

Transforming Economies: Institutional and Structural Change in a Developing Economy

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Abstract: *Bangladesh's development over the past five decades offers a unique case of structural economic transformation. Once deemed a "basket case," Bangladesh has transitioned from a war-torn agrarian economy into a growing manufacturing and service hub. This paper analyses Bangladesh's transformation through multiple theoretical lenses, including Lewis's dual-sector model, structuralist development theory, institutional economics, and global value chain (GVC) frameworks, and benchmarks its progress against peers such as Vietnam, India, Pakistan, Sri Lanka, Rwanda, and Ethiopia. We synthesise recent data (through 2024) on key indicators (e.g. GNI per capita, Human Assets Index, Economic Vulnerability Index) and draw comparisons with select countries. We also review literature on export dependence and governance to contextualise Bangladesh's experience. Bangladesh meets the criteria for graduation from least developed country (LDC) status, driven by export-led growth and social gains. However, heavy export concentration and institutional weaknesses pose structural vulnerabilities. Compared to regional peers, Bangladesh has achieved robust and inclusive growth, but lags in technological upgrading and governance. The study underscores that adaptive institutions, export diversification, and proactive policy reforms are critical for sustaining Bangladesh's progress. We conclude with policy recommendations emphasising diversification, institutional strengthening, inclusive digitalisation, and climate resilience.*

Keywords: Structural transformation; Economic development; LDC graduation;
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1. Introduction

In the post-colonial development discourse, Bangladesh has long represented both a puzzle and a promise. Emerging from the ravages of the Liberation War in 1971 with fragile institutions, food insecurity, and near-total reliance on foreign aid, many economists predicted a bleak economic future for the nascent nation. Henry Kissinger famously dubbed Bangladesh “the basket case” of South Asia, reflecting a global scepticism about its viability. However, over the past fifty years, Bangladesh has undergone one of the most remarkable transformations among least developed countries (LDCs), confounding expectations and showcasing resilience through pragmatic economic management, social sector innovations, and strategic integration into global trade.

This paper aims to investigate the foundations of Bangladesh’s structural economic transformation from a predominantly agrarian economy to one increasingly driven by industry and services, particularly its globally competitive ready-made garments (RMG) sector. The shift from low-productivity rural employment to higher value-added manufacturing and urban service work illustrates the country’s transition toward a more diversified economic base.

To understand this evolution, we adopt a multidimensional analytical lens. We draw upon theories of structural transformation (Lewis, 1954), institutional economics (North, 1990), and global value chain (GVC) frameworks to contextualise Bangladesh’s development pathway. We also incorporate recent literature on digital transformation, green growth, and informality—emerging dimensions that are increasingly shaping Bangladesh’s trajectory. These perspectives enable us to compare Bangladesh with other transitional economies, such as Vietnam, Ethiopia, and Rwanda, each of which navigates its own unique set of development constraints and opportunities. Empirically, we benchmark Bangladesh against the CDP’s LDC graduation criteria (GNI per capita, HAI, EVI) and track trends from 2000 to 2024, alongside export concentration and FDI-to-GDP.

The rationale for this study is twofold. First, despite Bangladesh’s impressive gains, its path remains insufficiently theorised within the development economics literature, particularly concerning its institutional evolution, the role of social capital, and labour-intensive export strategies. However, prior research seldom integrates institutional evolution and post-

LDC exposure within a single analytical framework—linking governance-related frictions that deter FDI/diversification with the trade shocks expected after graduation (Tabash et al., 2024; Bekkers & Cariola, 2025). Second, with LDC graduation scheduled for November 2026, a reassessment of sustainability is imperative, given the tightening of supply-chain compliance standards and escalating climate risks (Fontana et al., 2024; Arfanuzzaman, 2024; United Nations LDC Portal, 2023). In addition, the comparative lens—spanning South Asia, East Asia, and Sub-Saharan Africa—offers new insights into how different structural paths yield varied development outcomes. This paper aims to contribute to a more nuanced understanding of Bangladesh’s transformation, offering both theoretical insights and empirical reflections based on updated macroeconomic and policy data through 2024. Accordingly, the central question guiding this study is whether Bangladesh’s garments- and remittances-led growth model is sustainable under post-LDC trade rules; we then delineate the policy mix required to de-risk the transition and upgrade competitiveness (Bekkers & Cariola, 2025).

The paper proceeds as follows: Section 2 reviews key literature on economic transformation. Section 3 outlines the conceptual framework. Section 4 presents findings with updated data and cross-country comparisons. Section 5 concludes with policy recommendations for Bangladesh’s post-graduation path.

2. Literature Review

2.1 Institutions and economic transformation

Economic institutions—the “rules of the game” in a society—fundamentally shape development outcomes (North, 1990). According to North, well-defined property rights, effective legal systems, and constraints on government arbitrariness create an environment that fosters entrepreneurship and investment. This institutional economics perspective has been influential in examining why some countries industrialise faster than others. Rodrik, Subramanian, and Trebbi (2004) famously found that, among the deep determinants of income (institutions, geography, and trade), it is the quality of institutions that “trumps” everything else in explaining long-run growth differences. Countries with inclusive and accountable institutions have achieved more sustained economic growth and development than those with extractive or weak institutions.

Likewise, Acemoglu and Robinson (2012) argue that inclusive institutions—which secure property rights and provide equal opportunities—foster broad-based development, whereas extractive institutions concentrate power and wealth, eventually stifling growth. By this logic, one might expect Bangladesh—often criticised for corruption, political patronage, and weak governance—to have struggled in its development. Indeed, assessments of governance in the 1990s and 2000s ranked Bangladesh poorly in terms of the rule of law and corruption control.

The literature reconciles this paradox through nuanced analyses of Bangladesh's institutional evolution. Some scholars argue that Bangladesh developed “good enough” institutions—informal yet functional arrangements that facilitated private sector growth, particularly in garments and remittances, despite weak formal governance (Hassan & Raihan, 2017). For instance, the government's creation of export processing zones and policies to support RMG exporters in the 1980s and 1990s provided a stable framework for that sector to flourish. Additionally, Bangladesh's vibrant NGO sector and community-based development models (e.g., microfinance and rural health programmes) helped fill governance gaps and contributed to human development.

Chang (2011) critiques the mainstream institutional view, pointing out that today's wealthy nations did not necessarily have perfect institutions in their early stages of industrialisation. According to him, policy experimentation, learning by doing, and state leadership often precede institutional maturity. In this view, Bangladesh's ability to adapt institutions pragmatically—rather than follow textbook models—has enabled progress despite governance weaknesses.

That said, recent literature highlights that institutional deficiencies could become severe bottlenecks as Bangladesh aspires to become an upper-middle-income country. Fragile financial sector governance, bureaucratic red tape, and weak contract enforcement are seen as critical issues deterring diversified investments. Ginting et al., (2025) argue that Bangladesh's longstanding tariff and subsidy structures have favoured import-substituting industries (e.g., rice, basic goods) over newer export sectors. To escape this policy inertia, they recommend reforms in trade logistics, tariff rationalisation, and improvement of the investment climate.

In summary, institutions in Bangladesh have been adaptive rather than ideal. Informal norms, functional arrangements, and policy responsiveness

contributed to the initial transformation. However, further development will likely depend on the modernisation and formal strengthening of governance mechanisms in areas like finance, education, and industrial policy. Recent evidence from South Asia reinforces this mechanism: improvements in regulatory quality and the rule of law are associated with stronger FDI inflows—the precondition for diversification beyond garments (Tabash et al., 2024). In Bangladesh, enduring tariff and subsidy patterns continue to generate an anti-export bias, suppressing entry into new tradables and identifying a key bottleneck in policy-shaping institutions (Ginting et al., 2025). This paper, therefore, treats institutional quality not as a background condition but as an active constraint on post-LDC diversification.

2.2 *Export diversification and GVC upgrading*

One of the defining features of Bangladesh's economic transformation has been its export orientation, particularly through the garment industry. By leveraging low labour costs and favourable trade preferences, Bangladesh became the world's second-largest apparel exporter. This sector has driven industrial growth and employment, especially for women (Heath & Mobarak, 2015). However, the country's high reliance on a single sector—over 80% of exports are garments—creates vulnerability to external shocks and fluctuations in demand (Razzaque & Moi, 2021).

The literature suggests that export diversification into higher-value products and services is crucial for mitigating this risk. Promising sectors include textiles (upstream), agro-processing, footwear, electronics assembly, and ICT-enabled services. Scholars emphasise that while Bangladesh has potential in many of these areas, policy bottlenecks, infrastructural constraints, and limited firm capabilities often hinder their growth.

Gereffi's (2019) Global Value Chain (GVC) framework helps assess Bangladesh's position within the global value chain. The country entered the apparel GVC through the lower-end cut-make-trim (CMT) segment, largely dependent on foreign buyers and imported raw materials. Over time, some firms have upgraded to full-package supply (OEM), handling sourcing and production more independently (Moazzem & Sehrin, 2016).

Vietnam provides a strong comparator in the literature. Like Bangladesh, it began with garments and footwear but diversified aggressively into electronics and machinery by attracting FDI and promoting industrial zones.

As a result, Vietnam's export basket is now broader and more technologically advanced. Bangladesh, in contrast, has doubled down on apparel, risking stagnation if it cannot evolve beyond this base. Firm-level work on Vietnam shows that deeper GVC engagement is linked to higher export quality, illustrating how orchestrated FDI and supplier development support functional upgrading (Hoang et al., 2025; Tran & Korwatanasakul, 2023).

Other South Asian peers offer mixed lessons. Pakistan's narrow dependence on textiles and energy challenges has constrained its growth. Sri Lanka's early gains were stalled by political instability and loss of trade preferences. These cases emphasise the importance of macroeconomic stability, targeted policy, and institutional support for sustained diversification.

In Sub-Saharan Africa, Ethiopia and Rwanda have tried to emulate export-led models. Ethiopia has attracted apparel investment through industrial parks, although the scale remains limited due to foreign exchange constraints and inadequate infrastructure. Rwanda has focused on high-value services and niche products, such as tourism and agro-processing. Both countries highlight the importance of complementary investments in skills and governance to foster export competitiveness.

In conclusion, Bangladesh's GVC integration has been adequate but limited in scope. To move up the chain, it must improve local input production, develop brand ownership, and reduce overdependence on external buyers. Scholars recommend improving trade facilitation, reforming fiscal incentives, and aligning industrial policy to nurture emerging sectors beyond garments.

2.3 Digital and green transitions in Bangladesh

As Bangladesh approaches upper-middle-income status, attention has turned to digitalisation and environmental sustainability as new frontiers of transformation. Both dimensions are increasingly viewed as essential to inclusive and resilient development. Recent estimates quantify these channels for Bangladesh's digital economy—payments, platforms, and ICT services—as growth-enhancing enablers when paired with skills and infrastructure (Uddin, 2023).

Digital transformation is underway through the government's "Digital Bangladesh" agenda. ICT usage, software services, and digital finance (e.g.,

bKash) are expanding rapidly. Uddin (2023) finds that the digital economy's contribution is growing, particularly through freelancing, software exports, and e-commerce.

Digital transformation also offers indirect benefits, such as raising productivity in agriculture through market information apps or enabling automation in factories. However, challenges remain, including digital literacy, infrastructure gaps, and regulatory frameworks surrounding data privacy that require attention. Scholars warn that without bridging the “digital divide,” gains may be uneven and exclusionary.

Green transformation is equally critical. Bangladesh is one of the world's most climate-vulnerable countries. Increasing emissions, water pollution, and resource degradation have accompanied rapid growth. Baniya et al. (2021) find that energy and material efficiency improvements have resulted mainly from sectoral shifts, rather than policy-driven environmental reforms. Hasan et al. (2023) assess green development indicators and highlight solar home programs, LEED-certified factories, and early green financing initiatives. Recent studies document both the scale of ‘green factory’ adoption (e.g., LEED) and the capability barriers that still impede circularity and resource efficiency across apparel clusters (Mim et al., 2024; Hossain et al., 2024).

A 2024 review of climate-resilient development for Bangladesh finds progress but uneven readiness across finance, institutions, and local implementation, underscoring the need to mainstream resilience within industrial and urban policy (Arfanuzzaman, 2024). Nevertheless, emissions remain high, and dependence on fossil fuels persists. Scholars recommend scaling up renewable energy, promoting green industrial policies, and integrating climate resilience into urban planning and infrastructure. Global shifts—such as buyer pressure for low-carbon supply chains—may compel Bangladesh's industries to green their operations more aggressively.

Together, digital and green transitions can define Bangladesh's future growth model. They offer an opportunity to leapfrog traditional barriers and build a more inclusive, technologically advanced, and environmentally sound economy.

2.4 Comparative perspectives: South Asia, East Asia, and Africa

Comparative literature helps contextualise Bangladesh's transformation.

Within South Asia, it has outperformed Pakistan and approached India on several development indicators. India's path—services-led growth and IT leadership—contrasts with Bangladesh's manufacturing focus. Scholars like Rodrik (2016) argue that Bangladesh sustained manufacturing longer, avoiding premature deindustrialisation and generating more inclusive employment.

Pakistan's challenges—political instability and stagnant exports—highlight the value of policy coherence. Sri Lanka's early garment boom was undermined by conflict and a lack of diversification. Bangladesh's relative success is attributed to stable macroeconomic management and a government-business-NGO coalition that supported industrial growth.

In East Asia, Vietnam offers a compelling parallel. Both countries adopted export-led growth strategies, but Vietnam diversified more aggressively into electronics and high-tech goods. It also pursued state-driven industrial policies to attract FDI. Bangladesh's approach has been more organic, relying on private initiative and limited state coordination.

In Africa, Rwanda and Ethiopia offer contrasting lessons. Rwanda has grown rapidly through services, governance, and niche exports, whereas Ethiopia has focused on manufacturing through the development of industrial parks. However, both countries still struggle with scale, infrastructure, and global competitiveness. Evidence from Ethiopia's industrial parks indicates short-term gains in employment and earnings for young women, which fade over time unless accompanied by complementary policies—suggesting that zones must be integrated into broader upgrading and skills development strategies (Abebe et al., 2025). Page (2012) argues that African countries can industrialise if they identify niches, improve business climates, and attract targeted investments—principles that Bangladesh has exemplified in its garments sector. Bangladesh's transformation has been driven by pragmatic policy and integration into global markets, but sustaining this trajectory requires stronger institutions and broader industrial bases.

3. Methodology

This study employs a qualitative, descriptive-comparative design that pairs narrative synthesis with structured cross-country comparisons. It utilises recent data (through 2024) from sources such as the World Bank's World Development Indicators, IMF, and UNCTAD, focusing on key economic and

social indicators. Indicators include GNI per capita, the Human Assets Index (HAI), the Economic Vulnerability Index (EVI), export composition and concentration, and FDI as a share of GDP. We report levels, shares, and trend growth for the period 2000–2024, acknowledging the standard limitations associated with secondary data and the purposive selection of comparators. We benchmark Bangladesh against two sets of comparators: (i) regional peers—India, Pakistan, Sri Lanka—to situate South Asian performance; and (ii) three purposively selected transformation cases—Vietnam (FDI-enabled diversification), Ethiopia (state-led manufacturing parks), and Rwanda (governance- and services-led upgrading)—for variation in development strategy and institutional context. Together, these cases bracket Bangladesh in terms of export structure, FDI intensity, and institutional profiles, making similarities and contrasts analytically salient.

4. Conceptual Framework

To examine Bangladesh's economic transformation in a structured manner, we integrate four core theoretical perspectives: structural transformation theory, structuralist development theory, institutional economics, and global value chains (GVC). Together, these frameworks illuminate the shifts in economic structure, institutional context, and international integration that have defined Bangladesh's development path.

Structural transformation: Classic development models explain growth as the reallocation of labour and capital from low-productivity activities (such as agriculture) toward higher-productivity industries and services. The dual-sector logic (Lewis, 1954) and subsequent evidence on sectoral shifts (Kuznets, 1966) align with Bangladesh's trajectory: a large-scale movement from rural work to urban factories, with garments central to both output and employment. These frameworks also warn that once surplus labour is absorbed, gains hinge increasingly on capital deepening, skills, and technology (Lewis, 1954; Kuznets, 1966). Bangladesh's experience confirms the model's first phase and foregrounds the challenge of sustaining productivity growth beyond it.

Structuralist development: Structuralists argue that dependence on a narrow set of low-value exports locks countries into weak terms of trade,

making them vulnerable to shocks (Prebisch, 1950). Diversification and strategic policy support are therefore required to build capabilities and climb the value chain (Szirmai & Verspagen, 2015). Bangladesh's shift from jute and raw goods to manufactured exports aligns with this view, but continued reliance on labour-intensive apparel underscores the risk of stalling in a low-margin niche. The structuralist lens thus motivates purposeful upgrading and technology adoption to reduce concentration risk.

Institutional economics: Institutions shape incentives for investment, innovation, and exchange (North, 1990). Inclusive arrangements broaden opportunity; extractive ones restrict it (Acemoglu & Robinson, 2012). Bangladesh's "paradox" lies in the coexistence of robust social and economic gains alongside middling formal governance, partly due to "good-enough" informal coalitions, public–private coordination, and NGO-led service delivery (Hassan & Raihan, 2017; Asadullah et al., 2014). As the economy matures, however, weaknesses in financial regulation, contract enforcement, and administrative capability can become binding constraints. Graduation pressures amplify the need to strengthen formal institutions that support diversification and FDI.

Global value chains: The GVC lens examines how countries enter, participate in, and upgrade within international production networks (Gereffi, 2018). Bangladesh entered the apparel market via assembly-intensive segments (cut-make-trim), with a gradual shift toward more comprehensive packages. However, design, branding, and advanced inputs largely remain offshore. For example, Vietnam's coordinated FDI attraction, supplier development, and skills/logistics upgrades enabled functional upgrading beyond apparel. For Bangladesh, expanding local input production, workforce capabilities, and firm-level process and product sophistication is critical to increase domestic value capture.

Taken together, these frameworks clarify *how* Bangladesh transformed, *why* vulnerabilities persist (export concentration, low FDI inflows, institutional frictions), and *which* levers—capability building, institutional reform, and GVC upgrading—can underpin the next phase of sustainable, diversified growth.

5. Findings and Discussions

Bangladesh’s economic transformation is evident in its improved macroeconomic indicators and structural shifts over the past two decades. Using data through 2024, we analyse key dimensions of this transformation against LDC graduation benchmarks and other development indicators, comparing Bangladesh’s trajectory with peers (Vietnam, India, Pakistan, Sri Lanka, Rwanda, and Ethiopia) to highlight similarities and differences (World Bank, 2023, 2024; UNDP, 2022).

5.1 LDC graduation criteria: GNI per capita, HAI, and EVI

Bangladesh has made remarkable progress on the three official criteria for graduation from the Least Developed Country (LDC) category. By 2021, it met all UN CDP thresholds (UN CDP, 2021; UN CDP, 2023). Gross National Income per capita rose from about USD 380 in 2000 to roughly USD 2,950 in 2024—well above the current graduation benchmark of USD 1,242 (UN CDP, 2021; World Bank, 2023). The Human Assets Index (HAI)—a composite of health and education indicators—stood above the 66 thresholds by 2024, while the Economic Vulnerability Index (EVI) fell below 32, indicating reduced exposure as the economy diversified (UN CDP, 2021; UNCTAD, 2023). Figure 1 illustrates these trends, with GNI and HAI rising steadily and EVI declining since 2000.

Figure 1: Bangladesh’s progress on LDC graduation criteria



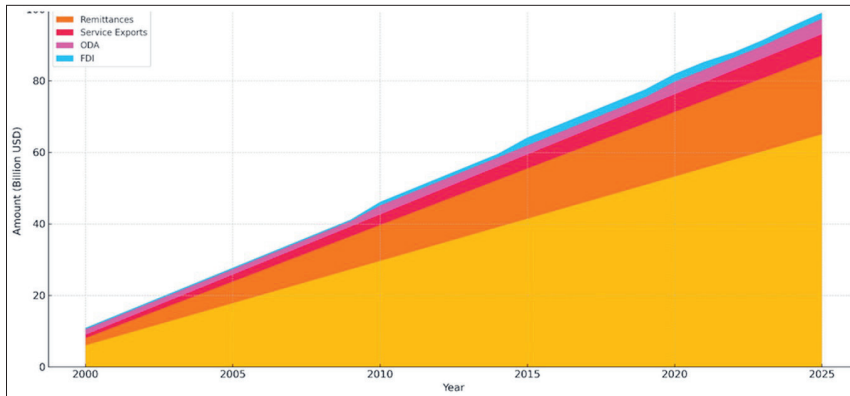
Notes: UN CDP thresholds are expressed in 2018 USD; GNI figures shown are current USD.

Bangladesh reached these milestones ahead of schedule, leading UN CDP to endorse graduation effective 2026. Such rapid advancement from a low base is notable in historical perspective (Bhattacharya & Borgatti, 2012; Asadullah et al., 2014). At the same time, graduation will bring new challenges, such as the loss of certain trade preferences and tighter financing terms (Bekkers & Cariola, 2025). Thus, meeting the LDC criteria underscores structural progress yet also signals a shift to a more competitive, less concessional environment that will test model durability (Bekkers & Cariola, 2025).

Taken together, these indicators confirm readiness for graduation while narrowing preference margins in key markets. These indicator gains signal a shift from preference-based access to rules-based competition after graduation, heightening the value of product-space widening and capability deepening rather than preferential margins (Bekkers & Cariola, 2025; UN CDP, 2021).

5.2 External financing and export dependence

Bangladesh's growth has been fuelled largely by external income sources, especially merchandise exports and worker remittances (EPB, 2024; Bangladesh Bank, 2023; World Bank, 2023). Between 2000 and 2024, annual goods exports climbed from about USD 6 billion to an estimated USD 65 billion, driven chiefly by ready-made garments (RMG) leveraging low labour costs, entrepreneurship, and favourable trade access (Moazzem & Sehrin, 2016; Mottaleb & Sonobe, 2011; Gereffi, 2018). Worker remittances from overseas migrants also grew steadily, bolstering household welfare and foreign exchange reserves (Al-Islam et al., 2022). By contrast, FDI remained modest—reflecting structural and policy frictions including infrastructure bottlenecks and regulatory uncertainty (Hakim & Budi, 2024; Tabash et al., 2024; World Bank, 2024). Official development assistance and service exports have increased but remain a relatively small share of external receipts (UNCTAD, 2023; World Bank, 2023). Figure 2 shows that merchandise exports and remittances dominate external inflows, whereas FDI and aid remain comparatively small—leaving earnings sensitive to apparel demand cycles and migrant-host labour markets (UNCTAD, 2023; EPB, 2024).

Figure 2: Bangladesh's sources of external financing

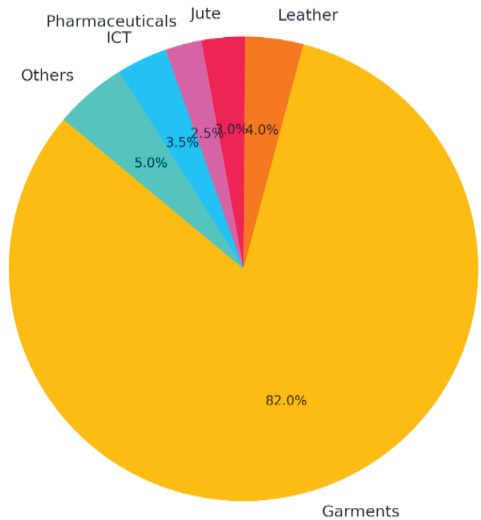
The composition of external receipts helps explain the investment pattern. The persistent gap between robust export/remittance earnings and comparatively modest FDI is consistent with governance frictions—contract enforcement, regulatory predictability, and administrative delays—well documented in South Asia, which raise investor entry costs and slow technology transfer (North, 1990; Rodrik, Subramanian, & Trebbi, 2004; Tabash et al., 2024). Also, Bangladesh's “good-enough” deals environment that supported early export growth becomes less effective as production complexity rises and firm-level coordination needs intensify (Hassan & Raihan, 2017; Acemoglu & Robinson, 2012).

5.3 *Export composition and structural vulnerability*

Bangladesh's export basket remains narrowly concentrated in apparel—about 82% of merchandise export earnings in 2024—heightening structural risk (EPB, 2024; UNCTAD, 2023). Heavy dependence on a single category exposes the economy to demand swings, shifting standards, and compliance requirements in buyer markets (Gereffi, 2019; Fontana et al., 2024). Past shocks—the end of textile quotas in 2005 and order cancellations during COVID-19—demonstrate this fragility (UNCTAD, 2023). Non-RMG sectors (e.g., leather, jute, pharmaceuticals, ICT) have grown but still account for under one-fifth of exports (EPB, 2024). Analysts point to policy and infrastructure factors behind slow diversification: long-standing tariff/subsidy patterns that favour import-substituting activities (an “anti-export bias”) and logistics/energy bottlenecks (Ginting et al., 2025; World Bank, 2024).

Meanwhile, sustainability and due-diligence pressures are cascading down apparel value chains, raising capability thresholds for suppliers (Fontana et al., 2024). Figure 3 provides a snapshot of the current mix dominated by apparel; without deeper upgrading and broader product-space entry, Bangladesh risks remaining in a low-value niche (Rodrik, 2016; Szirmai & Verspagen, 2015; Gereffi, 2018).

Figure 3: Bangladesh’s export composition by sector



This structure reflects cumulative advantages built within apparel and the higher barriers facing entrants in new tradables. Early success in garments built dense buyer links and specialized capabilities, lowering the marginal cost of expanding apparel relative to new tradables; legacy tariff/subsidy patterns and logistics frictions reinforced that specialisation, slowing diversification (Prebisch, 1950; Rodrik, 2016; Ginting et al., 2025; World Bank, 2024; Mujeri & Mujeri, 2023). Tighter sustainability and due-diligence requirements now cascade through apparel value chains, raising fixed costs for participation and pushing firms toward process (efficiency, traceability) and product upgrading (Fontana et al., 2024; Gereffi, 2018, 2019). Evidence of plant-level barriers to greener practices underscores these capability constraints (Hossain et al., 2024). Complementary digital channels—payments, platforms, and ICT services—can lift productivity and compliance readiness when matched with skills and infrastructure (Uddin, 2023; Bhuiyan et al., 2023).

5.4 Comparative development trajectories

A cross-country lens situates these patterns. Within South Asia, Bangladesh has outperformed Pakistan and Sri Lanka on several indicators and narrowed gaps with India via labour-intensive manufacturing rather than a services-led path (UNDP, 2022; World Bank, 2024). Beyond South Asia, Vietnam’s move into electronics and machinery through coordinated FDI and supplier development illustrates how deeper GVC engagement aligns with export-quality upgrading (Hoang et al., 2025; Gereffi, 2019). In sub-Saharan Africa, Rwanda’s governance- and services-oriented approach and Ethiopia’s industrial-park strategy highlight different routes to structural change; short-run gains from parks need complementary skills and institutional support to persist (Page, 2012; Abebe et al., 2025). As Tables 1 and 2 show, Bangladesh has raised human assets and reduced vulnerability (meeting LDC criteria) without growth reversal, yet peers like Vietnam have attracted more FDI and diversified further (UN CDP, 2021; Hoang et al., 2025; Tabash et al., 2024).

Table 1: Bangladesh trends in graduation from LDC [Data sourced from the World Bank, UNCTAD, and United Nations Committee for development policy (2024)]

Criteria	2006	2009	2012	2015	2018	2021	2024	Threshold for Graduation
Human Assets Index (HAI)	39.9	53.3	54.7	63.8	72.8	78.2	80.8	≥ 66 points
Economic Vulnerability Index (EVI)	51.9	23.2	32.4	25.1	25	26.3	25.7	≤ 32 points
Gross National Income per capita (GNI, USD)	450	453	637	926	1,772	2,540	2,950	≥ 1,242 USD

Table 2: Comparative Graduation Position (2024) of Bangladesh and Selected Economies [Comparative data sourced from the World Bank, UNDP, and UNCTAD (2024)]

Country	Human Assets Index (HAI)	Economic Vulnerability Index (EVI)	Gross National Income per capita (GNI, USD)
Bangladesh	80.8	25.7	2,950
Vietnam	88.4	24.1	4,200
India	78.9	27.6	2,550
Pakistan	65.4	42.3	1,800
Sri Lanka	86.7	35.2	4,300
Rwanda	74.3	31.5	1,350
Ethiopia	70.1	39.8	1,100

Vietnam's coordinated FDI attraction and supplier development align with measurable upgrading in export quality (Hoang et al., 2025), whereas Ethiopia's industrial-park gains were uneven without complementary skills and institutional supports (Abebe, Buehren, & Goldstein, 2025). Bangladesh's more organic, private-sector-led ascent explains rapid apparel scaling yet slower movement into electronics and machinery (Gereffi, 2019). Rising human assets underpin productivity, but high informality constrains diffusion and fiscal capacity, attenuating upgrading incentives; climate exposure adds another competitiveness margin where resilience and clean production increasingly matter for market access (ILO, 2018, 2023; La Porta & Shleifer, 2014; Heath & Mobarak, 2015; Arfanuzzaman, 2024; Baniya, Giurco, & Kelly, 2021; Hasan et al., 2023). These mechanisms map directly to the levers synthesised in the Policy Recommendations. In short, cross-country contrasts clarify why Bangladesh's rapid scaling in apparel coexists with slower diversification into electronics and machinery, anchoring the mechanisms summarised in our Policy Recommendations (Hoang et al., 2025; Gereffi, 2019).

5.5 Discussion — *Emerging challenges in context*

Read together with Sections 4.1–4.4, Bangladesh's transformation coexists with structural features that condition how gains are distributed and how far upgrading can proceed. Three domains—labour market informality and human assets, governance and the investment climate, and the twin digital/green transitions—frame the environment within which firms and households operate (UNDP, 2022; World Bank, 2024)

Informality and human assets: Employment remains predominantly informal, concentrated in agriculture, petty trade, and small urban services (ILO, 2018, 2023). High informality is typically associated with lower measured productivity, thinner social protection, and limited tax capacity, which helps explain why improvements captured in the Human Assets Index do not diffuse evenly across workers and regions (La Porta & Shleifer, 2014; UNDP, 2022). Garment-led industrialisation expanded formal wage employment—especially for women—with well-documented effects on mobility and earnings (Heath & Mobarak, 2015). Yet outside export clusters, firm practices and worker protections are more uneven, so the labour market combines islands of formal employment with a broad informal hinterland (World Bank, 2024).

Governance and the investment climate: Early growth coincided with a “good-enough” deals environment, where informal coordination supported decisive sectoral expansion despite middling governance indicators (Hassan & Raihan, 2017; Acemoglu & Robinson, 2012). As product complexity increases, investment decisions become more sensitive to contract enforcement, regulatory predictability, and administrative timelines—factors widely linked to FDI behaviour across South Asia (Rodrik et al., 2004; Tabash et al., 2024). Transparency International’s perception ranking places Bangladesh toward the lower end of global distributions, a signal investors often track when assessing transaction costs and risk (Transparency International, 2023). The observed gap between buoyant exports/remittances and comparatively modest FDI inflows thus aligns with governance frictions summarised in the findings (World Bank, 2024).

Digital channels and productivity: The “Digital Bangladesh” push broadened connectivity and created new earnings channels in payments, platforms, and ICT services, with documented contributions from online freelancing, e-commerce, and software exports (Uddin, 2023; Bhuiyan et al., 2023). Within manufacturing value chains, digital tools support traceability and data flows demanded by buyers, complementing process improvements in export clusters (World Bank, 2024). The pace and breadth of take-up vary by locality and firm size, which helps explain heterogeneous productivity responses across sectors (UNDP, 2022).

Green transition and climate resilience: Climate exposure—floods, cyclones, salinity, and sea-level rise—forms a persistent backdrop to economic decision-making (Arfanuzzaman, 2024; UNCTAD, 2023). Evidence suggests that part of observed efficiency gains has reflected structural shifts away from agriculture rather than dedicated green policy, indicating scope for more deliberate resource-efficiency improvements at plant and cluster levels (Baniya et al., 2021). Case studies of apparel clusters report barriers to industrial symbiosis and cleaner production, pointing to capability constraints that interact with compliance demands in buyer markets (Hossain et al., 2024). At the same time, diffusion of green-certified garment facilities and the availability of green-finance instruments illustrate a base of experience within export manufacturing (Hasan et al., 2023; UNCTAD, 2023).

Post-LDC competitive landscape: Graduation replaces certain preference margins with most-favoured-nation terms, recasting competitive pressure around product variety, quality, reliability, and compliance (Bekkers & Cariola, 2025; UN CDP, 2021). The patterns above—high informality alongside rising human assets, governance frictions influencing FDI depth, uneven digital diffusion, and tightening sustainability thresholds—mirror international experience on how countries widen their product space and deepen capabilities (Ginting et al., 2025; Fontana et al., 2024; Gereffi, 2018, 2019; Hoang et al., 2025). In comparative perspective, Vietnam’s coordinated FDI and supplier-development approach is often associated with faster movement into electronics and machinery, whereas Ethiopia’s park-led manufacturing gains show how employment effects can be uneven without complementary ecosystems (Hoang et al., 2025; Abebe et al., 2025). Against this backdrop, Bangladesh’s trajectory—rapid apparel scaling, strong remittance base, and steady human-asset gains—sets a clear point of departure for the next phase, in which capability deepening and broader product-space entry become the salient markers of progress.

6. Reform Priorities and Implementation Pathways

Bangladesh’s economic transformation over the past 50 years illustrates how pragmatic policymaking, social innovation, and export-oriented growth can yield substantial development gains. The country has confounded early pessimists by achieving and even surpassing key LDC graduation thresholds ahead of time, dramatically improving human development outcomes, and building a globally competitive industrial sector. As Bangladesh stands on the cusp of official LDC graduation in 2026, it faces the pivotal challenge of transitioning from factor-driven growth (characterised by cheap labour and basic manufacturing) to productivity-driven, innovative growth. In the post-LDC setting, preference erosion places a premium on export quality, reliability, and compliance, with margins increasingly determined by capability deepening rather than concessional access (Bekkers & Cariola, 2025; UN CDP, 2021).

Accelerate export diversification and value chain upgrading

Reducing over-reliance on ready-made garments is imperative for economic resilience. Bangladesh should formulate and implement a comprehensive export diversification strategy. This includes incentivising investment in high-potential sectors such as agro-processing, footwear, light engineering, electronics assembly, and pharmaceuticals, as well as ICT and business process outsourcing services. Tax breaks, export facilitation, and skill development programmes targeted at these sectors can help expand the industrial base. Equally important is upgrading within existing industries—for instance, encouraging apparel firms to move up the value chain into design, branding, and higher-quality products. Improving standards infrastructure and compliance will enable firms to enter higher-end markets. Lessons from countries like Vietnam suggest that attracting FDI in diversified manufacturing (e.g., electronics) can be a game-changer. Bangladesh's government should aggressively promote special economic zones and one-stop services to attract foreign investors in non-RMG sectors. By widening its export basket and deepening capabilities, Bangladesh can mitigate external shocks and create a more sustainable growth path (UNCTAD, 2023).

Specific fiscal reforms: As a pragmatic direction, Bangladesh might consider a package of fiscal reforms. These could include phasing tariff and para-tariff rationalisation (TPR) to reduce the anti-export bias; automating value-added tax and duty-drawback processing through an Automated VAT and Duty Drawback System (AVDDS) to shorten refund lags; and publishing clear, sector-neutral rules of origin (ROO) for new exporters and Special Economic Zone (SEZ) tenants (Rodrik et al., 2004; UNCTAD, 2023; World Bank, 2024).

Standards and supplier capability: As a complementary approach, Bangladesh might consider establishing a national Testing–Inspection–Certification (TIC) system and deploying shared small and medium-sized enterprise (SME) traceability tools—such as open application programming interface (API) chain-of-custody modules—to lower fixed compliance costs as due-diligence pressures cascade to sub-suppliers (Fontana et al., 2024; UNCTAD, 2023). In parallel, policymakers could strengthen Special Economic Zones (SEZs) by embedding supplier-linkage key performance indicators (KPIs) and expanding bonded-warehouse access beyond ready-

made garments (RMG) to avoid enclave outcomes and crowd in more diversified foreign direct investment (FDI) (Ginting et al., 2025; UNCTAD, 2023; EPB, 2024).

Strengthen institutions and governance

The next phase of development will require more effective formal institutions to support a modern economy. Building on the concept of “good enough” governance that served in earlier years, Bangladesh must now enhance the rule of law, transparency, and bureaucratic efficiency (North, 1990; Acemoglu & Robinson, 2012). Key reforms include strengthening the regulation and oversight of the financial sector to ensure stability and better channel savings into productive investments. Judicial reforms and improvements in contract enforcement are needed to boost investor confidence. Anti-corruption efforts, such as digitising government services and procurement processes, can reduce opportunities for rent-seeking and enhance the business climate. Decentralising certain administrative functions could also make governance more responsive at local levels. While wholesale institutional change is difficult, targeted improvements in economic governance (e.g., customs administration, licensing, land registration) can yield significant dividends for growth. Over time, institutional development will support higher-quality FDI inflows, innovation, and more efficient resource allocation.

As implementation levers, Bangladesh might consider operationalising a functioning Special Economic Zone (SEZ) One-Stop Service (OSS) with time-bound approvals and piloting fast-track commercial benches (FTCB) for contract enforcement—interventions associated with deeper foreign direct investment and reinvestment in South Asia; in tandem, authorities could expand end-to-end electronic procurement (e-procurement) and publish service-level standards for customs, business licensing, and land mutation to curb discretion and shorten processing times (Tabash et al., 2024; World Bank, 2024; Transparency International, 2023).

Modernise infrastructure and embrace digital transformation

Continued investment in physical infrastructure—encompassing power, transportation, logistics, and urban facilities—is essential to sustain growth.

Bangladesh should prioritise completing mega-projects (such as energy plants, highways, and mass transit in Dhaka) that alleviate bottlenecks. Equally, the country should leverage the ongoing digital revolution. Expanding high-speed broadband access nationwide and investing in digital literacy will enable more people and businesses to participate in the digital economy. The government can pursue e-governance initiatives to streamline public services (e.g., digital land records, online business registration), which would improve efficiency and transparency (World Bank, 2024). Support for tech startups and ICT parks can stimulate entrepreneurship in software, IT services, and creative industries. As automation and Industry 4.0 technologies advance, Bangladesh's manufacturing sector should be supported in adopting new technologies to remain competitive.

At a practical level, Bangladesh might consider rolling out national electronic invoicing (e-invoicing) and interoperable digital payments to compress transaction costs and accelerate exporter refunds, and deploying open-application programming interface (API) traceability modules to help small and medium-sized enterprises (SMEs) meet chain-of-custody requirements (Uddin, 2023; Bhuiyan et al., 2023; World Bank, 2024). At the plant level, authorities could encourage early adoption of Manufacturing Execution Systems (MES), Enterprise Resource Planning (ERP), sensor-based quality control, and basic automation, which are consistent with observed upgrading paths (Mim et al., 2024).

Targeted Skill Development Programmes (TSDP): To align capabilities with diversification, Bangladesh might launch a National Skills Acceleration Programme (NSAP) that integrates modular technical and vocational education and training (TVET), Recognition of Prior Learning (RPL), and apprenticeship training schemes (ATS) aligned to electronics, pharmaceuticals, footwear/leather, and information and communication technology (ICT), with explicit pathways for women into supervisory and technical roles (Heath & Mobarak, 2015; ILO, 2018, 2023; World Bank, 2024).

Ensure inclusive and equitable development

To maintain social cohesion and maximise human capital, Bangladesh must ensure that the gains from growth are widely shared. Policymakers

should address urban–rural disparities by improving rural infrastructure, connectivity, and access to markets, thereby enhancing the integration of rural areas into the growth process. The creation of non-farm jobs in secondary cities and towns can alleviate pressure on megacities while providing rural migrants with livelihoods closer to home. Education and training systems need continued strengthening, with a focus on quality (not just enrollment) and alignment with market needs. The expansion of technical and vocational education will prepare young people for emerging sectors and technological changes. Gender inclusion is another priority: building on the success of female employment in garments, efforts should be made to open up higher-skilled and higher-paying occupations to women (e.g., in STEM, public service, and management). Removing barriers to female labour force participation—such as inadequate childcare, unsafe transport, or discriminatory norms—will boost growth and equity. Additionally, improving and expanding social safety nets is important for protecting the vulnerable. Programmes like cash transfers, old-age pensions, or unemployment insurance (even if modest) can help reduce poverty and assist workers in managing the risks associated with transitions, such as job displacement due to automation or trade shocks. Bangladesh may consider introducing portable, identification-linked social protection (PSP) to support mobility in high-informality labour markets and to facilitate sectoral transitions (International Labour Organisation [ILO], 2018, 2023; United Nations Development Programme [UNDP], 2022). This could be complemented by investments in safe transport, childcare, and anti-harassment protocols to raise women’s participation in higher-skill segments (Heath & Mobarak, 2015).

Embed climate resilience and environmental sustainability

As one of the most climate-threatened nations, Bangladesh must mainstream climate adaptation and environmental management into planning (UNDP, 2022). This includes investing in resilient infrastructure (elevated roads, robust embankments, cyclone shelters) to withstand floods and storms, and integrating climate risks into urban planning (e.g., drainage improvements, restricting high-risk settlements). The country should also scale up its green initiatives—increasing the share of renewables in electricity and promoting energy efficiency in industry (e.g., waste heat recovery, green building

codes). The success of green-certified garment factories can be replicated in other sectors with appropriate incentives. Environmental regulations on air and water pollution must tighten as industry expands. As green industrial policy incentives (GIPI), Bangladesh might consider scaling a Green Refinancing Facility (GRF) for energy- and water-efficiency upgrades and rooftop solar; introducing performance-based resource-efficiency rebates (PRER) tied to independently verified savings; and funding cluster-level industrial symbiosis audits and services to address documented capability constraints (Hasan et al., 2023; Hossain et al., 2024; Baniya et al., 2021; UNCTAD, 2023). In parallel, authorities could pilot climate-ready industrial zones (CRIZs) with engineered drainage, flood defences, and early warning integration to protect assets and sustain compliance with emerging sustainability standards (Arfanuzzaman, 2024).

7. Limitations and Future Research

This study's descriptive-comparative design identifies structural trends but does not establish causal effects. The analysis is based on secondary data through 2024, and cross-country indicators (e.g., FDI, export composition, informality) can differ by source, timing, and methodology, which affects comparability. The selection of comparator economies is purposive rather than statistical, intended to illustrate contrasting development paths rather than to serve as a control group. Theoretically, the framework draws on structural transformation, institutional economics, and global value chains, but it does not fully capture firm-level dynamics or context-specific institutional bargaining.

Future research should use quasi-experimental designs with firm-level microdata to isolate the causal impacts of specific reforms (e.g., tariff rationalisation, green financing). More granular analysis of supply-chain compliance costs and climate adaptation needs at the industrial-zone level would further sharpen policy design in the post-LDC environment.

8. Conclusion

Bangladesh stands at a critical juncture. Having navigated the arduous journey from a war-ravaged, aid-dependent economy to a dynamic exporter with improving human development, it now faces the task of transforming

again—this time from a lower-middle-income manufacturer to a diversified, innovative, and resilient higher-income economy. The lessons from Bangladesh's experience affirm that development is a nonlinear, context-specific process: pragmatic and heterodox approaches (such as leveraging NGOs, tolerating imperfect institutions while focusing on outcomes) can yield results where textbook prescriptions might fail. Going forward, bolder reforms and a strategic vision will be required. By focusing on diversification, institutional modernisation, inclusive human development, and sustainability, Bangladesh can sustain its growth momentum and achieve its vision of becoming an upper-middle-income country in the next decade. With the right policies and collective effort, Bangladesh's story can evolve from an unexpected success into a model of inclusive and transformative development in the Global South.

Credit author statement

Tanseer Ahamed: Design of Methodology, Formal Analysis, Writing—original draft. **Dr. Mofijul Hoq Masum:** Conceptualisation, Design of Methodology, Review.

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