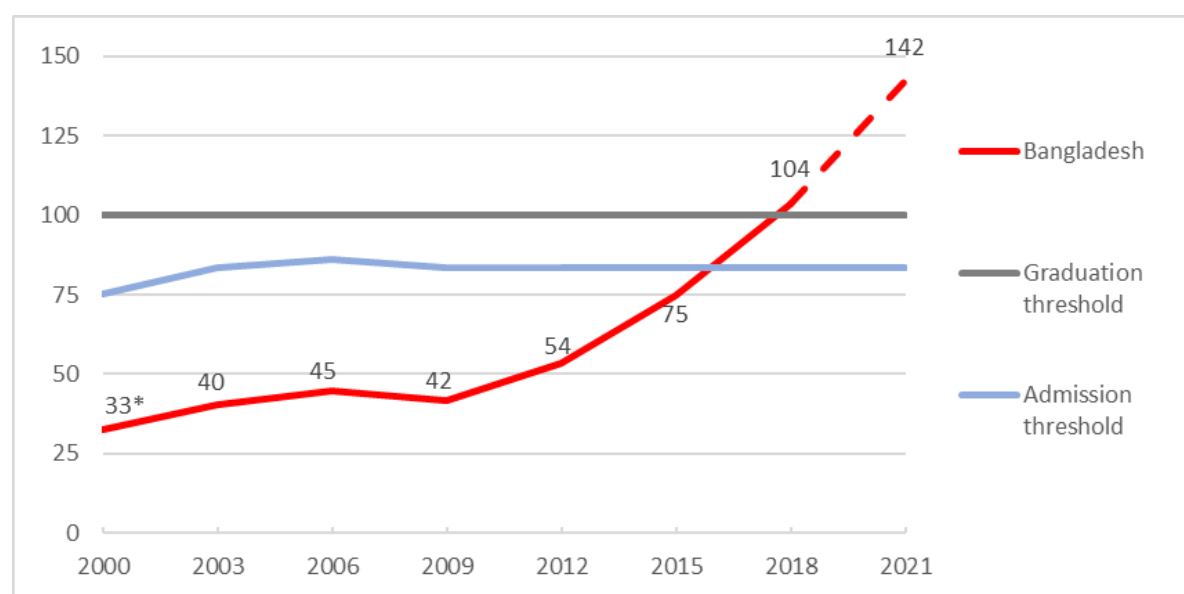
Source: CDP (2020: 2)

Beyond the determination of LDC status, from a domestic policy-making perspective the indicators underlying LDC criteria can also be useful in assessing a country’s sustainable development progress. Broadly speaking, the criteria are related to the “five Ps” of the 2030 Agenda for Sustainable Development: people, planet, prosperity, peace and partnership. Indeed, many of the dimensions captured under the per capita income criterion and the EVI speak to the notion of shared prosperity; the HAI has a clear focus on people and on relation social development outcomes; finally the EVI also captures key elements related to the planet. By helping identifying countries with structural vulnerabilities, these criteria jointly lay the foundation for meaningful international support, thus contributing to the realization of a more effective multilateral partnership for sustainable development.

3.1 Per capita income criterion

Bangladesh reported a consistently improving performance against the per capita income criterion, on the back of robust macroeconomic fundamentals, and strong growth of exports and remittances (Figure 15).¹⁰ The distance of Bangladesh from the graduation threshold was more than 50 per cent until 2009, but thanks to the sustained economic dynamism the country exceeded the graduation threshold for the very first time in 2018 (with a performance of 104 per cent of the graduation threshold). The provisional projection in Figure 15 (red dotted line) shows that in the year 2021, Bangladesh will be at 142 per cent of the applicable graduation threshold.¹¹ This suggests that Bangladesh is likely to fulfil graduation criteria in terms of per income at the next triennial review in 2021.

Figure 15: Bangladesh's distance from the graduation threshold under the per capita income criterion



Source: UNCTAD calculation based on CDP data (2020)

Note: the distance from graduation threshold is computed as the ratio between Bangladesh own score and the threshold applicable in the same triennial review; hence the graduation threshold is rescaled to 100 even though the underlying score has been updated over time.

The dynamic of the underlying indicator – that is GNI per capita (Atlas method) – is even more remarkable and more directly indicative of Bangladesh advancements, considering that the graduation threshold has been increased over time. Before 1990 the country had a GNI per capita of less than \$320. Trade liberalization policies in 1990 opened up some opportunities for economic expansion and fostered overall

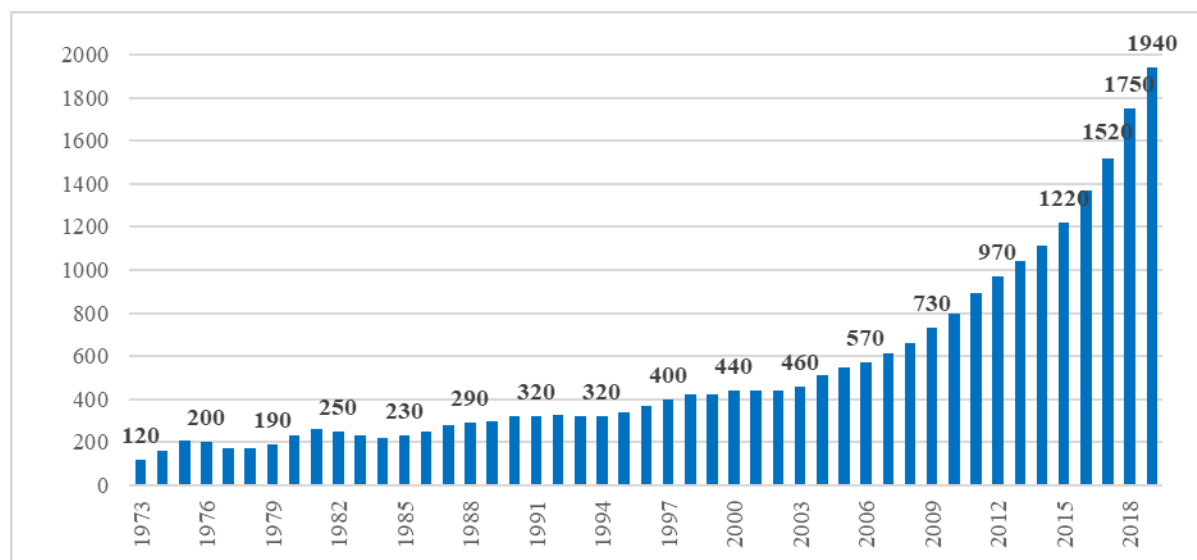
¹⁰ In determining the income per capita criterion (Atlas method, current \$), three years average of GNI per capita is considered. However, before 2003, instead of GNI per capita, GDP per capita was used as the identifying indicator of per capita income.

¹¹ Forecasted value was generated using 3-year average of GNI per capita between 2017 and 2019; hence they do not take into account the impact of COVID-19.

development (Williamson, 1999; Raihan, 2008). But it was especially after 2002 that GNI per capita recorded a sharp acceleration, when sustained growth enabled the country to rise from a gross national income per capita of \$440 in 2004 to \$1'940 in 2019 (

Figure 16).¹²

Figure 16: Gross National Income per capita, in current \$ (Atlas method)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

Beyond national averages, income distribution has become a source of concern in developed and developing countries alike. In the case of Bangladesh, long-term trends do show a worsening of inequality, with the Gini index increasing from 25.9 in 1983 to 32.4 in 2016; yet the situation appears to have levelled off, and the Gini index remains relatively low by international standards, even within the South Asian region. If anything, the Gini coefficient has slightly fallen from its peak in the early 2000s.¹³ This is testament to the fact that the growth pattern in more recent years has become somewhat more inclusive, with rural development and employment creation in services and manufacturing generating some “trickle down”.

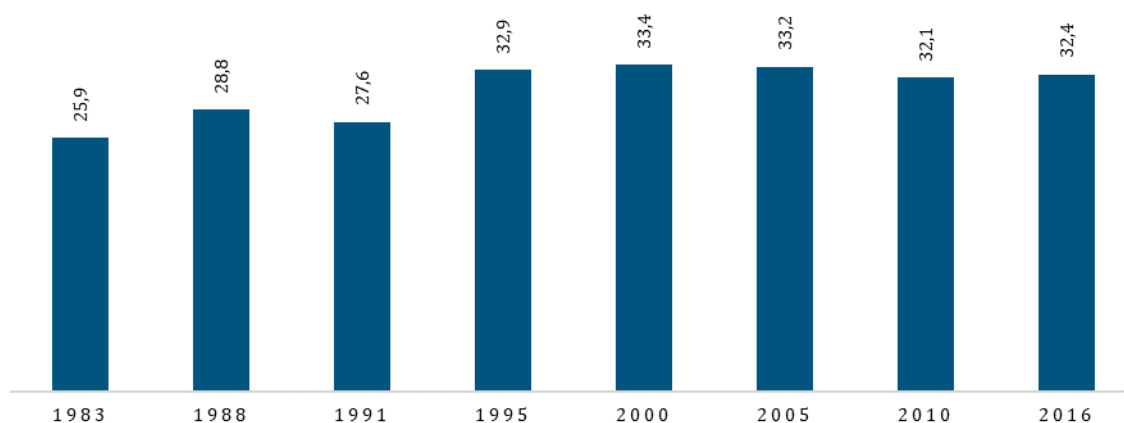
Nevertheless, the analysis of the whole national income distribution reveals a rising concentration of income towards the wealthiest, with over 40 per cent of income accruing to the richest 20 per cent of the population, according to World Development indicators data. Moreover, the gap between the very rich and the very poor has been increasing. In 2015-16, the income share held by the richest 5 per cent was 121 times of income share held by the poorest 5 per cent (Figure 18). More rapid income growth at the top of the distribution has recently contributed to a rising income share for the top

¹² Bangladesh crossed the World Bank’s threshold for lower middle-income country status in July 2015.

¹³ It is worth noting that the overall inequality scenario might be worse than what the figures depict, due to the well-known risk of under-reporting among wealthier segments of the population.

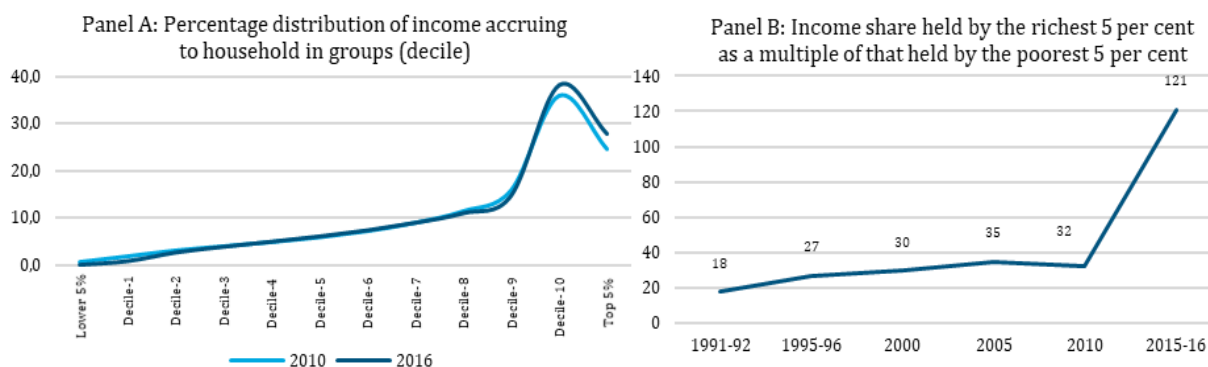
quintile; the share of income of the richest 5 percent has increased from 18.85 % in 1991 to 27.89 % in 2016 (CPD, 2018).

Figure 17: Bangladesh Gini index (1983-2016)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

Figure 18: Trends in income distribution

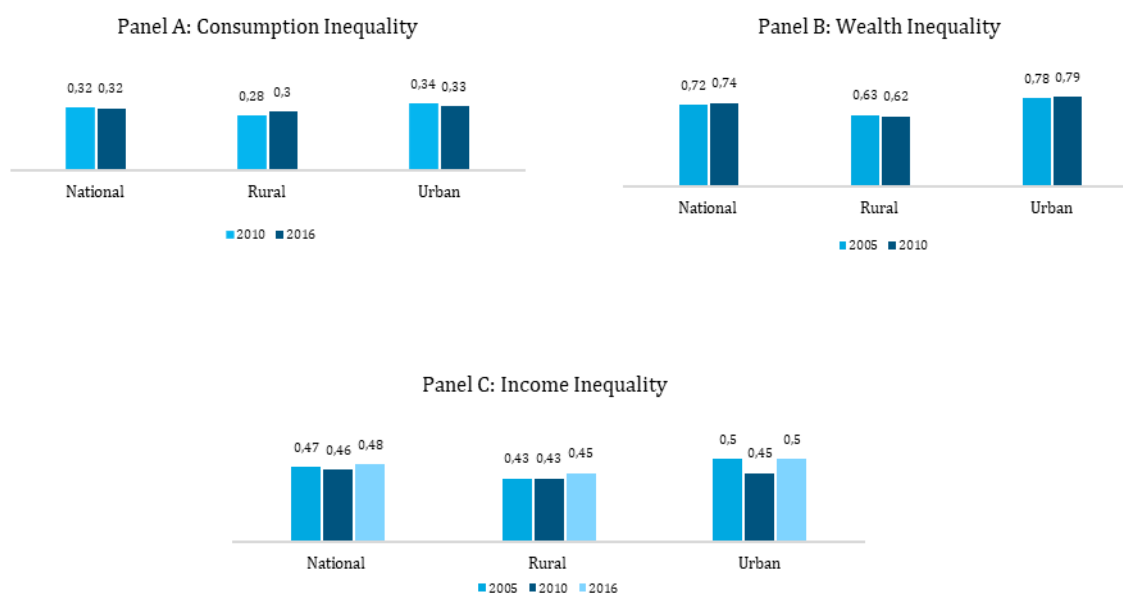


Source: UNCTAD secretariat calculations, based on data from BBS (2011, 2017) and CPD (2018)

Distinguishing inequality in income, consumption, and wealth sheds further light on the underlying dynamics. Across all three dimensions, higher inequality can be observed in urban than in rural areas (Figure 19), consistent with the idea that structural change (intended as shifts in sectoral composition of outputs and employment) is an important driver of inequality, as postulated by Kuznets’ inverted-U hypothesis. Besides, as expected, wealth inequality is significantly larger than income inequality, with consumption being even less unequally distributed. Although consumption inequality

remained broadly stable between 2010 and 2016, income and wealth inequality slightly increased, along with the increase in per capita national income.

Figure 19: Gini coefficient for consumption, wealth and income

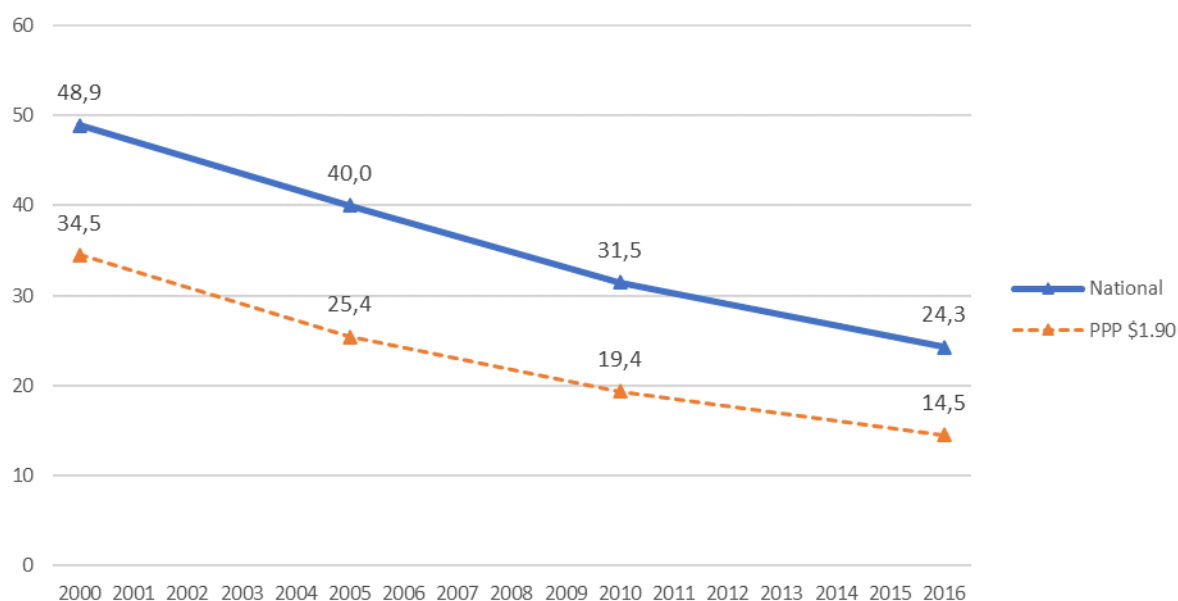


Source: UNCTAD secretariat calculations, based on data from Bhattacharya (2018)

Notwithstanding the above, the economic boom, in combination with lower population growth, has supported remarkable progress in terms of poverty reduction. Bangladesh has halved poverty rates between 2000 and 2016 (from 48.9 per cent to 24.3 per cent), lifting more than 25 million people out of poverty as measured against the national poverty line (Figure 20). Poverty incidence according to the international poverty line of USD\$ 1.90 purchasing power parity a day (i.e. extreme poverty), shows a parallel sustained decline. Increase in labour income, agricultural productivity, female labour force participation and remittance transfers contributed to poverty reduction. About 90 per cent of poverty reduction from 2010 to 2016 took place in rural areas, while the rate of reduction of poverty was smaller in urban areas (World Bank, 2019).

The COVID-19 crisis presents, however, a whole new set of challenges for poverty reduction in Bangladesh, not least because of the difficulty in ensuring that the most vulnerable segments of the population benefit from COVID-related stimulus packages (Towfiqul, 2020). Notwithstanding the fact that GDP growth is expected to remain positive in 2020, concerns have been voiced about the risks of increased poverty due to the COVID-19 shock. For instance, a study by the Bangladesh Institute of Development Studies (BIDS) estimated that the country might have 16.4 million new poor in 2020, while other “unofficial estimates” place the number of COVID-19-induced “new poor” between 16 and 42 million people (Financial Express, 2020b; UN, 2020a).

Figure 20: Poverty headcount ratio (percentage)



Source: UNCTAD Secretariat calculations based on World Bank (2019)

3.2 Human Assets Index criterion

Steady progress has been observed in Bangladesh also against the human assets criterion (Figure 21). In 2003, the Human Assets Index (HAI) was 26 per cent less than the graduation threshold. With notable improvement in all human capital indicators, Bangladesh, for the first time, exceeded the graduation threshold at the 2018 triennial review (with a score at 111 per cent of the graduation threshold).¹⁴ Moreover, the country is provisionally estimated to stand at 114 per cent of the graduation threshold in 2021, as depicted in Figure 21 (red dotted line).

The key indicators underpinning the evolution of the HAI are further discussed in this section and include child (under five) mortality rate, maternal mortality ratio, prevalence of stunting, gross secondary school enrolment ratio, adult literacy ratio and gender parity index for gross school enrolment ratio.

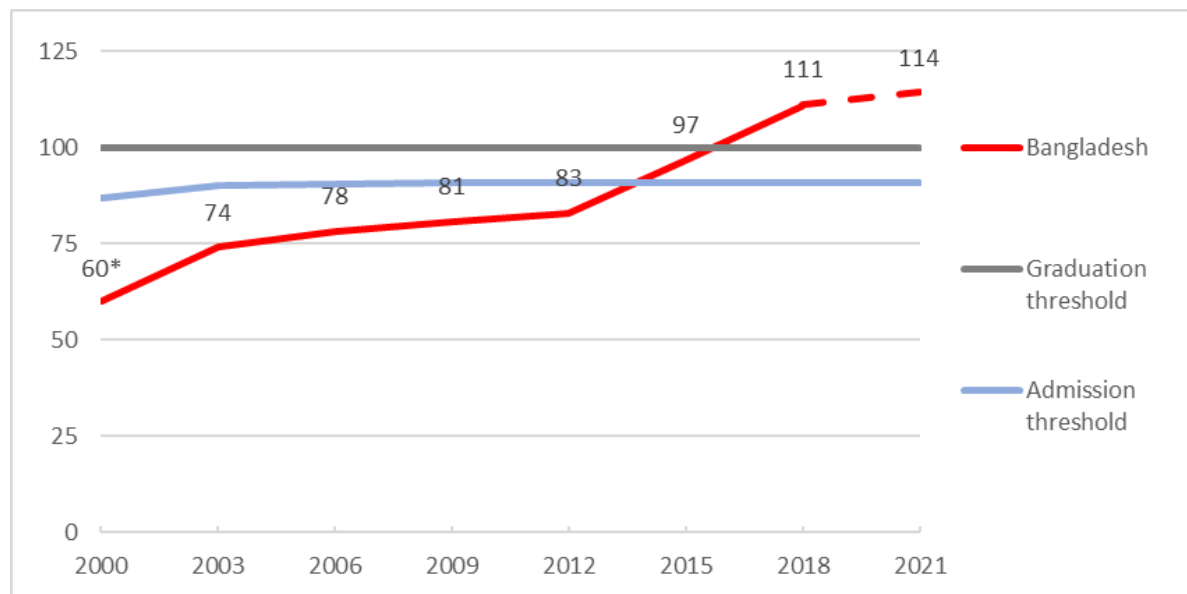
3.2.1 Prevalence of stunting

There is no doubt that Bangladesh has made considerable progress in improving food security for its people, even though several reasons for concern still persist. Agricultural development, coupled with public and private investments aimed at strengthening transport and market infrastructure, have enhanced the country's food supply and its capacity to ensure greater affordability of healthy diets. For example, the Coastal Climate-Resilient Infrastructure Project

¹⁴ Prior to the recent changes in its structure (Figure 14), the HAI was composed of five indicators: three on health and nutrition (with an equal weight of 1/6) and two on education (with an equal weight of 1/4).

(CCRIP) improved food security and nutrition outcomes of targeted beneficiaries in rural coastal districts of Bangladesh by improving rural connectivity in a sustainable and “climate-proof” manner (IFAD, 2019).

Figure 21: Bangladesh’s distance from the graduation threshold under the human asset criterion



Source: LDC Triennial Review Data, 2020

Note: the distance from graduation threshold is computed as the ratio between Bangladesh own HAI and the threshold applicable in the same triennial review; hence, the graduation threshold is rescaled to 100 even though the underlying score and the very composition of HAI have varied over time. * value based on APQLI¹⁵

According to IFPRI’s Global Hunger Index (GHI) 2020, Bangladesh ranked 75th among 107 countries, ahead of most of its South Asian neighbours but behind Sri Lanka (ranked 64th) and Nepal (73rd), the only countries in the region to be placed in the "moderate" severity level.¹⁶ Averaging over the 2016-2018 period, around one in every seven persons – or 13.5 per cent of population – suffered from undernourishment or insufficient caloric intake in the country. The ratio was 15.4 per cent between 2001-03, suggesting a steady but relatively sluggish improvement. Nonetheless, the country reduced the number of severely food-insecure people from 20.7 million in 2014-16 to 17.2 million in 2017-19 (FAO et al., 2020).

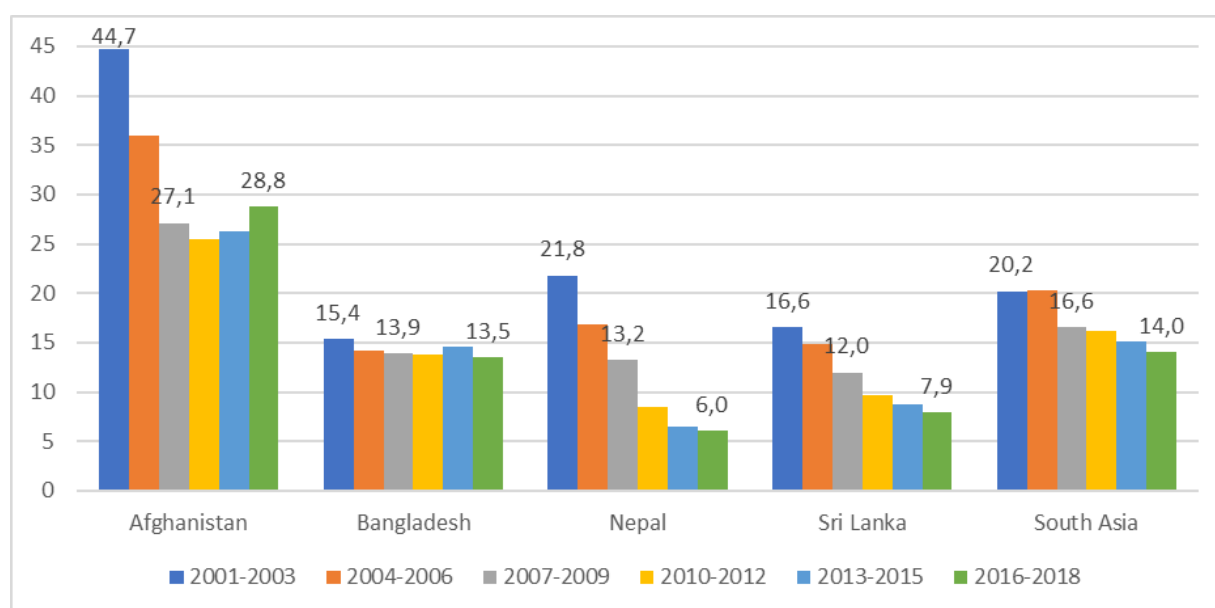
Malnutrition in children and adolescents constitutes a big challenge to building a healthy and economically productive population. Malnutrition refers to both undernutrition (i.e. deficiency of micronutrients and protein-energy malnutrition) and overnutrition.

¹⁵ In the triennial review 2000, Augmented d Physical Quality of Life Index (APQLI) was used instead of HAI. The APQLI is calculated at 25 per cent each of the figures for the calorie intake as percentage of requirement, under-five mortality rate, literacy rate and combined primary and secondary school enrolment ratio.

¹⁶ The GHI score of countries is based on four components – Undernourishment, Child Wasting, Child Stunting and Child Mortality. Notice that the GHI scores for 2020 in the report do not reflect the impact of COVID-19 on hunger and undernutrition.

Undernutrition continues to be a serious persistent public-health problem in the country. The prevalence of overweight among under-five children and women has been on the rise, particularly in urban areas (Ahmed et al., 2012). Bangladesh has made great strides in reducing chronic malnutrition, with the prevalence of stunting dropping from 70 per cent in the early 1990s to 30 per cent in 2019 (Figure 23). A similar progress is confirmed also by the recent Multiple Indicator Cluster Survey, conducted by the Bangladesh Bureau of Statistics (BBS) and UNICEF, which found a sharp decline in chronic malnutrition as measured by stunting levels, which fell from 42% in 2013 to 28% in 2019.¹⁷

Figure 22: Prevalence of undernourishment in total population (percentage)



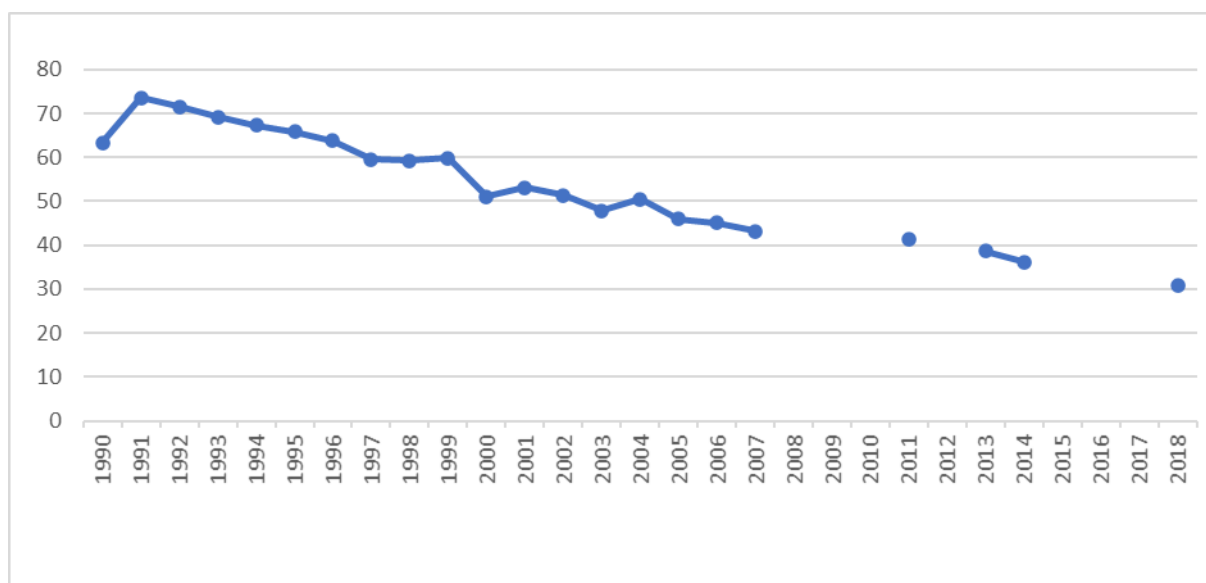
Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

Despite the progress recorded, the above figures suggest that there is no place for complacency. The key factors that contribute to stunting in the country are poor infant and young child feeding practices, poor nutrition among women before and during pregnancy, and poor sanitation practices. Stunting is concentrated among children from households facing multiple forms of deprivation, including poor dietary diversity, low levels of maternal education, and household poverty (Krishna et al., 2018). Again, the COVID-19 pandemic poses additional risks to the nutritional status and survival of young children in low-income and middle-income countries (LMICs), with Bangladesh being no exception. COVID-19 is likely to increase stunting, micronutrient deficiencies and other forms of malnutrition in children and

¹⁷ <https://www.unicef.org/bangladesh/en/press-releases/bangladesh-sees-sharp-decline-child-malnutrition-while-violent-disciplining-children>

women, as a result of poorer diets and the disruption of nutrition services. It is essential that the Government attends to overlapping issues of malnutrition, food security and COVID-19.¹⁸

Figure 23: Prevalence of stunting, height for age (percentage of children under 5)



Source: UNCTAD secretariat calculations, based on data from UNICEF, WHO, World Bank: Joint child malnutrition database

3.2.2 Child and Maternal Mortality Ratios

Bangladesh has achieved remarkable success also in terms of child mortality (Figure 24). The under-five mortality rate in the country fell to 31 deaths per 1,000 live births in 2019 from 222 in 1971, 138 in 1991, 82 in 2001 and 46 in 2011, similar to other LDCs in the region, namely Afghanistan, Nepal and Bhutan. Over these decades, extensive changes have occurred in health policy related to maternal health and new-born care, with an emphasis on the integration of delivery of services and interventions targeted at underserved populations, which could partially explain reduced child mortality (Ministry of Health and Family Welfare, Bangladesh, 2015). Mortality declines can be also explained with improved coverage of effective interventions to prevent or treat the most important causes of child mortality (e.g., births in a health facility, skilled birth attendance, antenatal care visit, coverage of breastfeeding within 1 hour of birth and exclusive breastfeeding for children, programmes to ensure high coverage of vaccine preventable diseases, implementation of Integrated Management of Childhood Illness, among others) and with improvements in socioeconomic conditions.¹⁹ Moreover, Bangladesh has seen reduced disparities in under 5 mortality

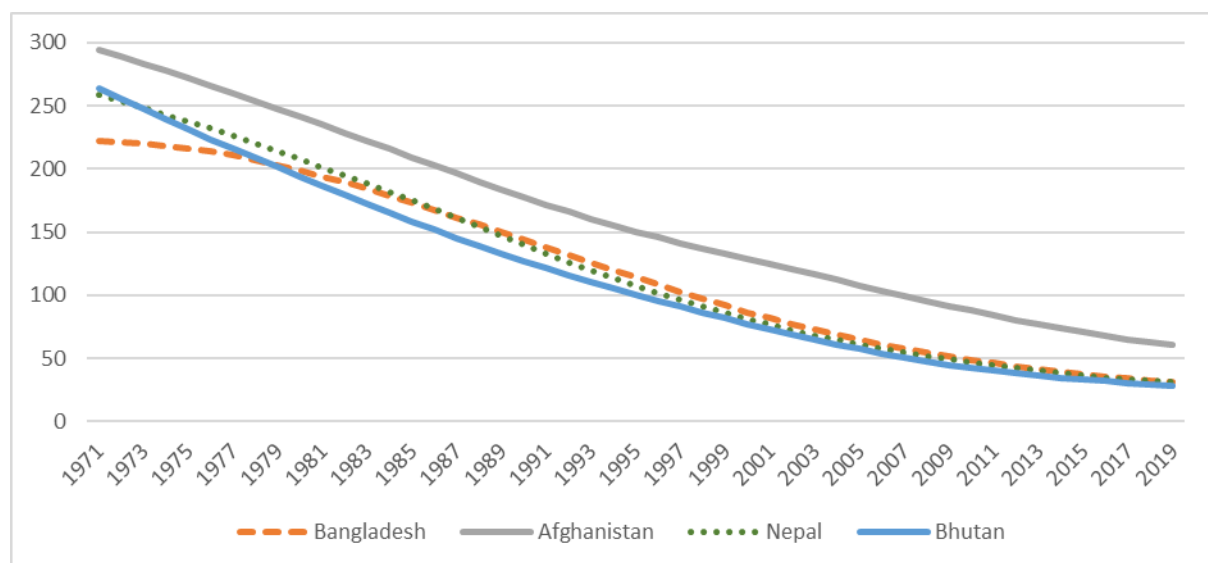
¹⁸ <https://www.unicef.org/bangladesh/en/press-releases/additional-39-million-children-under-5-could-suffer-wasting-south-asia-year-due>

¹⁹ Khan and Awan (2017) found that the combined effects of mother's working status and parental education were significant factors associated with the risk of child mortality of Bangladesh.

between urban-rural areas and across different regions of the country (Khan and Awan, 2017).

Among the factors explaining the reduction in infant mortality in Bangladesh, Sadek (2016) found that the following significant drivers: parental education, infant sex, vitamin-A supplementation received, household toilet facility, number of antenatal visits, type of person giving care on mother before birth, birth order, tetanus injection before and after the pregnancy, birth type, and type of person giving care to mother and infant after birth. Similarly, according to Hossain et al. (2018), successful programmes for immunization, control of diarrheal disease and vitamin-A supplementation were the most significant contributors to the decline in child and infant deaths in the country. Save the Children (2019) showed that women education and empowerment in Bangladesh were the most crucial factors contributing to the progress in the reduction of child mortality in the country. The report lauded the Bangladesh government’s effort in setting up community clinics and digitalization of the primary health care system which are key to children’s health outcomes.²⁰

Figure 24: Child mortality rate, under-5 (per 1,000 live births)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

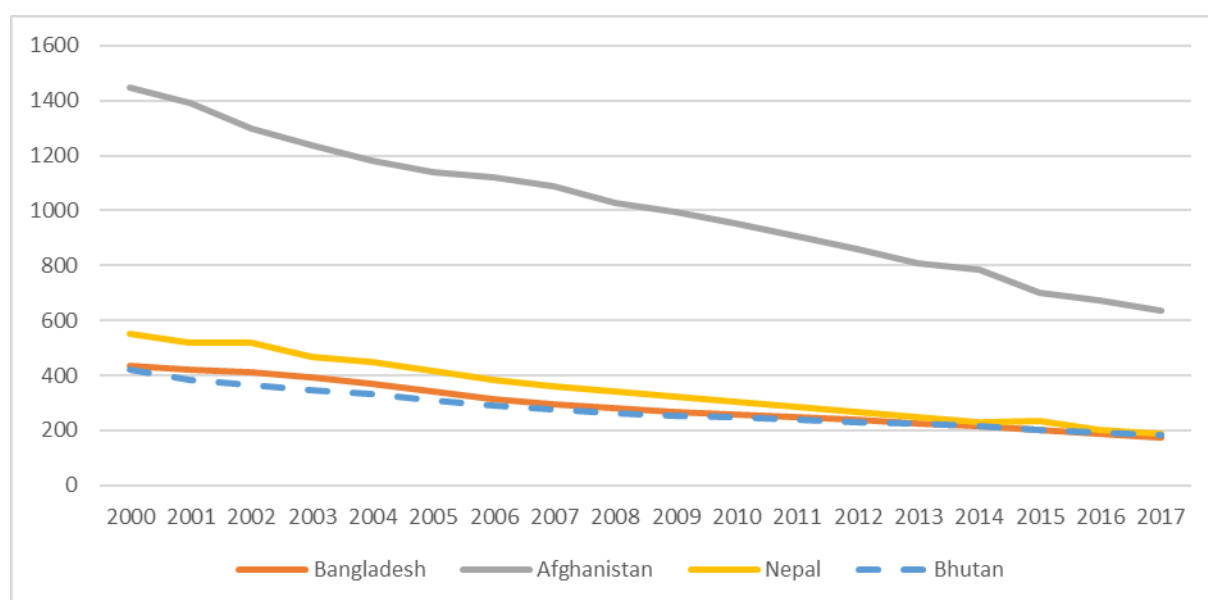
The maternal mortality ratio (MMR) in Bangladesh has decreased significantly over the years, though it remains higher than in developed countries (Ministry of Health and Family Welfare, Bangladesh, 2015). Between 1990 and 2017, the maternal mortality rate in Bangladesh decreased from 574 (per 100,000 live births) to 173 (per 100,000 live births), a remarkable 70 per cent decrease in three decades. Indeed, in 2017, Bangladesh had the lowest maternal

²⁰ This initiative helped Bangladesh winning the award “Digital Health for Digital Development” from United Nations in 2011 as a recognition of contribution to the use of information and communication technology (ICT) for health and nutrition.

mortality among South Asian LDCs , with Nepal recording a value of 186, Bhutan of 183 and Afghanistan of 638 (all values per 100,000 live births) (Figure 25).²¹

The decline can be explained with a reduced total fertility rate²² (from 5 births per woman in 1990, to 2 births in 2017) via effective family planning programmes, and with increased skilled delivery attendance (from 5 per cent in 1991 to 50 per cent in 2016). The reduction in maternal mortality is also attributed to improved access and utilization of maternal care services (such as the Maternal Health Voucher Scheme and Emergency Obstetrical Care Services, etc.), emphasis on women’s education and empowerment and per capita income. Bangladesh has been a pioneer in areas such as girls’ education, employment of women and micro-credit programmes; the Female Secondary School Stipend Project supported the expansion of female secondary schooling is one example (Ministry of Health and Family Welfare, Bangladesh, 2015).

Figure 25: Maternal Mortality Ratio (modelled estimate, per 100,000 live births)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database

Several factors outside of the health sector have also supported improvements in maternal and child health. The government’s policy of making primary education free of cost and compulsory²³ for all contributed to the increase in both male and female primary school

²¹ Maternal mortality ratio is the number of women who die from pregnancy-related causes while pregnant or within 42 days of pregnancy termination per 100,000 live births. The data are estimated with a regression model using information on the proportion of maternal deaths among non-AIDS deaths in women ages 15-49, fertility, birth attendants, and GDP measured using purchasing power parities (PPPs).

²² Fertility reductions have contributed substantially to the lowering of maternal mortality ratio by lowering the number of high risk, high parity births (UNICEF, 2015).

²³ Primary education is provided free of charge at public schools and open to all children at the age of six. To further increase participation and improve learning outcomes, the Bangladeshi government in 2010 introduced

enrolment and in adult literacy rate (for both males and females). Indeed, adult female literacy rate in Bangladesh increased from 25.8 per cent in 1991 to 72 per cent in 2019, supporting improvements in maternal and child health. A summary of factors influencing both maternal and child mortality is displayed in Table 1.

Table 1: Factors influencing mortality declines in Bangladesh

	Factors influencing child mortality declines	Factors influencing maternal mortality declines
Improved coverage of effective interventions to prevent or treat the most important causes of maternal and childhood deaths	<ul style="list-style-type: none"> • Improved vaccination coverage: full vaccination of children 12-23 months increased from 60% in 2000^d to 84% in 2014^e • Improved management of diarrhoea: children with diarrhoea receiving ORT (ORS or RHF) increased from 74% in 2000^d to 84% in 2014^e • Improved care-seeking for and management of pneumonia in under-fives: care seeking for symptoms of ARI Increased from 28% in 2000^d to 42% in 2014^e • Antibiotic use: In 2014^e 34% of children under 5 with symptoms of ARI received antibiotics • Vitamin A supplementation: rose from 49% in 1994^f to 62% in 2014^e • Improved nutrition: underweight children: 43% in 2004 to 33% in 2014^e <p><i>Newborn care interventions:</i></p> <ul style="list-style-type: none"> • Improved breastfeeding practices: exclusive + within 1 hour of delivery increased from 9% in 1994^f to 17% in 2000^d and 57% in 2014^e • Increase in coverage of ENC between 2007^g and 2014^e: <i>Dried within 5 minutes:</i> 6% to 67% <i>Bathed 72hrs or more after birth:</i> 17% to 34% <i>Nothing on the stump or chlorhexidine if indicated:</i> 56% to 48% • Neonatal tetanus: mothers protected during last birth rose from 66% in 1994^f to 90% in 2011^h 	<ul style="list-style-type: none"> • Family planning programme: increased contraceptive prevalence and fertility decline (CPR: 40% in 1990 to 62% in 2014; TFR: 5 births per woman in 1990ⁱ to 2.3 in 2014^e) • Increased availability, utilisation and access to maternal health interventions: <ul style="list-style-type: none"> - CEmOC services: treatment from health facility for maternal complications: 16% in 2001^j to 29% in 2010^k - Caesarean-sections: 2% 2000^d to 23% in 2014^e - Menstrual regulation: Abortion-related maternal deaths: 5% in 2001^j to 1% in 2010^k Use of MMR: 5% in 2000^d to 9% in 2011^h - Facility delivery: 8% in 2000^d to 37% in 2014^e - Skilled birth attendance: 12% in 2000^d to 42% in 2014^e - 4 + ANC: 11% in 2000^d to 31% in 2014^e - PNC within 2 days of delivery mothers: 16% in 2004^l to 34% in 2014^e - PNC within 2 days of delivery newborns: 13% in 2004 to 32% in 2014
Economic, environmental and educational improvements	<ul style="list-style-type: none"> • Female education (literacy among 15-24-yearold girls: 38% in 1991 to 80% in 2011) • Female participation in parliament increased from 12% in 1991 to 20% in 2010 • Poverty reduction (57% in 1991-2 to 32% in 2010) • Proportion of population below national poverty line (70% in 1992 to 43% in 2010) • Improved communication networks (road and information & communication technology) • Access to clean water (76% in 1990 to 83% in 2011) and improved sanitation (38% in 1990 to 55% in 2011) • Growth of private sector • NGO interventions 	

^aBDHS 1999-2000; ^eBDHS 2014; ⁱBDHS 1993-1994; ^dBDHS 2007; ^hBDHS 2011; ⁱBFS 1989; ^jBMMS 2001; ^kBMMS 2010; ^lBDHS 2004.

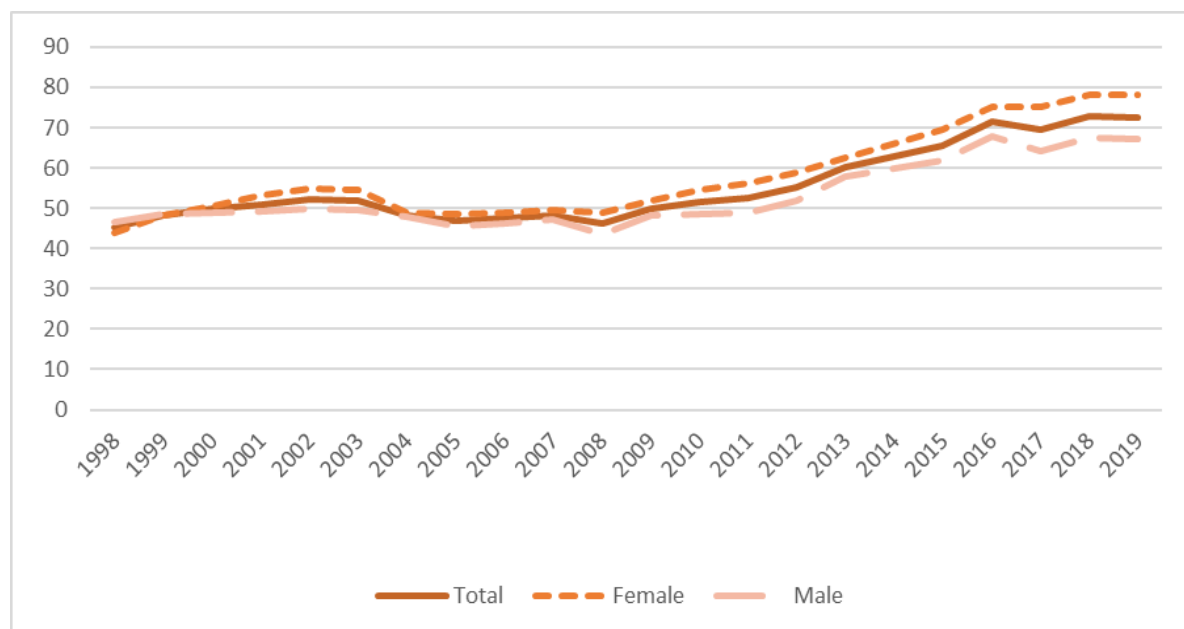
Source: adapted from (Ministry of Health and Family Welfare, Bangladesh, 2015)

one year of compulsory preschool education and extended the length of compulsory education from grade five to grade eight.

3.2.3 Gross Secondary School Enrolment Ratio

The gross secondary school enrolment ratio in Bangladesh has increased significantly over the last decades, albeit in a volatile manner (Figure 26). Secondary enrolment remains, however, still relatively low (72.6 per cent in 2019), particularly when compared to other South Asian LDCs, such as Nepal (80.2 per cent in 2019) and Bhutan (90 per cent in 2018).²⁴

Figure 26: Gross enrolment ratio, secondary (percentage)



Source: UNCTAD secretariat calculations, based on data from UNESCO (2020)

The main issue for Bangladeshi policy makers has been to increase access to education while ensuring a good quality of education and boosting educational attainment. Two of the most striking recent developments in this respect are the near universalization of basic schooling, and the closing of the gender gap in school enrolment.

Notwithstanding significant progress, school dropout represents a major challenge for Bangladesh and other developing countries alike. The country reduced its primary school dropout rate from 40 per cent in 2010 to 19 per cent in 2018, challenges being even more pronounced in secondary school, where the dropout rates declined from a staggering 61 per cent in 2008 to 37 per cent in 2018.²⁵ While the dropout rate is higher for boys than for girls in primary education (21.4 per cent compared to 15.7 per cent), the situation is reversed for secondary education, where dropout is more prevalent among girls (28.4 per cent compared to 36 per cent). Poverty, child marriage, social insecurity, distance to an educational institution (particularly for rural areas) and cultural norms are the major reasons for

²⁴ Gross enrolment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that began at the primary level and aims at laying the foundations for lifelong learning and human development, by offering more subject- or skill-oriented instruction using more specialized teachers.

²⁵ Unless otherwise specified, all data in this paragraph are drawn from UNICEF (UNICEF, 2019).

secondary school dropout rates. To ease financial barriers to school enrolment, in 2016 the Government capped tuition fee increases at private schools and provides stipends and tuition subsidies, mostly to girls in rural regions. Over the years, the government has built thousands of schools, notably in remote rural areas, pouring considerable investment into improving access to education: the number of schools has climbed from roughly 15'000 in the year 2000 to more than 20'000 in 2015 (BANBEIS, 2016).

Awareness is a crucial factor in increasing school enrolment in developing countries. Accordingly, awareness raising initiatives by the government and NGOs have helped in increasing the number of students in secondary education, although more needs to be done. The education budget has been relatively low in Bangladesh; and is one of the lowest in South Asia.²⁶ Therefore, ensuring sufficient financing in education sector remains a key priority, as it is the strengthening of vocational training schemes. While the total amount of government funds allocated to the sector have increased over the past years, as the gross domestic product and revenues have grown, spending on the education has actually decreased as a percentage of total government spending – from 14 per cent of in FY2000 to 11.7 per cent in FY2020. The allocation for the education sector in the FY2021 remains almost unchanged in terms of size and percentage of GDP, compared to the budget for FY2020, despite negative implications of COVID-19 on the sector. Sufficient budgetary allocations become essential for effective implementation of policies and measures in the context of the pandemic.

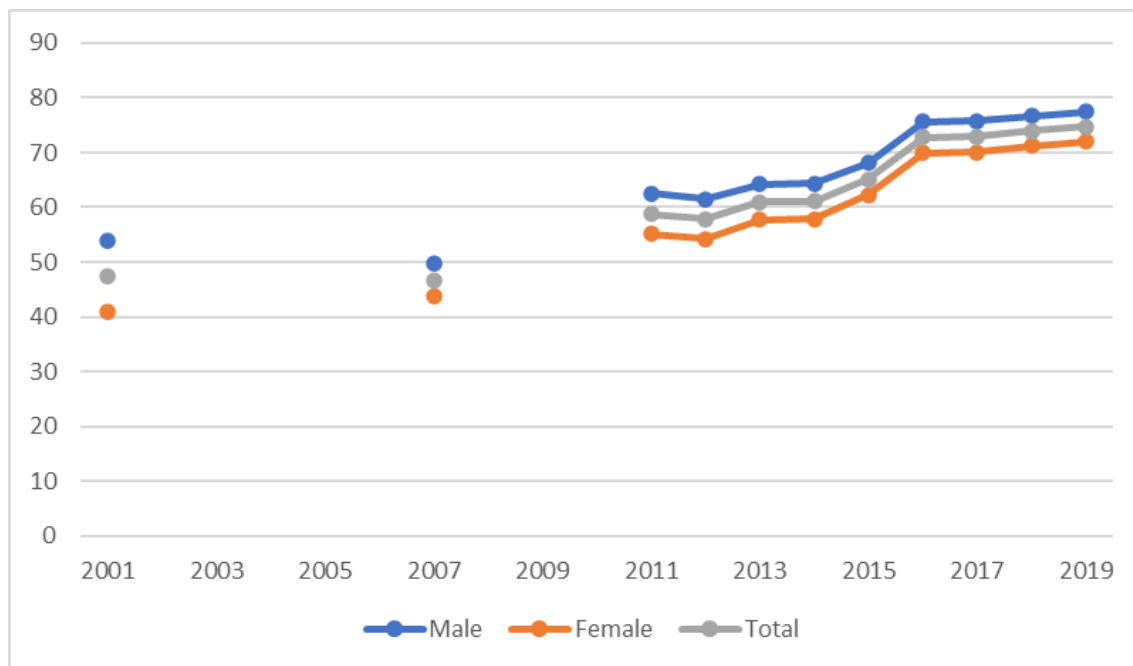
3.2.4. Adult Literacy Rate

The literacy rate in Bangladesh has risen remarkably over the past decades to 74.7 per cent in 2019, despite some levelling off in the recent years (Figure 27). The figure shows an increase of about 26 percentage points from 2007, when the literacy rate was 48.6 per cent. Over the same period, the literacy rate for females has risen from 43.74 per cent to 72 per cent, and for males from 49.8 per cent to 77.4 per cent. When compared to the other three LDCs in the region; Nepal, Afghanistan and Bhutan, the adult literacy rate was higher in Bangladesh, yet the country is still way behind in achieving universal literacy.

Over the years, the government of Bangladesh has shown real commitment to education, as demonstrated through important progress in the sector (e.g. universal enrolment in primary education, achieving gender parity in primary and secondary school access). This focus on adequate education and human capital bodes well for supporting the modernization of the economy and tapping the demographic dividend. Along with the government, a significant number of NGOs have played a key role in increasing the number of literate in the country, with the NGOs` activities revolving around multi-level educational streams (Figure 28).

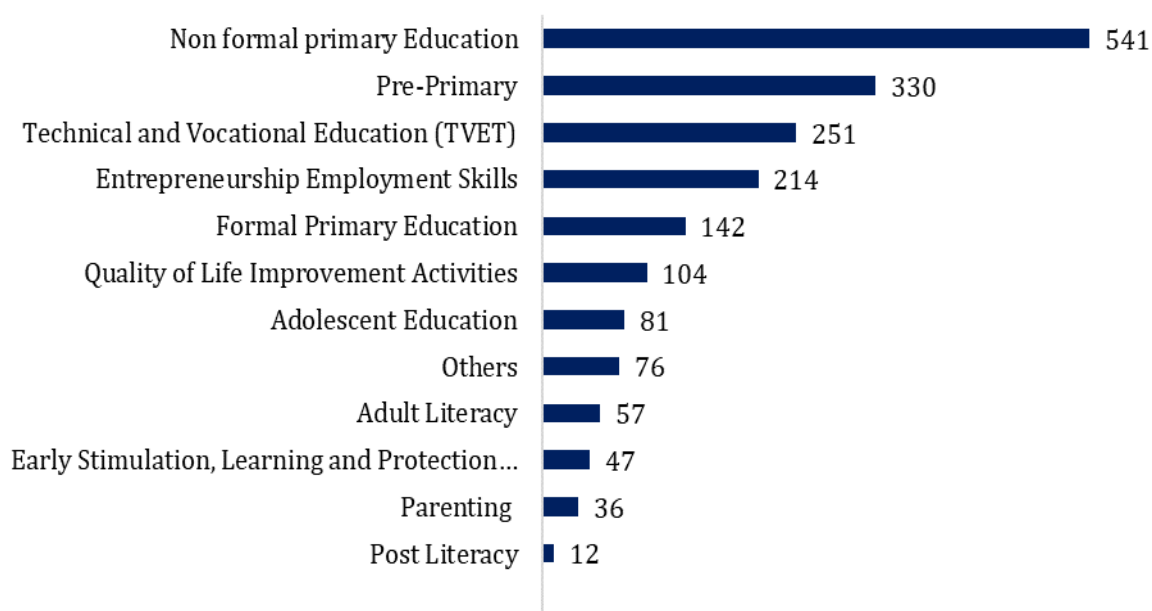
²⁶ <https://cpd.org.bd/wp-content/uploads/2016/04/Executive-Summary-Budget-for-Education-in-Bangladesh.pdf>

Figure 27: Adult Literacy Rate (percentage)



Source: UNCTAD secretariat calculations, based on data from UIS (2020)

Figure 28: Number of NGOs Involved in various education programmes



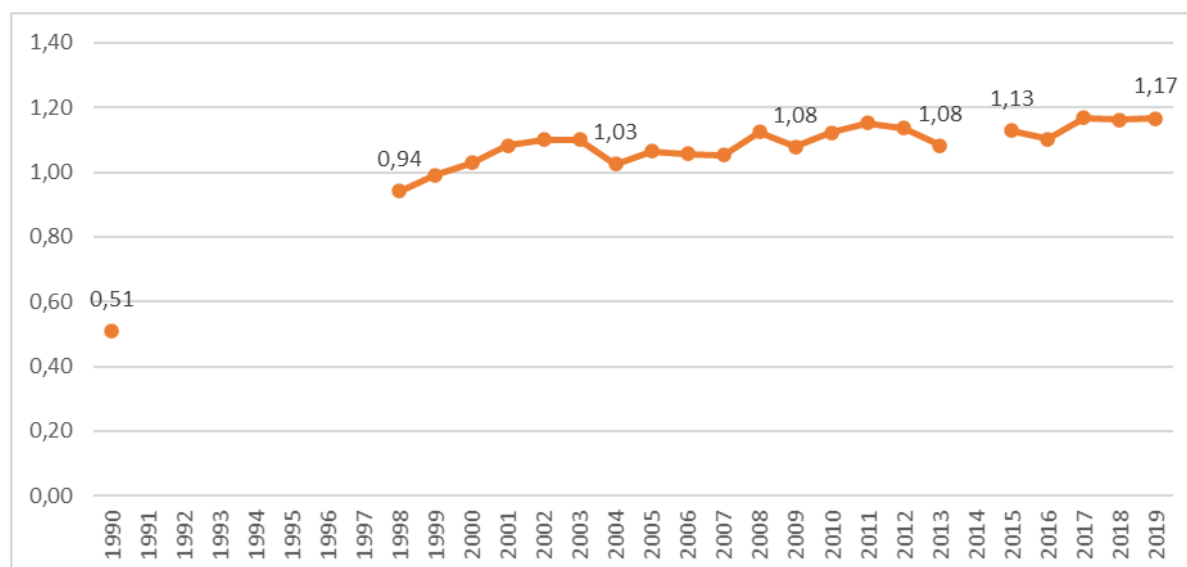
Source: UNCTAD Secretariat based on data from <https://campebd.org/page/Generic/0/30/20>

3.2.5 Gender Parity Index for Secondary School Enrolment

In the past, one of the challenges for Bangladesh education system has been the persistently low enrolment and school attainment among girls and women, among the lowest in the world. The disparity was particularly pronounced at the post-primary level, as the direct costs of schooling increased. For instance, according to BANBEIS data in 1990 net primary enrolment rate was 64 percent for girls (10 percentage points lower than for boys) and the gender gap was even larger in secondary school, with only 33 per cent of total enrolees being girls. Through targeted policy measures, however, Bangladesh has been able to sharply reduce gender disparities in access to education.

UNESCO data document a significant improvement in girls' participation in primary education, with nowadays better educational attainment than boys, both in terms of lower repetition rates and higher completion rates. Female enrolment at the secondary level have also increased considerably from 13.6 per cent in 1990 to 78.3 per cent in 2019 (compared to a male enrolment of 67.1 per cent). This has translated in a sustained improvement of the gender parity index for gross secondary school enrolment, which has exceeded the value of 1 since the early 2000s.²⁷

Figure 29: Gender parity index for gross secondary school enrolment



Source: UNCTAD secretariat calculations, based on data from UNESCO UIS database (2020)

In addition to government initiatives, the rise in non-formal education pushed by NGOs, and the increase in formal sector employment opportunities for women that require secondary education are some of the factors behind the success in closing the gender gap in secondary school enrolment (Schurmann, 2009). In 1994, the government

²⁷ The gender parity index for gross enrollment ratio in secondary education is the ratio of girls to boys enrolled at secondary level in public and private schools.

launched the Female Secondary School Assistance Program (FSSAP). The programme was established to address gender disparity in secondary education, and to raise female status in the economy and society. Under the programme, female students received tuition waivers and monthly stipends (ranging from \$12 in Grade 6 to \$36 in Grade 10). The other notable programmes implemented by the government are the Secondary Education Stipend Project (SESP) and the Secondary Education Sector and Investment Programme (SESIP), financed respectively by the national government and the Asian Development Bank (Habib and Alamgit, 2019).

Despite the progress in gender parity in secondary enrolment, girls lagged behind boys in terms of education outcomes. Data from the 2017 Bangladesh Bureau of Educational Information and Statistics show that completion rates among girls are low, with grade 10 rates bottoming at only 10 per cent, and secondary level completion rates reaching a mere 59 per cent (Sosale et al., 2019). This may be explained by lower investment in the quality of education (due to cultural norms, biases etc.) for girls than for boys, leading to the girls' relative underperformance in education.

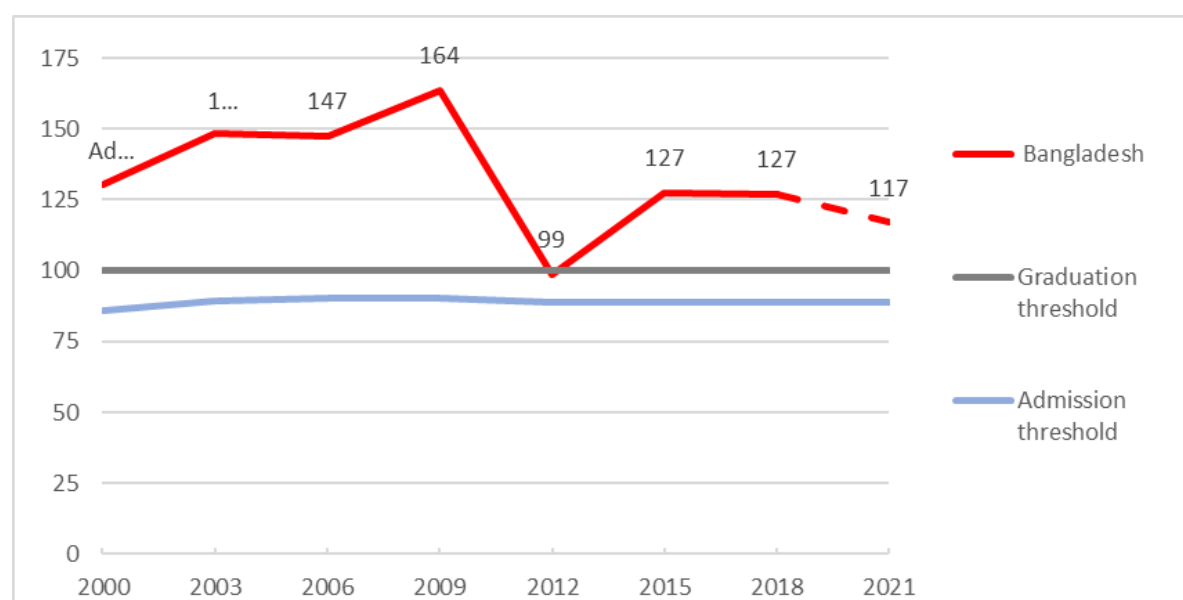
Achieving a more efficient, equitable, inclusive and quality secondary education system is at the core of the 2018-2022 Secondary Education Development Program (SEDP). Combining greater and more equal access to education with higher quality of related attainments, across a multilevel educational system, has proven understandably challenging. Targeted interventions to improve the quality of educational attainment among marginalized groups may help to narrow the gender gap in the quality of education.

3.3 Economic and Environmental Vulnerability Index (EVI) criterion

Following the adoption of the outcome of the comprehensive review of the LDC criteria by the Committee of Development Policy, the structure of the EVI has also been modified compared to earlier vintages of the index (CDP, 2020). With this revision, the EVI has been simplified and now consists of two sub-indices, one on economic vulnerability and one on environmental vulnerability, each containing four indicators with an equal weight of 1/8. The indicator on “Population size” was removed from the EVI. The economic vulnerability indicator “Remoteness” has been renamed “Remoteness and landlockness” to better reflect the fact that the indicator accounts for specific challenges of LLDCs. The environmental vulnerability indicator “Victims of natural disasters” has been renamed “Victims of disasters” to better align it with common United Nations terminology and to highlight that disasters are not natural per se, but rather stem from the exposure to natural hazards, the conditions of vulnerability that are present; and insufficient capacity to cope with potential negative consequences. The indicator “Share of population living in drylands” has been added to the EVI.

Figure 30 shows that Bangladesh consistently met the graduation threshold under the economic and environmental vulnerability criterion, except for the 2012 review, when it narrowly failed to meet the threshold.²⁸ Bangladesh's performance under the graduation threshold relevant to the economic and environmental vulnerability criterion demonstrated sustained improvements (reflecting a reduction in economic and environmental vulnerabilities as measured by the index) between 2012 and 2015 triennial reviews, with the EVI score hitting a plateau thereafter. The EVI score of Bangladesh in 2018 was 25.2, which was 127 per cent relative to the graduation threshold. The provisional value relevant to this criterion (in red dotted line) for 2021 triennial review is estimated to meet graduation threshold at 117 per cent.

Figure 30: Bangladesh distance from the graduation threshold under the economic and environmental vulnerability criterion



Source: LDC Triennial Review Data, 2020

Note: the distance from graduation threshold is computed as the ratio between Bangladesh own EVI and the threshold applicable in the same triennial review; hence, the graduation threshold is rescaled to 100 even though the underlying score and the very composition of EVI have varied over time.

The remainder of this section discusses the key dimensions composing the EVI. For the sake of conceptual clarity and in line with the new EVI structure (CDP, 2020), the exposition distinguishes the indicators pertaining to economic sphere of vulnerability (namely the share of agriculture, forestry and fisheries in GDP, remoteness and

²⁸ For the sake of consistency with earlier figures, downward movements in Figure 30 (as that occurring in the year 2012) illustrate a deterioration in the country's EVI score (i.e. increasing economic and environmental vulnerability), whereas upward movements in the graph indicate reductions in vulnerabilities (i.e., improvement in the EVI score). This "inversion" simply serves to harmonize the interpretation of this graph with that Figure 15 and Figure 21, even though improvements should in principle follow from a reduction – and not an increase – in economic and environmental vulnerability.

landlockness, merchandise export concentration, instability of exports of goods and services) from those pertaining to the environmental one (share of population in low elevated areas, share of population living in drylands, victims of disasters, and instability of agricultural production).

3.3.1. Indicators of economic vulnerability

As noted earlier in this document, the agriculture, forestry and fisheries sector has displayed sustained growth in labour productivity, with positive repercussions on rural livelihoods. The **share of agriculture, forestry and fisheries in GDP** has nonetheless declined steadily, from 31 per cent in 1990, to 26 per cent in 2000, and then falling even more rapidly to 18 per cent in 2010 and 14 per cent in 2018. This decline is consistent with the pattern of structural change discussed earlier, and in particular with the rise of manufacturing and services and the ensuing reallocation of labour towards these sectors. This also suggests that agricultural productivity levels have indeed increased, but less rapidly than the rest of the economy.

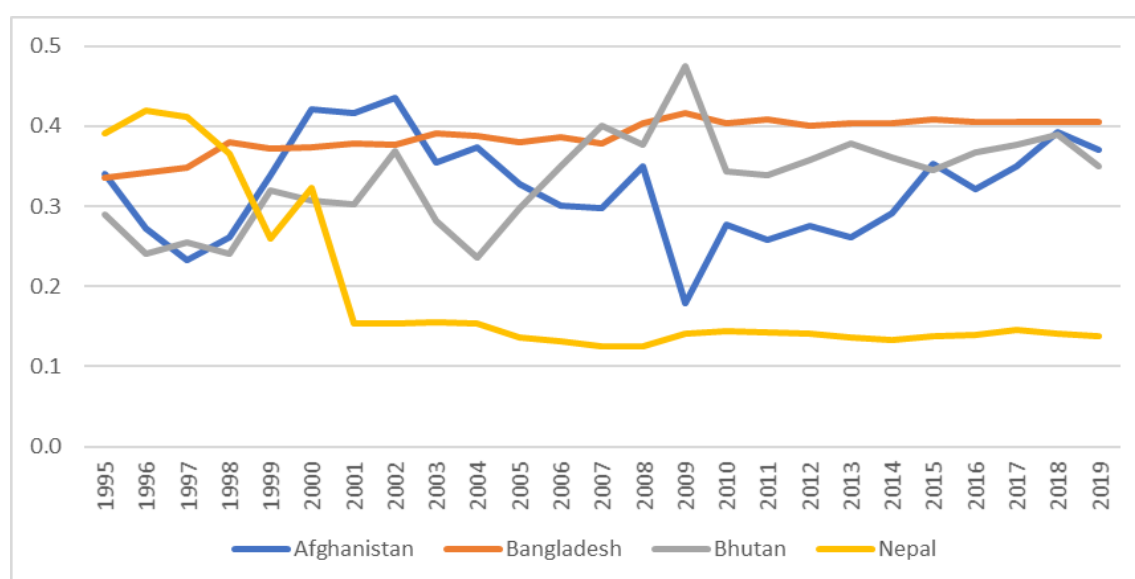
Moving to the second indicator of economic vulnerability, namely **remoteness** (and landlockness), Bangladesh is in a geographical sense not particularly remote.²⁹ According to the latest CDP data, the value of its remoteness index for the year 2020 was 33.8, compared to an LDC average of 60; this is slightly lower than comparable non-landlocked countries such as Myanmar (37.7) or Vietnam (34.2). In this context, it is worth noting that in the case of Bangladesh the main constraints and obstacles to trade stem not from geography as such, but rather from the supply-side bottlenecks in terms of transport infrastructure, as well as the inefficiencies of its logistic network (Herrera Dappe et al., 2019). This reading of the evidence is also confirmed by UNCTAD's PCI components (Figure 5) and by trends in UNCTAD's liner shipping connectivity index³⁰, which reveal Bangladesh's persistently weak connectivity in terms of maritime transport. Generally speaking, if the country's performance in tackling trade and transport bottlenecks is not radically from other LDCs, and indeed denotes some gradual improvements, transaction costs remain significantly higher than other non-LDCs in the region, notably Vietnam (a key competitor in ready-made garment industry).

²⁹ In the context of LDCs status determination, remoteness is defined as the trade-weighted average of the country's distance from world markets. In order to compute the remoteness indicator for the EVI, a logarithm transformation and maximin procedure are then applied, with an adjustment for landlocked countries; besides, indicators considered by the CDP are three-year averages (CDP and UN DESA, 2018).

³⁰ UNCTAD's liner shipping connectivity index encompasses the following six components: (a) The number of scheduled ship calls per week in the country; (b) Deployed annual capacity in Twenty-Foot-equivalent Units (TEU): total deployed capacity offered at the country; (c) The number of regular liner shipping services from and to the country; (d) The number of liner shipping companies that provide services from and to the country; (e) The average size in TEU (Twenty-Foot-equivalent Units) of the ships deployed by the scheduled service with the largest average vessel size; and (f) The number of other countries that are connected to the country through direct liner shipping services. The index ranges between 0 and 100 with higher values denoting greater shipping connectivity.

Earlier sections of the Vulnerability profile have documented the remarkable expansion in Bangladesh exports, pulled by the boom of ready-made garments. Today, the country is the world's second largest ready-made garments exporter, and these products represent more than 80 per cent of its exports.³¹ These trends mirrored in a gradual rise of the **merchandise export concentration index**, which rose from roughly 0.33 in the mid-1990s to 0.42 in 2009, and subsequently hovered around a value of 0.41 (Figure 31).³² The fact that Bangladesh's export concentration index is higher than that of other South Asian LDCs (and of most of its Asian competitors for that matter) underscores the fact that the heightened dependence on a narrow range of garment products is a source of concern on the long-term (see below).

Figure 31: Export concentration index



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database

Notwithstanding other concerns in relation to Bangladesh's heightened dependence on ready-made garments, the very nature of related international markets has been such that **export instability** has traditionally been limited (Figure 32).³³ The composition of export largely explains this behaviour, as international prices for textile and clothing products are not subject to the sharp variations that characterize primary commodity

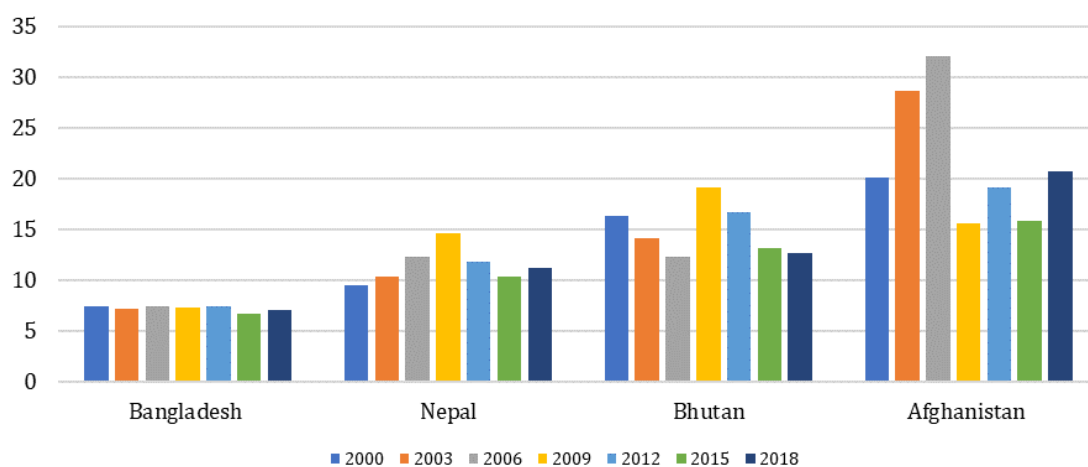
³¹ According to Export Promotion Bureau (EPB), RMG has contributed more than 85 per cent of Bangladesh's total export in the last consecutive six fiscal years.

³² The merchandise export concentration index, also named Herfindahl-Hirschmann Index, is a measure of the degree of product concentration. The index is normalized between 0 and 1 with higher values denoting greater concentration; that is that a large share of a country's exports is accounted for by a small number of commodities.

³³ The export instability indicator measures the variability of the value of exports around its trend, calculated over a 20-year period, with higher values denoting greater volatility around the trend. For greater detail refer to CDP and UN DESA (2018).

prices. This in turn contributes to reducing fluctuations in the country's terms of trade and purchasing power of exports.

Figure 32: Export instability index



Source: UNCTAD secretariat calculations, based on data from LDC Triennial Review Data (2019)

3.3.2 Indicators of environmental vulnerability

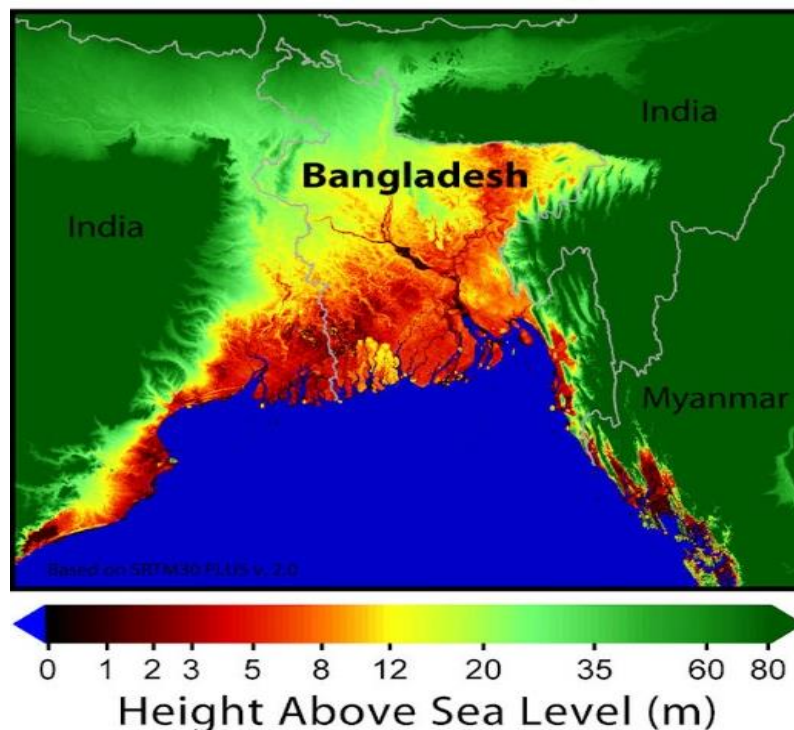
Bangladesh is widely regarded as one of the most environmentally vulnerable countries in the world, as a result of the interplay between its geophysical characteristics, high population density, limited resilience and peculiar environmental conditions. According to the National Adaptation Programme of Action (NAPA), the coastal area of the country is prone to salinity intrusion and tropical cyclone; the central plains are prone to flood; the north western region of the country is prone to drought; the north eastern part of the country is prone to flash flood; and the hilly region to soil erosion and landslide (MOEF, 2009). Moreover, climate change exacerbates the country's environmental vulnerability in three main ways:

1. through sea level rise, which threatens a considerable share of the population;
2. by leading to higher and more erratic rainfall; and
3. by increasing the intensity and frequency of natural hazards, especially in the northern and western part of the country (ibidem).

The NAPA thus estimated that climate change could affect more than 70 million Bangladeshis, due to the country's geographic location, low elevation, high population density, poor infrastructure, high levels of poverty and high dependency on natural resources (ibidem). Other studies have estimated that only a 1-meter increase in the sea level might submerge 18 per cent of the total area of the country (Ahmad, 2019), and some studies project that by 2050 one in every seven people in Bangladesh could be displaced due to climate change (Environmental Justice Foundation, 2019).

A key risk factor in this context lies in the relatively large share of territory lying in low height above the sea level (Figure 33), and the high **share of population in low elevated areas**. In 2018, as much as 8.9 per cent of the population (corresponding to over 14 million people) was living in low elevated coastal areas, according to World Development Indicators; a proportion that has been broadly stable over the last 20 years. This situation is mirrored in the corresponding EVI component, for which Bangladesh score (23.9 for the year 2018) was higher than neighbouring Myanmar (19.4) and remarkably larger than the LDC average (15.9).³⁴ Conversely, Bangladesh being located at delta of the Ganges, Brahmaputra and Meghna rivers, the **share of population living in drylands** – another indicator considered in the computation of the EVI – is zero.

Figure 33: Bangladesh's height above the sea level



Source: (Global Security, 2019)

According to data from the emergency events database EM-DAT, Bangladesh has been affected by more than 200 disasters, from 1970 to 2019.³⁵ Storms have been the most frequent disasters in Bangladesh, accounting for 52 per cent of the total, followed by floods at 31 per cent, with the remaining disasters being epidemics, earthquakes, droughts, and landslides. Between 2000 and 2019, on average, almost 7 natural disasters occurred every year in the country (Table 2). The highest number of natural disasters occurred in 2019; however, in terms of deaths, 2007 was the most devastating

³⁴ Notice that the in computation of the EVI scores, the various components are normalized using the maximin procedure, and may not use exactly the same data sources commented in the text.

³⁵ Data in this paragraph are drawn from EM-DAT: The Emergency Events Database - Universite catholique de Louvain.

year as 5'635 people lost their lives. The cyclone SIDR, affecting millions of people, was solely responsible for the deaths of 3'447 people in that year. In the last 19 years (2000-2019), in total, more than 110 million people have been affected by natural disasters.

Bangladesh's heightened exposure to disaster is corroborated by the trends in the **victims of disasters** indicator considered in the computation of the EVI, with the corresponding score exceeding 85 (out of 100), compared to an LDC average of 73.³⁶ In the same vein, according to *World Disasters Report 2018* prepared by the International Federation of Red Cross and Red Crescent Societies (IFRC), Bangladesh was the 8th worst-hit country by natural disasters between the years 2008 to 2017, with 37 million people affected. Moreover, natural disasters tend to hit poor people disproportionately, as they are more dependent on natural ecosystem (notably for water and sanitation), they have more precarious housing conditions, and are less able to protect or secure their assets due to their deprivations (United Nations, 2020).

Table 2: Natural hazards occurring in Bangladesh and related impact, by year (2000-2019)

Year	Number of Events	Number of Deaths	Number of Affected People	Death Per Event	Affected People Per Event
2000	11	191	2,826,797	17.36	256,982
2001	7	253	730,750	36.14	104,393
2002	6	832	1,651,400	138.67	275,233
2003	8	529	553,145	66.13	69,143
2004	8	1002	36,889,900	125.25	4,611,238
2005	12	332	1,186,606	27.67	98,884
2006	7	154	229,924	22	32,846
2007	5	5635	22,930,206	1127	4,586,041
2008	5	68	636,090	13.6	127,218
2009	6	348	4,504,550	58	750,758
2010	6	107	887,390	17.83	147,898
2011	5	102	1,672,680	20.4	334,536
2012	5	344	5,658,154	68.8	1,131,631
2013	3	50	1,532,207	16.67	510,736
2014	4	79	3,205,709	19.75	801,427
2015	8	159	4,073,354	19.88	509,169
2016	4	198	3,103,625	49.5	775,906
2017	5	323	11,466,224	64.6	2,293,245
2018	4	102	14,000	25.5	3,500
2019	13	402	7,869,435	30.92	605,341

Source: EM-DAT: The Emergency Events Database - Université Catholique de Louvain (UCL) - CRED, D. Guha-Sapir - www.emdat.be, Brussels, Belgium

³⁶ Notice that in the computation of the EVI scores, the various components are normalized using the maximin procedure, and do not use the same data sources as Table 2.

Over the course of time, the Government of Bangladesh has adopted a more proactive approach to disaster preparedness, encompassing hazard mitigation, community preparedness and integrated response efforts, rather than a reactive approach primarily focused on relief and rehabilitation activities (Luxbacher and Uddin, 2013), an effort reflected in the decreasing trend of death per events and number of people affected per event, particularly in the recent years (Table 2).

Despite improving disaster preparedness the country remains in the “highly risky” category assessed by INFORM, with a risk index scores of 6 in 2019.³⁷ This figure is higher than for all neighbouring countries, with the exception of Myanmar (index value of 6.6). For the sake of comparison, the two other South Asian LDCs, Bhutan and Nepal, had a risk index score of 3 and 5, respectively, while India’s index was 5.5.

Similarly, the government of Bangladesh invested significant resources in climate change adaptation. Between 2010 and present the government of Bangladesh has approved 678 projects under Climate Trust Fund to cope up with the adverse impact of climate change in the future, for a total cost of BDT 334913.50 billion.³⁸ Establishment of cyclone centres cum schools, cyclone-tolerant homes and agriculture weather warning centres, tree planting, distribution of developed stoves, excavation of canals etc. were some of the major initiatives under these projects. Despite this investment needs in adaptation remain daunting, and according to the Global Climate Risk index 2018, Bangladesh remains one of the most vulnerable countries in the world in terms of climate-related risks.

The last indicator considered in the computation of the EVI is **instability of agricultural production**.³⁹ Traditionally, Bangladesh has displayed a remarkably lower instability score than the LDC average: roughly 10 compared to 25 (out of 100). This is confirmed by long-term trends in the production indices for both agricultural total production and for cereals, reported in Figure 34.⁴⁰ The chart shows the remarkable increase in agricultural production, both in absolute and per capita terms; it also reveals that production appears to have been less volatile since the mid-2000s, something which is

³⁷ The INFORM model adopts the three aspects of vulnerability reflected in the UNISDR definition. The aspects of physical exposure and physical vulnerability are integrated in the hazard and exposure dimension, the aspect of fragility of the socio-economic system becomes INFORM's vulnerability dimension, while lack of resilience to cope and recover is treated under the lack of coping capacity dimension (Bangladesh Disaster & Risk Profile, 2019).

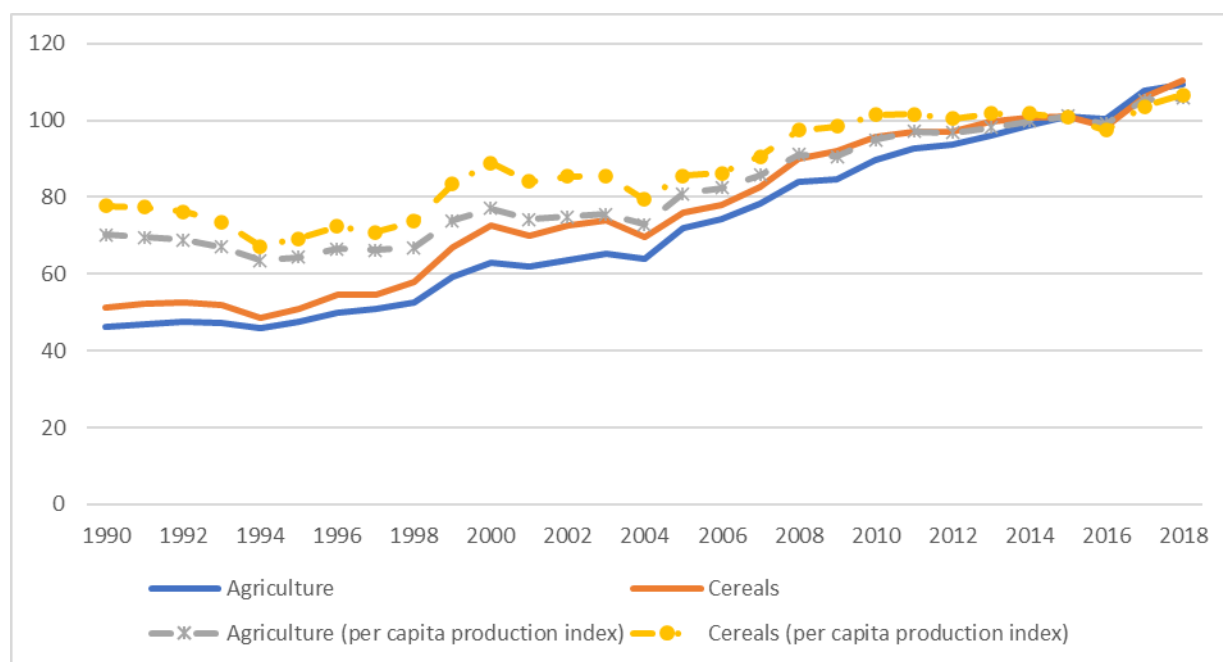
³⁸ Bangladesh Climate Change Trust. (2019). Retrieved January 31, 2020, from Bangladesh Climate Change Trust: <http://www.bcct.gov.bd/site/files/a695f6c9-e74e-4c16-9919-347f28d96152/nolink/>

³⁹ The indicator considered in the EVI is defined as the standard deviation of the differences between production and its trend over a period of 20 years (CDP and UN DESA, 2018). Notice that in the computation of the EVI scores, the related dimension is normalized using the maximin procedure and is scaled to 100.

⁴⁰ Rice is the single most important agricultural product, which constitutes 70 per cent of caloric intake, and has hence been the main focus of food security activities (Majumder et al., 2016). According to the Bangladesh Rice Knowledge Bank about 75 per cent of the total cropped area and over 80 per cent of the total irrigated area is planted to rice. Jute and wheat are other main agricultural products.

also apparent from the examination of the corresponding EVI indicator. It should be noted, however, that agriculture is widely considered to be the more vulnerable sector to climate change impact, and the latter could trigger increasing disruptions as explicitly recognized in the NAPA (MOEF, 2009).

Figure 34: Trends in agricultural and cereal production indices for Bangladesh (2014-2016 = 100)



Source: UNCTAD secretariat calculations, based on data from FAOSTAT database

4. Development challenges: towards graduation and beyond

In order to complement the earlier analysis, as well as other documents informing deliberations on the country's graduation (notably the ex-ante impact assessment), this section of the VP provides a forward-looking discussion of potential lingering sources of vulnerabilities. These structural factors will inevitably impinge on the country's sustainable development trajectory towards the graduation milestone and beyond until, in its post-LDC status. In light of this, it is essential to anticipate their long-term impact and prepare to address them as part of the efforts to achieve graduation with momentum (UNCTAD, 2016a).

Aside from the impact of COVID-19 and the challenges of fostering a sustainable recovery, four broad areas of vulnerability stand out in the case of Bangladesh: the need to mitigate its reliance on LDC-specific international support measures (ISMs), the nexus between trade and structural transformation, the quest for sustainable development

finance, and the heightened environmental vulnerability. A separate subsection below is devoted to each of them.

4.1 Mitigating the reliance on LDC-specific international support measures

Supporting LDCs in their quest for sustainable development is the *raison d'être* of ISMs, as countries belonging to the LDC category are internationally regarded as structurally vulnerable and thus deserving dedicated forms of assistance (UNCTAD, 2016a; CDP and UN DESA, 2018). Symmetrically, the fact that a country strategically utilizes existing ISMs signals strong political will and sufficient institutional capacities to harness existing forms of support (UNCTAD, 2016b). As a country's graduation from the LDC category approaches, however, heavy reliance on ISMs can also hide some dangers, because the phasing out of LDC-specific forms of support will, *ceteris paribus*, entail relatively larger effects. Moreover, this reasoning ultimately holds regardless of the flexibility that the CDP and the broader international community are committed to exercise in facilitating countries graduation from the LDC category and delivering a smooth transition. In other words, at some point in time the phasing out of LDC-specific international support measures will take place.

These general considerations are particularly relevant in the case of Bangladesh, because the country is among the LDCs utilizing more effectively and strategically the existing ISMs. The trade domain provides an excellent example in this respect, because one of the main factors contributing to the boom in Bangladeshi exports has been the country's ability to leverage LDC-specific preferential market access (i.e. duty-free quota-free - DFQF). With exports overwhelmingly concentrated in the textile and clothing sector, for which the MFN rates are relatively high, the lucrative preference margins available through DFQF schemes resulted in generally high rates of preference utilization. Accordingly, in 2018 more than 80 per cent of Bangladesh-originating exports were entering preference-granting markets under a LDC scheme or other preferential treatment; a remarkably high share, compared to other LDCs (Chart 23, WTO (2019a)). This is epitomized by apparel exports to EU – a destination market accounting for over half of Bangladesh's total exports – under the Everything But Arms (EBA) scheme. Especially in the wake of the 2011 reform of related rules of origin, which allowed LDC apparel exports to qualify for EBA treatment under a single transformation criterion, Bangladesh witnessed a remarkable expansion of its market share, with related revenues doubling between in the space of 7 years (2011-2018).⁴¹

High rates of utilization of LDC-specific preferential trade regimes are however a mixed blessing, considering that LDC graduation will ultimately entail the loss of eligibility for DFQF treatment and the switch to other preferential schemes or MFN regimes, depending on the circumstances. Detailed analysis indeed reveals that the corresponding switch could entail a significant increase in the rate of protection faced by Bangladeshi exporters (UNCTAD, 2016a; Rahman and Bari, 2018; WTO and EIF, 2020a).

⁴¹ For a more detailed discussion of DFQF market access provisions and related rules of origin refer to UNCTAD (2018b).

Moreover, in some cases this would be compounded with the need to comply with stricter rules of origin provisions, once the country no longer retains its LDC status and the transition period has expired (UNCTAD, 2016a; CDP and DESA, 2019).⁴²

A more detailed discussion of these complex issues is provided in the companion document to the Vulnerability Profile, namely the Ex-ante Impact Assessment, and in other related studies (UNCTAD, 2016a; CDP and DESA, 2019; WTO and EIF, 2020a, 2020b). Here, suffices to say that estimates of the impact of losing LDC-specific preferential market access are conspicuous and range between -7 and -14 per cent of baseline exports. The bulk of the reduction is expected to impinge on textile and clothing exports to developed markets, where changes in tariffs would be relatively more adverse (UNCTAD, 2016a; Rahman and Bari, 2018; WTO and EIF, 2020a). This reveals some future vulnerabilities for the Bangladeshi economy, as tariff differentials represent major drivers of international trade and investment flows, especially in the textile and clothing industry (López Acevedo and Robertson, 2016).

The reasoning about the perils of a heightened reliance on LDC-specific ISM is straightforward in relation to preferential trade, but it extends also to other domains. For example, LDC graduation might ultimately entail a lower degree of concessionality in the access to development finance, and Bangladesh has already witnessed a growing recourse to concessional loans as opposed to grants (UNCTAD, 2016a, 2019a). Similarly, graduation will ultimately entail some reduction in the flexibilities afforded by Special and Differential Treatment provisions, with a corresponding shrinking in available policy space (UNCTAD, 2016a; CDP and DESA, 2019). In so far as Bangladesh has proactively leveraged such flexibilities for its own industrial policy framework, graduation from the LDC category may require some adjustment in the related measures, in order to comply with the discipline applicable to developing countries other than LDCs. For instance, several recent studies have highlighted how the flexibilities provided to LDCs under Article 66.1 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) were instrumental to the emergence of the pharmaceutical industry in Bangladesh (Box 3).

Box 3: The rise of the pharmaceutical industry and LDC graduation

Bangladesh's pharmaceutical industry provides a good example of sophisticated knowledge-intensive industry, which over time has surged to account for roughly 1 per cent of gross domestic product. For the most part, pharmaceutical companies operating in Bangladesh produce low-cost generic medicines, mainly for the domestic market but increasingly also for exports (whose value have quintupled since 2005), thereby enabling access to cheap drugs in other countries.

⁴² In the case of the EU, for instance, assuming that no alternative arrangements are negotiated, upon graduation Bangladesh would no longer be able to use the LDC-specific rules of origin applicable to the EBA and its products would need to undergo a double transformation to qualify for preferential treatment (UNCTAD, 2018b; CDP and DESA, 2019). In practice, this could mean that certain garments produced with imported fabric would not qualify for GSP treatment and would face MFN tariffs.

Progress in the pharmaceuticals industry has been underpinned by a proactive industrial policy, which encompassed a set of measures ranging from an early emphasis on import substitution and self-sufficiency, to more articulate forms of support to export competitiveness, tax deductions and dedicated long-term loans (South Centre, 2020; Gay and Gallagher, 2020). A key ingredient of this industrial policy framework has also been the deliberate effort to harness the flexibilities provided under Article 66.1 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as well as under a specific exemption from provisions of the TRIPS agreement related to pharmaceutical products (valid until 2033).

Under these flexibilities, Bangladesh suspended the examination and granting of patents, allowing companies to produce not only generic drugs whose patents have expired, but also those patented in other countries but not enforced in the country (*ibidem*). More broadly, the weaker intellectual property regime afforded by this Special and Differential Treatment has also allowed Bangladeshi firms to build their technological base by imitating or reverse-engineering foreign technologies; something which can potentially be applied also in other sectors (UNCTAD, 2016a).

The example of pharmaceutical industry is relevant not only in relation to Bangladesh strides to structurally transform its economy and make strategic use of available policy space; it is also pertinent with respect to the potential impacts of graduation from the LDC category. Indeed, after graduation from the LDC category the country might lose its right to avail itself of the said waiver, thus having to make its patent laws consistent with TRIPS and other WTO obligations, including those of the WTO Agreement on Subsidies and Countervailing Measures.

This scenario could have a disruptive effect on the ongoing process of technological learning and catching up, unlock a process of consolidation whereby established international players buy up smaller local firms. This underscores the importance of ongoing initiatives (including a WTO submission by the LDC group (WTO, 2020b)) seeking to strengthen Special and Differential Treatment provisions related to technology transfer, and to ensure that LDC-specific flexibilities continue to apply after graduation, and are phased out progressively.

Against this background, an effective strategy to tackle the above vulnerability and deliver graduation with momentum hinges on a two-pronged approach vis-à-vis the phasing out of LDC-specific ISMs. On the one hand, the graduating country is advised to leverage as much as possible the benefits afforded by ISMs, and possibly to also negotiate with development partners adequate transition periods, potential derogations (if needed), or alternative arrangements.⁴³ On the other, it is imperative for the graduating country to thoroughly prepare for the post-graduation scenario, gradually building its productive capacities in order to be able to cope with the phasing out of ISMs. Such a two-pronged approach requires a thorough context-specific assessment of the impact of losing access to LDC-specific ISMs, but also a deliberate efforts to integrate LDC graduation into long-term national development strategies, as – in the case of Bangladesh - the upcoming five-year plan and the Perspective Plan 2021-

⁴³ For instance, Cape Verde obtained eligibility for EU's GSP+ scheme in order to partly mitigate the adverse effect of losing DFQF market access upon graduation from the LDC category (UNCTAD, 2016a).

2041 (Bhattacharya, 2020). In this perspective, the LDC graduation process can also be regarded as a potential anchor for industrial policy objectives, acting as a sort of sunset clause on specific forms of support that will no longer be available in the post-LDC status. Clearly, the trade-off or complementarity between the two pillars of this approach depend on specific circumstances of the country and sector considered, and the decision on appropriate balance between “defending” ISMs and planning for their phasing out should be informed by adequate consultations with private sector. The fact remains, nonetheless, that given Bangladesh’s heavy reliance on existing ISMs, this choice will play a critical role in determining the outcome of the graduation process.

4.2 Harnessing the nexus between trade and structural transformation

International trade has played an important role in supporting some process of structural change in Bangladesh, with positive impacts on employment generation outside agriculture, as well as on poverty reduction (UNESCAP, 2020; Kathuria and Malouche, 2016a). The surge of labour-intensive manufacturing, and in particular of the ready-made garment, has been pivotal to this trajectory, with the industry reaching a contribution to GDP of over 10 per cent, and three quarters of its output exported abroad (López Acevedo and Robertson, 2016; BGMEA Trade Information, 2019).

These developments have been accompanied by a booming context, as Bangladesh recorded rapid economic growth, and more than doubled its export revenues between 2010 and 2019. At least until the outset of the Coronavirus, this had allowed the country to boost its share in global exports from 0.12 in 2008-2010 to 0.20 per cent in 2017-2019; a very respectable performance though short of the IPoA target of doubling this quota.⁴⁴ Through deliberate policy incentives, and partly also thanks to international support measures (ISMs) such as preferential market access, Bangladesh has become one of the world’s most competitive producer for garment products, thanks mainly to its cost competitiveness.

Furthermore, the country has successfully diversified its destination markets, exporting to 109 partners – the highest number among LDCs (OECD and WTO, 2019). This geographic diversification has contributed to reducing the instability of export revenues, along with the fact that Bangladesh specializes in manufacture exports, which are less prone than primary commodities to terms of trade shocks.

Nevertheless, the boom reflects a still incipient process of structural transformation, with some improvements in terms of diversification – especially in relation to the domestic economy – but a persistently skewed export specialization pattern. The boom in export has been overwhelmingly underpinned by labour-intensive garments and

⁴⁴ The evolution of Bangladesh market share of world manufacturing exports was even more encouraging, as it grew from 0.16 per cent in 2008-2010 to 0.28 per cent in 2017-2019.

hinging predominantly on cost competitiveness driven by low wages.⁴⁵ Nor does the initial diversification of the textile and clothing industry beyond cotton products and into man-made fibres significantly alter this picture. Although the country made some inroad in the production and export of other products such as leather, footwear, jute-based fibres and some agricultural products, these continue to play a subdued role in its export composition. Even more incipient is the emergence of more complex activities, such as bicycles or shipbuilding, identified as potentially promising in the DTIS, but for which the infrastructural and logistic bottlenecks and the intricacies of the business ecosystem represent more binding constraints (Kathuria and Malouche, 2016a).⁴⁶ Equally limited is the weight of skill- and technology-intensive manufactures, despite the surge of a viable pharmaceutical sector. As such, this process has not translated into meaningful export diversification, with only a small improvement in the number of exported products, and with the export concentration index hovering around 0.4 since the early 2000s.

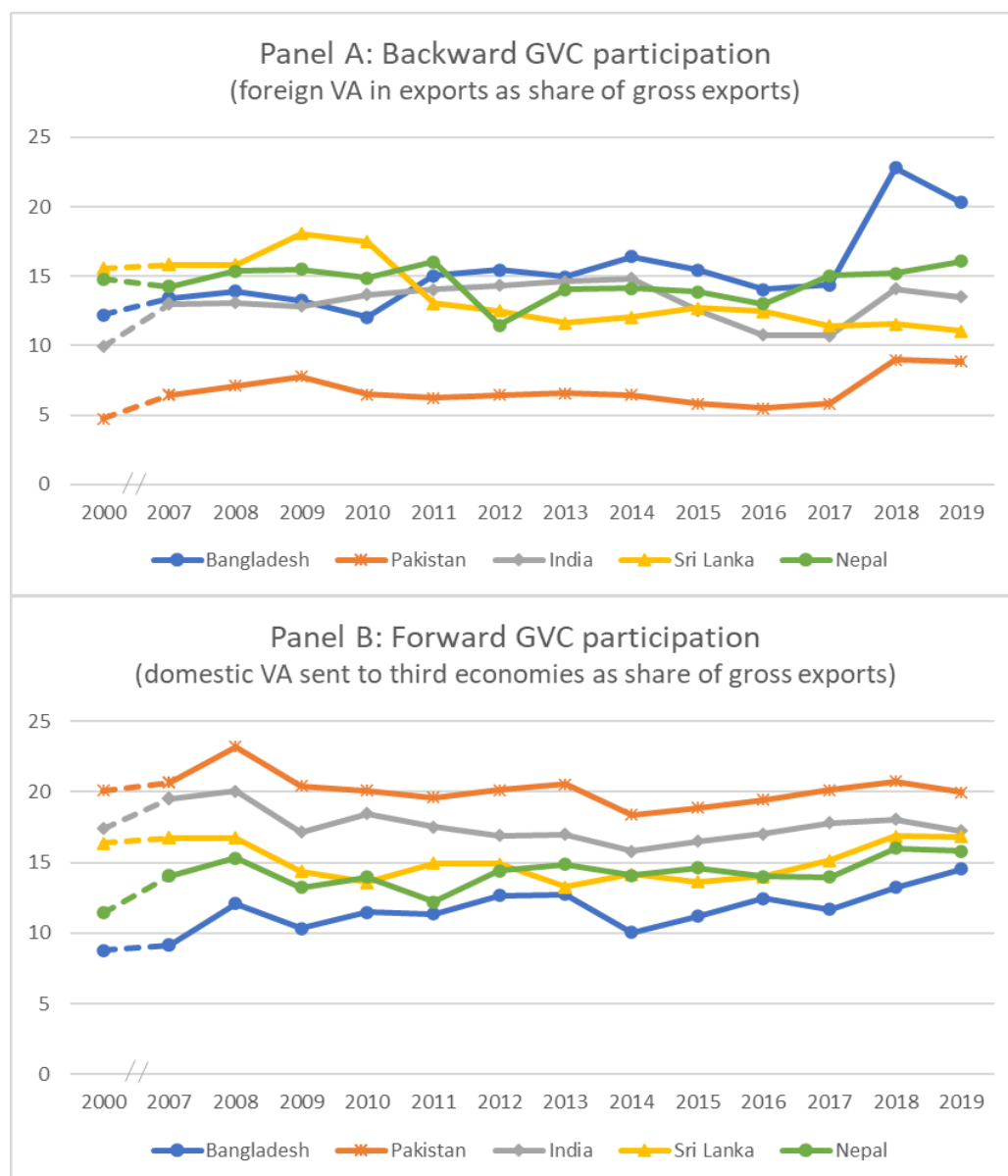
The challenges of the prevailing specialization pattern are corroborated by the analysis of trade in value added and related indicators of participation in Global Value Chains (GVCs).⁴⁷ Over the last 10-15 years, Bangladesh has indeed witnessed some deepening of its participation to GVCs, but less so than in other Asian LDCs such as Lao PDR or Cambodia, not to speak about more integrated countries like China or Vietnam. An upward trend characterizes both the so-called backward GVC participation – essentially capturing the contribution of foreign value added (i.e. imported intermediates and capital goods) to a country's gross exports (panel A) – and to a lesser extent the forward GVC participation, which encapsulates the domestic value added embodied in intermediates exports that are further processed abroad and re-exported to third economies (panel B). While this might be broadly in line with the trends in other South Asian countries, Bangladesh stands out compared to its neighbours in two main respects: for its slightly higher backward participation – at least in more recent years – and above all for its low forward GVC participation, reflecting a pattern of exports largely skewed towards final goods rather than intermediates.

⁴⁵ According to Kathuria and Malouche wages in Bangladesh were half of those in India and less than one-third of those in China or Indonesia (Kathuria and Malouche, 2016a)

⁴⁶ According to UNCTAD data, jute-based products, ships, cycles and motorcycles jointly account for roughly 1 per cent of total merchandise exports, with this proportion remaining broadly unchanged for the last ten years.

⁴⁷ In a nutshell, the emergence of GVCs and the related surge in intermediates trade implies that traditional trade flows no longer reflect the value added embodied in traded goods and services, due to double-counting. For this reason, it is important to complement the traditional analysis of trade flows with an assessment of these magnitude in terms of value added (Johnson and Noguera, 2012; Wang et al., 2013; ADB, 2015, 2020).

Figure 35: Trends in GVC participation for Bangladesh and other selected developing countries



Source: UNCTAD secretariat calculations, based on data from Asian Development Bank ADB-MRIO database

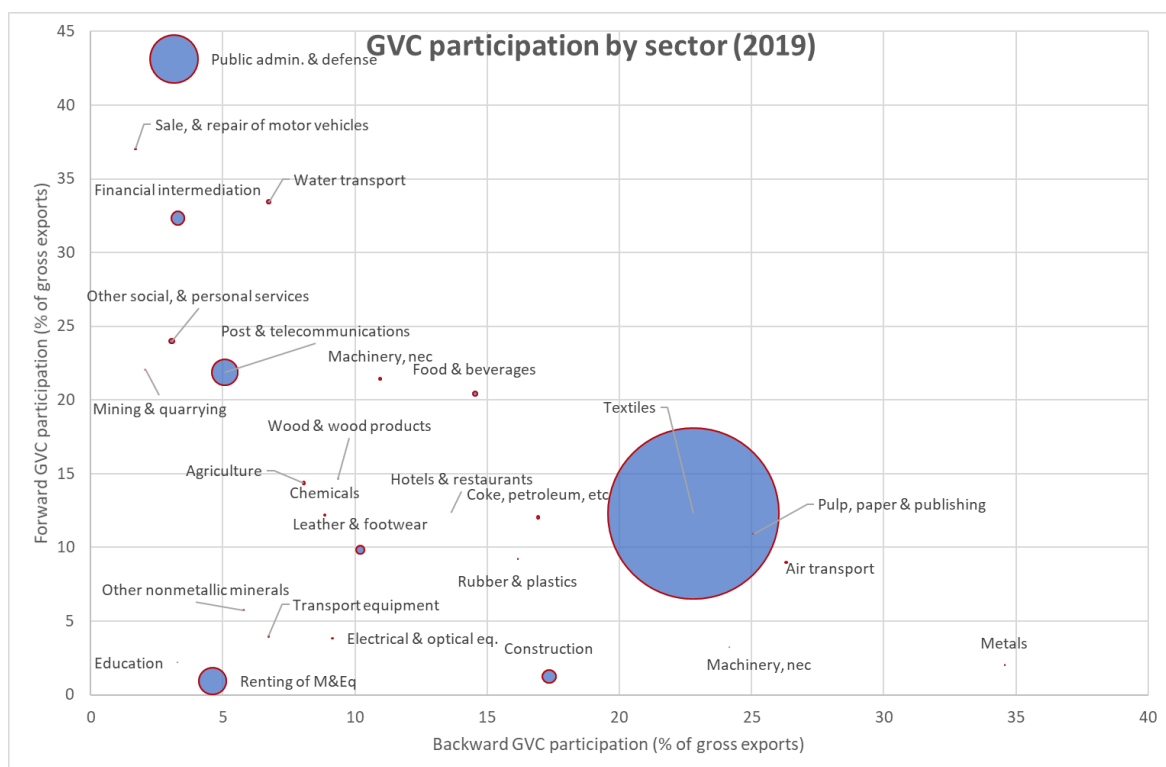
The weight of the textile and clothing industry in driving the above trends is immediately patent when disaggregating the data at sectoral level (Figure 36).⁴⁸ In

⁴⁸ For ease of understanding the 35 specific sectors depicted in Figure 36 can be grouped as follows:

- *Primary Sector:* Agriculture, Hunting, Forestry, and Fishing; and Mining and Quarrying.
- *Low-Technology manufacturing:* Food, Beverages, and Tobacco; Textiles and Textile Products; Leather, Leather Products, and Footwear; Wood and Products of Wood and Cork; Pulp, Paper, Paper Products, Printing, and Publishing; Rubber and Plastics; Manufacturing, NEC; Recycling; Electricity, Gas, and Water Supply; and Construction.

2019, with roughly 85 per cent of gross exports, textile and clothing accounted for 83 per cent of domestic value added in exports, and a stunning 97 per cent of foreign value added. The disproportionate importance of ready-made garment in this context translates into a relatively large backward GVC participation – pulled by imports of machinery and to some extent also of intermediate products required by lead firms – and a limited forward GVC participation (as the overwhelming majority of products are final products).

Figure 36: GVC participation by sector (2019)



Source: UNCTAD secretariat calculations, based on data from ADB-MRIO database

Note: the size of the bubble is proportional to each sector's gross exports

More fundamentally, the sectoral disaggregation underscores also the marginal role still played by sectors other than textiles and clothing that would be typically expected to underpin early phases of structural transformation, from agro-food industries and other

- **Medium- and High-Technology manufacturing:** Coke, Refined Petroleum, and Nuclear Fuel; Chemicals and Chemical Products; Other Nonmetallic Minerals; Basic Metals and Fabricated Metals; Machinery, NEC; Electrical and Optical Equipment; and Transport Equipment.
- **Business Services:** Sale, Maintenance, and Repair of Motor Vehicles and Motorcycles; Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Household Goods; Hotels and Restaurants; Inland Transport; Water Transport; Air Transport; Other Supporting and Auxiliary Transport Activities; Activities of Travel Agencies; Post and Telecommunications; Financial Intermediation; Real Estate Activities; Renting of Machinery and Equipment; and Other Business Activities.
- **Personal and Public Services:** Public Administration and Defense; Compulsory Social Security; Education; Health and Social Work; Other Community, Social, and Personal Services; and Private Households with Employed persons.

low-technology manufacturing to business services. Equally, Bangladesh has been largely unable to insert in GVC through the supply of intermediates, remaining mainly focused on a sector with limited demand linkages to the rest of the economy. Moreover, while there are some encouraging examples of diversification into more sophisticated and technology-intensive products (for instance pharmaceuticals and shipbuilding), exports of medium- and high-skill-intensive products have expanded broadly at the same pace as total merchandise exports (when not slightly more slowly), and this notwithstanding low base effects. In the same vein, the country has benefitted from incipient diversification into services sector in recent years, with ICT and digital services at the forefront of this trend (UNCTAD, 2016b; OECD and WTO, 2019; Pianta, 2019). However, the contribution of digital services remains largely driven by small firms and freelancer offering their services through digital platforms, partly explaining why this promising sector is yet to acquire a meaningful weight in the country's overall export structure (UNCTAD, 2016c). Meanwhile, the relatively large footprint of the public administration and defence sector in the services export structure should be regarded as an outlier, in so far as they are largely driven by Bangladesh contribution to UN peace-keeping missions (UNCTAD, 2016b).

Notwithstanding the Bangladeshi success in strengthening its overall export capacities, the above evidence points to limited progress in relation to product diversification, one of the stated pillars of Bangladesh's Diagnostic of Trade Integration Study under the rubric of "breaking into new products" (Kathuria and Malouche, 2016a, 2016b). This reading of the evidence is confirmed when looking at the evolution of Bangladesh's revealed comparative advantages, both in their traditional formulation and when adjusted for trade-embodied value added, so-called "new revealed comparative advantage" (ADB, 2020).⁴⁹ As shown in Figure 37, the two product groups for which revealed comparative advantages are greater than one and have improved (i.e. moved North-East) since the year 2000 are low-technology manufacturing and personal and public services. Meanwhile, the revealed comparative advantage for primary products and business services have unequivocally deteriorated, regardless of whether one adjusts for embodied value added or not. Finally, the revealed comparative advantage for medium and high-tech manufacturing have slightly worsened when measured in the traditional sense, but the opposite is true when adjusted for embodied value added.

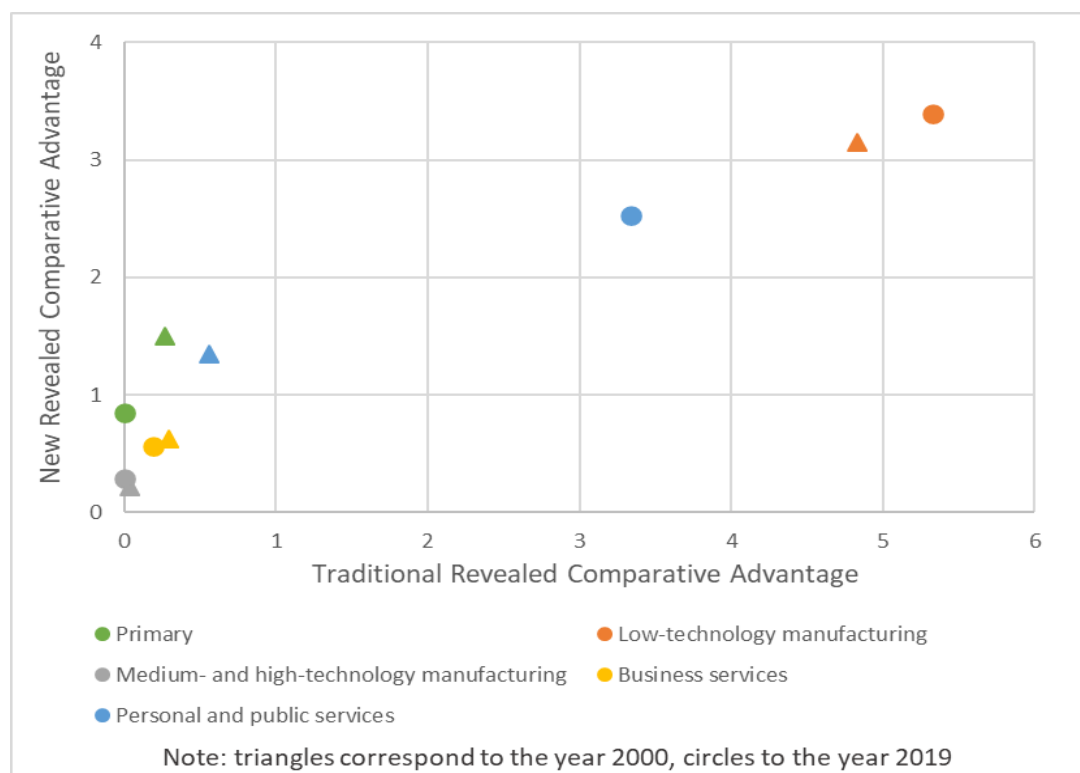
Such a sobering assessment on the limited progress toward export diversification is mirrored by similar findings related to the overall structure of the Bangladeshi economy. A recent study utilizing the input-output framework concluded that Bangladesh has been slow in developing dense input-output linkages and economic clusters that enable an economy to eventually move up global production chains and benefit thereof

⁴⁹ For a detailed discussion of the methodological and conceptual framework of new (ie. value-added adjusted) Revealed Comparative Advantage refer to Mercer-Blackman et al. (2017) and to Part III of ADB (2020).

(Mercer-Blackman et al., 2017). The analysis traced this situation to weak inter-sectoral demand linkages, slow improvements in infrastructure services, and a pervasive public sector intervention in productive activities. Meanwhile, the same DTIS notes the distortions introduced by a cumbersome institutional framework, and a trade policy framework oriented towards relatively high levels of protection, but often inconsistent with business needs and industrial policy objectives, resulting in an anti-export bias (Kathuria and Malouche, 2016a).

Against this background, if there are some promising signs of diversification into more skill- and technology-intensive activities, especially for serving the large domestic market (Box 2), the above analysis raises serious concerns in relation to the sluggishness of Bangladesh progress. While this challenge is well-known and not necessarily related to the country’s graduation from the LDC category, the latter makes it even more imperative to redress the situation. Three main issues are worth mentioning in this regard.

Figure 37: Traditional and new Revealed Comparative Advantages for Bangladesh (2000 vs 2019)



Source: UNCTAD secretariat calculations, based on data from ADB (2020)

First, complacency in the pursuit of diversification is made even riskier on the longer term by the very nature of the textile and clothing GVC, which currently represents the backbone of Bangladesh export capacities. For starter, the textile and clothing GVC is

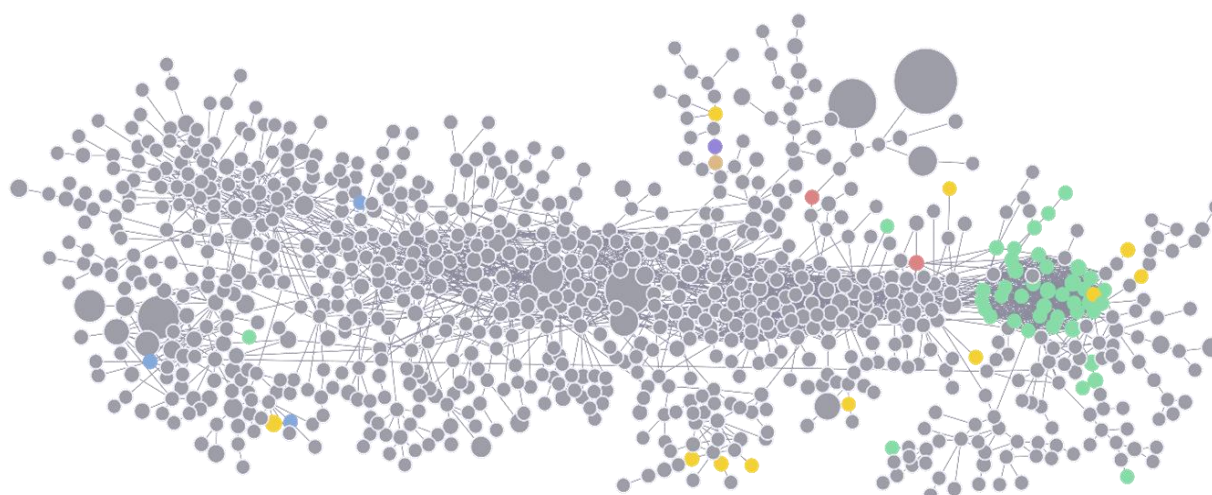
characterized by a pronounced segmentation and an eminently buyer-driven governance structure, which limit the opportunities for upgrading and for “moving up” the value chain boosting domestic value addition and value retention (Gereffi et al., 2005; Mercer-Blackman et al., 2017; UNCTAD, 2018c). If there is indeed some untapped scope for product differentiation (including through the use of different fibres), alone this is unlikely to provide a decisive spur to an industry that has relied largely on cost competitiveness and preferential access to developed countries markets. Moreover, the prospects of LDC graduation loom large on the sector, and on overall economy. As highlighted earlier, several studies show that the loss of LDC-specific preferential market access could entail significant increases in the rate of protection faced by Bangladeshi exporters (UNCTAD, 2016a; Rahman and Bari, 2018; WTO and EIF, 2020a). Large tariff differentials, coupled with persistent infrastructural and logistics bottlenecks, are bound to entail a serious blow to an industry for which these dimensions represent major drivers of international trade and investment flows (López Acevedo and Robertson, 2016). Against this backdrop, even though the textile and clothing industry is strongly embedded in Bangladeshi economy – with over 4,600 factories according to BGMEA Trade Information (BGMEA Trade Information, 2019)– it is likely that the prospects of graduation may dampen efforts to attract FDI and induce some reorganization in the sector.

Second, another reason for concern in relation to the sustainability of Bangladesh specialization pattern stems from the findings of the literature on economic complexity and product space (Hidalgo et al., 2009; Hausmann and Hidalgo, 2011; Hausmann and Chauvin, 2015).⁵⁰ The application of this conceptual framework to the case of Bangladesh points to the two main considerations:

- A. Bangladesh exports tend to be characterized by relatively low levels of complexity, with dynamism driven mainly by the country’s capacity to increase its global market share for relatively less sophisticated products;
- B. the limited “relatedness” (i.e. the relatively peripheral position) of Bangladesh exports within the product space (Figure 38), suggests that the set of productive capabilities and know-how typically acquired in their production does not appear to lend itself to be easily transferred to different activities.

⁵⁰ This approach essentially looks at the structure of output embodied in the network connecting countries to the products that they export, characterizing the 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 the countries able to produce them), the non-normal distributions for product ubiquity, country diversification and product co-export (Hidalgo et al., 2009; Hausmann and Hidalgo, 2011). In this context, the *product space* is 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 co-export of 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 what their economic complexity is).

Figure 38: Bangladesh product space (2018)



Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>)

Notes: each node corresponds to a product (at HS 4 level) and its size is proportional to world's trade; grey nodes correspond to products that are not exported by Bangladesh; other nodes are colour-coded according to the sector: green for textiles; yellow for agriculture, beige for stone; brown for minerals; red for metals; purple for chemicals; violet for vehicles; blue for machinery; and light blue for electronics.

As a consequence, if Bangladesh is to continue its remarkable growth performance, the imperative to diversify into gradually more complex products cannot be overestimated. Typically, this process is path-dependent and contingent on existing capabilities, as it takes place through discrete “jumps” from existing products/activities to gradually more sophisticated ones, “moving to the adjacent possible” – to borrow the terminology of Hausmann and Chauvin (2015).⁵¹ In the case of Bangladesh, however, such a path-dependency hides an additional challenge: the topology of the product space is such that currently exported products lie relatively far away from new ones, especially from new products with relatively higher complexity (Figure 39). This implies that relatively “longer jumps” are required to move into new exports, a finding that could partly explain the persistent challenges faced by the country in the process of diversification. This said, the sustainability of the country’s structural transformation, as well as the scope for a broad-based resilient recovery from the COVID-19 crisis, will ultimately hinge on this policy priority and its effective implementation.

Finally and more broadly, the advent of robotization, industrial digitalization and servicification also questions the sustainability of Bangladesh progress in bolstering its

⁵¹ A recent example of this process took place as textiles and garment firms adjusted to the emergence of COVID-19 by turning to production of Personal Protective Equipment; something which took place in Bangladesh as well as in other economies (Textile Today, 2020; UNCTAD, 2020b)

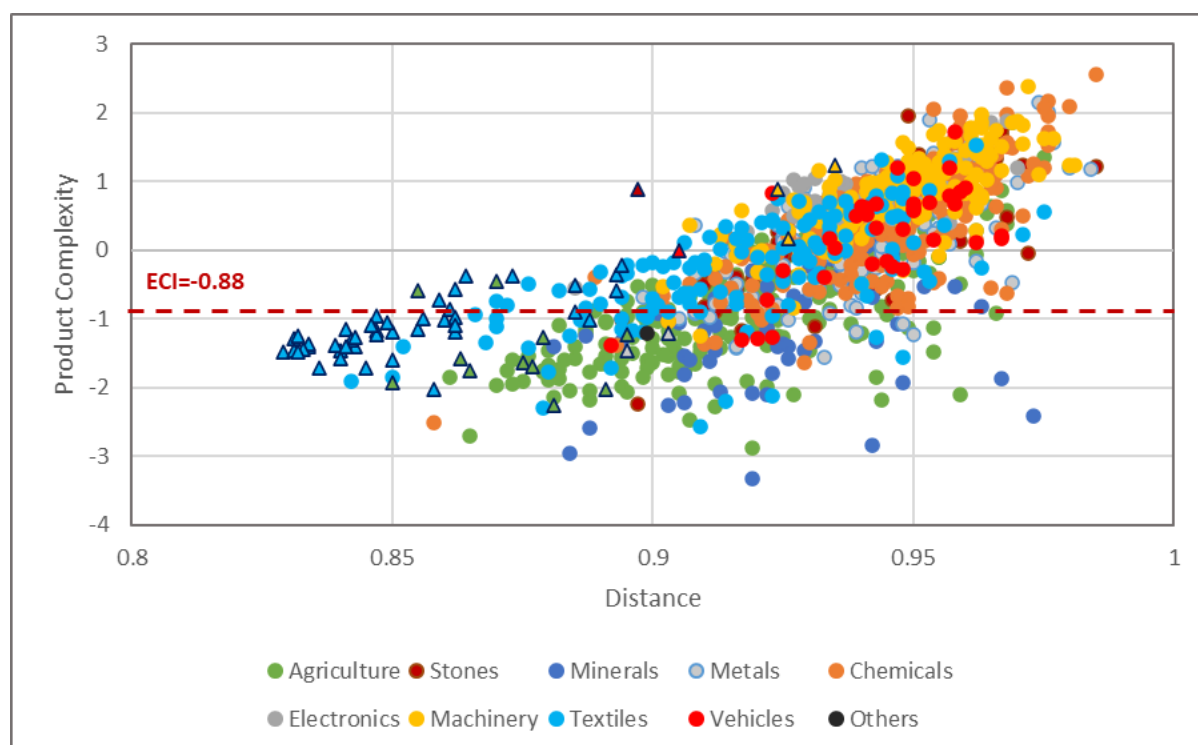
productive/export capacities.⁵² These so-called “mega-trends” – which have in many ways accelerated in the wake of COVID-19 – are expected to trigger far-reaching reconfigurations in existing GVCs, reducing heightened dependence on key suppliers, encouraging reshoring and regional embeddedness, and potentially weakening the importance of low-labour cost competitiveness (Rodrik, 2018; Baldwin and Evenett, 2020; UNCTAD, 2020b, 2020f, 2020c). Although robotization has so far largely bypassed the sectors that are at the backbone of Bangladesh specialization pattern, namely textiles, apparel and leather, on the longer term it is well plausible that even this industry will be affected (UNCTAD, 2017a). Besides, gaps in connectivity and logistics are weighing down the competitiveness of the country even in established industries, thus calling for system-wide reforms to upgrade the transport and logistics system (Herrera Dappe et al., 2019). This underscores the importance of utilizing this time-window to better prepare for harnessing new technologies in the future, rather than falling behind vis-à-vis the technological frontier.

For Bangladesh, as for other developing countries, the above mega-trends underscore the importance of fostering technological and skill upgrading, as well as enhancing the innovation ecosystem so as to ensure a meaningful engagement in technology transfer, domestication and adaptation.⁵³ In principle, the country is reasonably well-positioned – at least compared to other LDCs – to benefit from the “advantages of backwardness” à la Gerschenkron. Bangladesh represents a “follower” in the use of advanced digital production technologies – reflecting, according to UNIDO taxonomy, above-average import market shares for the said technologies; moreover, a fairly significant share of its formal enterprises display some meaningful innovative and digital capabilities (UNIDO, 2019; Pianta, 2019). In this respect, the Government has recognized the enabling role of ICT in this respect through its “Digital Bangladesh” initiative, comprised of four pillars: (1) digital government (i.e., public service delivery), (2) ICT in business, (3) connecting citizens and (4) human resource development (UNCTAD, 2019b). The challenge remains, at this stage, that closing the gap vis-à-vis the technological frontier, while bringing along the plethora of mainly informal producers; all of which is ultimately contingent on the emergence of a more diversified and vibrant manufacturing basis, as well as the acquisition of complementary skills (UNCTAD, 2020b). As will be discussed later, this calls for a strategic industrial policy framework, a successful Science Technology and Innovation (STI) ecosystem, and a more effective articulation between trade policy and structural transformation objectives.

⁵² Servicification refers to the rising importance of services in existing production processes and value chains. It manifests in the increasing reliance on services, whether as inputs, as activities within firms or as output acquired and sold bundled with goods, and is reflected by the growing prominence of the services sector itself in the process of value addition and value capturing.

⁵³ The innovation ecosystem can be defined as “the evolving set of actors, activities, and artifacts, and the institutions and relations, including complementary and substitute relations, that are important for the innovative performance of an actor or a population of actors” (Granstrand and Holgersson, 2020: 3).

Figure 39: Distance and product complexity for Bangladesh exports and feasible products (2018)



Source: UNCTAD Secretariat calculations based on data from the Atlas of Economic Complexity

Notes: each point corresponds to a product (at HS 4 level), with triangles indicating products currently exported by Bangladesh, and circles corresponding to other feasible products; colour-codes follow the same pattern as in Figure 38.

4.2 The quest for sustainable development finance

The growth performance of Bangladesh in the last 10-15 years has been characterized by a considerable investment push, with the investment-to-GDP ratio consistently exceeding 25 per cent of GDP since 2006, and reaching 31 per cent prior to the COVID-19 shock.⁵⁴ There is little doubt that this trajectory is consistent with the economy's need to redress supply-side bottlenecks, especially in terms of infrastructural provision, as highlighted by the analysis of PCI components. Long-standing investment needs, exacerbated by the necessity to finance counter-cyclical policies in response to the COVID-19 crisis, raise the question of Bangladesh's prospects in terms of domestic resource mobilization, as well as of availability of external development finance.⁵⁵

Concerning domestic resource mobilization, the government has arguably managed to combine stable macroeconomic fundamentals with a fairly robust public investment drive, notably in areas such as infrastructural provision and rural development. This was

⁵⁴ Notice that increasing the investment-to-GDP ratio to at least 25 per cent was one of the explicit targets of the Brussels Programme of Action for the LDCs, later reaffirmed in the IPoA.

⁵⁵ These two elements, domestic resource mobilization and external finance, are essentially two sides of the same coin, given that national accounting identities imply that the excess of domestic savings over investment is equal to net imports, which in turn have to be financed through inflows of capital.

achieved notwithstanding the fact that the tax to GDP ratio remains below 10 per cent, and that more than half of the tax revenues are derived from custom duties and indirect taxes on goods and services; all of which points to a rather circumscribed fiscal space and has critical implications in terms of inequality and scope for progressive redistribution. Much of the debate in the literature has however focused on the extent to which public investments have been able to “crowd-in” private resources, or rather crowded them out. The predominant view, often substantiated with time series econometric analysis, suggests that public and private investment tend to foster economic growth, but private investment is significantly more effective in doing so (Haque, 2013; Uddin, 2015; Rahman et al., 2016; Kathuria and Malouche, 2016a; Saidjada and Jahan, 2018). This has led to widespread calls for paying more emphasis to private investment, improving the business environment, reducing corruption and enhancing the effectiveness of government spending (*ibidem*).

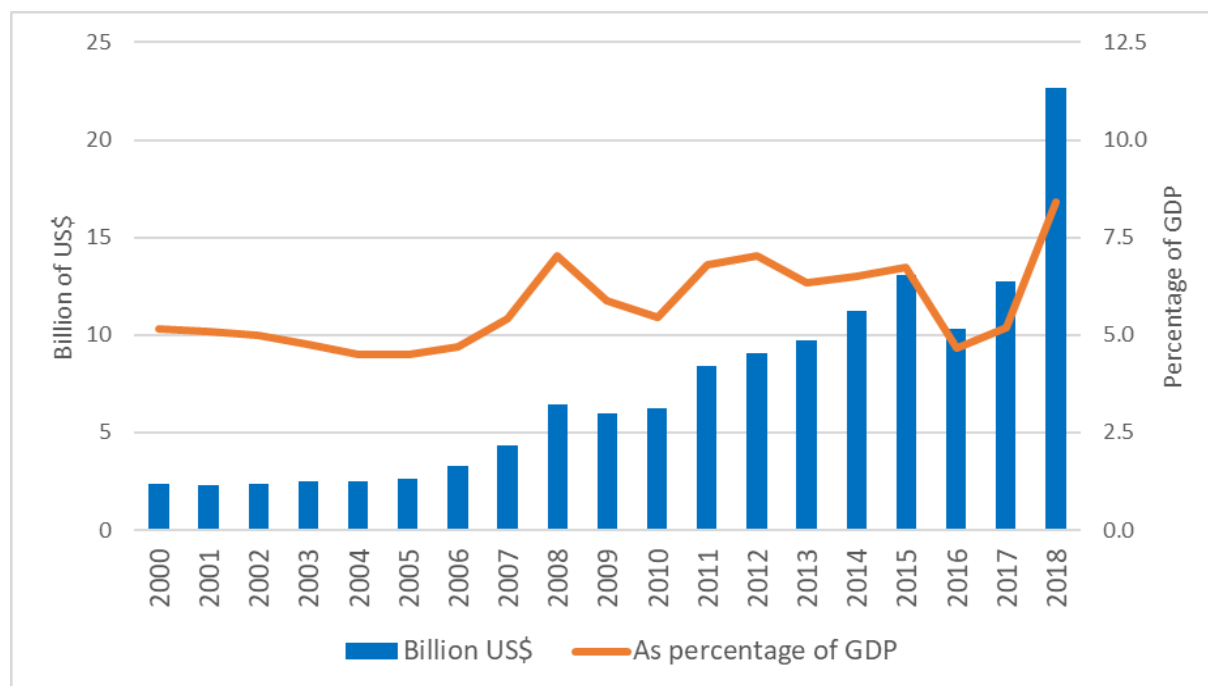
Interestingly, the above views echo firm-level data, which suggest that institutional and political economy issues were perceived as more important obstacles than infrastructural deficiencies or inadequate access to finance.⁵⁶ Remarkably, this is the case in a context where as many as 73 per cent of these formal enterprises reported having experienced electricity outages, or where credit to private sector only reached 45 per cent of GDP in 2019. This is also broadly in line with the findings of the analysis of UNCTAD’s PCI components (Figure 5), according to which Bangladesh was significantly underperforming vis-à-vis other South Asian economy in relation to the institutional and private sector dimensions.

Later sections will come back to the issue of institutional constraints; ultimately, though, this can be regarded as a domestic issue, unrelated to the process of LDC graduation. For now, it is perhaps more relevant to look first at how the recent developments in the international environment and the graduation from the LDC category may affect Bangladesh scope for attracting sustainable development finance. The extent to which Bangladesh relies on external finance to support its process of capital accumulation can be gauged from the evolution of the resource gap (defined as the difference between domestic savings and gross fixed capital formation). Figure 40 shows that foreign savings have financed investment in the Bangladeshi economy to the tune of over \$ 10 billion per year in the 2013-2018 period, and this is likely to have risen sharply thereafter. Relative to GDP, the resource gap has hovered around 6 per cent for the last 15 years, suggesting that the reliance on external finance is a structural feature of the economy;

⁵⁶ According to the latest World Bank enterprise survey, as many as 37 per cent of firms mentioned political instability as their biggest obstacle, followed by access to electricity (28 per cent), access to finance (14 per cent), corruption (7 per cent) and poorly educated workers (4 per cent). It should be noted, however, that the latest available survey took place in 2013 and might thus be outdated.

something which might turn into a source of vulnerability in a global context scarred by the COVID-19 shock.

Figure 40: Bangladesh resource gap (2000-2018)



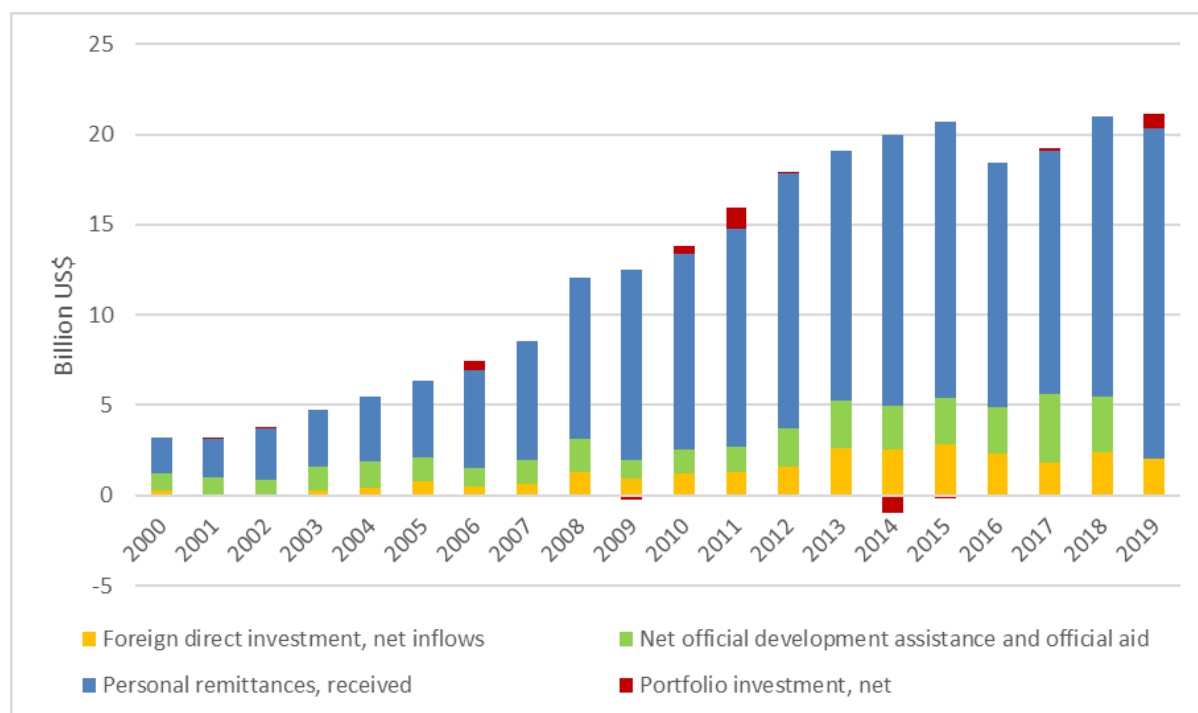
Source: UNCTAD secretariat calculations, based on data from United Nations Statistics Division

If the existence of a wide resource gap is a common occurrence across LDCs, ultimately reflecting the weakness in their productive capacities, the key peculiarity in the case of Bangladesh is rather the composition of external financial inflows which contribute to closing the financing gap. This feature, in turn, has some bearing on the scope to mobilize these resources for investment and productive purposes, as well as on their expected volatility over time.

The composition of external financial flows to Bangladesh is depicted in Figure 41. Workers' remittances have steadily accounted for the majority of these flows and their growing importance has reached three quarters of the total in the last decade. In 2019, they stood at \$ 18.3 billion, compared to \$ 2 billion of FDI, with ODA reaching \$ 3 billion in the latest available year (2018). Remarkably, FDI flows have hovered around \$ 2-3 billion per year since 2012, a relatively low level considering the size of Bangladesh potential market, as well as its cost competitiveness. In relation to ODA, its weight relatively to total external financial flows (or to the size of the economy for that matter) remains relatively circumscribed. This explains why Bangladesh displays a relatively low aid-dependency, even though it is the third largest aid recipient among LDCs (UNCTAD,

2019a). Finally, portfolio investment flows play an overall negligible role and are intrinsically characterized by a fluctuating trend.

Figure 41: External financial flows to Bangladesh (2000-2019)



Source: UNCTAD secretariat calculations, based on data from the World Development Indicators

Note: no data is available for net official development assistance and official aid in 2019

While all the above categories of financial flows contribute – from a national accounting point of view – to finance the trade deficit and resource gap, they have distinct intrinsic features, which shape their potential contribution to sustainable development. Starting with remittances, the Bangladeshi diaspora has traditionally been among the world’s largest, and remittances have traditionally played a critical role for the economy and for the millions of households that rely on them to support their livelihood. For the most part, labour migration from Bangladesh, whether destined for the Middle East or Southeast Asia, has involved unskilled and semi-skilled male workers. The surge in female migration is a more recent phenomenon – the total number of female migrants has increased from 27,706 in 2010 to 104,786 in 2019 (BMET, 2019).

Remittances inflows have expanded at a double-digit rate since the year 2000, and even if their significance has declined since the peak of the 2009-2012 period, they still account for over 6 per cent of GDP.⁵⁷ Beyond their importance for the balance of

⁵⁷ Although official data only capture remittances sent through legal channels, a significant amount of financial resources is channeled through informal channels (sometimes referred as “underground banking”). According to the Bangladesh household remittance survey 2009, 82 per cent of remittance was received through formal channels, while the remaining 18 per cent was sent through informal channels (IOM, 2010). This suggests that related financial flows could be actually larger than what is reported by international statistics (UNCTAD, 2012)

payments equilibrium and for household welfare, the key issue from a developmental perspective is the extent to which remittances translate into additional investments, or rather trigger adverse effects, such as fuelling unproductive consumption spending, undue exchange rate appreciations, real estate bubbles, brain drain dynamics and the like (UNCTAD, 2012; Chami et al., 2018). In the case of Bangladesh, a number of studies have been conducted over the years on the use of remittances (Chowdhury and Siddiqui, 2003; de Bruyn and Umbareen Kuddus, 2005; Masuduzzaman et al., 2017; Kumar et al., 2018). While differences in terms of methodology, region/period of analysis, and categorization of expenditure purposes hamper a rigorous comparison, they appear to support a rather sobering view about remittances' development footprint. Broadly speaking, about 5-20 per cent of the money transferred is channelled towards business investment, while health and education absorb another 5-12 per cent, and saving another 3-8 per cent. Conversely, food and clothes account for anything between 20 and 50 percent of remittances use, land and real estate purchases for another 10-15 per cent each, and the rest for other expenditures (social ceremonies, financing migration of other relatives, etc).

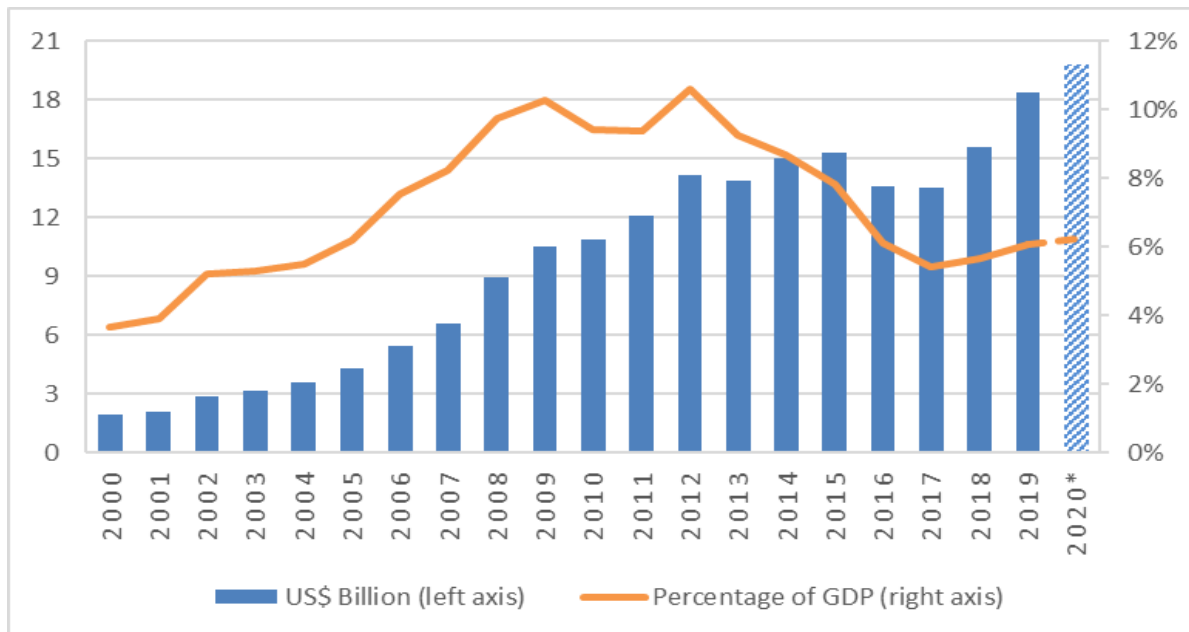
While dispelling some misconceptions about remittances uses, these figures corroborate earlier observations on the ample scope for improving domestic resource mobilization for business purposes, especially in rural areas. In this context, the government has undertaken a number of initiatives geared towards boosting remittances and favouring their investment in the local economy. These range from sending missions to explore alternative markets, to adopting strategy documents and incentives to reduction of bank charges for remitting money and providing fiscal incentives to send remittance through official channels, etc. Other measures adopted to foster the productive use of migrant remittances, include: the Wage Earners' Development Bond, Recommendations for promoting bonds for non-resident Bangladeshis, banking/financial incentives for non-resident Bangladeshis/migrant Bangladeshi workers and the setting up of the Probashi Kallyan Bank - Expatriates' Welfare Bank (ILO, 2014). Despite these measures, many challenges still remain, both in terms of mobilizing remittances for productive purposes, as well as of tapping diaspora potential to contribute to national development (ERD, 2018).

From a macroeconomic point of view, another key feature of remittances is that they tend to be more resilient to downturns than most other sources of foreign exchange and have a stabilizing effect on output (UNCTAD, 2012; Chami Ralph et al., 2012).⁵⁸ Unlike in many other countries, in the case of Bangladesh this resilience appears to be vindicated also in the context of the COVID-19 crisis and ensuing global recession, with remittance inflows expected to reach \$ 19.8 billion in 2020 (Figure 42). If the outlook in

⁵⁸ In the case of Bangladesh, the coefficient of variation of remittances over the 2000-2020 period was 86 per cent, second only to ODA (46 per cent) but far less volatile than FDI (106 per cent).

2020 appears to be reasonably encouraging, however, this might be at least partly due to idiosyncratic factors; the medium-term future remains far more uncertain (Box 2). With the impact of the pandemic still weighing down economic prospects for 2021, global labour markets are unlikely to rebound quickly, especially in key destinations for Bangladeshi migrants (countries belonging to the Gulf Cooperation Council – GCC, the United Kingdom, the European Union and the United States). These prospects loom large on the remittances outlook.

Figure 42: Remittances inflows to Bangladesh (2000 to 2020)



Source: UNCTAD secretariat calculations, based on data from the World Bank (Migration and Remittances Data October 2020)

Note: Data for 2020 are forecast

Moreover, changes in the stock of international migrants triggered by the pandemic promise to have wide-ranging and potentially more persistent effects on the domestic labour market as well as on the outlook for remittance flows. In 2020 the stock of international migrants from Bangladesh has significantly contracted, since over one million migrants returned to their home country (especially from the GCC countries), and outward migration being substantially lower than in previous years (UNCTAD, 2020b; World Bank, 2020). In light of this, the impact of the pandemic may well linger on remittances' outlook for a protracted period of time, until the stock of migrants picks up to pre-crisis level. Perhaps more importantly, returnees increase the number of (mainly unskilled) jobseekers, putting downward pressure on wages and adding further

pressure to a labour market which already struggles to generate enough employment, particularly in rural areas.⁵⁹

The COVID-19 shock entails an even darker outlook in relation to Bangladesh's second largest source of external financial resources, namely ODA flows. Despite the paucity of systematic data beyond 2019 (for which only preliminary estimates are available), it is hard to avoid the conclusion that, after years of marginal expansions – if not levelling-off – aid budgets will come under increasing pressure in the medium-term future (OECD, 2020). This may potentially threaten a contraction in available resources for Bangladesh and other LDCs alike, right at a time when these resources would be desperately needed, exacerbating global inequalities (UNCTAD, 2020b). Given the pattern of aid allocation in Bangladesh, this scenario may entail some adverse impact on infrastructural projects, which absorb the bulk of aid receipts (UNCTAD, 2019a; OECD and WTO, 2019).

This said, several factors suggest that the above risk, albeit clearly present, should be carefully contextualised. First, even though Bangladesh is one of the largest ODA recipients amongst LDCs, its rapid economic growth has gradually reduced the importance of aid relative to the size of the domestic economy (and as a share of government revenues). Second, the degree of concessionality of aid disbursements to Bangladesh has significantly worsened in recent years, with a large increase in concessional loans and to a far lesser extent of other official flows, compared with grants (UNCTAD, 2019a). Past experience suggests that prospects of graduation from the LDC category typically entail worsening degrees of concessionality but are unlikely to entail sharp contractions in aid volumes. This points to the imperative engaging donors to and ensure that they deliver on their long-standing promises – notably the aid target enshrined in SDG 17.2 – and to call for tailoring the modalities of their support to the context-specific situation of the graduating country.

Moving to FDI, their relatively circumscribed role for the Bangladeshi economy has been alluded to earlier. Over time inward FDI flows have climbed up in absolute terms (Figure 41), but since the early 2000s they have represented not more than 4 per cent of gross fixed capital formation. Despite some improvements, Bangladesh only accounts for less than 0.2 per cent of global FDI and has so far been unable to fully capitalize on its sizeable domestic market (hence its appeal for market-seeking investors) and on its cost competitiveness (which could entice efficiency-seeking FDI).⁶⁰ In terms of sectoral breakdown, investors have traditionally targeted services (notably banking and telecommunications), as well as garments, and – more recently – tobacco, and energy

⁵⁹ Profiles of international migrants from Bangladesh suggest that the majority of them are unskilled or semiskilled, with less than 10 years of education, and a significant proportion of them coming from rural areas (Masuduzzaman et al., 2017; Kumar et al., 2018) .

⁶⁰ Bangladesh's share of global FDI stocks is even lower at 0.05 per cent of the total.

(Kathuria and Malouche, 2016a; UNCTAD, 2019c, 2020f). In recent years, the government has embraced a more proactive stance to attract FDI through the adoption and development of a significant number of Special Economic Zones (SEZs), most of which taking the form of Export Processing Zoned dedicated to textiles and clothing firms (UNCTAD, 2019c). These policy reforms were starting to pay off in terms of FDI mobilization, as well as of ambitious targets for SEZ development, when the pandemic rocked the world economy triggering an unprecedented global shock.

According to UNCTAD estimates COVID-19 and the ensuing global recession are likely to take a heavy toll on global FDI flows (-49 per cent), and on Bangladesh more specifically, with announced greenfield investment projects falling by a staggering 78 per cent (UNCTAD, 2020g). Furthermore, due to the depth and persistence of the shock, there are signs that global FDI flows may well contract further in 2021, starting their slow recovery only in 2022 (UNCTAD, 2020f). Against this background, competition to attract FDI will inevitably become more intense, for Bangladesh and other developing countries alike, even if recent data suggest some relative resilience of international investment flows in East and South-East Asia.

Beyond the contraction of global investment flows, policy incentives will also need to factor the ongoing reconfiguration of international production networks in the post-COVID scenario. In various forms, depending on the specific industries and geographical locations, COVID-19 has shifted the focus from an exclusive attention to GVC efficiency to a more balanced consideration that also encompasses resilience, with the corollary of renewed emphasis on diversification, regionalization, redundancy-building and re-shoring/near-shoring (*ibidem*). Of particular relevance, in the case of Bangladesh, will be deliberate efforts to enhance the backward and forward linkages between establishments operating in SEZs and the rest of the economy, as well as keeping the momentum to continue diversifying the sectoral focus of FDI. Equally important will be to integrate Environmental, Social and Governance (ESG) criteria in the development of SEZs, so as to better align the ambitious and forward-looking industrial policy framework with the imperatives of inclusiveness and environmental sustainability (UNCTAD, 2020f; Valensisi, 2020b; Oqubay and Lin, 2020).

Overall, the above discussion points to the risk that, in the wake of the pandemic and of the related global recession, Bangladesh may suffer some contraction in its external financial inflows. Though serious, concerns about a temporary slump should not be exaggerated, considering the country's macroeconomic fundamentals, and the composition of external flows. More fundamentally, these dull prospects should be regarded as an additional reason to renew efforts to enhance domestic resource mobilization and unleash private investment through improvements in the related environment.

4.3 Heightened environmental vulnerability

The environmental vulnerabilities underscored in the analysis of the EVI are completely unrelated from the LDC graduation process; yet, they will shape its ultimate outcome and the country's development trajectory in very profound and wide-ranging manner. Therefore, it is of paramount importance to account for them in all related policymaking process, and in preparing for a smooth transition strategy.

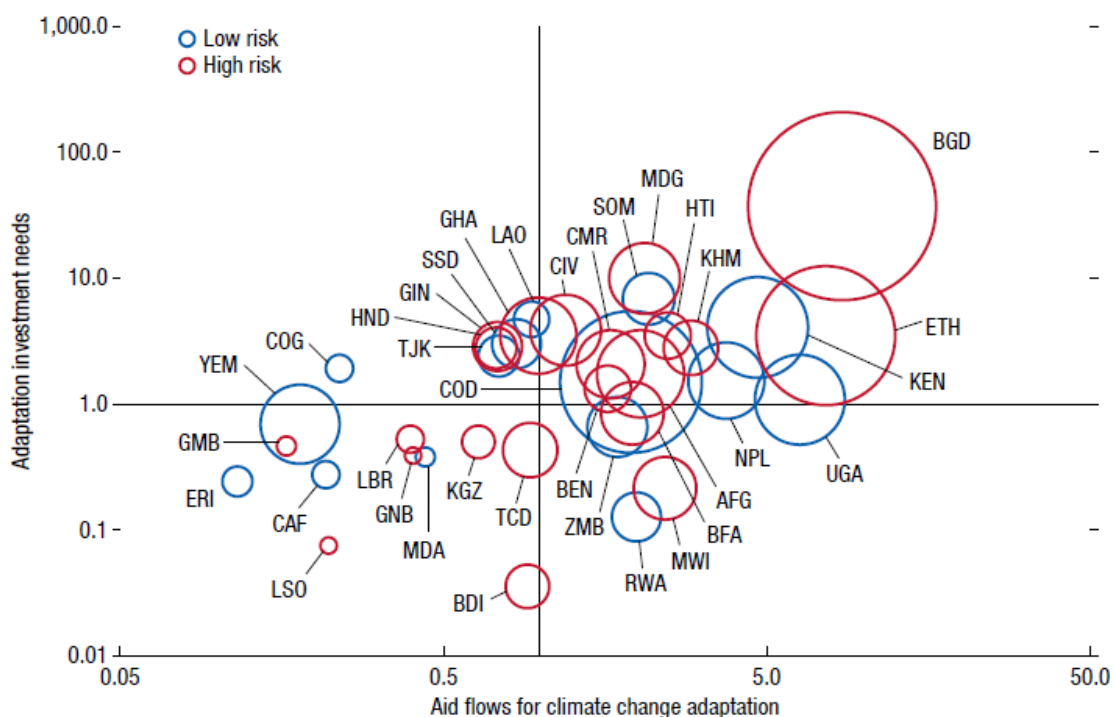
If there are some uncertainties on the fate of the Paris Agreement, it is equally worrying that estimates of the global emissions outcome of current nationally stated mitigation ambitions suggest that even these ambitious would be insufficient to limit global warming to 1.5°C (IPCC, 2018). Under these circumstances, rising temperatures can be expected to increase the frequency of extreme weather events and lead to a progressive rise in sea level, which in turn could have a dramatic impact on communities living in low-lying coastlands (UNCTAD, 2010).

This scenario threatens to jeopardize the significant progress made by Bangladesh, which, as recognized by the NAPA, "is one of the most climate vulnerable countries in the world" (MOEF, 2009: xv). Climate change and the attendant increase in the frequency and intensity of natural disasters will potentially have adverse effects on a number of dimensions, from agricultural yields to sustainable urbanization, and from energy access to transport and logistics provision (ibidem). Moreover, this scenario risks exacerbating entrenched inequalities resulting in what has been dubbed "climate apartheid", whereby the most vulnerable also tend to be the hardest hit by climate change and environmental degradation (United Nations, 2020; IPCC, 2018).

Against this grim background, the fundamental importance of cutting CO₂ emissions and investing in climate change adaptation (and in particular climate-resilient infrastructures) cannot be overemphasized. Equally, there is an emerging recognition that climate change considerations should be duly reflected in the operations of central banks and more broadly of the entire financial systems, given the nature and magnitude of associated risks (Campiglio et al., 2018; Grippa et al., 2019; Espagne et al., 2020). All of the above will require some readjustment of the macroeconomic framework. Moreover, the size of associated investment needs is daunting, and climate change adaptation had remained grossly under-financed even before the pandemic erupted (UNCTAD, 2019a).

These considerations apply globally, but are all the more important in the case of Bangladesh. The peculiar vulnerability of the country in this respect emerges starkly from Figure 43, which juxtaposes IMF estimates of the public investment needs in climate change adaptation, with the 2018 aid flows for the same purpose. Considering its position in the diagram, Bangladesh stands out for both its enormous investment needs and its funding gap, notwithstanding the fact that the country is among the world largest recipient of aid for climate change adaptation.

Figure 43: Public Investment in Adaptation to Climate Change: Needs and Aid Flows (hundreds of million US dollars, log scale)



Source: (IMF, 2020b: 45)

Note: The size of the bubble is the population size. Aid flows for climate change adaptation (horizontal axis, in log scale) are correlated with the IMF estimates of adaptation needs (vertical axis, in log scale). The correlation between aid and needs in ratio to GDP is also high, at 0.57. The United Nations University Institute for Environment and Human Security World Risk Index for 2018 is used to measure natural disaster risk. The threshold suggested by the World Risk Report 2018 for high-risk and very-high-risk country, at 7.14 percent, is used to differentiate countries into high and low risk. Data labels use International Organization for Standardization (ISO) country codes.

Analysing the impact of multifaceted environmental vulnerabilities on Bangladesh's sustainable development prospects and the potential coping strategies that could be put in place is a challenging task that goes well beyond the purpose of this study. The following list offers, nonetheless, a (non-exhaustive) set of policy priorities that might be considered:

- Bolstering the mobilization of climate finance and of environmentally conscious investors to finance a climate-resilient recovery
- Prioritizing Investment in climate-resilient infrastructure and low-carbon technologies (including in relation to energy mix and sustainable urbanization)
- Proactively fostering access to digital and green technology, by making use of existing policy space in that respect
- Exploring the feasibility of extending social protection and/or insurance schemes to protect the most vulnerable groups from the adverse effects of climate change on their livelihood

- Monitoring the potential implications of climate change risks for the financial sector and building related expertise within the Central Bank
- Proactively fostering access to digital and green technology, by making use of existing flexibilities under the TRIPS agreement, and calling for greater policy space in that respect
- Strengthening the Science, Technology and Innovation (STI) framework while nurturing the emergence of climate-change-related cluster of expertise
- Continuing to invest heavily in disaster preparedness.

5. Building back better – graduating with momentum

The previous analysis has documented that Bangladesh is approaching the Triennial Review on the back of sustained and broad-based progress, as evidenced by its performance against the LDC criteria. The emergence of the COVID-19 pandemic and the ensuing global recession have interrupted a period of rapid economic growth, underpinning significant advances in terms of poverty reduction and social development outcomes. Yet, the country has so far weathered the crisis relatively well (much better than other countries in the region) and appears set to record positive GDP growth even in 2020, notwithstanding a sharp slowdown in economic activity. The above reasoning is testament to the fact that Bangladesh trajectory reflects meaningful advancements in terms of productive capacity development and inclusive growth. Yet, regardless of the political economy dimension of the LDC graduation process (UNCTAD, 2016a), there is no time for complacency.

Several considerations call for continued emphasis on the structural transformation of the economy, and on the need to foster the emergence of higher value-added activities. In other words, paraphrasing the title of the *The Least Developed Countries Report 2016* published by UNCTAD, they call for maintaining the momentum that has brought Bangladesh on the verge of graduation, after having met the related criteria for the first time in 2018. First, despite the remarkable progress made, several indicators – from the incidence of poverty to literacy rate – underscore that sustainable and inclusive development is still an unfinished business. Second, despite all the positives of the past buoyant decades, some deep-seated challenges continue to linger on the economy’s sustainable development prospects, notably the modest progress in terms of exports diversification, and the elusive quest for adequate sustainable development finance. These challenges are made even more formidable by the fallout from the COVID-19 pandemic which threatens to leave long-lasting scars on the world economy, making the international environment less conducive. Third, emerging mega-trends, such as climate change, digitalization and servicification, are bound to exert wide-ranging implications for the future development trajectory of developed and developing countries alike.

Regardless of the graduation milestone, the earlier any LDC prepares for these emerging realities, the better; not least to strategically pursue leap-frogging opportunities and catching-up with the technological frontier.

The above reasoning underscores the fundamental importance of (i) accelerating the gradual sophistication of the economy; (ii) combining export competitiveness with the nurturing of an increasingly dense network of domestic backward and forward linkages across sectors; and (iii) strengthening investment in climate-resilient infrastructures and human capital. Against this background, UNCTAD has recently published exhaustive compendiums of policy options to foster structural transformation in LDCs (UNCTAD, 2018d, 2020h, 2020b), as well as other related studies focusing on other developing countries (UNCTAD, 2016d, 2017b, 2018e). Out of the policy options discussed in these publications, the following areas appear to be extremely relevant to Bangladesh's current circumstances and could thus represent meaningful policy priorities:

- **Strengthening domestic resource mobilization**, both in terms of public revenues (with a view to raise the tax to GDP ratio), and of private sector investments. Considering the downturn, options that could be prioritized under this pillar include improving the efficiency of tax administration system (including by leveraging digital solutions for public sector operations), stymieing profit tax evasion and illicit financial flows, and improving the business environment so as to unleash private investment and innovative forms of entrepreneurship embedded in the local economy
- **Bolstering investments in climate-resilient and digital infrastructures**, notably in order to improve the transport and logistics sector, continue extending electricity provision and improving connectivity. In this respect, improvements in physical infrastructures will need to be matched by corresponding improvements in “soft infrastructure”, such as through trade facilitation reforms and improvements of the regulatory framework for digital firms. Enhancements of “soft infrastructures”, if anything, should be prioritized in the current phase of recovery as they are typically more cost-effective and have shorter gestation periods.
- **Sustaining investments in human capital**, not only by maintaining the drive towards enhancing access to high-quality formal education and vocational training programmes, but also by strengthening collaboration with the private sector in relation to apprenticeship, on-the-job training, adult education, and retraining.
- **Supporting technological upgrading and improvements to the STI ecosystem**, by continuing to harness the available policy space (as in the case pf pharmaceuticals) and by catalysing collaboration across stakeholders to promote learning, knowledge-sharing and innovation. Maintaining and wherever possible increasing investment in basic research and related institutions is clearly an inescapable

priority, in this respect, particularly in strategic areas such as Science, Technology, Engineering, and Mathematics

- **Continue fostering rural development**, through multipronged interventions aimed at accelerating the growth of agricultural productivity, but above all at harnessing intersectoral linkages with the agro-food industry. The adequate provision of rural infrastructures (including electrification) could go a long way in unleashing rural non-farming activities, particularly if coupled with support for the adoption and experimentation of digital solutions to foster innovative business practices
- **Adopting/fine-tuning a proactive industrial policy framework** aimed at promoting capabilities' acquisition and coordination across stakeholders, in order to not only address established market failures, but also to support linkages development and "self-discovery". A similar industrial policy framework should be oriented towards experimentation and systemic policy coherence, thereby solving the potential tensions between protection of the domestic market in upstream (or non-tradeable) segments of the value chains and support for export competitiveness downstream. It should also be wary of potential rent-seeking – hence careful to build-in sunset clauses and closely monitoring the outcomes of the support element provided.

Beyond national borders, the need to maintain and possibly accelerate structural transformation calls for enhancing the strategic coherence and articulation of trade policies with sectoral (i.e. agricultural/industrial) policy objectives. Accordingly, it is essential that trade and investment relations allow for adequate policy space and contribute towards creating upgrading opportunities. Regional integration deserves specific mention in this respect, in so far as its strengthening could provide Bangladesh with a powerful engine to gradually diversify its exports, enhance the sophistication of its economy and deepen its involvement in regional value chains. In addition, regional integration could also offer a valuable platform to strengthen South-South initiatives for scientific collaborations and technology/knowledge transfer.

In the context of LDC graduation, it is all the more important that phasing out of LDC-specific international support measures does not disrupt the promising trajectory on which Bangladesh has embarked. To this end, it might be important to proactively engage trade partners in relation to smart smooth transition strategies, capable of ensuring the above consistence between trade and investment regimes and the country's development needs, notably in terms of available policy space.

More broadly, although LDC graduation is not expected to trigger dramatic changes in terms of availability of development finance, pre-pandemic trends were already very far from the internationally agreed targets, whether in relation to ODA (SDG 17.2) or to climate finance (\$ 100 billion per year, under the terms of the Paris Agreement). Nor does the current downturn bode well for the future. Against this background, Bangladesh's quest for adequate sustainable development finance and for appropriate

access to climate-related technologies should not be overlooked by its development partners, not before graduation nor afterwards.

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Annex: Key strategic considerations for Bangladesh's graduation with momentum

Complementing the Vulnerability Profile, this annex outlines key strategic considerations for Bangladesh's graduation with momentum, or – to quote a recent piece on the topic – for an “augmented LDC graduation strategy” (Bhattacharya, 2020). This is in line with the mandate enshrined in the General Assembly resolutions 59/209 and 67/221, which “(R)equests the entities of the United Nations system to provide targeted assistance, including capacity-building, to graduating countries (...) in support of the formulation and implementation of the national transition strategy” (A/RES/67/221 paragraph 13). The overarching objectives underpinning this plan would be to effectively use the time window until graduation (plus any relevant transition period) to ensure that:

- (i) appropriate measures are taken, domestically and/or through adequate engagement with development partners, to mitigate the impact of the phasing out of LDC-specific ISMs;
- (ii) thorough preparations are made to gradually build the competitiveness of productive sectors for the post-graduation scenario, and this milestone is mainstreamed in the national development strategies, articulated in the upcoming five-year plan and the Perspective Plan 2021-2041; and
- (iii) renewed support and resources are mobilized and action taken, in order to address the lingering sources of vulnerability that could jeopardize the sustainable development progress of Bangladesh, towards graduation and beyond.

In relation to the first objective, a number of documents have already provided a mapping of the likely impacts of phasing out LDC specific ISMs, notably in the domain of trade, which would arguably be the most affected area (UNCTAD, 2016a; CDP and DESA, 2019; WTO and EIF, 2020a). Useful insights on the consequences of graduation from the LDC category, as well as on broader elements of the industrial policy framework, could also be drawn from ad-hoc consultations with business associations, trade unions and private sector actors (including lead firms in key GVCs). This could provide the basis to engage early-on development partners on how to mitigate the impact of the phasing out of LDC-specific ISMs. For example, given its importance as a destination market for Bangladesh, it would be vital to use this information to engage the EU in order to assess prospects for GSP/GSP+ preferential treatment (considering that GSP schemes will be revised in 2023), and exploring the possibility of obtaining some flexibilities in relation to rules of origin. Similarly, it might be worth clarifying with trade partners that do not have a well-established transition period between LDC graduation and the loss of preferential market access, the terms and conditions of this switch.

With reference to the second objective (namely preparing for the post-LDC status, consistently with national development strategies), the vulnerability profile and the DTIS – among others – have underscored the importance of pursuing diversification and strengthening domestic backward and forward linkages to overcome the heightened dependency on a narrow range of exports. In this context, it is of paramount importance that Bangladesh makes the most of the remaining time-window until graduation from the LDC category, strategically utilizing dedicated support, available technical assistance and policy space to strengthen its productive capacities and institutional framework. Equally, this time span provides opportunities to enhance the mobilization of Aid for Trade and socially/environmentally conscious investors to promote diversification as well as more sustainable practices in key value chains. For instance, more could be done to take full advantage of export

opportunities in the agro-food industry, or to explore opportunities for inter-sectoral linkages and diversification through the adoption of circular economy approaches. Similarly, considering Bangladesh's dependence on developed countries' markets, it will be crucial to thoroughly map export opportunities and related constraints at the regional level, since regional value chains could represent a viable post-graduation alternative (the product space framework could be useful to identify untapped scope for harnessing regional integration initiatives, as illustrated earlier).

Finally, building upon recent efforts to further improve the business environment and enhance the mobilization of private investments, domestically and in terms of FDI, is surely a key policy priority in relation to the third longer-term objective of strategy for graduation with momentum. In the same vein, ongoing efforts to mobilize remittances for productive purposes and strengthening diaspora engagement will become even more central to the post-COVID recovery. In this context, discussions on LDC graduation may also offer a platform to examine with key partners concrete options to support stronger diaspora engagement, especially in terms of migrants' contribution as knowledge and entrepreneurship brokers, as well as facilitators of trade and investment flows. Beyond horizontal (i.e. erga omnes) efforts to improve the institutional framework and enhance investment promotion, bold entrepreneurship and industrial policies could foster a shift towards innovative and higher value-added activities.

With climate change set to become more pronounced, the remaining window of opportunity until graduation from the LDC category should also be used to bolster support for the implementation, monitoring and review of the National Adaptation Programme of Action (NAPA), prioritizing the use of dedicated ISMs which might no longer be available upon graduation (such as the LDC Fund). Of particular relevance will be to gain a better understanding of the far-reaching ramifications of climate change effects for the country's economy, its society at large, and its ecosystems, developing adequate expertise and institutional capacities to implement, monitor and review the NAPA, as well as to link it more explicitly with the country's sustainable development strategy.

As "the focal point in the United Nations for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment, and sustainable development" (paragraph 12 of Nairobi Maafikiano), UNCTAD stands ready – in coordination with other relevant entities of the United Nations system – to support the Government of Bangladesh in its efforts to deliver graduation with momentum and develop an effective smooth transition strategy.