

ISSN : 3008-041X

Volume II • Number I • October 2025



DCCI Journal of

Business and Economic Policy (DJBEP)



ঢাকা চেম্বার অব কমার্স অ্যান্ড ইন্ডাস্ট্রি

65-66, Motijheel, Dhaka-1000
www.journal.dhakachamber.com

An Official Journal of
Dhaka Chamber of Commerce & Industry (DCCI)

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Editorial Note

Welcome to the second edition of the DCCI Journal of Business and Economic Policy (DJBEP), an avenue through which research, analysis, and discussion take place on matters that influence business and economic policy of Bangladesh. In the current evolving global economic order where uncertainty and rapid change are the new reality, both the public and the private sector have to be able to adjust to a changing reality where research-based information and technology-led innovation are becoming the key to a more complex environment.

Evidence, new knowledge and informed debate are needed in the policy formulation and in economic reform. With this consideration, Dhaka Chamber of Commerce & Industry (DCCI) now takes the opportunity to introduce research-based journal for the second edition as a realm of developing effective research and advancing knowledge that allows addressing challenges and exploiting opportunities emerging from the contemporary economy of Bangladesh and the global market in general. The Research & Development and Policy Advocacy department of DCCI with more than 4 decades of experience has been a consistent source of fact-based information, policy formulation, innovation, and strategic policy advocacy for the business community. This journal is committed to undeterred adherence to enhance competitiveness and sustainable growth.

DJBEP is expected to be used by policymakers, business leaders, researchers and academics who are seeking knowledge to comprehend the forces transforming the economy and take part in evidence-based policy intervention. It is a crucial platform for communicating practical ideas, new visions and novel solutions that are pertinent to national interest and international trend in a bid to revitalize resilience and development in Bangladesh.

The current edition raises some crucial national and global issues, such as the impact of U.S. tariffs on Bangladesh's exports, tariff protection as a bottleneck to export diversification, the implications of LDC graduation to the RMG sector, the interrelationship between political stability and economic growth, the involvement of the SMEs in capital market, the policy gaps for NPLs and women in politics and development. Together, all these contributions provide an insight into the dynamics that define the future of Bangladesh and reinforce the mission of DCCI to empower and provide business to strengthen its economic foundation and provide economic progress.

The second edition of DJBEP is the result of an interactive effort that brought together the contributors who have the vision of developing economic thinking and shaping policy action. As a platform, DJBEP will keep its focus on initiatives that enhance competitiveness, resilience and sustainable development in Bangladesh and other countries in the days to come.

We would gladly invite our readers to read this edition and make a contribution to the discussion it provokes. Collectively, we can map our way to a strong, inclusive and successful economy by thinking together and acting perceptively.



Dr. Zaidi Sattar
Chief Editor

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US Tariff Imposition in Bangladesh: Opportunities and Way Forward

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Abstract

The study explores the wide-ranging impact of recent U.S. tariff impositions on Bangladeshi exports, with a focus on the Ready-Made Garment (RMG) sector, which accounts for over 87% of the country's total export. Many studies have assessed the economic effects of tariff and policy responses; they have often overlooked the strategic opportunities that such disruptions may present. This research fills that gap by adopting a mixed-methods approach, combining quantitative data from 108 exporters and importers with qualitative insights from interviews with government officials, trade bodies, and think tanks. The findings identify major challenges, such as high logistics cost, non-tariff barriers, labor and environmental compliance issues, and regulatory uncertainty. Meanwhile, they also reveal opportunities for export diversification in sectors like pharmaceuticals, ICT, agro-products, leather goods, and sustainable branded items, alongside prospects for growth in digital trade and bilateral engagement through mechanisms like TICFA. The study recommends strengthening trade diplomacy, advocating for GSP reinstatement, modernizing trade infrastructure, and aligning domestic regulations with global standards to ensure competitiveness in post-LDC graduation period.

Keywords: U.S. Tariff Impact, Bangladesh Export Strategy, Trade Diversification, Bilateral Trade, Negotiation, Market Access Barriers

1. Introduction

Bangladesh's economic growth over the past few decades has been significantly driven by its export-oriented industries, particularly the Ready-Made Garment (RMG) sector. This sector has not only been a major source of foreign exchange but has also played a pivotal role in employment generation, especially for women. The United States stands as one of Bangladesh's primary export destinations, with the RMG sector contributing over 87% of Bangladesh's total exports. However, the trade relationship has faced challenges, notably the imposition of high tariff by the U.S. It was reported that Bangladesh paid the highest average tariff rate of 15.2% on its exports to the U.S., primarily due to its concentration on apparel products (Textile Focus, 2023).

In 2025, the U.S. introduced an additional 10% baseline tariff on imports from several countries, including Bangladesh (Saif, 2025). This move has intensified concerns about the competitiveness of Bangladeshi products in the U.S. market, potentially leading to reduced demand and job losses in the RMG sector. The imposition of these tariffs comes at a time when Bangladesh is already grappling with trade inefficiencies. Reports indicate that exporters face significant delays, with border and documentary compliance taking approximately 300 hours, substantially higher than regional counterparts (Light Castle, 2023).

Despite these challenges, Bangladesh has opportunities to diversify both its export markets and products. Efforts to increase imports from the U.S., such as agreements to import liquefied natural gas and agricultural products, demonstrate Bangladesh's commitment to strengthening bilateral trade relations. In light of the evolving trade dynamics, it is imperative to assess the challenges posed by U.S. tariff impositions and explore potential strategies for Bangladesh to navigate this complex landscape.

2. Literature Review

The recent imposition of US tariffs on Bangladeshi exports has triggered a multidimensional challenge for the country's economy including declining exports, particularly for RMG sector. Initially, the increase in tariffs, rising sharply 37% from a prior average of 15%, has raised alarms regarding the cost competitiveness of Bangladeshi products in the US market, a key export destination (Eurasia Review, 2025; Textile Focus, 2025). As Bangladesh stands as the third-largest global apparel exporter, this move has implications not only for trade volume but also for employment and foreign currency earnings.

Analysis by the Centre for Policy Dialogue (CPD) estimates that the US may collect over \$1 billion in tariffs on Bangladeshi goods if the new measures are enforced fully, of which a large share would come from apparel exports (CPD, 2025; Ittefaq, 2025). This has spurred calls for Bangladesh to monitor its export competitiveness more vigilantly, particularly in comparison to regional peers such as Vietnam, Cambodia, and Thailand, while engaging the US under platforms like the Trade and Investment Cooperation Forum Agreement (TICFA) (CPD, 2025).

Moreover, these new tariffs exacerbate existing challenges in the export ecosystem, such as delayed shipments due to inefficient customs procedures and non-tariff barriers. These issues have been well documented. For example, Rahman and Strutt (2021) found that customs-related Non-

Tariff Measures (NTMs) in Bangladesh continue to restrict trade flows despite formal tariff reductions, reducing overall efficiency. Sattar and Rahman (2016) further argued that inconsistencies in the country's tariff regime create unpredictable environments that hinder exporters' long-term planning.

The broader effects of trade liberalization and tariff policy have also been evaluated. Hoque and Yusop (2012) found that reducing tariff and non-tariff barriers had a significantly positive effect on Bangladesh's export growth. Similarly, Jalil et al. (2016) and Jalil et al. (2016) using a Computable General Equilibrium (CGE) model, concluded that liberalized trade policies led to increased income and output across various sectors of the economy. However, these benefits are contingent upon effective trade facilitation, which remains a concern.

Adding further insight, Rogers et al. (2024) examined the impact of US tariff policies using firm-level data. They found that the 2018 US tariffs, aimed at protecting domestic industries, had a negative effect on firm value, including adverse consequences for firms both upstream and downstream in the supply chain. This underscores the systemic nature of trade restrictions and their potential to disrupt not only exporters but also their global supply networks.

In terms of opportunities, the shifting geopolitical landscape has created space for strategic trade realignment. The Bangladesh Bank noted that retaliatory tariffs on China may present new export opportunities for Bangladesh as global buyers diversify sourcing (Financial Express, 2025). However, experts warn that unless Bangladesh proactively reduces its own tariffs on US goods, especially compared to India and Pakistan, it risks becoming less attractive to American buyers (RMG Bangladesh, 2025).

To mitigate these risks, Bangladesh has proposed trade facilitation measures such as duty-free access for garments made from American cotton, a move that could create a win-win dynamic for both partners (Textile Focus, 2025). In addition, academic and policy commentators emphasize the need for export diversification. Relying excessively on the US and the RMG sector leaves Bangladesh vulnerable to shocks. Expanding market access to the EU, Gulf countries, and Japan while investing in product innovation, compliance, and sustainable practices could bolster resilience (CPD, 2025; Textile Focus, 2025). A strategic pathway lies in Free Trade Agreements (FTAs). Faruky and Uddin (2024) noted that while FTAs could offer long-term market stability, Bangladesh faces institutional capacity constraints and must approach negotiations carefully to ensure reciprocity and avoid trade imbalances.

2.1 Research Gap and Conceptual Framework

Despite a growing body of literature examining the implications of US tariff measures on Bangladesh, notable gaps remain. Most existing studies primarily focus on the immediate economic impacts of tariff hikes or address specific trade policy responses in isolation. There is limited exploration of the potential opportunities that may arise from this shifting global trade environment, such as supply chain diversification, reduced dependency on China, and prospects for enhanced bilateral trade negotiations or free trade agreements (FTAs). Moreover, the literature lacks strategic foresight in proposing actionable, forward-looking policy frameworks to help Bangladesh navigate global trade uncertainties. This is particularly important as the country

approaches graduation from LDC status, a transition that will significantly reshape its preferential market access and trade dynamics. Addressing these research gaps is crucial to support evidence-based policymaking and strengthen Bangladesh's long-term trade resilience and competitiveness.

The conceptual foundation of this study rests on the theoretical intersection of international trade theory, particularly the neoclassical and new trade theories, and the political economy of protectionism, which posit that tariff policies distort comparative advantage, reduce allocative efficiency, and adversely impact export performance (Krugman, 1979; Bhagwati, 1988). Within this framework, the imposition of recent U.S. tariffs on Bangladeshi exports, particularly on the RMG and Apparel sector, represents both a direct trade shock and a broader structural challenge to the country's export-led growth model. Tariff increases, by eroding price competitiveness, directly affect foreign exchange earnings, employment, and supply chain dynamics. Moreover, these trade barriers exacerbate existing inefficiencies such as non-tariff measures, customs delays, and regulatory unpredictability (Rahman & Strutt, 2021), thus reinforcing Bangladesh's vulnerability as a single-sector, single-market-dependent exporter.

While empirical literature has demonstrated that trade liberalization and tariff reduction contribute positively to economic output (Hoque & Yusop, 2012; Jalil et al., 2016), the reverse implication of protectionism suggests contractionary effects unless mitigated through strategic responses. These include trade diversification, institutional reform, and proactive engagement in bilateral mechanisms such as TICFA and potential FTAs. This study conceptualizes tariffs not merely as policy tools but as systemic disruptors with multi-layered consequences economic, institutional, and geopolitical, requiring a comprehensive policy response that aligns with Bangladesh's post-LDC graduation trajectory and long-term economic resilience.

3. Research Methodology

This research is explanatory in nature and was used to investigate and understand the challenges arising from the imposition of US tariffs on Bangladeshi export. The study also aimed to explore the opportunities and suggest a way forward for Bangladesh in response to the US tariff imposition.

To get sufficient answers in line with the research question of the study, this study adopted a mixed methodology combining both quantitative and qualitative research approaches. The research utilized a descriptive survey for the quantitative phase and in-depth interviews (IDIs) for the qualitative phase, along with secondary data review. The study covered key export-oriented sectors such as Ready-Made Garments, Textiles, Leather, Footwear, Pharmaceuticals, Information and Communication Technology (ICT), Home Textiles and Furnishings, Agri and Agro-processing, Jute and Jute Goods, Ceramics and Tableware, Light Engineering and Electrical & Electronics Goods.

Non-probability convenience sampling was used to collect quantitative data from 108 businesses from different sectors. For the qualitative survey, 16 In-depth Interviews (IDIs) were conducted using four unstructured interview schedules. The IDIs included relevant stakeholders such as high government officials of Ministry of Commerce, Bangladesh Trade and Tariff Commission (BTTC), Export Promotion Bureau (EPB). From the Private Sector, IDIs were taken

from the relevant representative of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh Association of Pharmaceutical Industries (BAPI), Bangladesh Jute Mill Associations (BJMA) and Importer and Exporter of Knitwear, Agro and Chemical Industries. On the other hand Think Tanks and Research organization provided their IDIs. DCCI R&D team designed the survey forms applying complex algorithms for creating an interactive process of checking data validity. Data were cleaned and analysed using MS Excel and SPSS (Statistical Package for the Social Sciences), a software package used for the analysis of statistical data. The findings were further validated through in-depth interviews (IDIs). The study took around one month to complete.

4. Analysis and Findings

This section presents the findings related to the overall objective of the study, which is to identify the challenges arising from the imposition of US tariffs on Bangladeshi export. The aim is to explore the opportunities and suggest a way forward for Bangladesh in response to the US tariffs imposition. The data collection timeline for this research was from April 29, 2025, to May 17, 2025.

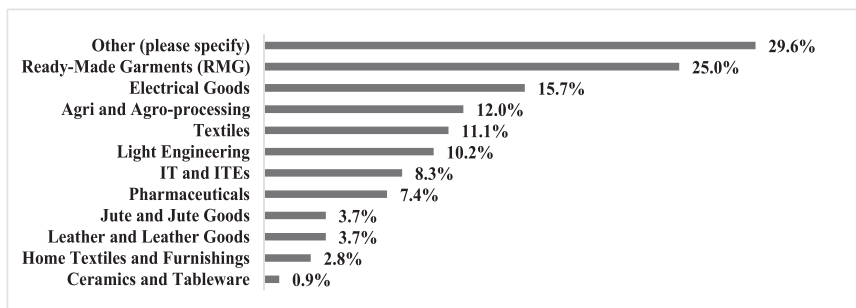
4.1 Descriptive analysis for identifying the challenges

4.1.1 Findings from the quantitative survey

4.1.1.1 Sectors belong to the Business in international trade

Quantitative data from 108 businesses from different sectors were collected in this survey. The international trade landscape is significantly shaped by a diverse range of business sectors. The RMG and Apparel sector leads with a substantial 25.0% contribution, followed by Electrical Goods at 15.7%, and Agri and Agro-processing at 12.0%. Other notable contributors include Textiles (11.1%), Light Engineering (10.2%), and IT and ITEs (8.3%). Sectors like Pharmaceuticals (7.4%), Leather and Leather Goods (3.7%), Jute and Jute Goods (3.7%), and Home Textiles and Furnishings (2.8%) play smaller yet important roles. Ceramics and Tableware contribute the least at 0.9%.

Figure 1: Business scenario in international trade



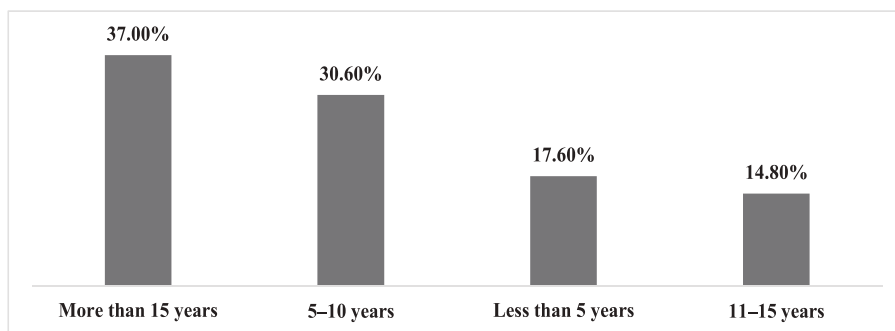
Source: DCCI Survey on US Tariff Imposition (2025)

In addition, 29.6% respondents who chose ‘others’ as an option were asked to specify the sectors, they might belong to. From their feedback, a list of other sectors is identified like Aeronautical Equipment, Artificial Marble Export, Automobile, Battery & IPS, Beauty Products, Chemicals, Contractor Services, Cosmetics and Personal Care, Diesel Engine Generators and Solar Panels, Equipment Manufacturer and Niche Engineering Service Provider, Handicrafts, Hospitality Machines & Chemicals, Imported Car Accessories, Imported Spices, Lentils, Rice, and Wheat, IoT (Internet of Things), IT Business, Machinery and Equipment for the Printing and Packaging Industries, Printing Equipment Supplier, Manufacturing, Motorcycles and Motor Parts, Paper Packaging & Packaging Technology, Plastics, Thread Manufacturer (primarily imports raw materials like yarn, dyes, and chemicals), Travel Agency and Water Filters.

4.1.1.2 Year of experience in international trade

The distribution of experience levels in international trade reveals a workforce with a strong foundation of seasoned professionals. A significant 37.0% of individuals have more than 15 years of experience, indicating a mature and knowledgeable segment. This is followed by 30.6% with 5–10 years of experience, reflecting a solid mid-level presence. Meanwhile, 14.8% have 11–15 years of experience, and 17.6% are relatively new to the field with less than 5 years. This mix suggests a healthy balance of expertise and emerging talent, supporting both innovation and continuity in international trade practice.

Figure 2: Sectors belong to the international trade

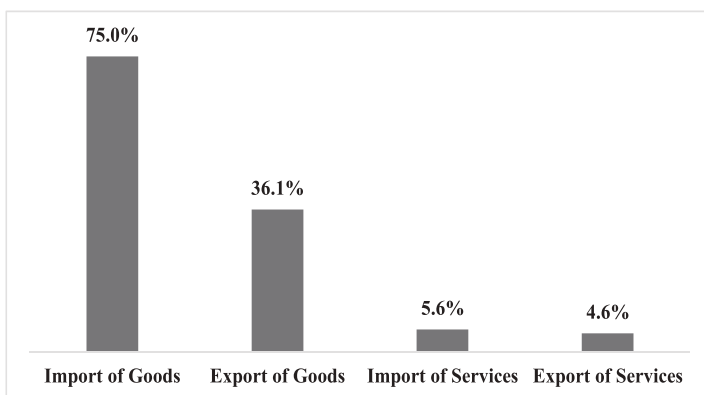


Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.3 Nature of the business

The nature of business activities in international trade is predominantly focused on the import of goods, which accounts for a substantial 75% of operations. This is followed by the export of goods at 36.1%, indicating a strong engagement in outbound trade as well. In contrast, import of services and export of services represent much smaller shares, at 5.6% and 4.6% respectively. This distribution highlights a trade environment heavily oriented toward tangible goods, with relatively limited involvement in service-based trade activities.

Figure 3: Business activities in international trade

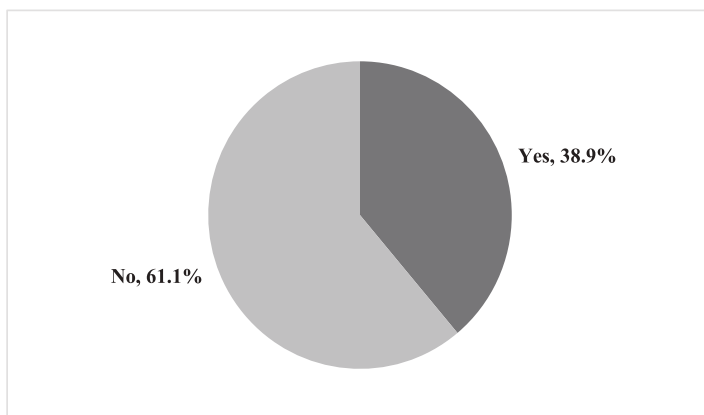


Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.4 Export or import goods or services to the United States

Only 38.9% businesses reported that they currently export or import goods or services to/from the United States while most (61.1%) of the businesses reported that they do not have business.

Figure 4: Businesses with the United States



Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.5 Goods or services that are exported to the US

Businesses export a variety of goods and services to the United States, including artificial marble stone and ceramics. The clothing and home textiles sector are a major contributor, with garments for men, women, boys, girls, and babies ranging from basics to high fashion, casual wear, active wear, and work wear. Other exported items include hats and caps; knit products such as T-shirts, polo shirts, and leggings and sweaters like cardigans and pullovers. The pet food category, including dry dog food and products such as bully sticks, also features prominently. Additionally,

exports include T-shirts, hoodies, denim pants, joggers, socks, uniforms, caps, towels, wipers, and rags.

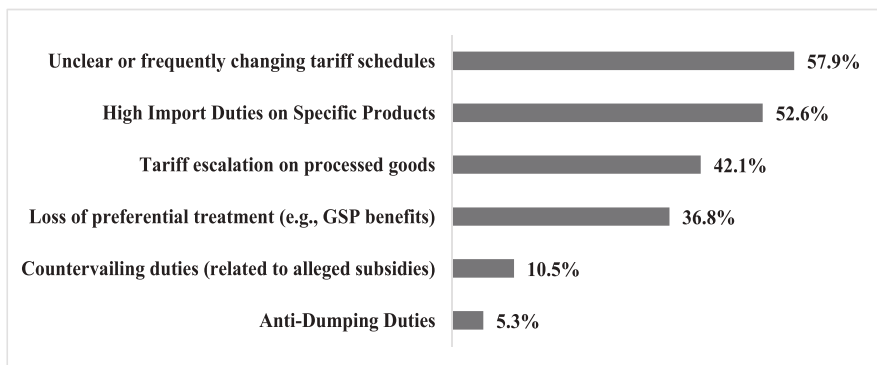
4.1.1.6 Current US tariff rate imposed on the Export Goods/services

The current tariff rates imposed by the United States on exported goods and services from various sectors show significant variation. For general goods, the tariff rates range broadly from 7.5% to 38%. The apparel sector experiences an average tariff of around 11.56%, whereas household textile products (including towels, bed sheets, and curtains) typically incur tariffs between 6% and 12%, depending on the specific item.

4.1.1.7 Tariff barriers faced when dealing with the US market

Tariff barriers encountered in the U.S. market present significant challenges for international traders. The most commonly reported issue is unclear or frequently changing tariff schedules, affecting 57.9% of respondents, followed closely by high import duties on specific products at 52.6%. Tariff escalation on processed goods is also a major concern, cited by 42.1%, while loss of preferential treatment, such as the withdrawal of GSP benefits, impacts 36.8%. Less frequently reported but still notable are countervailing duties related to alleged subsidies (10.5%) and anti-dumping duties (5.3%). This data highlights the complexity and unpredictability of tariff structures in the U.S. market, which can hinder trade efficiency and strategic planning.

Figure 5: Tariff barriers with the US market



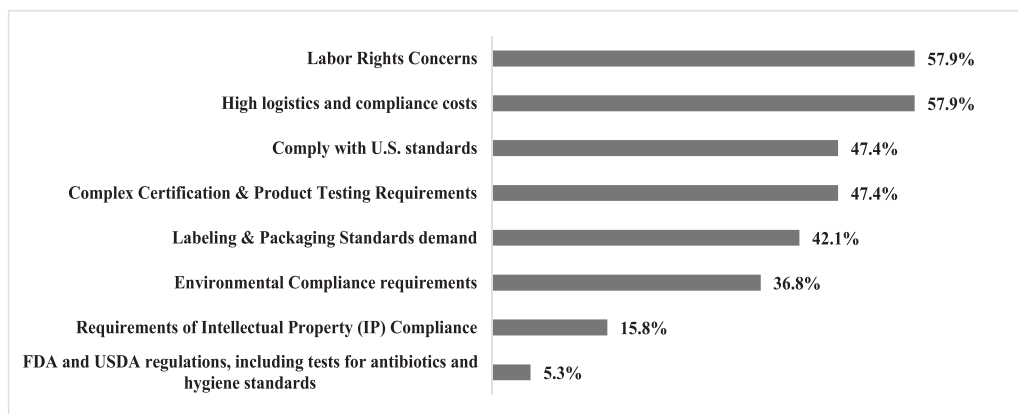
Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.8 Accessing the U.S. market

Non-tariff barriers pose significant challenges for exporters accessing the U.S. market. The most frequently encountered issues include high logistics and compliance cost and labor right concerns, each reported by 57.9% of respondents. Complex certification and product testing requirements and the need to comply with U.S. standards were also major hurdles, both cited by 47.4%. Additionally, labelling and packaging standards (42.1%) and environmental compliance requirements (36.8%) add to the regulatory burden. Less commonly reported but still impactful are Intellectual Property (IP) compliance requirements (15.8%) and FDA/USDA regulations,

including hygiene and antibiotic testing (5.3%). These findings underscore the multifaceted nature of non-tariff challenges, which can significantly affect market entry and operational efficiency.

Figure 6: Non-tariff barriers to the U.S. market



Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.9 Goods or services imported from the US

The following goods and services are imported from the United States: Air Conditioners(AC), aeronautical equipment, agro and agricultural products, air compressors, and beauty products. Other significant imports include chemicals, cotton, electronic goods, water filters, and IT-related products. Additionally, jute and jute goods, medical equipment and related products, as well as pharmaceutical goods, are also imported.

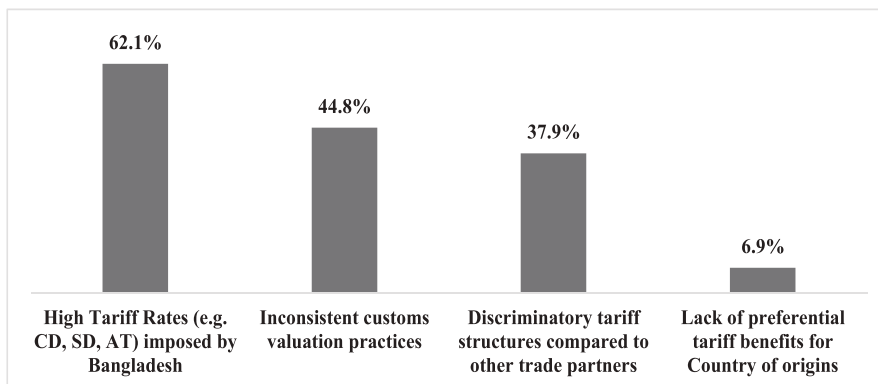
4.1.1.10 Current US tariff rate imposed on the imported Goods/Services

The most frequently cited rate ranges from 10% to 15%. Higher rates such as 27%, 37%, 68%, and even 74% were also reported, indicating that some goods face significantly steeper tariffs. A few responses noted extreme cases like 90%. Additionally, 0% tariffs suggest that some products may be exempted. This distribution highlights the variability of U.S. tariff applications across different goods and services.

4.1.1.11 Tariff barriers faced when importing from the US

Importers in Bangladesh face several tariff-related challenges when sourcing goods from the U.S. The most significant barrier is the imposition of high tariff rates such as Customs Duty (CD), Supplementary Duty (SD), and Advance Tax (AT), reported by 62.1% of respondents. Additionally, inconsistent customs valuation practices affect 44.8%, creating uncertainty in cost assessment. Discriminatory tariff structures, where the U.S. is treated less favourably compared to other trade partners, impact 37.9% of importers. A smaller portion, 6.9%, cited the lack of preferential tariff benefits based on the country of origin. These findings highlight the need for more transparent and equitable tariff policies to facilitate smoother trade flows from the U.S. to Bangladesh.

Figure 7: Tariff barriers in importing from the US

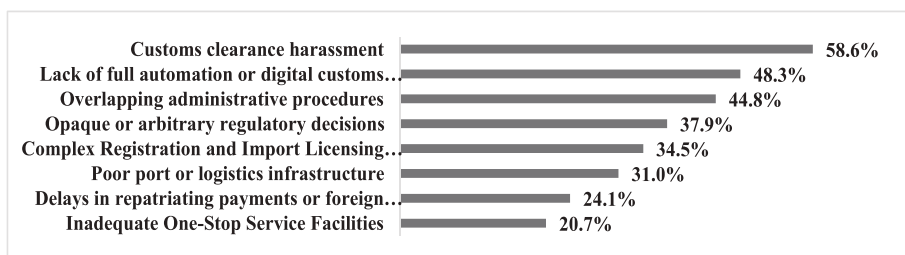


Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.12 Non-tariff barriers faced when importing from the US

Importers in Bangladesh face a range of non-tariff barriers when dealing with goods from the U.S., with customs clearance harassment being the most frequently reported issue, affecting 58.6% of respondents. Lack of full automation or digital customs processing (48.3%) and overlapping administrative procedures (44.8%) also significantly hinder efficient trade operations. Additionally, opaque or arbitrary regulatory decisions impact 37.9%, while complex registration and import licensing procedures affect 34.5%. Other notable challenges include poor port or logistics infrastructure (31.0%), delays in repatriating payments or foreign exchange approvals (24.1%), and inadequate one-stop service facilities (20.7%). These barriers collectively highlight the need for streamlined, transparent, and digitized trade facilitation mechanisms to improve import efficiency from the U.S.

Figure 8: Non-tariff barriers in importing from the US



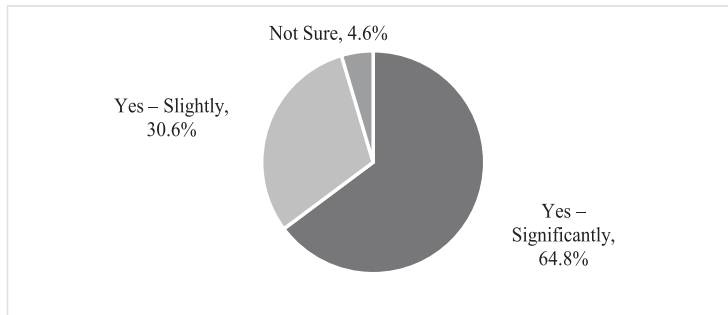
Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.13 The recent US tariff imposition impacted the country's trade environment

The recent imposition of U.S. tariffs has had a noticeable impact on the country's trade environment. A significant 64.8% of respondents reported that the tariffs have affected trade substantially, while another 30.6% acknowledged a slight impact. Only 4.6% were not sure about the effects. This overwhelming majority indicates that the tariff changes have disrupted trade

dynamics, likely influencing export competitiveness, cost structures, and overall market access strategies.

Figure 9: US tariff impact

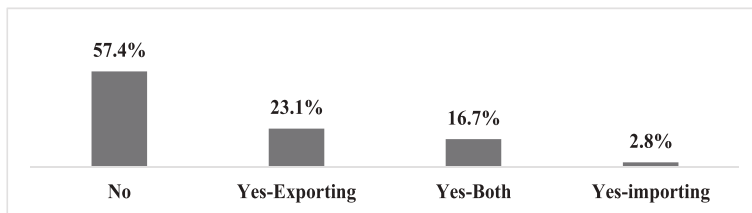


Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.14 Opportunities for importing or exporting goods or services from/to the US

If the proposed U.S. tariff rate is implemented, the outlook for trade opportunities appears limited. A majority of 57.4% of respondents believe there would be no opportunities for importing or exporting goods or services under the new tariff regime. However, 23.1% see potential for exporting, while 16.7% anticipate opportunities in both importing and exporting. Only 2.8% foresee prospects solely in importing. This suggests that while some businesses remain optimistic about some opportunities, the overall sentiment reflects concern about the restrictive impact of the proposed tariffs on bilateral trade.

Figure 10: Tariff and business opportunities with US



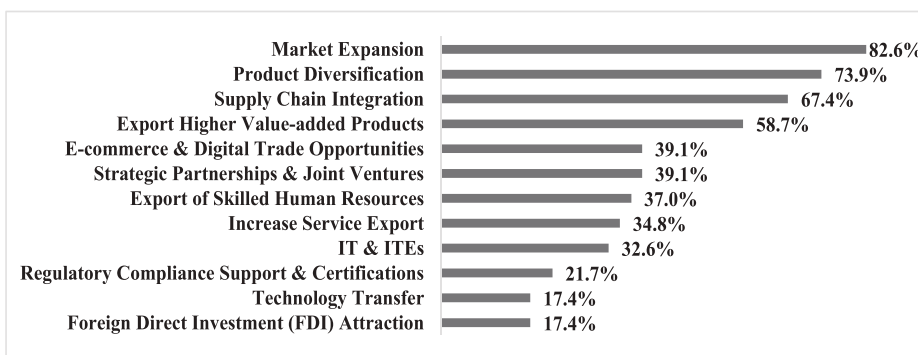
Source: DCCI Survey on US Tariff Imposition (2025)

4.1.1.15 Opportunities (both for export and import) in the US Market

The U.S. market presents a wide array of opportunities for both import and export activities. The most prominent is market expansion, identified by 82.6% of respondents, followed closely by product diversification at 73.9%, and supply chain integration at 67.4%. Additionally, 58.7% see potential in exporting higher value-added products, while strategic partnerships and joint ventures and e-commerce & digital trade each appeal to 39.1%. Opportunities also exist in exporting skilled human resources (37.0%), increasing service exports (34.8%), and the IT & ITes sector (32.6%). Though less frequently cited, regulatory compliance support (21.7%), technology transfer, and

foreign direct investment (FDI) attraction (both 17.4%) also represent valuable prospects. These insights reflect a dynamic and multifaceted potential for growth in the U.S. market across goods, services, and strategic collaborations.

Figure 11: Opportunities in the US market



Source: DCCI Survey on US Tariff Imposition (2025)

4.2 Descriptive analysis for exploring the opportunities in US Market

To strengthen US-Bangladesh trade relations, Bangladesh should intensify government-to-government dialogues, advocate for tariff reductions (especially on RMG), pursue product-specific zero-tariff agreements, and propose a FTAs/PTAs/EPAs, while highlighting its low import duties on US goods to seek reciprocity. Export diversification beyond RMG into ICT, pharmaceuticals, agro-products, ceramics, and handicrafts is essential, alongside promoting value-added exports and sector-specific targets. Import strategies should focus on essential US goods like agri-tech while discouraging non-essential imports and addressing tariff disputes. Attracting US FDI requires developing SEZs, offering tax incentives, and improving infrastructure, customs, and governance. Branding efforts such as “Made in Bangladesh” campaigns and digital trade promotions must be expanded.

Compliance with labor, safety, and environmental standards, and implementing a Single Window for customs, will enhance investor confidence. Strategic research on tariffs, GSP, and alternative manufacturing routes should inform policy. Collaboration with trade bodies and B2B platforms can boost engagement, while legalize digital remittance and expand formal banking for service exports is vital. Exploring new markets like Japan, Australia, and Africa can reduce overdependence on the US and EU. Tariff conflicts should be leveraged for reform, supported by benchmarking successful peers. A transparent, investor-friendly climate, simplified business processes, and active use of TICFA can drive reform. Bangladesh should also seek five-year duty-free access, strengthen trade facilitation and OSS platforms, support SMEs with training and US-specific services, and build a mutually beneficial trade environment by addressing labor, digital trade, and policy concerns with flexibility and accountability.

5. Major findings from the IDIs

5.1 *Impact of Recent U.S. Tariffs on Bangladesh's Export and Import Sectors*

Tariff incidence on Bangladeshi exports to the U.S. ranges from 4% to 38%, complicating pricing negotiations despite an average rate of around 15%. While Bangladesh remains relatively competitive especially compared to peers like Vietnam and Cambodia who face even higher tariffs global buyers are consolidating their sourcing strategies, negotiating harder, and demanding better pricing. Export volumes have remained stable, but export values are increasingly volatile, making price competitiveness more critical than ever. The RMG sector, as Bangladesh's largest export to the U.S., is the most affected, while import-dependent industries such as electronics, machinery, and pharmaceuticals are facing rising input costs and supply chain issues. These tariffs are accelerating Bangladesh's urgency to prepare for its upcoming graduation from Least Developed Country (LDC) status. Even minor tariff hikes can trigger order cancellations or force exporters to reduce prices. Additionally, global supply chain disruptions are inflating raw material costs, even in sectors with limited direct U.S. imports. On a more positive note, IT-enabled services remain largely unaffected and show growth potential, while some pharmaceutical firms have successfully entered the U.S. market after securing ANDA approvals. However, rising production costs from tariffs threaten overall price competitiveness, and delays in consignment deliveries are already hampering export growth.

To mitigate these challenges, companies are diversifying into Latin America, Africa, and Southeast Asia to reduce reliance on the U.S. market. A continuation of this trend may lead to declining export volumes and hurt domestic production. Ceramic exporters, in particular, face uncertainty due to unclear tariff burden-sharing mechanisms, despite receiving a 6% export incentive. Notably, U.S. buyers are now shifting around 20% of tariff costs onto Bangladeshi exporters, highlighting the urgency for a more balanced trade policy. While Bangladesh is not directly targeted like China, shifting global sourcing strategies are creating ripple effects. Buyers are becoming increasingly cautious, demanding lower prices and faster deliveries, while exporters face growing competition from other nations expanding their market reach. Diversification is now a core strategy to reduce overdependence on the U.S. and EU markets. Nonetheless, some trade channels remain smooth, such as the continued import of maize seeds from the U.S. via India, which has thus far avoided major disruptions.

5.2 *Institutional Weaknesses and Policy Gaps*

Bangladesh's trade performance faces several structural and operational challenges. There is an over-reliance on a single export sector, primarily RMG and apparel and limited diversification both in products and markets. The absence of proactive trade policies, combined with inadequate infrastructure, hampers the country's ability to respond effectively to global trade disruptions. A comprehensive industrial policy is lacking, and Small and Medium Enterprises (SMEs) receive insufficient support to scale and compete internationally. Stringent U.S. regulations, such as FDA guidelines and Good Manufacturing Practices (GMP) certification, serve as non-tariff barriers, particularly affecting the pharmaceutical sector, which is striving for international certifications and technology adoption but continues to face regulatory hurdles. Regional market access for jute is constrained by India's anti-dumping policies.

Trade efficiency is further undermined by complex customs valuation, delayed clearance processes, rising logistics costs, and unreliable shipment timelines caused by global port congestion. Exchange rate volatility and delays in Letter of Credit (LC) settlements complicate procurement planning, while exporters often lack clear compliance guidance and designated contact points to resolve regulatory issues. In sectors like Agriculture, unclear certification requirements, for example, in maize exports, is disrupting trade. Additionally, a lack of transparency in tariff structures impairs cost forecasting and pricing negotiations. Lengthy investment approval processes further deter potential investors and slow trade responsiveness. Efforts to substitute high-tech inputs are proving difficult, hindering product diversification, and unresolved issues such as non-functional Central Effluent Treatment Plants (CETP) in the leather sector continue to limit its export potential.

5.3 Private Sector Initiatives to Overcome Challenges

Bangladesh is actively pursuing strategic approaches to enhance its export competitiveness and resilience. Efforts are underway to expand into new markets such as Canada, South Korea, and Eastern Europe, aiming to reduce dependency on traditional destinations. At the same time, there is a growing focus on promoting value-added production, including premium knitting, digital printing, and branded garments, to increase profitability and differentiate products globally. Maintaining a balance between low production cost and high-quality standards remain a priority. The jute sector, in particular, is targeting European and Middle Eastern markets, capitalizing on the rising global demand for eco-friendly products. To boost efficiency, industries are exploring technology upgrades, although access to capital remains a key constraint.

A strategic shift from low-end to high-end products is also underway to mitigate tariff vulnerabilities and enhance market positioning. Embracing digital transformation through AI-based planning and precision systems is gaining traction across sectors. Additionally, there is a strong commitment to sustainable production practices, with increasing adoption of renewable energy and eco-friendly operations to align with global environmental standards.

5.4 Taken initiative from the Government to overcome challenge

Bangladesh has implemented a series of short- and medium-term policy measures aimed at reducing the trade gap with the United States and strengthening its overall trade framework. These include tariff reductions and the introduction of zero import duties on an additional 100 U.S. items, on top of the 190 already covered. Targeted tariff adjustments are being developed in collaboration with the Bangladesh Trade and Tariff Commission (BTTC), which is also identifying low-impact U.S.-linked tariff lines for liberalization. The government is preparing to scale up imports of key U.S. goods such as cotton, soybean oil, and machinery. A Smooth Transition Strategy (STS) action plan is nearing completion to support the country's graduation from LDC status. Infrastructure development is ongoing in utilities, transport, and roads, while new SME-focused policies are being rolled out. Measures such as import duty cuts on raw sugar and proposed temporary tariff waivers for vulnerable industries, like small garment exporters, have been introduced alongside expanded export refinance schemes and duty drawback facilities.

To reduce dependence on the U.S., trade diversification is being prioritized through the promotion of high-value exports and local value-added production. BTTC provides data-backed sectoral guidance for trade negotiations, while the national budget supports increased R&D and market exploration. The Ministry of Commerce, Bangladesh is establishing a Trade Expert Pool (TEP), and bonded warehouse access is being extended to all export-oriented industries with at least 30% value addition. These government initiatives require active private sector collaboration. On the regulatory front, efforts are underway to streamline customs processes through full automation and the development of a National Single Window. A Trade Negotiation Division is being set up, and an Exit Policy is in progress. Port logistics and energy crisis management are being improved through EPB initiatives and negotiations with Middle Eastern countries, respectively. Online portals now issue required certificates from CCI&E and RJSC, while solar energy equipment enjoys duty-free import status. The NPL classification period has been shortened to improve credit flow. BTTC plays a pivotal role in monitoring global tariff trends, adjusting protective measures, and advocating for e-governance, simplified customs procedures, and infrastructure upgrades.

Tariff relief negotiations are ongoing, with the Commerce Adviser, GoB engaging with the USTR and leveraging TICFA to push for zero-duty access and reciprocal tariff arrangements. Bangladesh is seeking duty-free schemes for garments made from U.S. cotton and enhancing outreach through trade fairs and diplomatic engagement. Foreign missions are actively promoting top non-RMG exports, such as leather, handicrafts, and agro-products. Bilateral and multilateral negotiations are in progress, including FTAs with Vietnam, Canada, Singapore, South Korea, the UAE, Brazil, and Japan. Intellectual property rights (IPR) protections are being prioritized, with the Comprehensive Economic Partnership Agreement (CEPA) expected to be finalized within six months and an Economic Partnership Agreement (EPA) with Japan addressing IPR concerns in the pharmaceutical sector.

6. Conclusion and Recommendation

The findings of this study offer a comprehensive view of the international trade dynamics experienced by Bangladeshi businesses, especially in the context of trade with the United States. While the Ready-Made Garments (RMG) sector continues to dominate export activities, emerging contributions from sectors such as electrical goods, agro-processing, and IT & ITEs reflect a growing diversification of Bangladesh's trade portfolio. The significant proportion of experienced professionals within these sectors provides a solid foundation for managing and navigating complex global trade environments.

The findings underscore significant structural and regulatory challenges when engaging with the U.S. market. A majority of businesses cite high and unpredictable tariff rates (20%), withdrawal of preferential trade benefits, and procedural complexities as key impediments to trade. Non-tariff barriers, such as high compliance and logistics cost, certification difficulties, and environmental and labor rights requirements, further complicate access. On the domestic front, Bangladeshi importers face burdensome tariff structures and customs inefficiencies, which collectively hinder smooth bilateral trade flows.

Despite these barriers, the study reveals that businesses remain optimistic about the opportunities the U.S. market offers. Respondents recognize strong potential for market expansion,

product diversification, and value-added exports. Strategic partnerships, digital trade, skilled labor mobility, and growth in service exports are also seen as viable avenues for collaboration and development. This dual reality of persistent trade obstacles on one hand, and untapped opportunity on the other calls for comprehensive policy reforms, enhanced trade facilitation mechanisms, and stronger bilateral cooperation.

The trade relationship of U.S.-Bangladesh is at a pivotal juncture. While the current challenges pose real risks to growth and competitiveness, the strategic opportunities are equally compelling. With targeted interventions to address tariff and non-tariff barriers, and efforts to modernize trade infrastructure, Bangladesh can unlock greater value from this key bilateral relationship and position itself more competitively in the global trade ecosystem. Based on the findings and observations, this study proposes the following set of recommendations for exploring the opportunities and suggest a way forward for Bangladesh in response to the US tariff imposition.

- Eliminate redundant regulations (e.g., U.S. cotton fumigation) to ease imports.
- Reform import policy of Bangladesh in light of U.S. reciprocal tariffs.
- Recognize reciprocal obligations under GSP Plus and other trade schemes.
- Secure bilateral trade deals with non-traditional partners for strategic imports.
- Improve port infrastructure, customs clearance, and logistics infrastructure of Bangladesh.
- Form joint ventures with U.S. firms in energy-efficient distribution and technology transfer.
- Improve shipping, warehousing, and import logistics of Bangladesh.
- Promote digital infrastructure and workforce skill development to scale the IT sector.

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Bangladesh Trade Regime and the Elusive Quest for Export Diversification

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Abstract

Bangladesh's scheduled graduation from UN LDC status in November 2026 will narrow preference-based market access and expose structural vulnerabilities in an export model dominated by ready-made garments (RMG). This makes the quest for export diversification both essential and urgent. This paper traces the evolution of trade policy and shows that RMG expanded because firms could operate at world prices through bonded duty-free inputs, back-to-back trade finance, and expedited customs, while most non-RMG sectors remained constrained by complex protection, para-tariffs, slow refunds, and uneven standards capacity. At the same time, high tariff protection raised domestic prices and profitability (in domestic sales) well above what could be extracted out of exports, creating a persistent anti-export bias. The paper argues, with research evidence, that it is the protection regime that serves as a binding constraint to export diversification, not competitiveness. As LDC graduation narrows preference margins and tightens rules of origin across major markets, Bangladesh must shift from preference-driven to policy-driven competitiveness, which includes tariff rationalization as a priority. The paper recommends economy-wide replication of the RMG operating regime (rules-based duty-free world-priced imported inputs, standardized trade finance, digital and time-bound duty-drawback), tariff and protection rationalization to WTO-consistent neutrality, and upgrades to standards infrastructure, logistics, and trade finance. Externally, it prioritizes securing EU GSP+, targeted FTAs, and integration into Asian regional value chains. A sequenced 2025–2029 program can reduce concentration risk, broaden the export base, and convert graduation from a vulnerability into a platform for sustained, inclusive growth.

Keywords: LDC graduation, Export diversification, Export concentration, RMG, GSP+, FTA, Trade policy, Competitiveness

1. Export Diversification in Bangladesh's Development Context

In the decades following the 1990s, Bangladesh's export performance was exemplary, with double-digit annual export growth until 2022. However, this export performance was driven by a single product group, ready-made garments (RMG), which grew at an annual rate of 14.9%, resulting in the share of RMG in the export basket increasing from 40% in 1990 to 82% in 2022. Throughout the period, growth of non-RMG exports remained sluggish, averaging only 8.3%. Consequently, export concentration in one product group, RMG, became predominant, making the economy extremely vulnerable to external shocks. Furthermore, with LDC graduation approaching, the days of preferential trade privileges will soon be phased out. In the evolving trade landscape, export diversification has become a more pressing national imperative.

Current strategies for export diversification have proven ineffective. Despite more than two decades of government efforts, progress has been minimal, and export concentration has in fact deepened. Why? The focus of diversification strategies has been on "picking winners" by selecting thrust sectors, priority sectors, or development sectors for policy support, such as export subsidies, concessional tariffs, preferred access to banking and finance, and so on. These strategies have been futile, as evidenced by the lack of traction in raising the share of non-RMG exports in the export basket.

Some five decades from its membership in the Least Developed Country (LDC) group under UN classification by the Committee for Development Policy (CDP), if it happens¹, Bangladesh is set to graduate into a "developing country" category of the UN in November 2026. This comes after the country was already reclassified by the World Bank as a lower middle-income country (LMIC), -graduating from a low-income country (LIC)-underscoring the significant socio-economic progress made over the 50 years of independence. This achievement reflects durable progress through economic growth, poverty reduction, and structural transformation. But it comes at a time of turbulence in the global geopolitical and geoeconomic landscape. Global trade is showing signs of slowdown amidst the slide in globalization, rising protectionism and economic nationalism. Thanks to the emergence of "reciprocal tariffs" out of the USA, competitive advantage of nations is being upended by favorable trade deals with the largest consumer market of the world.

Professor Stephen Dercon of Oxford University described Bangladesh as a "success story of Development" (Dercon, 2022). Other scholars and development practitioners have also acclaimed Bangladesh's development progress, citing real GDP growth averaging 6% annually since 2000. Export growth, particularly led by the readymade garment (RMG) sector, has been acknowledged as the principal driver of this notable performance, with exports rising from about \$6 billion in FY2000 to \$45 billion in FY2025. RMG alone now accounts for roughly 84% of total export receipts, catalyzing large-scale job creation and women's participation and shifting the export basket decisively away from primary products such as jute, tea, and frozen fish toward manufacturing.

¹ Thanks to a concerted move by private sector market leaders, supported by most practitioners, the Bangladesh Government has sought a readiness review by the UN High Representative for LDCs which could eventually lead to a deferment of graduation by some years.

The policy architecture behind this performance was not accidental. The rise of the apparel sector was supported by a pragmatic policy package that offset the cost penalties of a highly protected tariff environment. The policy innovation in a high-tariff economy that drove the phenomenal growth of RMG exports was the allowance of duty-free imported inputs (world-priced inputs), back-to-back LC that aligned working capital with export orders, and green channel facilities for customs clearance. Alongside this was the broader trade reforms that liberalized imports by lowering tariffs and removing import bans, introduced exchange rate flexibility, and created more stable policies for exporters. Regrettably, these facilities were not applied to the non-RMG exports as a result of which export success was limited to the RMG sector till today, making export concentration a quagmire for policymakers of today.

While the RMG sector functioned in an environment that resembled free trade, most other sectors remained trapped under complex protection that made domestic sales more profitable than exports, coupled with administrative bottlenecks that reinforced an anti-export bias and stifled diversification.

This concentration creates vulnerability. Heavy reliance on a single category exposes Bangladesh to sector-specific shocks and to the erosion of preferential access as LDC-specific international support measures (ISMs), including duty-free/quota-free treatment with flexible rules of origin, are phased down after graduation. Although some markets will offer transitional arrangements or alternative schemes (e.g., standard GSP or conditional arrangements), margins will narrow, and compliance demands will rise. Two challenges need to be addressed: first, competitiveness must be preserved; second, it is imperative that Bangladesh diversify its export basket with higher-value RMG products and many non-RMG products that continue to be exported in small (and never expanding) volumes. The crux of the problem – anti-export bias of the protection regime – must be eliminated, standards and trade infrastructure established, complemented by strategically chosen trade agreements.

Against this backdrop, the paper juxtaposes LDC graduation within Bangladesh's long-run trade policy evolution, documents the scale and risks of export concentration, unpacks the drivers of RMG success, and assesses the implications of preference erosion across major markets. It then outlines a policy agenda to neutralize anti-export bias, replicate apparel's enabling conditions economy-wide, and align external market-access strategy with domestic capability upgrades, so that graduation becomes a platform for broader, more resilient, export-led growth and development.

2. Evolution of trade policy in Bangladesh²

Bangladesh's trade policy has alternated between two broad approaches. The first prioritizes the domestic market by encouraging local production to replace imports. The second looks outward, aiming to compete in global markets by promoting exports. The rationale for import substitution (IS) as a development strategy was based on its foreign exchange saving potential for economies that suffered from scarcity of foreign exchange and IS production was destined for the domestic market to replace competing imports. Research evidence is now plentiful showing that the IS strategy neither yielded rapid industrialization nor robust growth. On the other hand, there

² This section draws from Sattar (2024).

is overwhelming evidence confirming that economies embracing export-oriented strategies targeting external markets have grown rapidly. For many East Asian economies (e.g. China, S. Korea) export orientation was so intensive and industrialization was so rapid that they turned from poor countries to become developed economies within the span of under 50 years. There is no such historical evidence of rapid development or structural transformation of economies using the IS trade strategy.

Trade reform was not the immediate priority for Bangladesh at independence. An important exception, however, was the late-1970s policy package for garments that provided duty-free access to imported (i.e. world-priced) inputs and “back-to-back” letters of credit that allowed firms to finance those inputs against confirmed export orders. These measures gave apparel producers access to world-priced materials despite high tariffs elsewhere. Partnerships such as Dosh Garments’ collaboration with Daewoo, combined with quota access under the Multi-Fiber Arrangement, helped launch an export industry that eventually employed millions, many of them women.

Global thinking shifted in the 1980s. Import substitution fell out of favor as protected firms failed to become efficient. Export-led models in Korea, Taiwan, and later China and Vietnam demonstrated stronger results. Bangladesh did not immediately embrace this shift. Aside from easing imports of agricultural inputs and deregulating domestic farm markets, policy changes were limited. In consequence, growth remained subdued, and, by the close of the 1980s decade, the economy faced a growth and balance of payments crisis.

The 1990s was truly the golden period of trade policy developments when you consider the whole gamut of radical changes in the trade policy regime that were launched at the start of the decade. At the close of the 1980s the economy was literally in shambles. GDP growth was anemic, foreign exchange reserves had reached rock bottom, and financing of the BOP deficit was at a dead end. The confluence of an economic and political crisis (collapse of Ershad regime and onset of democracy) paved the way for radical reforms. The economic mess left by the departing regime had to be cleared first to restore the economy’s potential for growth and poverty reduction. The WB-IMF stepped in to save the situation with structural adjustment loans and BOP support on the back of wide-ranging trade policy reforms. Much needed structural reforms were introduced that included measures for restoring internal macroeconomic stability through fiscal conservatism, market orientation and deregulation of investment, privatization of state-owned enterprises, a la Washington Consensus. Compared to the previous 20 years, the trade policy changes undertaken could be termed radical indeed and included (a) sharp reduction and rationalization of tariffs, (b) significant import liberalization through removal of bans, quantitative restrictions (QRs) and import licensing (end of license raj), (c) move from fixed to flexible exchange rates, and (d) limited convertibility of the current account. This time trade liberalization during the 1990s was deep and transformative. In 2001, a seminal World Bank study on the impact of trade liberalization on growth and poverty (Dollar & Kraay, 2004) listed Bangladesh among the “globalizers” of the developing world, confirming through empirical evidence that these globalizers were experiencing rapid growth in incomes and declines in poverty.

The radical trade openness reforms (though incomplete) fueled rapid growth over the next decades. The pattern of growth by decade is summarized below (Table 1). Average decadal growth was stable and rising by roughly 1 percentage point every decade.

Table 1: Decadal GDP growth rate of Bangladesh

Decade	Avg GDP growth rate (%)	Increment in average growth
1972–1980	2.6	-
1981–1990	3.7	1.1
1991–2000	4.8	1.1
2001–2010	5.9	1.1
2011–2019	7.2	1.3
2020–2024	5.8	-1.4

Source: Estimates based on BBS data

Progress slowed in the 2000s. Although formal tariffs continued to decline and the last quantitative restrictions were converted into tariffs, new levies such as regulatory duty and the wider use of supplementary duties kept overall protection high. The tariff structure also maintained a steep escalation, with inputs taxed less than final goods. This raised effective protection for domestic sales and reduced the incentive to export for most non-garment producers. Garments remained an exception because its policy tools offset the tariff wall. Other tradable sectors faced slow and partial duty-drawback refunds, longer clearance times, limited access to finance, and weaker testing and certification capacity. Over time, a dual system emerged: near-free-trade conditions for 100% export-oriented RMG and a more protected, complex regime for others.

To expand non-RMG exports we do not need to search elsewhere. If the policies that fueled RMG exports could be replicated for non-RMG exports, that would be the best export diversification strategy. Any compliant producer should have reliable, rules-based duty-free access to imported inputs. Back-to-back financing should be standardized beyond apparel. Accredited firms should receive fast-track customs treatment tied to clear compliance benchmarks. Protection should be simpler and lower, with fewer bands and a timetable to phase out extra duties, while revenue is safeguarded by a broader, more digital VAT³. A more flexible and predictable exchange-rate regime should be encouraged, and the tariff reduction on import-intensive consumer products to relieve inflation, innovative border systems, higher standards and certification, and carefully selected trade agreements are supposed to back up these reforms. To the point, Bangladesh should evolve its one sector export model to a wider platform by having the same straightforward time-tested solutions implemented in the economy.

3. Current scenario of Bangladesh exports

Over the past 50 years, Bangladesh economy has undergone structural transformation that is consistent with the stylized facts of development – as industrialization progresses, the share of agriculture declines over time. At independence, agriculture made up 60 per cent of GDP, declining to 11% in FY2025, while industry compensated for this decline by rising from a mere 10% to 37% today, with the share of manufacturing in GDP at a record high of 25% in 2025, well above the LDC average of 15% and the global average of 16%, indicating a durable shift toward higher productivity activities (e.g. exports). Bangladesh remains far from any trend of premature deindustrialization.

³ Bangladesh's experience with sharp tariff reductions in the 1990s, accompanied by import liberalization, shows little negative impact on customs revenues (Sattar, 2017).

This transformation has been powered by exports, led overwhelmingly by ready-made garments (RMG). With only \$2 billion in FY1990, merchandise exports rose to \$45 billion in FY2025 (i.e. more than 20 times in 35 years). In the process, manufacturing exports replaced primary exports (jute, shrimps, tea and leather) that were the dominant items in the early years (Fig.1). This transformation, of course, was driven by the phenomenal expansion of RMG exports that grew from a minor player in 1983-84 (\$31.5 million, 4% of exports) to a mammoth export item and foreign exchange earner, at 84% of the total. With about 8% share of global exports, Bangladesh is now the second largest single-country exporter of readymade garments. The sector contributes about 15% to GDP and employs some 4 million workers (Fig.2), the majority of whom are women. The number of factories also rose from 1500 in 1994 to about 4500 in 2020. Some of the world’s most ecofriendly factories are now located in Bangladesh. As of August 2025, Bangladesh boasts having 258 LEED-certified green factories, with a significant portion holding the highest Platinum rating. 63 of the world’s top 100 LEED-certified factories are located in Bangladesh. Job creation has been broadly inclusive, drawing significant numbers of women and workers from poorer households and districts with lower levels of formal education (Kabeer & Mahmud, 2004; Matsuura & Teng, 2020).

Figure 1: The value of RMG exports and Bangladesh’s share of the global market since 1993

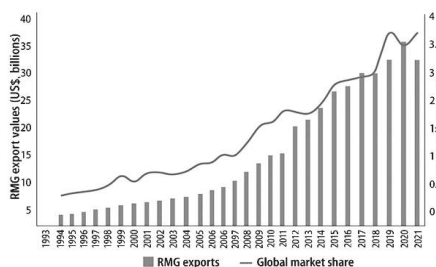
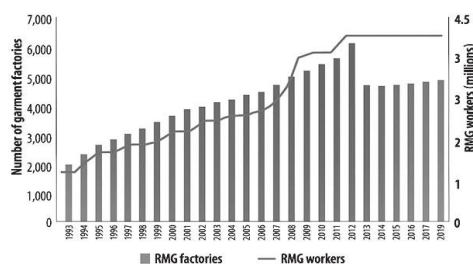


Figure 2: The number of RMG factories and workers since 1993



Source: Galal et al. (2025)

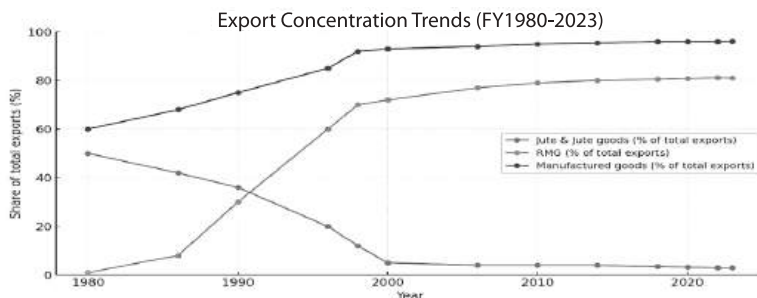
4. Export concentration in Bangladesh: scale and patterns

Bangladesh faces a persistent vulnerability as export earnings are heavily concentrated in ready-made garments (RMG), and that success has not been replicated elsewhere. Before the 1980s, a handful of primary commodities dominated exports. The takeoff of garments produced a brief window of diversification in the late 1980s, garment and non-garment exports were nearly equal (Figure 3), but the trajectories soon diverged. From the early 1990s to 2023, non-RMG exports rose from about US\$1 billion to just over US\$8 billion, while RMG exports jumped from roughly US\$1 billion to US\$47 billion. The result is one of the least diversified export baskets globally.

While the RMG exports have flourished, non-RMG exports have not done that well, leading to an increasing dominance of RMG exports in the Bangladesh export basket. Figure 3 captures the trend of export concentration in RMG over time. The share of RMG exports has risen from 30% in 1990 to 78% in 2000 and is now about 82% in 2023. If this trend toward concentration continues unabated, the share of RMG exports could hit 90% over the next five years.

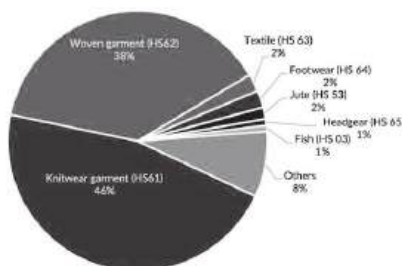
The product mix underscores this narrowness. Knitwear accounts for 44.6% of exports, woven garments 37.2%, home textiles 3.3%, footwear 2.3%, jute products 1.9%, and fish 1.0% (Figure 4). At the HS-6 level, the top 20 products make up around 80% of total exports, compared with 37–59% in China, India, Malaysia, and Viet Nam. The top 100 products exceed 90% of Bangladesh’s exports, versus 69% for China, 73% for India, and 84% for both Malaysia and Viet Nam. Moreover, RMG products dominate even within this top-100 set, signaling very high concentration not only across the whole basket but also within clothing itself.

Figure 3: Export concentration in Bangladesh



Source: Estimates from NBR data

Figure 4: Export composition of Bangladesh in 2022-23



Source: ERD (2024)

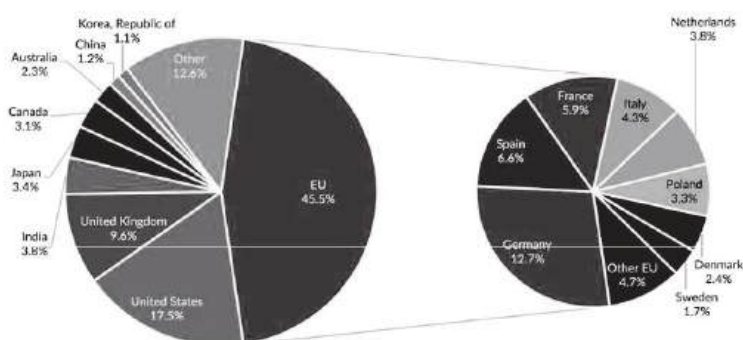
Bangladesh’s exports are concentrated not only by product but also by destination. More than four-fifths of shipments go to North America and the European Union (Figure 5). There has been some progress: since 2000, the share of the top 15 markets in total exports has fallen from nearly 90% to just over 82%. Even so, cross-country comparisons show Bangladesh remains more concentrated than several regional peers. Its top 10 destinations account for about 72% of total exports, versus 52% for India and 64% for Sri Lanka. Looking at the top 20 partners, Bangladesh’s concentration is roughly 90%, compared with 68% for India, 75% for the PRC, and 79% for Sri Lanka.

Estimates also point to sizable unrealized market potential, particularly in nearby large economies. Despite geographic proximity to India and China, Bangladesh under-exports to both (Kabir & Razzaque, 2020; Razzaque et al, 2020). The shortfall is estimated at around US\$6 billion to India and US\$2 billion to China. Under-exports extend to the wider neighborhood as well: the collective gap to South Asian partners is about US\$7 billion, and to Southeast Asia roughly US\$1.6

billion, together amounting to roughly one-quarter of Bangladesh’s current exports to these regions.

The policy challenge is clear. Geographical diversification currently falls short but the prospects are bright, particularly in penetrating markets in Southeast and East Asia. For the long-term, Asia in all its parts is expected to effectively match the markets of Europe and North America, since Asian economies are moving close to producing 50% of world output (in PPP terms) in the near future. Targeting products where Bangladesh has revealed comparative advantage and deepening standards and trade infrastructure will go a long way towards geographical diversification.

Figure 5: Bangladesh's main export destination in 2022-23



Source: ERD (2024)

5. Unpacking the drivers of Bangladesh’s RMG export success

Bangladesh’s struggle to widen its export base becomes clearer when we look at why ready-made garments (RMG) expanded so rapidly (Sattar, 2014, 2021). Until the early 1980s, the country sold mostly primary commodities, jute and jute goods, tea, leather, and shrimp, with little footprint in manufactures. The surge in apparel was not driven by low wages alone; it rested on a purposeful policy package that offset the costs of a high-tariff environment and let exporters operate at world prices.

Three instruments did heavy lifting. First, the tariff-cost penalty was eliminated through special bonded warehouse (SBW) system that let firms import world-priced inputs such as yarn, fabric, dyes, chemicals, and accessories. Second, back-to-back letters of credit allowed those inputs to be financed against confirmed orders, aligning working capital with shipment cycles and lowering entry barriers. Third, “green-channel” customs streamlined paperwork and cut clearance times, giving buyers greater delivery certainty. Early technology transfer and MFA quota access helped firms learn faster, but it was this trio of policies that turned potential into scale.

The economy-wide payoff was large. RMG became the leading manufacturing industry, creating millions of jobs directly and through supply chains, and showing that with world-priced inputs, reliable trade finance, and quick logistics, Bangladeshi firms can compete on cost, speed, and reliability. Crucially, these are systems that can be copied, not one-off novel schemes.

Outside apparel, policy went the other way. High tariffs on final goods, widespread para-tariffs, and steep tariff escalation (inputs taxed below outputs) boosted the profitability of selling at home. Non-RMG exporters were left with slow, paperwork-heavy duty-drawback, less predictable border processes, thinner access to finance, and weaker testing and certification. The result is dualism: near-free-trade operating conditions for RMG alongside a protected, cumbersome regime for most other tradables, which discourages exporting even when firms have the capability.

The remedy is to apply the proven elements of the garments model across sectors. Priorities are:

- i. Creating universal, rules-based, duty-free input access for any compliant manufacturer, supported by e-invoicing, inventory e-ledgers, and risk-based audits;
- ii. Standardizing back-to-back financing beyond apparel with clear eligibility and safeguards;
- iii. Extending fast-track customs, Pré-arrival processing and AEO lanes, to accredited firms in all industries; and

Simplifying and rationalizing the tariff and protection structure by lowering output and input tariffs (including para-tariffs) in tandem while shifting the revenue focus to consumption taxes, such as a broader digital trade-neutral VAT. Trade reforms are not effective in a vacuum. It needs to be complemented with targeted structural improvements, such as sector-specific productivity and skill upgrading, modernization of trade infrastructure, harmonization of customs rules with key markets, and strategic free trade agreements.

In short, apparel's rise was a policy success that created the right operating conditions where they previously did not exist. Broad-based export growth now depends on extending those conditions, by rule, not exception, to the wider manufacturing base. Do that, and more sectors will progress from potential to performance (Sattar, 2014).

6. Export diversification challenge in Bangladesh

From the previous discussion, it is evident that since 1990, while the RMG exports have flourished, non-RMG exports have lagged, leading to an increasing dominance of RMG exports in the Bangladesh export basket (Sattar, 2023). However, Figure 6 traces RMG exports and employment from 1993 to 2019 and reveals a clear decoupling: exports have continued to rise steadily, but the workforce has been broadly flat since around 2012. Relative to export values, labor intensity has been declining for decades (Figure 7), reflecting rising productivity, greater use of capital, or both. The gender profile has also shifted. Women, who made up about 80–90 percent of employees in the early 1990s, now account for roughly half of the workforce (Kabeer & Mahmud, 2004; Matsuura & Teng, 2020). Going forward, the impending LDC graduation in 2026 (if it happens) hangs like a Damocles' sword on the future export performance of the Bangladesh economy, as trade preferences, particularly in Western markets, are tailored down (albeit with a 3-year grace period in EU, and sustained longer in countries such as China, Japan, Australia, New Zealand). Thus, for sustained robust growth in RMG exports and expansion with a diversified export basket, Bangladesh will need radical measures to achieve both product and geographical diversification.

Figure 6: The link between RMG exports and employment growth has deteriorated

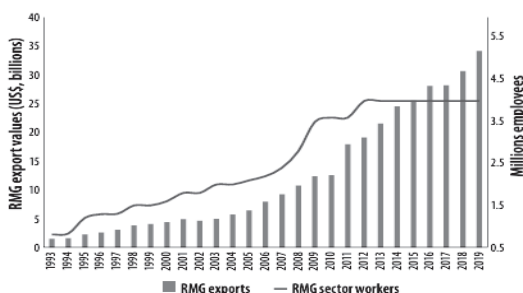


Figure 7: The RMG sector’s number of employees relative to exports has declined precipitously

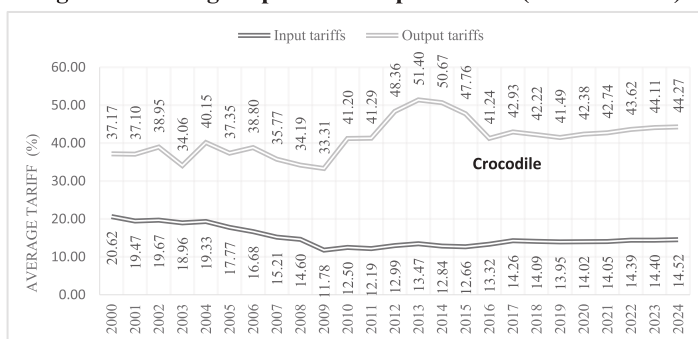


Source: Galal et al. (2025)

Several PRI and World Bank research (Sattar, 2012b, 2025; Kathuria & Malouche, 2016; World Bank, 2022, 2023) have described the degree and extent of export concentration in primary products in the Bangladesh’s early years, now repeated in manufacturing exports of RMG. The same problem is echoed in Bangladesh’s plan documents, the 6th, 7th, 8th Five Year Plans and the Perspective Plan 2041. Implementation, however, has been modest, and the constraints identified across these sources coalesce around an anti-export bias in the trade policy regime, discriminatory incentives against non-garment exporters, exchange-rate overvaluation, and pervasive weaknesses in standards, investment climate, power, land administration, logistics, and the overall business environment. Binding financial and capability gaps, limited access to credit and trade finance, skills shortages, low labor productivity, outdated technology, thin institutional capacity, inadequate R&D, and shallow participation in global value chains, further depress non-RMG competitiveness, explaining why diversification has lagged even as consensus on what to fix has solidified (ADB, 2016; Kathuria & Malouche, 2016; World Bank, 2022, 2023).

A central reason Bangladesh has struggled to diversify manufactured exports is the persistence of heavy trade protection (Sattar, 2019). As Figure 8 shows, average tariffs on final goods have long exceeded those on inputs, a classic case of tariff escalation. Lower input duties give producers cheaper raw materials, but higher output tariffs shield the domestic market from foreign competition, making local sales more profitable than exporting. Over time, the input–output tariff gap traces a “crocodile” pattern: a pronounced hump of elevated output protection during 2009–2015, followed by a plateau from 2016 onward, while average input tariffs have stayed broadly stable since 2009 at about 12–15%. Despite periodic rationalization efforts, para-tariffs, including some that are not WTO-compliant, have kept overall protection high and reinforced an anti-export bias. The RMG sector is largely insulated from these distortions through its bonded-warehouse, duty-free regime, a quasi “free-trade enclave”, but most non-RMG industries face the full weight of the protective structure. As long as import substitution remains more lucrative than exporting for these sectors, genuine export diversification will be out of reach. In short, the tariff regime is a binding constraint on export competitiveness and diversification.

Figure 8: Average Input and Output Tariffs (FY2000-2024)



Source: PRI estimates using NBR data

7. Trade policy dualism in Bangladesh

The export policy landscape in Bangladesh is a tale of trade policy dualism, with the 100% export-oriented RMG sector enjoying a privileged status while non-RMG exports do not. Duty-free imported inputs with deferred payments from export receipts and streamlined customs clearance procedures create a quasi-free trade enclave for RMG producers, facilitating their global success. However, non-RMG exporters face a different reality, navigating through cumbersome tariff structures and regulatory burdens. The crux of the issue lies in high and persistent tariff protection, which creates an anti-export bias by indirectly subsidizing import substitution, thus raising profitability in domestic sales above export profitability (Sattar, 2023).

Non-RMG exporters face a very different regime. They contend with high and complex tariffs, para-tariffs, and cumbersome regulations. A few firms obtain bonded-warehouse privileges, but most must rely on a slow, paperwork-heavy duty-drawback system that rarely delivers inputs at world prices. The result is a persistent anti-export bias: protection of final goods indirectly subsidizes import substitution, making domestic sales more profitable than exporting even where Bangladesh has a comparative advantage.

The remedy is straightforward: extending the RMG-style operating conditions to all compliant exporters, reliable duty-free input access, standardized back-to-back financing, and fast, rules-based border clearance, so firms buy at world prices rather than tariff-inclusive prices. Yet reform faces resistance from protectionist interests, and many producers that serve both home and foreign markets understandably prioritize the highly protected domestic market.

Until this bias is removed, diversification will remain stalled, and Bangladesh’s export performance will stay tied to one sector. Today, RMG accounts for roughly 84 percent of total exports, a concentration that underscores the urgency of broadening the same enabling conditions across the rest of manufacturing.

8. Beyond competitiveness: How anti-export bias stalls diversification

In analyzing Bangladesh’s export diversification challenge, the issue of competitiveness arises repeatedly. Is it a lack of competitiveness that stifles progress in diversification? What does the

research actually show? Sattar et al. (2024) conducted an in-depth assessment of competitiveness across Bangladesh's full range of exports, RMG and non-RMG, using revealed comparative advantage (RCA) and normalized RCA (NRCA). The findings are striking. In fiscal year 2021, Bangladesh exported 1,393 non-RMG products (HS-6 digits); 69% of these products were found to be highly or moderately competitive among roughly 40 suppliers to the same destination countries. Moreover, 90% of the 216 RMG products were in this highly competitive range, even relative to China. Footwear illustrates the point: after it was designated a priority sector, footwear exports grew by an average of 23% a year in FY2005–15 and 16 percent thereafter. The potential for product and market diversification is therefore substantial. In short, competitiveness is not what is holding back Bangladesh's export diversification (Sattar et al. 2024).

If competitiveness is not the barrier to diversification, then what is? Anti-export bias (AEB) is the economic phenomenon whereby a country's domestic incentive policies discourage exports in favor of import substitution. The principal driver of anti-export bias in Bangladesh is tariff protection and regulations that favor sales in the domestic market relative to exports. Put simply, the exorbitant rate of tariff protection granted to import substitutes creates a bias in incentives (i.e., a disincentive for non-RMG exports) by making domestic sales more profitable than exports. Thankfully, RMG exports are largely immune to such anti-export bias, as explained below.

Relative policy incentives accorded to exports versus import-substitute production may be configured through a formulation of effective exchange rates⁴ (which measures returns originating from nominal exchange rates plus any direct/indirect subsidies), for the two contrasting activities. Effective exchange rate for import substitutes (EERM) equals nominal exchange rate boosted by nominal protection rate (NPR), while effective exchange rate for exports (EERX) equals nominal exchange rate plus export subsidies, concessional credit facilities, etc. Then, relative incentives can be measured by the ratio of EERM and EERX, as follows:

$$\text{Anti-export bias (AEB)} = \text{Effective exchange rate of import substitutes (EERM)} / \text{Effective exchange rate of exports (EERX)}$$

In simple terms, this ratio demonstrates the trade-off between the gains from exports versus import substitution for an economic entity. The numerator, EERM, expresses the gain in monetary value from producing and selling a product domestically rather than exporting, whereas the denominator, EERX, captures the gain from exporting the product. Naturally, if the numerator is greater than the denominator, the incentives driving this gain are higher for selling domestically (i.e., import substitution). If the denominator is greater than the numerator, the incentives for exporting are higher.

The simple policy rule that emerges is as follows:

- If $AEB > 1$, policies and regulations favor domestic sales (import substitutes) over exports.
- If $AEB < 1$, policies and regulations favor exports over domestic production.
- If $AEB = 1$, policies and regulations are neutral on trade and neither favor nor hinder exports.

With the theory clarified, we can see how the non-RMG sector suffers from AEB while the RMG sector does not. Let's start with RMG. The RMG industry is immune to the effects of AEB

⁴ Not to be confused with inflation adjusted effective exchange rates.

for two main reasons: (a) the industry is 100% export-oriented and does not have the option of selling domestically under protective duties; and (b) the duty-free regime in which the industry operates supplies imported inputs at world prices, creating a level playing field for competing globally on the basis of comparative advantage in a labor-intensive product (i.e., ready-made garments). In the PRI study noted above, RMG products across the board had AEB values less than 1, as expected.

The story is completely different for the non-RMG sector. Unlike the RMG industry, which enjoys a quasi-free-trade regime, these sectors generally do not. Non-RMG firms face very high tariffs that provide protection from international competition by restricting imports and raising domestic prices. This discourages producers from entering global markets because there is more profit to be made in the domestic market, where outside competition is minimal. The cash export subsidies of 4% to 20% provided to these non-RMG exports are no match for the indirect subsidy arising from tariff protection, an average nominal protection rate (NPR) of about 45%, with a range of 56% to 150%. Consequently, it is economically rational for non-RMG producers to be reluctant to export while paying more attention to promoting domestic sales.

Another phenomenon that contributes to AEB is tariff escalation, imposing higher duties on final (finished) products than on the raw materials or inputs needed to manufacture them. This ensures that domestic producers face limited competition from international producers attempting to sell finished goods in the local market. The protection created by the gap between input and output tariffs is called effective protection, and it contributes to the discouragement of exports, thereby exacerbating AEB. This phenomenon is very strong in the non-RMG industries.

Moreover, non-RMG exporters operating in competitive global markets cannot pass on increased production costs due to import duties on inputs, which reduces profit margins and competitiveness. Purchasing inputs from local producers can also raise costs because protectionist measures and a lack of local competition keep input prices elevated.

Furthermore, the duty drawback system (DEDO) is inefficient and dysfunctional, resulting in delayed rebate collection and additional costs for firms. By contrast, the special bonded-warehouse (SBW) arrangement, used effectively by the RMG sector in a high-tariff environment, is available to only a small number of non-RMG enterprises. As a result, the RMG sector is almost completely immune to the tariff regime's anti-export bias, while most non-RMG producers remain exposed.

These logical conclusions are backed by research. Sattar et al. (2024) show, for instance, that jute products have AEB values of approximately 1.21; footwear products, porcelain, and ceramic kitchenware exhibit significant AEB values ranging from 1.60 to 1.69; leather-made goods contend with AEB of about 1.27; specialized textiles and home textiles face AEB values ranging from 1.25 to 1.41; and light engineering and domestic appliances exhibit AEB values of 1.10 to 1.30.⁵ Therefore, a large share of non-RMG industries display AEB values above 1, confirming

⁵ The PRI study used Nominal Protection Rates (NPR) to compute AEB. As output tariffs significantly exceed input tariffs, there is research evidence that effective rates of protection (ERP) are much higher than NPR. AEB measured by using ERP would indicate much higher rates of AEB, as ERPs are typically multiples of NPR. PRI did estimate ERPs through firm-level surveys in 2012, with only a tariff update in 2018 (Sattar, 2012, 2020). Without a recent wider firm-level survey, ERPs for such a vast number of non-RMG exports will not be available.

that policy-induced incentives, rather than a generalized lack of competitiveness, are the primary impediment to export diversification.

9. Export concentration in the context of LDC graduation

Bangladesh has benefited from LDC-specific support, duty-free and quota-free (DFQF) market access with flexible rules of origin, lenient trade commitments, concessional finance, lower multilateral contributions, and technical assistance, permitted under WTO provisions. These advantages were effective because domestic fundamentals were reasonably strong: coherent policy, adequate productive capacity, clear comparative advantages, and institutions able to absorb support. Graduation will unwind parts of this regime and should be evaluated against slower global trade, rising protectionism, strains in multilateral cooperation, geopolitical rivalry, and technology's labor impacts. The most consequential adjustments are trade-related. DFQF access that underpinned export growth, particularly in garments, will in many advanced economies revert to standard generalized system of preferences (GSP) where available; otherwise, most-favored-nation (MFN) tariffs apply unless offset by regional or bilateral agreements. In developing-country markets, graduates typically face MFN rates or preferences negotiated in regional trade agreements (RTAs).

Effects will differ by product and destination, the schemes that replace LDC treatment, and firms' ability to comply. Flows already outside LDC schemes or covered by other agreements will change little. Given heavy reliance on apparel, outcomes hinge on the European Union, with the United Kingdom, Canada, India, Japan, Australia, and China also critical; the United States offers no LDC scheme, so graduation has a limited direct effect there. Beyond apparel, leather goods, frozen fish, and shrimp may see moderate erosion. Overall, preferential margins narrow and LDC-specific flexibilities decline; the net impact turns on product mix, market exposure, availability of post-LDC schemes, and compliance capacity.

Across key partners, market access will shift in distinct ways. Canada's Least Developed Country Tariff (LDCT) covers about 99 percent of tariff lines, yet many flagship exports, garments, textiles, and footwear, fall outside developing-country GSP coverage, exposing a large share to MFN/GSP rates and tighter origin rules. India shifts from the South Asian Free Trade Area (SAFTA)-LDC zero tariffs on more than 11,500 products to the narrower non-LDC SAFTA regime with higher value-addition thresholds. China scales back LDC duty-free access on 99 percent of lines to reduced Asia-Pacific Trade Agreement (APTA) concessions, implying higher tariffs on most shipments. Japan currently grants DFQF on more than 95 percent of lines, but, post-graduation, major items, especially RMG and textiles, will face MFN rates. Australia is likely to retain broadly favorable duty-free access, yet Bangladesh's heavy concentration in RMG leaves it exposed. The United States has no LDC scheme, so graduation itself changes little there.

The policy response is straightforward. The days of preference-driven advantages in the global market is coming to a close for Bangladesh. So, it is time to get moving on ensuring policy-driven competitiveness. The key policies articulated in this regard include eliminating anti-export bias for non-RMG exports, providing duty-free (world-priced) access to sectors beyond RMG, streamlining and harmonizing border rules and procedures, and, most importantly, rationalizing tariffs and para-tariffs to make them WTO compliant, while safeguarding revenue through broader VAT and direct

tax measures. Furthermore, there is no time to waste in the pursuit of EU GSP+ by meeting tighter rules of origin requirements, labor and environmental standards, and seeking strategic free trade agreements. Clearly, the goal must be to support sustained export growth by substantially reducing export concentration risk and vulnerability.

10. Key Policy Recommendation

Trade policy reforms that began with a bang in the early 1990s have petered to a halt and even some backsliding in recent times. Nevertheless, the radical change of direction initiated in the 1990s has yielded substantial economic dividends for the country and is still continuing, while new challenges mount on the trade front as LDC graduation looms. An interim reform-oriented Government has taken over the helm of affairs in Bangladesh since 5th August 2024. This is the right time for another bout of substantial reforms on several fronts, including trade policy, which is currently beholden to high protective tariffs.

The key policy recommendations for a reform agenda that prioritizes addressing the challenge of export diversification would include the following:

(i) Replicate the RMG model

The first and most direct response to the diversification challenge is to extend to non-RMG sectors the same operating conditions that have long empowered RMG to scale. In practice, this means ensuring that smaller, mixed-market industries receive all, or at least most, of the incentives and provisions that have supported apparel's rise: predictable duty-free access to imported inputs, back-to-back trade finance, and streamlined border procedures tied to clear compliance standards. Unlike the RMG industry, most non-RMG sectors are not fully export-oriented; their production is split between domestic sales and exports, which makes them especially sensitive to the profitability gap created by the current protective structure. Although there are policy signals that appear to favor granting non-RMG exporters, whose production is only partially geared to exports, special bonded warehouse (SBW) facilities or comparable mechanisms to secure duty-free imported inputs, implementation remains piecemeal and falls short of a general, rules-based policy.

The sensible course is to enable these industries to achieve economies of scale by operating at world prices. Concretely, this can be done by adopting and operationalizing the National Tariff Policy (NTP) 2023, which stipulates that firms producing for both export and the domestic market may import inputs intended for exports duty-free by posting a 100% bank guarantee against such imports, up to 70% of export value. In simpler terms, this creates a bond facility, capped at 70% of export value, that allows firms to import raw materials entirely duty-free for export processing, effectively replicating SBW treatment for non-RMG exporters. This provision should be applied economy-wide and accompanied by an overhaul of the Duty Drawback (DED) system so that refunds are transparent, digital, auditable, and time-bound, thereby aligning cash flows with production cycles and encouraging firms to scale export operations (Sattar, 2023a).

(ii) Rationalize the structure of tariffs

Tariff protection, by undermining incentives to non-RMG exports, has become a binding constraint to export diversification. The second, and in our opinion, the most important solution is to reform the trade regime through rationalizing the tariff rates. Currently, Bangladesh hosts a very complex and convoluted tariff structure with numerous para-tariffs, most of which are WTO-non-compliant. Bangladesh can, at the moment, get away with such a structure because of its LDC status. But upon graduation in 2026, it will be impossible to hold on to such a structure⁶. Therefore, it is imperative to gradually phase out the para-tariffs and place trade neutral taxes which would not negatively affect exports by way of anti-export bias explained in previous sections. Moreover, rationalizing the tariffs will enable the exporters of non-RMG goods to access imported raw materials at competitive world prices. This will reduce cost and make these products more competitive in the world market and thus help diversify the export basket.

(iii) Additional measures

On top of these fundamental reforms, Bangladesh must address long-standing bottlenecks in trade logistics, access to trade finance, and standard international compliance, since these factors will ensure the profitability and reliability of exports.

First, reducing the time and cost of cross-border trade requires improving logistics across both processes and physical infrastructure. While deregulation, simplification, and full automation of customs and border agencies are essential to streamline processes and speed up clearance, improving network efficiency and reducing variability in delivery times requires targeted investments in transport infrastructure.

Second, to promote new exporters, Bangladesh needs to broaden access to low-cost trade finance, especially for SMEs and new exporters, by strengthening and redesigning the existing instruments, such as the Export Development Fund (EDF) and the Export Credit Guarantee Scheme (ECGS). In addition, drawing lessons from competing countries like India, Indonesia, and Vietnam can help develop effective export credit agencies, while mobilizing blended finance from ADB, the World Bank, and the IFC can broaden access to trade finance for the country.

Third, accessing advanced markets requires strengthening compliance with international standards. For instance, the Bangladesh Standards and Testing Institute (BSTI) should receive sustained investment to modernize labs and certification services in line with international benchmarks, while exporters, particularly SMEs, should have access to discounted loans or vouchers to fund audits, testing, and certifications. If Bangladesh addresses these long-standing economy-wide constraints, it will help the country to improve export competitiveness across sectors, opening the window for a broader and more diversified export basket.

Finally, Foreign Direct Investment (FDI) can help Bangladesh grow its export basket beyond RMG. While Bangladesh already has wage advantages, the US–China decoupling and China+1 realignments create an opening for the country to position itself as a favored destination for export-

⁶ The outcome documents of the 13th WTO Ministerial (MC13), held in February 2024, reveal that members have been advised to exercise “due restraint” in reacting to instances of non-compliance by graduating LDCs.

seeking FDI. Therefore, the country should move quickly to capitalize on this opportunity that may not last long. This requires targeted promotional initiatives along with ensuring a better business environment to attract FDI in both the RMG and Non-RMG sectors.

11. The Way Forward

Bangladesh's graduation from LDC status in November 2026 (if it occurs) validates five decades of progress and simultaneously tests whether the policy settings that powered that progress could sustain competitiveness without preference-based cushions. The export engine, anchored in ready-made garments (RMG), drove growth, jobs, and female labor force participation, but also created concentration risk and exposure to preference erosion. As duty-free/quota-free access narrows and rules of origin tighten, outcomes will turn on domestic policy neutrality for exporters and the credibility of Bangladesh's external market-access strategy.

The core diagnosis is clear: diversification has been held back less by firm capability (competitiveness) than by incentives that favor domestic sales over exporting beyond the RMG enclave. High tariff protection supplemented by para-tariffs raises the relative returns in the home market. Correcting this anti-export bias, so that non-RMG producers can buy at world prices, finance orders predictably, and clear borders quickly, is the shortest route to broad-based export growth.

The reform priorities follow directly. First, make the RMG "rules of the game" the economy-wide norm: rules-based duty-free input access (via the National Tariff Policy 2023 mechanism), standardized back-to-back finance, time-bound digital drawback, and AEO/green-lane clearance for accredited firms. Second, rationalize protection to WTO-consistent tariffs by phasing out para-tariffs, compressing bands, and shifting revenue toward a broader, digital VAT, closing the input-output protection gap that discourages exporting. Third, complement these domestic policy measures with seeking strategic FTAs, pursue EU GSP+ and other high-impact agreements, and deepen regional trade and value chain integration, particularly with Southeast and East Asian economies. However, export diversification strategies must not serve as a constraint to RMG expansion, a trend that still has tremendous prospects for sustained growth over the long term and Bangladesh's competitive advantage in this universal product is still unmatched, particularly in the basic garments category. Prospects are bright in the geographical diversification as well of RMG exports, particularly in non-traditional markets, across East Asia, Southeast Asia, the Middle East, and the Pacific, besides the neighborhood market of South Asia. In the long-term, these markets have the potential to rival hitherto traditional markets in Europe and North America. An important strategy would be to move up within apparel (especially man-made fibre and performance segments) and expand beyond it into under-exported, labor-intensive non-RMG lines and, critically, intermediate goods that anchor participation in regional value chains.

Past approaches, pursuing market access while leaning on export subsidies, did little to shift the non-RMG trajectory, when tariff protection trumped export subsidies by a wide margin. Left unchanged, concentration could rise toward 90% RMG before 2030. Trade theory and recent evidence indicate demand is not the constraint: most non-RMG products hold tiny global shares, implying room to grow if domestic incentives change. Indeed, average tariffs faced by many non-RMG items are lower than those on apparel in major markets, yet lenient domestic conditions and higher margins at home have kept potential exporters inward-oriented. The future challenge,

therefore, is not merely to find markets, but to rebalance incentives between domestic sales and exporting so that firms choose to compete abroad.

Execution and sequencing will determine credibility. A 2025–2029 glidepath that operationalizes the bond/guarantee duty-free scheme, digitizes and guarantees refunds, retires para-tariffs, and maintains a national rules-of-origin and compliance facility would lower uncertainty for buyers and investors. In parallel, at least one major access instrument (EU GSP+ or equivalent) and pragmatic early-harvest arrangements on customs, standards, and logistics with regional partners would anchor expectations while domestic reforms bite.

To conclude, one fundamental area of trade policy reform lies in eliminating the anti-export bias of current trade policy. Deep reforms in rationalization of the protective tariff structure – documented as a binding constraint- are needed to move the needle towards export diversification. If Bangladesh neutralizes the anti-export bias, preserves strengths in apparel while pushing into non-RMG and intermediate goods, and secures predictable, rules-based access, graduation will be a springboard rather than a shock, broadening the export base and strengthening resilience for the next phase of development. Otherwise, the quest for export diversification will remain elusive for a very long time indeed. Global headwinds, uncertain trade environment, trade slowdown, protectionist and national security turns, and compliance setbacks are real but manageable with disciplined and consistent trade policy. WTO “due restraint” guidance for LDC graduates offers a window to lock in reforms, not a reason to delay them.

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Economic Growth: A Catalyst for Political Stability in Bangladesh

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Keywords: Economic Growth, Political Stability, Governance, Institutional Reform, Bangladesh

Abstract

Bangladesh has achieved notable economic success, yet its continued progress is threatened by persistent political instability and governance issues. This study examines the complex relationship between economic growth and political stability in Bangladesh, arguing that while GDP growth has improved livelihoods, it may be unsustainable without addressing political instability. Drawing on lessons from countries like South Korea and Vietnam, the study emphasizes that strong institutions, transparent governance, and anti-corruption measures are crucial for fostering long-term stability. The analysis reveals that economic growth alone is insufficient to ensure political cohesion; accountability and equitable development are also necessary to prevent unrest and uncertainty. To secure its economic gains, Bangladesh must prioritize political reforms, strengthen its institutions, and implement a governance system that promotes both stability and sustainable growth.

1. Introduction

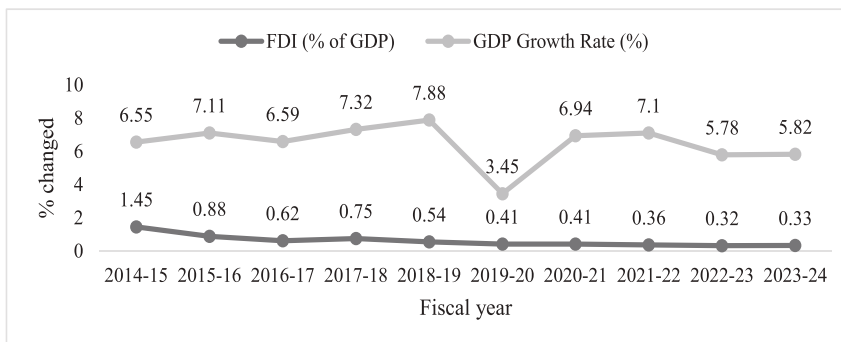
Bangladesh stands at a crossroads. Its economic success story is undeniable, but the persistent shadow of political instability threatens to undo decades of progress. We firmly believe that unless governance reforms and anti-corruption measures become national priorities, economic growth will remain fragile and unsustainable. This tension underscores the importance of exploring the complex relationship between economic growth and political stability, a dynamic that shapes Bangladesh's past achievements and future potential. The narrative of Bangladesh as a "Bengal Tiger" is highlighted by its impressive GDP growth rates, which have averaged over 6% annually, lifting millions out of poverty and transforming the nation into a burgeoning economy (Islam, 2019). However, the persistent challenges of political unrest, corruption, and governance issues raise critical questions about the sustainability of this growth and its implications for political stability. The relationship between economic growth and political stability is complex and multifaceted. On one hand, a stable political environment is essential for attracting foreign direct investment (FDI), which is crucial for economic development. Studies have shown that political stability significantly enhances investor confidence (Bonaparte et al., 2017; Kim, 2010), leading to increased inflows of capital and fostering economic growth within the region, as businesses are more likely to invest in a stable environment where risks are minimized.

Conversely, economic growth can also reinforce political stability by improving living standards and reducing social unrest, as citizens become more satisfied with their economic circumstances (Tabassum & Ahmed, 2014). This reciprocal relationship suggests that fostering both political stability and economic growth is vital for Bangladesh's future. Despite the progress made, Bangladesh faces significant hurdles that threaten to undermine its economic achievements. Issues such as inadequate infrastructure, bureaucratic inefficiencies, and a lack of transparency in governance continue to pose challenges for investors and policymakers alike (Chand, 2024). Furthermore, the recent global economic disruptions, exacerbated by the COVID-19 pandemic, have highlighted the vulnerabilities within Bangladesh's economy, making it imperative for the government to adopt strategies that not only promote growth but also ensure political stability (Rana, 2024). In this context, the exploration of whether economic growth can serve as a catalyst for political stability in Bangladesh is crucial. As the nation strives to navigate its path towards becoming a middle-income country, understanding the interplay between these two dimensions will be essential for policymakers. This article delves into the arguments supporting the notion that political stability encourages investment, the ways in which economic growth reinforces political stability, and the counterarguments that suggest stability can exist without growth, drawing on examples from both Bangladesh and other nations.

2. Political Stability Encourages Investment

Political stability is a crucial determinant of investment decisions, as it reduces uncertainty and risk for potential investors. The World Bank has highlighted that political instability can deter investment and slow economic development, as investors seek environments where their investments are secure and predictable (Khan, 2023). In contrast, countries with stable political systems often experience increased foreign direct investment, leading to job creation and overall economic growth (Epaphrodite, 2020).

Figure 1: Trends in GDP Growth Rate and FDI as a Percentage of GDP in Bangladesh for the last ten years



Source: (Bangladesh Bank, 2024; BBS, 2024).

In Bangladesh, the historical context reveals that periods of political unrest have often coincided with declines in FDI (Islam, 2019). For instance, during the political turmoil of the early 2010s, FDI inflows decreased significantly, illustrating the direct impact of political conditions on economic prospects (Islam, 2019). Moreover, the relationship between political stability and investment is not limited to Bangladesh. Countries like Vietnam have demonstrated that a stable political climate can attract substantial foreign investment, leading to rapid economic growth. Vietnam's political stability has been a key factor in its transformation into one of the fastest-growing economies in Southeast Asia, as it has successfully attracted FDI in various sectors, including manufacturing and technology (Rehman et al., 2020). This comparison underscores the importance of political stability in creating an attractive investment climate, and Bangladesh must take strategic steps to replicate such success.

Bangladesh's government has recognized the need for political stability to foster economic growth. Initiatives aimed at improving governance and reducing corruption have been implemented to enhance the investment climate (Ahmad, 2024). The establishment of special economic zones and investment-friendly policies reflects the government's commitment to creating a stable environment conducive to investment. However, more needs to be done. Clear legal frameworks, strengthened institutions, and a transparent investment policy must be implemented to ensure sustained investor confidence. Such measures are essential for attracting both domestic and foreign investors, who are crucial for driving economic growth.

Furthermore, the role of institutions cannot be overlooked in this context. Research indicates that strong institutions, characterized by effective governance and rule of law, significantly enhance the investment climate and promote sustainable economic growth by fostering trust among investors and ensuring a stable environment for business operations (Islam & Shindaini, 2022; Younsi & Bechtini, 2019). In Bangladesh, efforts to strengthen institutions have been linked to improved economic performance, as they contribute to a more predictable and secure environment for investors. To bridge the gap between economic growth and foreign investment, Bangladesh must ensure that its institutions are not only strong on paper but also effective in practice.

This relationship between FDI and GDP growth is vividly illustrated in Figure 1. The red line, representing GDP growth rates, shows a steady rise until 2019, followed by a sharp dip in 2020 due to the COVID-19 pandemic and a subsequent recovery. In contrast, the blue line, depicting FDI as a percentage of GDP, remains consistently low and flat throughout the decade. This stark contrast highlights an urgent need for Bangladesh to address structural challenges and institutional weaknesses. According to a policy-level expert,

“A calm and stable political environment fosters trust among both local and foreign investors. When people perceive stability, investors are more willing to commit to long-term projects, expand businesses, and introduce new technologies. Economic planning and infrastructure development proceed smoothly in such an environment. Conversely, political unrest or uncertainty causes hesitation, delays, and cautious behavior. Investors may postpone major decisions or reduce investment levels until the situation stabilizes. This highlights that political stability is a key factor in sustaining continuous economic growth.”

By integrating these insights, it becomes evident that prioritizing governance reforms and ensuring political stability are not just policy objectives but fundamental prerequisites for attracting sustained investment and achieving long-term economic growth in Bangladesh.

3. Economic Growth Reinforces Political Stability

Conversely, economic growth can also reinforce political stability by addressing citizens' needs and reducing social unrest. Studies suggest that prosperous economies often experience less social unrest, as economic development leads to improved living standards and increased public satisfaction (Jadoon et al., 2021). However, this is not always guaranteed. Economic inequality and governance challenges can counteract these benefits, creating unrest even in growing economies. In Bangladesh, significant economic growth rates over the past decade have contributed to a decline in poverty levels and an improvement in overall quality of life (Islam, 2019). However, as a policy-level expert observes,

“Recent improvements in economic performance have raised incomes and living standards, reducing some social unrest and creating a sense of optimism. People in urban areas often feel these benefits more strongly, enjoying better infrastructure, services, and job opportunities. However, rural areas sometimes lag behind, and inequality in development can lead to localized dissatisfaction. When economic growth is uneven, the sense of stability is fragile, and social tensions may still emerge. Ensuring that the benefits of growth reach all regions is essential for long-term peace and stability.”

The correlation between economic growth and political stability is evident in various global contexts. For example, countries like South Korea and Singapore have experienced significant economic growth, which has translated into enhanced political stability. In these cases, the governments have been able to maintain social order and political cohesion by delivering economic prosperity to their citizens (Bozkurt, 2013). Yet, other cases, such as Brazil and South Africa, illustrate that corruption and inequality can still lead to instability despite strong GDP growth. In Bangladesh, the government's focus on diversifying the economy and expanding industrial and service sectors has played a key role in fostering stability. The rapid growth of the garment industry

has provided employment opportunities to millions, reducing poverty and strengthening economic security. However, this sector alone is not enough. The government must ensure policies that enhance agricultural productivity and support rural enterprises to create balanced and inclusive growth.

Moreover, the role of education and human capital development cannot be understated in this context. Investment in education and skills training enhances the workforce's productivity, contributing to economic growth and, subsequently, political stability (Miszta et al., 2021). In Bangladesh, initiatives such as the National Skills Development Policy and increased investments in vocational training programs have played a crucial role in equipping citizens with skills that improve employability and contribute to overall economic security. Ensuring that economic growth leads to lasting political stability requires comprehensive policies that focus not just on growth but on equitable distribution, strong governance, and long-term sustainability. Without these measures, growth may provide temporary relief but will not prevent long-term instability.

4. Stability Without Growth: A Fragile Illusion

While the relationship between political stability and economic growth is compelling, it is essential to acknowledge that some regimes maintain political stability without fostering economic growth. For instance, countries like North Korea exemplify how political stability can be maintained through strict governmental control, yet they experience stagnation and economic hardship (Shen et al., 2018). This model of enforced stability raises critical questions about its long-term sustainability. Without economic opportunities, social discontent often simmers beneath the surface, eventually manifesting in political upheaval.

In the context of Bangladesh, it is crucial to recognize that political stability achieved through authoritarian means may not lead to sustainable economic growth. While Bangladesh has experienced periods of political calm, these have not always translated into meaningful economic reforms or widespread development. The reliance on control rather than economic opportunity can stifle innovation and entrepreneurship, ultimately hindering long-term progress (Guo et al., 2014). Insights from a policy-level professional indicate that,

“Even if the political situation appears calm, lack of sufficient jobs and income opportunities can create frustration among the population. Young people, in particular, may feel disillusioned if economic progress does not translate into tangible improvements in their lives. Temporary political calm may be maintained through enforcement or short-term measures, but without sustained economic opportunities, it cannot be sustained. Long-term stability requires that citizens experience real improvements in employment, income, and quality of life. Otherwise, political calm may be superficial and prone to sudden unrest.”

Venezuela serves as a cautionary tale of a government prioritizing political control over economic growth. Despite maintaining a semblance of stability through authoritarian measures, Venezuela's economy collapsed due to poor governance, leading to widespread social unrest and political turmoil (Kharbachi et al., 2021). This example highlights the risks of ignoring economic progress in favor of short-term political stability. For Bangladesh, the lesson is clear, true stability cannot be maintained indefinitely without economic growth. Sustainable development, inclusive

policies, and investment in key sectors must complement political stability to prevent stagnation and long-term instability.

5. The Cost of Ignoring Political Instability in Economic Policy

Political instability is a significant factor influencing economic policy and growth across various countries. It manifests in different forms, including executive instability, social unrest, and political violence, which collectively create an environment of uncertainty detrimental to economic performance. Failing to account for political instability in economic policy can lead to economic volatility, reduced investment confidence, and slower long-term development. In Nepal, political instability has been linked to reduced economic growth, primarily due to the uncertainty it generates, which hampers private investment and disrupts the implementation of effective economic policies (Mandal, 2022). Similarly, in Pakistan, political instability has been shown to adversely affect economic growth by increasing uncertainty, leading to reduced demand for production factors and inefficient expenditure patterns (Mustafa et al., 2017; Nawaz et al., 2021). Frequent government changes and inconsistent policy direction in these nations create an unpredictable economic climate, discouraging both domestic and foreign investment (Rashid, 2024). The broader South Asian context reflects this issue. Studies indicate that in nations like Bangladesh, political instability leads to inefficient budget allocations and delays in infrastructure projects, slowing economic momentum (Rathnayake, 2022). While some periods of political instability in Bangladesh have coincided with short-term economic shifts, long-term instability tends to negatively impact crucial sectors like exports, employment, and public investment (Islam & Islam, 2021). Infrastructure development and business expansion often suffer in unstable political environments, increasing the cost of doing business and reducing investor confidence.

Egypt's experience following the Arab Spring serves as a powerful illustration of how political unrest can cripple economic sectors. Following mass protests and leadership shifts, Egypt saw a sharp decline in foreign direct investment and tourism, two critical components of its economy (Abdelhameed & Rashdan, 2021). This demonstrates how prolonged instability can severely impact economic recovery, making it imperative for countries like Bangladesh to prioritize stability in policymaking. For Bangladesh, addressing political instability must be integrated into long-term economic policy frameworks. Without structural reforms, governance improvements, and transparent policymaking, the risks of economic slowdown due to instability will remain high. Ignoring these realities can undermine the economic progress achieved over the past decade, making stability an essential pillar of future development strategies.

6. Conclusion

Bangladesh's impressive economic growth over the past two decades risks being undermined by persistent political instability, corruption, and weak governance. While the country has achieved remarkable progress, long-term prosperity cannot be sustained without a stable political environment that fosters investor confidence and ensures policy consistency. Political stability is not merely a facilitator of economic growth it is a fundamental pillar upon which sustainable development rests.

Periods of unrest in Bangladesh have repeatedly demonstrated how instability hampers foreign direct investment (FDI) and disrupts development. To secure its economic future, the country must go beyond short-term economic strategies and implement governance reforms that enhance transparency, reduce corruption, and build institutional resilience. Moving forward, Bangladesh must take decisive steps to strengthen institutions, enforce anti-corruption policies, and ensure greater political accountability. Additionally, inclusive growth strategies that address socio-economic disparities and regional inequalities will be crucial for long-term stability. Investment in education, infrastructure, and digital transformation must be prioritized to equip the workforce with skills necessary for an evolving economy, ensuring broad-based development that benefits all segments of society. By integrating political stability with robust economic reforms, Bangladesh can position itself as a model of resilience and progress in South Asia. A forward-thinking, stable governance structure will not only attract investment but also secure lasting prosperity for future generations. The path to sustainable development is clear, political stability must no longer be treated as an afterthought but as an essential foundation for economic growth.

Generative AI Use Declaration

In this work, AI-assisted language refinement was applied to improve grammatical accuracy, sentence structure, and overall readability without altering the originality of the content or the integrity of the research findings. The AI tools were not used to generate original research content, data analysis, or conceptual contributions. All intellectual input, interpretations, and conclusions remain the sole responsibility of the authors.

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Bangladesh-Japan Bilateral Relations: Emerging Avenues of Cooperation

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Keywords: Japan-Bangladesh Relations, Strategic partnership, LDC graduation, Maritime defence technology, Blue economy.

Abstract

This study investigates three emerging avenues in Bangladesh-Japan bilateral relations: maritime defence technology cooperation, large-scale manpower and educational exchanges, and blue economy collaboration. Employing qualitative research through key informant interviews, literature review, and news content analysis, it finds that these sectors offer strong potential for mutual benefit and regional stability. The implications suggest greater policy alignment, development strategy refinement, and future-oriented regional integration. As Bangladesh transitions from Least Developed Country (LDC) status and Japan pursues its Free and Open Indo-Pacific (FOIP) strategy, these cooperation areas represent a paradigm shift from traditional donor-recipient dynamics to a strategic partnership based on mutual interests and complementary strengths.

1. Introduction

Bangladesh and Japan have enjoyed a long-standing diplomatic relationship since 1972, evolving from post-war aid and reconstruction support to a strategic partnership and mutual development. Japan's recognition of Bangladesh in 1972 initiated a strong partnership marked by high levels of Official Development Assistance (ODA), infrastructure investments, cultural exchange, and human capital development programmes (Alam, 2022) (Moni, 2006). Historically, Japanese engagement has been rooted in ODA, including large-scale infrastructure projects such as the Dhaka MRT Line-6, Matarbari Deep-Sea port, and the Bay of Bengal Industrial Growth Belt (BIG-B) initiative. However, with the shifts in regional geopolitics, Bangladesh's impending graduation from LDC status, and Japan's Indo-Pacific strategy, this partnership is evolving beyond traditional aid frameworks. The 50th anniversary of diplomatic relations in 2022 marked a new chapter of collaboration aligned with Bangladesh's Vision 2041 and Japan's FOIP strategy (Hossain, 2022). This transformation reflects both nations' recognition that their relationship must adapt to contemporary challenges and opportunities in an increasingly complex regional environment.

This paper focuses on three emerging avenues of cooperation between Japan and Bangladesh: (1) maritime defence technology collaboration in light of rising strategic competition in the Bay of Bengal; (2) manpower and educational exchange, particularly aligned with Japan's demographic needs and Bangladesh's human capital goals; and (3) blue economy cooperation through sustainable investment in maritime, aquaculture, and logistics sectors. Each area is examined through triangulated data from empirical academic literature, four anonymous key informant interviews (KIIs), and credible news content analysis. The following sections first present the background and literature review, contextualising Japan-Bangladesh relations within these emerging cooperation domains. This is followed by details of the research methodology, including the qualitative approach and data triangulation strategy, and key findings from the three cooperation areas based on primary and secondary data. The findings are then discussed within the context of policy implications and the significance for bilateral relations. Finally, certain limitations and further future implications are highlighted from the process.

2. Literature Review

2.1 Historical Context of Bangladesh-Japan Relations

The Bangladesh-Japan relationship has transitioned from a donor-recipient model to one of the most successful strategic partnerships, particularly since Japan designated Bangladesh as a partner under the Bay of Bengal Industrial Growth Belt (BIG-B) initiative. Over the past five decades, Japan has become one of Bangladesh's most significant development partners, contributing extensively through ODA that reached US\$1.83 billion in 2020, making it the largest bilateral donor (Kabir, 2021). This relationship has been characterised by mutual trust, cultural affinity, and shared development objectives. The partnership has been deeply rooted in infrastructure development, with Japanese investments totalling over US\$15 billion since 1973 (Centre for Policy Dialogue, 2019). Major projects include the Jamuna Bridge, improvements to the Dhaka-Chittagong Highway, and, more recently, the Matarbari Deep-Sea Port and Coal-Fired Power Plant project, valued at US\$3.6 billion. These investments reflect Japan's long-term commitment to Bangladesh's economic transformation and regional connectivity (Moni, 2006).

Nevertheless, recent scholarship suggests that this relationship now needs to incorporate other vital sectors to remain future-relevant in an evolving geopolitical landscape (Alam et al., 2022; Hossain, 2022). The shift has been further shaped by Japan's FOIP strategy, launched in 2016, and its interests in South Asia as a counterweight to Chinese influence under the Belt and Road Initiative (BRI) (Delwar, 2022).

2.2 Maritime Security and Defence Cooperation

Japan's strategic ambitions in the Indo-Pacific have led it to partner with nations such as Bangladesh in enhancing maritime security (Delwar, 2022). The Bay of Bengal has emerged as a critical maritime corridor, with over 50% of global container traffic and 70% of petroleum products transiting through the region (Jain, 2003). Islam and Rahman's (2022) analysis highlights how Bangladesh's strategic location, connecting South Asia, Southeast Asia, and the Indo-Pacific, and unresolved maritime vulnerabilities creates a compelling case for international cooperation. Given the heavy naval presence in the Bay of Bengal and competition among regional powers such as India and China, the FOIP strategy positions Japan as arguably the most neutral yet capable partner. Literature further supports the idea that Japan's non-coercive military support, such as the provision of maritime surveillance infrastructure, technical assistance, and capacity building initiatives, is especially aligned with Bangladesh's policy of balanced diplomacy (Ahamed, Sikdar & Shirin, 2019). Japan's recent relaxation of arms export restrictions under the Three Principles on Transfer of Defence Equipment and Technology in 2014 has opened new avenues for defence cooperation (Horimoto, 2011). It is further shown that what sets Japan apart from traditional arms suppliers is their emphasis and prioritisation of capacity building, technology transfer, and cooperative development rather than mere equipment sales. This approach aligns with Bangladesh's preference for diversifying defence partnerships whilst maintaining its non-aligned foreign policy stance (Ahamed, Sikdar & Shirin, 2019). The maritime sector presents particular opportunities given Japan's advanced capabilities in maritime awareness, underwater surveillance, and coastal monitoring systems.

2.3 Manpower and Educational Exchange

Bangladesh possesses significant potential for demographic dividend with one of the youngest populations in Asia, with 47% of its population under 25 years of age, while Japan faces demographic decline with 28% of its population over 65 (Coulmas, 2007). This demographic complementarity creates natural opportunities for labour cooperation. Japan's labour shortage is particularly acute in caregiving, construction, manufacturing, and technical services, sectors where Bangladesh has demonstrated competence. The literature reviewed, including Alam et al. (2022) and studies on skills development, highlights Japan's increasing openness to foreign workers through programmes such as the Technical Intern Training Program (TITP) and the newer Specified Skilled Worker (SSW) visa system launched in 2019. Bangladesh's National Skills Development Policy seeks to internationalise its labour force and increase remittance earnings, which totalled US\$21.03 billion in 2021 (Bangladesh Bank, 2022). However, bureaucratic limitations hinder full utilisation of Japanese training and internship programmes, consequently hindering Bangladesh's skill development and human capital enhancement goals. Chowdhury (2008) notes that whilst Japan offers numerous government scholarships through programmes such as MEXT (Ministry of Education, Culture, Sports, Science and Technology) and JDS (Japan

Development Scholarship), these remain underutilised due to lack of awareness and weak institutional coordination between the two countries (Chua, 2017). Academic exchange represents another underdeveloped area with significant potential. Although several Japanese government scholarships and initiatives like SATREPS (Science and Technology Research Partnership for Sustainable Development) exist, uptake remains limited. The establishment of Japanese Studies programmes in Bangladeshi universities and Bangla language courses in Japanese institutions demonstrates growing mutual interest in deeper educational collaboration (Alam, 2022; Bownas, 2005).

Recent developments show promise, with Japan expanding its SSW programme to include 12 sectors and planning to accommodate up to 345,000 foreign workers by 2024 (Reuters, 2023). This expansion creates substantial opportunities for Bangladeshi workers, particularly in sectors such as nursing care, construction, and manufacturing. Furthermore, the underutilisation of these opportunities as a barrier has arguably significant chances of shrinking with simply increasing awareness building as a first step, to make these opportunities accessible to the right cohort. This will be further evident following the findings and discussion sections in this paper.

2.4 Blue Economy Cooperation

The concept of the blue economy, sustainable use of ocean resources for economic growth, improved livelihoods, and ocean ecosystem health, has become critical since Bangladesh's resolution of maritime boundaries with India (2014) and Myanmar (2012). These settlements granted Bangladesh sovereign rights over 118,813 square kilometres of territorial waters and 200 nautical miles of an Exclusive Economic Zone, opening vast opportunities for marine resource exploitation, which over a decade later remains highly underutilised.

Japan has already contributed to this area through the Matarbari Port development project, which includes a coal power plant and LNG terminal, representing Japan's largest single investment in Bangladesh at US\$3.6 billion (JICA, 2014). However, the literature shows a gap in framing these efforts under a unified and specific blue economy framework. Japanese investments in coastal logistics, marine infrastructure, and energy cooperation remain fragmented, requiring stronger strategic coordination. The blue economy encompasses fisheries, aquaculture, marine renewable energy, coastal tourism, maritime transport, and marine biotechnology. Bangladesh's Blue Economy Policy, adopted in 2019, aims to contribute 15% to GDP by 2041 through the sustainable use of marine resources. Japan's technological expertise in these areas, combined with its commitment to environmental sustainability and the UN Sustainable Development Goals (SDGs), creates natural synergies. Japanese companies have shown particular interest in marine renewable energy, with feasibility studies conducted by JICA for offshore wind and tidal energy projects (JICA, 2014). Additionally, The Japan External Trade Organization (JETRO) database lists several joint ventures in desalination technology, green shipping, and sustainable aquaculture, indicating growing private sector interest.

2.5 Literature Gap and Research Contribution

Existing literature on Bangladesh-Japan relations predominantly focuses on traditional development cooperation, infrastructure investment, and diplomatic history. Recent scholarly

work has begun exploring strategic dimensions, but systematic analysis of emerging cooperation areas remains limited, especially in addressing the subjective and rapidly changing political and climactic realities in Bangladesh. This study addresses this gap by examining three forward-looking sectors that reflect both countries' evolving priorities and regional strategic agendas. The literature used in this research affirms the relevance and strategic potential of maritime security, human capital exchange, and blue economy cooperation. However, underutilisation of opportunities, administrative hurdles, and absence of coordinated frameworks are recurring themes that require policy and/or good governance attention (Börzel, 2016). This research contributes by providing evidence-based analysis of these challenges and opportunities through stakeholder perspectives and contemporary developments.

3. Methodology

This study employed a qualitative methodology combining three data sources to ensure both depth and reliability: (i) review of academic literature and secondary sources, (ii) news content analysis from reputable sources, and (iii) key informant interviews (KIIs). This triangulated approach allowed for comprehensive analysis of complex and evolving cooperation dynamics while maintaining methodological soundness (Mehler, 2018).

3.1 Source selection and review

The literature review consists of peer-reviewed academic journal articles, government publications, policy documents, and reports from international organisations. Sources were selected based on relevance to Bangladesh-Japan relations, maritime security cooperation, labour migration, and blue economy development. This scope provides a foundation for understanding emerging areas of cooperation between Japan and Bangladesh. Focusing on Bangladesh's perspective creates space for future studies to examine Japan's strategic interests, policy decisions, and domestic processes that influence bilateral cooperation, as well as comparative study of both perspectives. Identifying three main cooperation areas in this study offers an initial overview that opens up exploration of other emerging fields (Basedau & Köllner, 2007). Future research could look into developing sectors such as climate adaptation technologies, digital innovation partnerships, and reflecting how modern bilateral relations continue to evolve globally.

3.2 Key Informant Interviews

Four KIIs were conducted with experts representing different stakeholder perspectives:

KII-1: A policy analyst and expert on international development and migration, with over 15 years of experience in South Asian development policy

KII-2: A business industry leader involved in Bangladesh-Japan investment relations, representing private sector perspectives on bilateral trade

KII-3: An academic administrator involved in undergraduate-level educational and cultural exchange programmes between Bangladesh and Japan

KII-4: A defence and maritime security analyst with expertise in Indo-Pacific strategic affairs and regional security dynamics

All interviews were conducted under conditions of anonymity to ensure candid responses and protect participant confidentiality. Semi-structured interview guides were developed for each stakeholder category, focusing on their respective areas of expertise whilst exploring cross-cutting themes. The questions asked during the interview were largely open-ended to ensure a holistic coverage of the content being discussed. Interviews were conducted in English, recorded with consent, and subsequently transcribed and coded thematically.

3.3 News Content Analysis

News analysis was drawn from reputed international and regional sources and official government publications. Content was selected based on relevance to the research themes and publication to capture contemporary developments. This analysis captured ongoing trends such as new investment agreements, policy shifts, demographic changes, and strategic developments affecting bilateral cooperation.

3.4 Data Analysis and Triangulation

Data from all three sources were analysed thematically using qualitative content analysis techniques. Triangulation involved comparing findings across sources to identify converging themes, contradictory evidence, and emerging patterns. This approach ensured reliability whilst acknowledging the subjective nature of stakeholder perspectives and the dynamic nature of bilateral relations. This process proves to be particularly appropriate for this policy-oriented topic given its multi-dimensional nature involving security, economic, educational, and strategic considerations. The combination of academic, practical, and media-based insights provides a nuanced understanding suitable for policy recommendations and broader understanding of these changing dynamics between Bangladesh and Japan.

4. Results

4.1 Maritime Defence Technology Cooperation

Maritime security cooperation emerged as a domain with significant strategic potential, driven by evolving regional dynamics and both countries' strategic interests. The defence and maritime security analyst (KII-4, Personal Communication, May 12, 2025) emphasised Bangladesh's urgent need to strengthen maritime capabilities, noting that the objective should not be match neighbours' firepower, so as to avoid fears of threat amongst neighbours, but achieving minimum strategic readiness and relatively credible measures of safeguarding. KII-4 (Personal Communication, May 12, 2025) further argued that Bangladesh should prioritise maritime domain awareness and defensive systems over offensive capabilities. Japan's advanced technology, transparent defence cooperation, and non-aggressive military doctrine align well with Bangladesh's non-aligned foreign policy approach. Building upon Bangladesh's existing procurement of Japanese radar systems, the defence resource trade framework should expand to include advanced maritime surveillance equipment, coastal defence systems, naval communication technologies, and possibly warships to enhance Bangladesh's maritime defence strategy and measures.

The analysis revealed several factors supporting Japan as a maritime cooperation partner. Unlike traditional arms suppliers such as China or France, Japan's approach emphasises technology transfer, capacity building, and cooperative development. Japan's recent relaxation of defence export restrictions under the "Three Principles on Transfer of Defence Equipment and Technology" creates new opportunities for collaborative projects rather than simple procurement. Literature and news analysis support these insights, showing Japan's successful maritime partnerships with Philippines, Vietnam, and India within the FOIP framework (Hossain, 2022). Reports indicate Japan's willingness to support coast guard capabilities, maritime domain awareness systems, and underwater resource mapping (Nikkei Asia, 2023). More specifically, Japanese technology could enhance Bangladesh's capabilities in several key areas. Firstly, Maritime surveillance would benefit from advanced radar systems and satellite technology for monitoring the Bay of Bengal, while coast guard enhancement could include patrol vessels, communication systems, and comprehensive training programmes. Secondly, hydrographic surveys utilizing underwater mapping technology would serve dual purposes of security monitoring and resource exploration. Finally, disaster response capabilities could be strengthened through improved maritime rescue systems and enhanced coordination mechanisms.

Japan has indicated clear interest in the above-mentioned cohorts. The strategic rationale extends beyond bilateral cooperation to encompass regional stability. As KII-4 (Personal Communication, May 12, 2025) argues, Japan's engagement with Bangladesh's maritime security serves wider regional interests by strengthening rules-based maritime order and preventing dominance of critical sea lanes by any single power. This is further supported by the fact that news analysis reveals Japan's increasing concern about maintaining free navigation in the Bay of Bengal, particularly given China's growing naval presence and the strategic importance of sea lanes connecting East Asia with the Middle East and Europe. This creates natural convergence with Bangladesh's interests in securing its maritime domain and protecting vital economic zones and the resources within it.

4.2 Large-Scale Manpower and Educational Exchange

Human capital cooperation represents perhaps the most immediately actionable area of bilateral cooperation, driven by complementary demographic trends and economic needs. The policy expert (KII-1, Personal Communication, May 27, 2025) outlined how Japan's skilled labour shortage creates significant opportunities for Bangladesh, while highlighting regulatory and institutional challenges that currently limit the effectiveness of cooperation. KII-3 (Personal Communication, July 30, 2025) further observed that Japan's demographic crisis is creating labour shortages that automation cannot fully address. Bangladesh possesses the necessary human resources, but requires better alignment between its skills development systems and Japanese market requirements. They provided concrete examples of successful educational exchange, describing cases where Bangladeshi undergraduates completed semesters at Japanese universities, earning credits transferable to their home institutions. These experiences enhanced academic growth while developing cross-cultural competencies valuable in Bangladesh's increasingly internationalised economy. KII-3 (Personal Communication, July 30, 2025) finally explained that the students returned with improved language skills, cultural understanding, and analytical capabilities that made them highly sought after by employers in Bangladesh, both local and international. This demonstrates the transformative potential of well-designed exchange

programmes that benefit both nations' strategic interests. However, significant underutilisation persists across educational and labour exchange programmes. News analysis reveals that whilst Japan expanded its Specified Skilled Worker (SSW) programme to accommodate up to 345,000 foreign workers by 2024, Bangladeshi participation remains limited compared to countries such as Vietnam and Philippines (Reuters, 2023). As of May 2025, Japan has promised to recruit an additional 100,000 workers within the next five years (The Business Standard, 2025).

Nevertheless, between Bangladesh and Japan's collaboration, two pressing barriers still persist. First, institutional challenges that hinder effective partnership. Limited coordination between Bangladeshi and Japanese educational institutions, combined with weak people-to-people connectivity, contributes to a lack of awareness about available opportunities. This is further complicated by the absence of mutual recognition agreements for professional qualifications and insufficient Japanese language training infrastructure within Bangladesh (Chua, 2017). This is further exacerbated by complex bureaucratic procedures for visa processing and credential verification create additional barriers to smooth institutional cooperation.

Secondly, significant skills gaps exist between what Bangladesh offers and what Japan requires. There is a notable disconnection between Bangladesh's technical education curricula and Japanese industry standards, while limited awareness of Japanese work culture and business practices is further exacerbated by the lack of people-to-people connections (Harootunian & Sakai, 1999). Moreover, inadequate preparation exists for sectors experiencing high demand, such as elderly care and construction, creating misalignment between available skills and market needs. The trade industry expert (KII-2, Personal Communication, August 3, 2025) echoed these concerns from an industry perspective, stating that Japanese companies operating in Bangladesh often struggle to find local workers trained to Japanese technical standards, resulting in continued reliance on expatriate personnel. Recent developments show promise for addressing these challenges. Japan's Ministry of Health, Labour and Welfare announced plans to simplify visa procedures and expand language support for foreign workers, whilst Bangladesh's Ministry of Expatriates' Welfare and Overseas Employment has initiated discussions with Japanese authorities about streamlining recruitment processes. Educational exchange opportunities extend beyond labour migration to include academic partnerships, research collaboration, and cultural exchange. The establishment of Japanese Studies programmes in universities such as Dhaka University, North South University and Independent University, Bangladesh demonstrates growing institutional commitment, whilst initiatives such as SATREPS provide platforms for scientific cooperation.

4.3 Blue Economy Cooperation

Blue economy cooperation emerged as a domain with both immediate practical applications and long-term strategic significance. KII-2 (Personal Communication, August 3, 2025) referenced current Japanese investments in aquaculture, port logistics, and energy infrastructure as early examples of blue economy collaboration, emphasising Japan's sustainable and community-focused approach. It is further observed that Japanese companies bring environmental consciousness and long-term thinking alongside capital investment. Their approach to coastal development prioritises sustainability and local engagement, making them preferable partners compared to others who offer quick capital with fewer safeguards. Current Japanese involvement

in Bangladesh's blue economy spans multiple strategic sectors. Firstly, Port and Logistics Development represent a major area of investment, highlighted by the substantial Matarbari Port project worth US\$3.6 billion, which encompasses a deep-sea port, coal power plant, and LNG terminal. This is complemented by modernisation studies for Mongla Port with potential expansion plans, alongside the development of coastal road networks that connect these ports to industrial zones. Secondly, Marine Energy Projects constitute another significant component of Japanese engagement, involving feasibility studies for offshore wind energy development in the Bay of Bengal. These initiatives are supported by LNG terminal development and distribution infrastructure, as well as solar power installations strategically placed in coastal areas to harness renewable energy potential. Thirdly, in the realm of Sustainable Fisheries and Aquaculture, Japanese involvement focuses on technology transfer for shrimp farming and processing, fostering marine biotechnology research partnerships, and promoting sustainable fishing practices through advanced equipment and methodologies. Finally, Environmental Protection efforts round out Japan's comprehensive approach, encompassing coastal zone management and climate adaptation projects designed to address environmental challenges. These initiatives include marine pollution monitoring and prevention systems, alongside mangrove restoration and coastal protection initiatives that safeguard Bangladesh's vulnerable coastal ecosystems.

The JETRO (2021) database further reveals increasing joint ventures in desalination technology, green shipping, and marine renewable energy, indicating growing private sector interest in Bangladesh's blue economy potential. However, coordination challenges persist due to the absence of a unified institutional framework. Nevertheless, KII-2 (Personal Communication, August 3, 2025) urged the importance of keeping in mind that projects such as Matarbari raise certain concerns over the infrastructural capacity of the surrounding area, and Cox's Bazar in general, and its ability to support the movement of large-scale goods, shipping containers and heavy-duty vehicles and machinery. The routes connecting Matarbari with the city centre are limited to only marine drive, which is prone to accidents and exposed to coastal climate risks or flooding, followed by the vehicles being bottlenecked through the already rapidly over-crowded city centre. This raises concerns for the inhabitants of the city and efficiency and accessibility of the location as a whole. Increased efficiency would require massive infrastructural development that could facilitate the changes brought by the Matarbari project, projected to be completed by 2029.

Additionally, KII-4 (Personal Communication, May 12, 2025) highlighted the critical security dimensions of blue economy development, emphasising that maritime economic activities require much stronger security infrastructure to ensure sustainable growth. They explained that blue economy expansion must progress alongside comprehensive maritime security enhancement, as economic activities in marine environments face unique vulnerabilities. They further noted that Japan's holistic approach effectively addresses both economic opportunities and security requirements simultaneously. This integrated methodology ensures that blue economy initiatives are built upon secure foundations, enabling long-term sustainability whilst protecting investments and maritime assets. Japanese partnerships offer comprehensive solutions that combine economic development with strategic security considerations, creating a framework that supports both immediate commercial interests and broader regional stability objectives. Moreover, the Ocean Policy Research Institute in Japan has identified Bangladesh as a priority partner for blue economy cooperation within the FOIP framework. It is, however, still important to point out that institutional

gaps limit cooperation effectiveness. The lack of a central coordinating body in Bangladesh to handle blue economy partnerships was mentioned by multiple respondents as a significant bottleneck. Bangladesh's Blue Economy Policy framework exists but requires stronger institutional mechanisms for implementation and international cooperation.

5. Discussion and Policy Implications

The findings underscore the strategic potential of deepening Bangladesh-Japan cooperation in maritime security, human capital, and blue economy sectors. These areas represent a natural evolution from traditional aid-based cooperation to strategic partnership based on mutual interests and complementary capabilities. This section discusses the prospects and implications within the cohorts of the three new avenues of cooperation identified throughout this study.

5.1 Maritime Defence Cooperation: Strategic Imperatives

Maritime defence cooperation requires Bangladesh to adopt a more proactive naval strategy focused on deterrence and domain awareness rather than traditional power projection. Japan's technical credibility, history of non-aggression, and commitment to rules-based maritime order make it an ideal partner for this transformation (Ambaras, 2018). Bangladesh should develop a comprehensive Maritime Security Strategy that identifies priority areas for international cooperation whilst establishing transparent defence procurement procedures that facilitate technology transfer arrangements. The country needs to create institutional mechanisms for joint training and capacity building programmes alongside initiating confidence-building measures such as joint coast guard exercises and oceanographic research. Additionally, more research needs to focus on maritime strategy of Bangladesh as a whole.

5.2 Bilateral Cooperation Framework:

Building upon Bangladesh's existing procurement of Japanese radar systems, the defence resource trade framework should expand to include advanced maritime surveillance equipment, coastal defence systems, naval communication technologies, and possibly warships that align with Bangladesh's maritime security and defence strategy enhancement. Japan's defence exports offer distinct advantages over traditional suppliers such as China, France, or Turkey through its commitment to technology transfer without political conditionality, competitive financing arrangements, and emphasis on capacity building rather than mere equipment sales. Japanese defence technology partnerships prioritise long-term strategic relationships and training exchanges for naval and coast guard personnel whilst establishing joint research initiatives on maritime domain awareness and environmental monitoring, creating sustainable defence capabilities rather than dependency relationships. The strategic significance extends beyond bilateral relations to regional stability. Enhanced Bangladesh maritime capabilities through Japanese defence partnerships contribute to collective security in the Bay of Bengal whilst Japan gains a reliable partner for maintaining free navigation and rules-based maritime order.

5.3 Human Capital Exchange: Institutional Transformation

Human capital exchange requires immediate institutional reforms to realise its significant potential. The demographic complementarity between Bangladesh's youth surplus and Japan's ageing population creates natural synergies that current institutional frameworks fail to exploit effectively. Bangladesh must harmonise skills certification systems with Japanese standards through mutual recognition agreements, whilst establishing Japanese language training centres in major cities and technical education institutions. The country should develop comprehensive pre-departure orientation programmes covering cultural adaptation and labour rights, complemented by returnee reintegration schemes that utilise skills acquired in Japan for domestic development.

5.4 Educational Cooperation Framework:

The framework should expand university partnership agreements for student and faculty exchange, whilst establishing joint degree programmes in priority sectors such as engineering, technology, and management. Creating research collaboration platforms linking Bangladeshi and Japanese institutions alongside developing scholarship programmes that address both countries' priority development areas would strengthen this cooperation. KII-2 (Personal Communication, August 3, 2025) interviewed emphasised that successful cooperation requires private sector engagement alongside government initiatives, noting that companies must be involved from the planning stage to ensure that training programmes meet actual market needs.

5.5 Blue Economy Cooperation: Sustainable Development Model

Blue economy cooperation necessitates a clear inter-ministerial strategy that coordinates environmental protection, economic development, and security considerations. Japan's clean technology investments align well with Bangladesh's SDG commitments and climate vulnerability needs whilst offering commercially viable cooperation opportunities. Bangladesh could benefit from establishing a Blue Economy Development Authority to coordinate international cooperation whilst developing comprehensive marine spatial planning that identifies priority areas for development. The country needs to strengthen environmental impact assessment procedures for marine projects and create public-private partnership frameworks that attract sustainable investment.

5.6 Joint Cooperation Mechanisms:

Establishing a Bangladesh-Japan Blue Economy Task Force with government and private sector representation would coordinate efforts alongside developing joint research programmes on marine renewable energy and sustainable fisheries. Creating investment facilitation mechanisms that streamline project approvals and establishing knowledge-sharing platforms for best practices in sustainable marine development would enhance cooperation effectiveness. The policy analyst highlighted the importance of ensuring that blue economy development benefits coastal communities, emphasising that technology transfer and investment must include capacity building for local communities to prevent marginalisation.

5.7 Regional and Strategic Implications

These cooperation areas carry significant implications beyond bilateral relations. They demonstrate how middle powers such as Bangladesh and Japan can develop strategic partnerships that enhance regional stability whilst advancing national interests. The cooperation framework offers diversified security partnerships that reduce dependence on major powers whilst enhancing maritime domain awareness that benefits regional navigation. It provides sustainable development models that address climate change and environmental degradation alongside people-to-people connections that strengthen regional integration. The cooperation areas reflect a fundamental shift from donor-recipient dynamics to strategic partnership based on mutual benefit and shared responsibilities. This evolution provides a model for other South Asian countries seeking to diversify their international partnerships. The academic administrator noted that successful cooperation requires long-term commitment from both sides, including people-to-people connectivity, observing that these partnerships take time to develop and require sustained political support even through government changes.

6. Conclusion

Each cooperation area identified in this research deserves detailed independent study, especially given the potential highlighted in this research. This analysis serves as a foundational framework that maps the broader picture of Japan-Bangladesh cooperation, laying the groundwork for specialised research into specific sectors, mechanisms, and outcomes. The range of opportunities identified shows the strong potential for continued academic research into this developing bilateral relationship over the coming decades. This research reveals a clear trajectory toward deeper, more strategic cooperation between Bangladesh and Japan across maritime security, human capital development, and blue economy sectors. The findings demonstrate that each area is underpinned by genuine mutual needs: Japan's search for reliable partners, skilled human resources, and sustainable investment opportunities, and Bangladesh's requirements for economic transformation, security enhancement, and sustainable development.

Maritime security cooperation addresses both countries' strategic interests whilst contributing to regional stability through enhanced domain awareness and rules-based maritime governance. The non-coercive nature of Japanese security cooperation aligns with Bangladesh's non-aligned foreign policy while providing access to advanced maritime technologies and training. Human capital exchange offers immediate opportunities for mutual benefit through Japan's labour market needs and Bangladesh's demographic dividend. However, realising this potential requires significant institutional reforms, improved coordination mechanisms, and sustained political commitment to address current underutilisation. Blue economy cooperation provides a framework for sustainable development that addresses climate vulnerability whilst promoting economic growth. Japan's technological expertise and environmental consciousness complement Bangladesh's blue economy policy objectives and coastal development needs.

The strategic significance of these cooperation areas extends beyond bilateral relations to regional dynamics and global development patterns. They demonstrate how middle powers can develop mutually beneficial partnerships that enhance collective security, promote sustainable development, and provide alternatives to traditional great power competition. Japan's consistent

commitment to Bangladesh, evidenced by sustained engagement even as Bangladesh approaches LDC graduation, provides a strong foundation for expanding cooperation. The reliability of Japanese partnerships amidst regional uncertainty makes Japan an invaluable strategic partner for Bangladesh's continued development. If addressed with sound policymaking, clear governance structures, considering subjective realities of Bangladesh, and people-centred implementation strategies, these cooperation areas could fundamentally transform bilateral relations whilst contributing to broader regional stability and prosperity. The research provides a blueprint for policy practitioners: build inter-sectoral bridges, focus on mutually beneficial goals, and reframe bilateral cooperation not as aid dependency but as strategic co-creation. As Bangladesh enters a new era of strategic maturity and middle-income status, a forward-looking, equitable, and diversified partnership with Japan can serve as both anchor and accelerator for sustainable development and regional integration. The next phase of Bangladesh-Japan relations promises to be defined not by traditional donor-recipient dynamics but by strategic partnership, mutual respect, and shared commitment to regional peace and prosperity.

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Listing of SMEs in Capital Market for Financing: Challenges and Way Forward

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Abstract

Small and Medium Enterprises (SMEs) comprising over 80% of all business entities they play a crucial role in employment generation and GDP growth. Despite their significance, SMEs continue to face major challenges in securing affordable financing, largely relying on traditional bank loans with high interest rates. In an effort to bridge this financing gap, the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) launched dedicated SME board in 2019 and 2021, respectively, aiming to offer SMEs access to capital markets as an alternative source, but Progress remains limited. To explore the specific barriers hindering SME listings, a mixed-method approach was followed that combines a quantitative survey (156 respondents) and interviews (5). The results reveal that nearly 60% of SMEs are unaware of the existence of the SME boards, while 88% lack sufficient understanding of the listing requirements. Regulatory complexity, high compliance costs, low financial literacy, and diminished investor confidence emerge as major impediments. Notably, the study identifies strong interest among SMEs in capital market financing, suggesting that the gap lies not in willingness but in the accessibility and feasibility of the listing process. To address these challenges, the study recommends campaigns to better connect SMEs with capital market opportunities.

Keywords: SMEs, Capital Market, Alternative Financing, Listing Barriers, Financial Literacy, Regulatory Reforms.

1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in the economic landscape of Bangladesh, accounting for over 80% of business entities and contributing significantly to employment and GDP. Despite their importance, SMEs often face substantial challenges in accessing financing, primarily relying on informal sources such as family and friends and traditional banks. To address this issue, Dhaka Stock Exchange (DSE) launched the DSE-SME board on April 30, 2019 and Chittagong Stock Exchange (CSE) on September 30, 2021, aimed at facilitating access to the capital market for SMEs with paid-up capital between Tk 5 crore and Tk 30 crore.

Listing on capital market can provide SMEs with several benefits, including reduced dependence on bank funding, diversified investor bases, easier access to equity capital, enhanced brand recognition, and improved creditworthiness. However, the board has struggled with low participation rate, with only 20 SMEs listed, due to stringent listing requirements, lack of awareness among potential investors, and disparities in listing requirements between DSE and CSE. To encourage broader participation, the initial investment requirement was reduced from Tk 50 lakh to Tk 20 lakh, and the registration process for trading was simplified. Despite these efforts, investors confidence remain low, because many listed SMEs have negative cash flows, making investment decision more complex for risk-averse investors. Therefore, it is crucial to identify the challenges SMEs face in listing on the stock exchange and develop strategies to address them.

The DSE-SME Board was introduced to provide SMEs in Bangladesh with an alternative financing avenue through the capital market. However, despite various incentives from the Bangladesh Securities and Exchange Commission (BSEC), its underutilization highlights significant structural and perceptual barriers that hinder the participation of both SMEs and investors. Research indicates that SMEs face stringent listing requirements, inadequate financial transparency, and low financial literacy. On the other hand, investors perceive high risks due to inconsistent SME performance, market manipulation, and the absence of mandatory quarterly financial disclosures—factors that discourage investment and limit the growth prospects of these enterprises.

The impact of this problem is significant as the low number of SME listings on the stock exchange restricts access to equity financing, forcing SMEs to rely on costly bank loans, which in turn stifles growth, innovation, and competitiveness. This lack of participation also weakens market liquidity, reduces investment opportunities and hampers overall economic expansion. Addressing these barriers is therefore essential for fostering sustainable economic development. Accordingly, this research aims to systematically identify the key challenges SMEs face in listing on the capital market and propose actionable strategies to enhance their access to funding while strengthening investor confidence.

Despite various efforts by the BSEC and the government, SME listing on the stock exchange remains limited due to regulatory and business challenges. While the capital market offers a promising avenue for SME financing through equity and bond listings, participation remains low. Identifying the key barriers to SME listings and understanding the specific factors discouraging

market entry is crucial. Therefore, this research seeks to address the following question: What challenges do SMEs face in listing on the capital market, and what strategic approaches can be adopted to overcome these barriers to ensure sustainable funding and long-term growth?

SMEs can unlock growth through capital market, boosting economic development and job creation. However, high collateral demand and bureaucracy make bank loans inaccessible. Despite its potential, SMEs hesitate to enter capital market due to regulatory burdens, high listing cost, and volatility. Existing literature often overlooks these specific barriers. The objectives of this study are to identify the key challenges hindering SME access to capital market and to propose actionable strategies and policy recommendations for creating an enabling environment that facilitate SME participation in capital market.

2. Literature Review

SMEs constitute a critical segment of Bangladesh's economic architecture, contributing significantly to GDP growth, employment generation, and industrial diversification. Despite their macroeconomic importance, SMEs in Bangladesh remain largely disconnected from the capital market, limiting their access to diversified financial instruments necessary for scaling operations. This exclusion is symptomatic of broader structural inefficiencies within the financial system and reflects a combination of institutional, regulatory, and behavioral barriers.

One of the most cited constraint is the lack of reliable financial documentation and absence of independently audited financial statements, which significantly impairs transparency and investor confidence (Rahman et al., 2021). Inadequate financial discipline not only obstructs the valuation of SME performance but also raises concerns about governance, accountability, and long-term sustainability. These deficiencies are exacerbated by the absence of standardized accounting practices, which, in turn, restricts SMEs from meeting the due diligence requirements typically expected by institutional investors.

In addition to internal governance gaps, low trust in the capital market and perceived regulatory complexity act as strong disincentives for SMEs seeking equity financing (Bozintan, 2022). Regulatory frameworks administered by the Bangladesh Securities and Exchange Commission (BSEC) often impose listing conditions that are misaligned with the operational realities of SMEs, particularly those operating with lean administrative and technical capacities (Rahman et al., 2016). This disconnect further reinforces the divide between market infrastructure and enterprise needs.

The challenge is compounded by dependence on collateral-based traditional financing mechanisms, which exclude many SMEs due to their lack of tangible assets or credit history (Khan et al., 2012). As a result, many SMEs resort to informal financing or stagnate due to capital constraints. Moreover, the market's perception of SMEs as high-risk entities-owing to limited financial visibility and public disclosures-undermines investor interest and reinforces adverse selection (Beck et al., 2011). From a regulatory standpoint, listing prerequisites such as comprehensive financial disclosures, corporate governance compliance, and capital adequacy requirements create disproportionate burdens on SMEs. Liquidity concerns, the absence of market makers, and reluctance among SME owners to relinquish control through equity dilution further

reduce the appeal of public offerings (Norden & Weber, 2015; Sechel & Nichita, 2010). High listing costs, market volatility, and limited secondary market activity also make IPOs an unattractive option relative to bank loans (Carbo-Valverde et al., 2009; Khatun & Amanullah, 2021). To overcome these systemic barriers, the literature suggests a multi-pronged strategy. Key interventions include simplifying regulatory frameworks, enhancing SME financial literacy, and creating dedicated SME platforms with tailored listing criteria (Hossain, 2020). Fiscal incentives such as tax rebates, fee waivers, and investor education campaigns-are also recommended to improve market attractiveness and build investor confidence (Beck et al., 2011; Rahman et al., 2021). The implementation of advisory services and capacity-building programs could guide SMEs through the complex capital market onboarding process.

Comparative international experiences reinforce the urgency of reform. In South Africa, for example, high listing costs and weak market awareness necessitated the design of targeted SME engagement strategies (Semenya & Dhliwayo, 2020). Similarly, India's launch of SME-specific stock exchanges, such as the BSE SME and NSE Emerge, sought to address high borrowing costs and improve SMEs' access to public financing (Gupta & Saini, 2016). These models demonstrate that institutional adaptation to SME realities is essential for expanding capital market participation. In the context of Bangladesh, the SME board launched by the Dhaka Stock Exchange (DSE) in 2019 offers an illustrative case of policy inertia and implementation gap (Ahammed et al., 2024). To date, only around 20 SMEs have been listed-significantly below projections. This sluggish uptake is attributed to over-engineered regulatory standards that deter SMEs with modest capital needs. Moreover, the absence of mandatory quarterly financial disclosures for SME-listed firms undermines transparency and limits investor engagement. Regulatory delays and weak promotional outreach have further marginalized SMEs from capital market conversations (The Business Standard, 2024; The Financial Express, 2024).

While these studies provide valuable insights, there is a noticeable gap in comprehensive research that systematically identifies the specific challenges SMEs face in listing on the capital market and proposes actionable strategies to enhance their participation. Addressing this gap could provide a more nuanced understanding of the barrier and potential solution, thereby facilitating greater access to capital for SMEs and contributing to sustainable economic development in Bangladesh. These findings align with the objective of this study to identify the challenges SMEs face in listing on the capital market and to propose strategies for overcoming these barriers to enhance SME financing opportunities.

3. Research Methodology

This research is explanatory in nature and was used to investigate and understand the challenges and potential pathways for listing SMEs in the capital market for financing. The study also aimed to propose actionable strategies and policy recommendations for creating an enabling environment that facilitates SME participation in capital market. To get sufficient answers in line with the research question of the study, mixed-methods approach combining both quantitative and qualitative methods was used. Primarily, there was a quantitative survey. Additionally, a qualitative method like key informant interviews (KIIs) was used to capture other qualitative aspects of the study.

This study adopts a mixed-method approach combining both quantitative and qualitative research approaches to explore the challenges and potential pathways for listing SMEs in the capital market for financing. Non-probability convenience sampling was used to collect quantitative data from 156 businesses from different sectors. For the qualitative survey, non-probability convenience sampling was also employed, and five key informant interviews (KIIs) were conducted with representatives from DSE, CSE, and other stakeholders such as the pharmaceuticals and footwear industries.

A total of 156 businesses were interviewed for this survey. In addition, DCCI collected qualitative data through five key informant interviews (KIIs) as part of the survey. A structured questionnaire was administered using a computer-assisted survey solution platform called KoBo toolbox to collect primary data. DCCI R&D team designed the survey forms applying complex algorithms for creating an interactive process of checking data validity. Data were cleaned and analyzed using MS Excel and SPSS (Statistical Package for the Social Sciences), a software package used for the analysis of statistical data. The findings were further validated through the thematic analysis of the key informant interviews (KIIs). The study took around 2 months to complete.

4. Data and findings

This section presents the findings related to the overall objective of the study, which is to identify the key challenges hindering SME access to capital market. The aim is to propose actionable strategies and policy recommendations for creating an enabling environment that facilitates SME participation in capital market. The data collection timeline for this research was from January 12, 2025, to February 13, 2025.

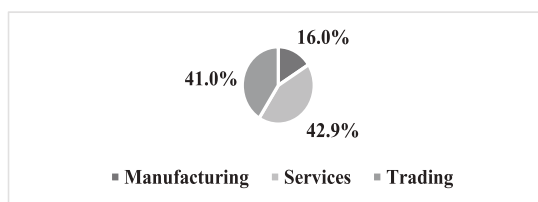
4.1 Descriptive analysis

4.1.1 Findings from the quantitative survey

4.1.1.1 Nature of business

The nature of business activities among 156 respondents were asked in the survey. The three categories of businesses included are Manufacturing, Services and Trading. Manufacturing businesses make up 16.0% of the total, with 25 respondents. Service businesses account for the largest share, at 42.9%, with 67 respondents. Trading businesses constitute 41.0%, with 64 respondents. The majority of businesses operate in the services sector, followed closely by trading, while manufacturing represents the smallest portion.

Figure 1: Nature of business

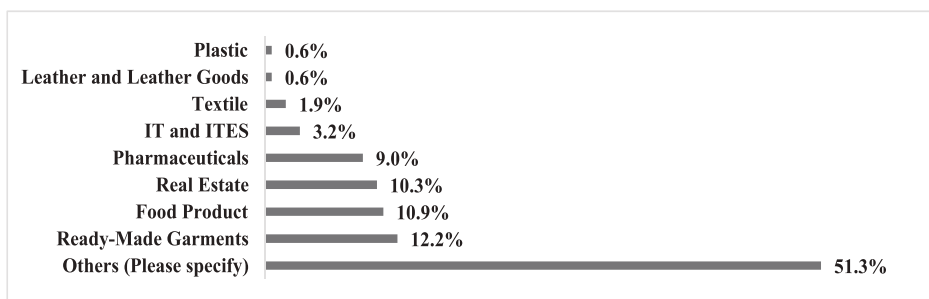


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.2 Sector of business

The survey of 156 businesses reveals a diverse distribution across several key sectors. The Food Products sector leads with 17 businesses, representing 10.9% of the total, closely followed by the Real Estate sector with 16 businesses (10.3%) and the pharmaceuticals sector with 14 businesses (9.0%). The Information Technology (IT) and IT-Enabled Services (ITES) sector comprises 5 businesses, accounting for 3.2% of the surveyed firms, while the Textiles sector includes 3 businesses (1.9%). Both the Plastics and Leather & Leather Goods sectors are represented by a single business each, making up 0.6% respectively. This distribution highlights a concentration of enterprises in the Food Products, Real Estate, and pharmaceuticals sectors, indicating these as prominent areas of business activity. In contrast, sectors such as Plastics, Leather Goods, and Textiles show relatively lower representation, suggesting either niche market presence or limited participation in the survey.

Figure 2: Sector of business



Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.3 Timeline of business operation

The highest percentage of businesses (30.1%) belong to both the 5–10 years and more than 15 years categories, suggesting that a significant portion of businesses either establish themselves successfully within the first decade or sustain long-term growth. The 22.4% of businesses operating for less than 5 years highlights a continuous influx of new enterprises into the market. A lower percentage (17.3%) of businesses fall within the 10–15 years range, possibly indicating a challenging phase for businesses to transition from medium to long-term stability.

In the manufacturing business, a significant portion of businesses have been operating for more than 15 years (36.0%), indicating a strong presence of well-established enterprises. Meanwhile, 32.0% have been in operation for 5–10 years, showing a healthy mid-level maturity. Newer ventures (less than 5 years) make up 12.0%, and 20.0% fall within the 10–15 years category, highlighting a gradual build-up of experience over time. The service business also reflect a similar maturity, with 35.8% of businesses running for over 15 years and 37.3% in the 5-10 years range. This suggests a thriving and relatively stable sector. Newer businesses account for 11.9%, while those in the 10-15 years bracket comprise 14.9%, indicating moderate growth among mid-aged service providers.

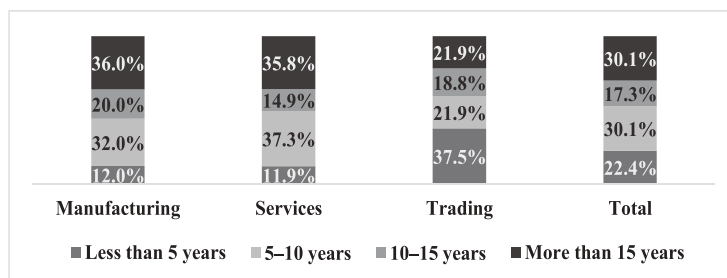
On the other hand, the trading business stands out for its higher concentration of younger businesses. About 37.5% of trading enterprises are less than 5 years old, suggesting a surge in recent entrepreneurial activity. However, the number of long-standing businesses (more than 15 years) is lower, at 21.9%, and the same percentage applies to those operating for 5–10 years. Businesses aged 10–15 years represent 18.8% of the total, showing a more balanced but younger profile overall compared to manufacturing and services.

4.1.1.4 Current paid-up capital of the business

The majority of businesses (28.8%) have a paid-up capital between BDT 2 crore and BDT 5 crore, suggesting a strong mid-to-large-scale business sector. A significant portion (20.5% and 18.6%) falls into the BDT 10 lakh – 75 lakh and BDT 75 lakh – 2 crore range, showing a healthy distribution of mid-sized enterprises. Only 8.3% of businesses have a capital base below BDT 10 lakh, indicating that very small businesses make up a minor portion of the market. Large enterprises (BDT 50 crore and above) account for only 3.8%, reflecting that very few businesses operate with extremely high capital investment.

In the manufacturing, businesses tend to operate on a larger scale. Notably, 36.0% of manufacturing firms have a paid-up capital between BDT 2 crore and BDT 5 crore, the highest share in this sector. Another 24.0% fall within the BDT 5 crore to BDT 50 crore range, and 12.0% even exceed BDT 50 crore, highlighting the capital-intensive nature of manufacturing. However, no manufacturing businesses operate with less than BDT 10 lakh, and a modest portion (12.0% and 16.0%) fall into the mid-range categories like BDT 10 lakh to BDT 75 lakh and BDT 75 lakh to BDT 2 crore.

Figure 3: The business experience



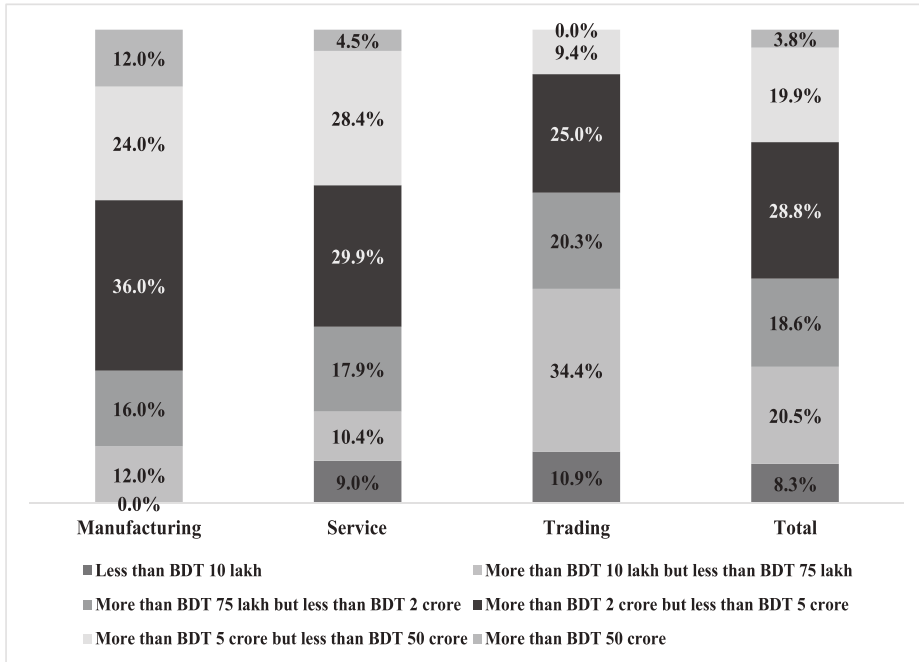
Source: DCCI Survey on Listing of SMEs (2025)

The service shows a more balanced spread across capital brackets. While a sizable share (28.4%) operates with BDT 5 crore to BDT 50 crore, a strong presence (29.9%) is also seen in the BDT 2 crore to BDT 5 crore range. Around 17.9% of service businesses have capital between BDT 75 lakh and BDT 2 crore, while smaller-scale service providers with capital below BDT 10 lakh still make up 9.0% of the total. This diversity reflects the coexistence of both established service firms and emerging startups.

In contrast, the trading business is more concentrated at the lower end of the capital spectrum. Over one-third (34.4%) of trading businesses operate with capital between BDT 10 lakh and BDT

75 lakh, and 10.9% have less than BDT 10 lakh. While 25.0% fall within the BDT 2 crore to BDT 5 crore bracket and 20.3% between BDT 75 lakh and BDT 2 crore. On the other hand, very few trading firms grow beyond BDT 5 crore in capital (9.4%), and none exceed BDT 50 crore.

Figure 4: Current paid-up capital of the business

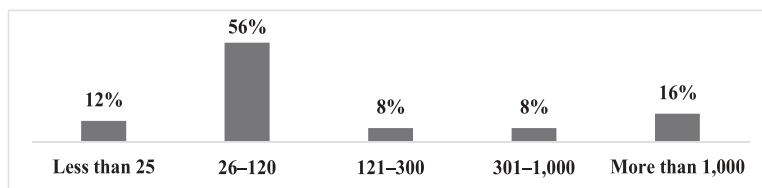


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.5 Number of employees working in manufacturing businesses

The employees working in manufacturing businesses, based on 25 respondents, are categorized into five ranges. The majority of manufacturing businesses (56.0%) have 26–120 employees, indicating that mid-sized firms dominate the sector. Only 12.0% of businesses have a small workforce (less than 25 employees), suggesting that most manufacturing firms require a larger workforce to operate efficiently. A combined 16.0% of businesses employ more than 1,000 workers, highlighting a notable presence of large-scale industrial manufacturers. The 8.0% representation in the 121–300 and 301–1,000 employee ranges show a smaller proportion of firms growing into large-scale operations.

Figure 5: Number of employees working in manufacturing businesses

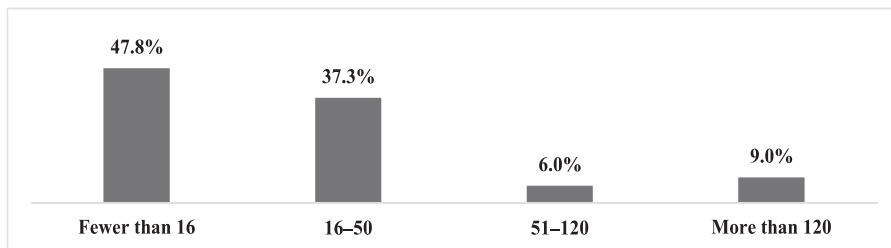


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.6 Number of employees working in service businesses

The workforce size of businesses operating in the service sector, based on 67 respondents, is categorized into four groups. Nearly half (47.8%) of service businesses employ fewer than 16 employees, suggesting that small-scale operations dominate the sector. Many service-based firms, such as consultancy, IT services, and professional services, often operate efficiently with smaller teams. 37.3% of businesses have 16–50 employees, indicating a strong presence of mid-sized firms, which likely require more staff to handle growing client demands. Only 6.0% of businesses employ between 51–120 workers, showing that fewer service businesses transition into large-scale operations. 9.0% of businesses employ more than 120 workers, indicating the presence of large service providers, possibly in industries such as finance, telecommunications, and large-scale outsourcing.

Figure 6: Number of employees working in service businesses

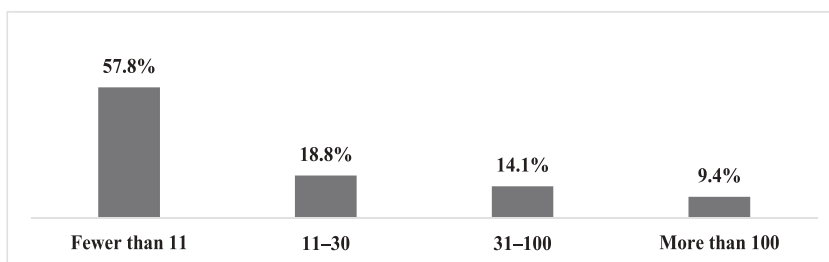


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.7 Number of employees working in trading businesses

The workforce size of businesses operating in the trading sector, based on 64 respondents, are categorized into four groups. A significant 57.8% of trading businesses employ fewer than 11 workers, reflecting that many trading firms operate on a small scale, possibly as family-run businesses or startups. 18.8% of businesses employ 11–30 workers, suggesting that a portion of trading firms are growing and expanding their operations. Only 14.1% of businesses employ 31–100 workers, indicating that fewer trading firms transition into medium-scale operations. 9.4% of businesses employ more than 100 workers, showing that large-scale trading businesses exist but are relatively uncommon in this sector.

Figure 7: Number of employees working in trading businesses



Source: DCCI Survey on Listing of SMEs (2025)

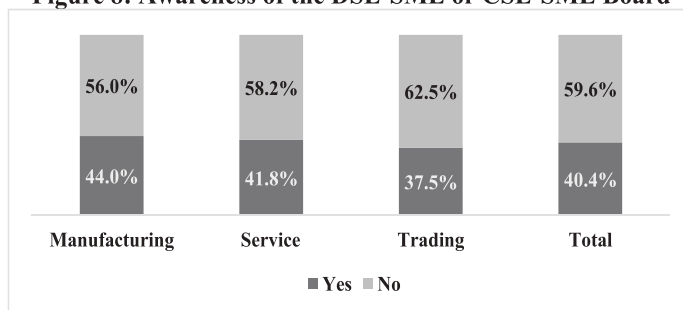
4.1.1.8 Awareness of the DSE-SME or CSE-SME Board

This analysis examines whether businesses are aware of the DSE-SME and CSE-SME Boards, based on 156 respondents. A majority (59.6%) of businesses are unaware of the SME stock boards, highlighting a need for greater financial literacy and awareness campaigns. Only 40.4% of businesses are aware of the DSE-SME and CSE-SME platforms, which means many SMEs may be missing out on potential funding opportunities through public listing.

More specifically, in manufacturing, 44.0% of businesses reported being formally registered, while 56.0% are still operating without official registration. The services business follows closely, with 41.8% of businesses being registered and 58.2% remaining unregistered. In the trading business, the share of registered businesses is comparatively lower, at 37.5%, while a larger majority (62.5%) operate without formal registration.

In summary, while manufacturing leads slightly in formal registration, all three sectors still reflect a high degree of informality. This trend underlines the need for greater awareness, support, and incentives to encourage formalization especially among trading and service-oriented businesses.

Figure 8: Awareness of the DSE-SME or CSE-SME Board

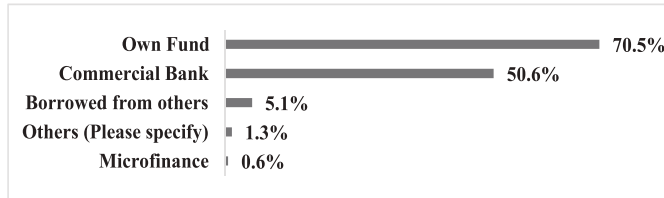


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.9 Sources of current Business financing

This analysis explores the sources of financing used by businesses. Understanding these financing patterns can help identify trends and potential areas for improvement in business funding. The majority of businesses (70.5%) rely on self-financing, indicating that businesses prefer using their own capital rather than taking on debt. Commercial banks serve as a key funding source for a significant portion of businesses (50.6%), suggesting that bank loans play a crucial role in business funding. Informal borrowing (5.1%) and microfinance (0.6%) are used by only a small percentage of businesses, suggesting that these sources are not widely used, possibly due to high risk, limited loan amount, or unsuitable terms for business needs. Only 1.3% of businesses use other financing sources like public money, paid-up capital, financing from Bangladesh Bank, etc.

Figure 9: Financing source of businesses

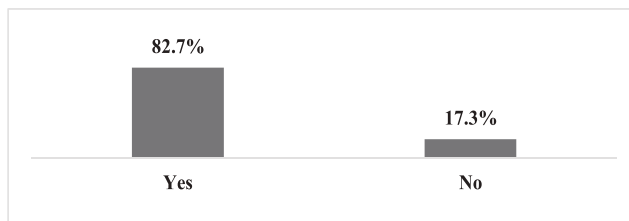


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.10 Listing in the capital market as an alternative to traditional financing sources

This analysis explores business opinions on whether listing in the capital market could serve as an alternative to traditional financing sources. A significant 82.7% of businesses support capital market listing, showing strong interest in equity financing as a way to raise funds. Only 17.3% of businesses do not consider it a viable option, possibly due to a lack of knowledge, perceived risks, or concerns about compliance and regulatory requirements.

Figure 10: Response listing in the capital market as an alternative financing sources

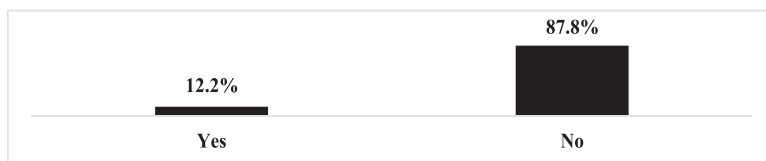


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.11 Understanding of the requirements for listing on the capital market

This analysis examines whether businesses understand the requirements for listing on the capital market. The majority (87.8%) of businesses are unaware of the requirements for capital market listing, pointing to a lack of financial literacy or accessibility to information about the listing process. Only 12.2% of businesses have a clear understanding of the listing requirements, which could be due to prior experience with stock market involvement, access to financial advisors, or knowledge of the capital market. The lack of understanding could hinder businesses from exploring the potential of listing in the capital market, as many may be unaware of the benefits and the specific criteria for becoming a public company.

Figure 11: Understanding of the requirements for listing on the capital market

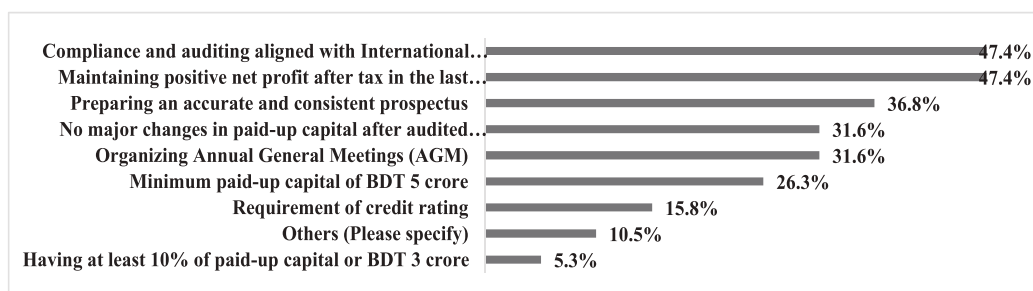


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.12 Difficult or irrelevant listing requirements for SME listing

The responses from 19 businesses that have a clear understanding of the listing requirement highlight several challenges in meeting the listing requirement for businesses. Maintaining a positive net profit after tax (47.4%) and compliance with IFRS (47.4%) were the most frequently cited difficulties. Preparing an accurate and consistent prospectus (36.8%) was another key concern. Organizing annual general meeting (31.6%) and restriction on changes in paid-up capital (31.6%) were also reported as barriers. The minimum paid-up capital requirement of BDT 5 crore poses a challenge for 26.3% of businesses. The requirement of a credit rating was considered a significant issue by 15.8% of businesses. Other concerns, like too many requirements, were reported by 10.5% of businesses. Having at least 10% of paid-up capital or BDT 3 crore was also reported as a difficulty by 5.3% of businesses.

Figure 12: Difficult or irrelevant listing requirements for SME listing

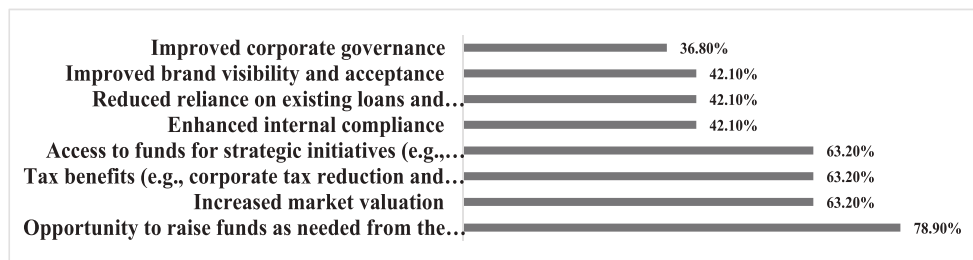


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.13 Benefits expected from listing in the SME capital market

Among the 19 businesses that have a clear understanding of the listing requirement, the majority anticipate multiple benefits from listing in the SME capital market. The most significant benefit cited is the opportunity to raise funds as needed (78.9%). Increased market valuation (63.2%), tax benefit (63.2%), and access to fund for strategic initiative (63.2%) are also key expectations. Improved corporate governance (36.8%) and enhanced internal compliance (42.1%) highlight the potential for businesses to strengthen their management and financial discipline through listing. Reduced reliance on loan and an improved financial position (42.1%) suggest that businesses see listing as a way to lessen debt burden and increase financial stability. Improved brand visibility and acceptance (42.1%) reflect an expectation that public listing could boost business credibility and market recognition.

Figure 13: Benefits expected from listing in the SME capital market

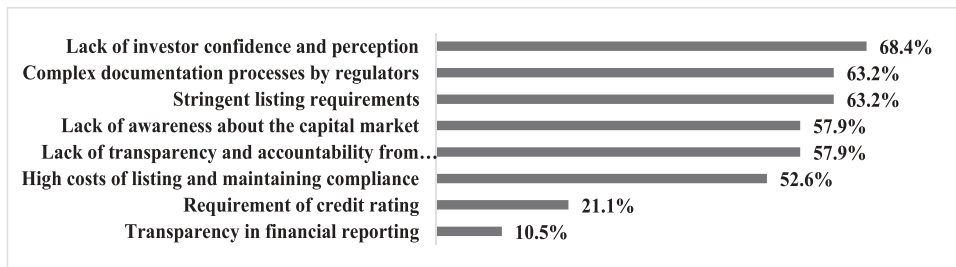


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.14 Main challenges for SMEs in getting listed on the capital market

Among the 19 businesses that have a clear understanding of the listing requirement, several key challenges were identified as barriers to SME listing on the capital market. Lack of investor confidence and perception (68.4%) emerged as the most significant challenge. Stringent listing requirements (63.2%) and complex documentation processes (63.2%) are also major obstacles. Lack of transparency and accountability from regulatory authorities (57.9%) and Lack of awareness about the capital market (57.9%) highlight gaps in communication, guidance, and trust between SMEs and capital market regulators. The high cost of listing and maintaining compliance (52.6%) is another key concern. Requirement of credit rating (21.1%) presents a moderate challenge, though it is less significant compared to other financial and regulatory hurdles. Transparency in financial reporting (10.5%) is a relatively minor concern.

Figure 14: Main challenges for SMEs in getting listed on the capital market

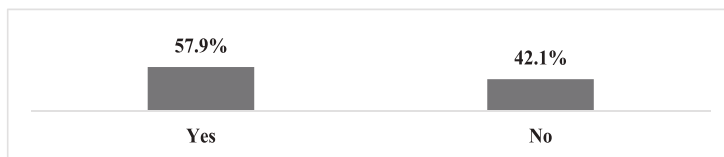


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.15 Concern of businesses

This analysis examines whether businesses are concerned about the costs associated with listing on the SME board, including expenses such as registration, auditing, and reporting, based on 19 respondents who indicated an understanding of the listing requirements. More than half (57.9%) of businesses express concern about the costs involved in listing on the SME board, which may include registration fees, auditing cost, and ongoing reporting requirements. 42.1% of businesses are not concerned about the costs, which could indicate a greater financial preparedness or understanding that the potential benefits of listing outweigh the associated cost.

Figure 15: Businesses concerned about the costs associated with SME board listing



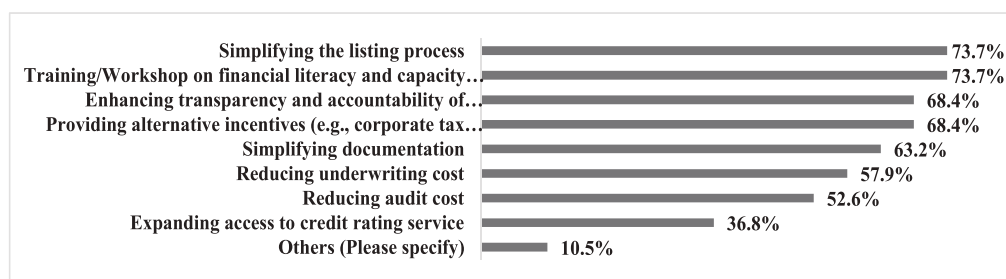
Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.16 Measures that could support SME listing on the capital market

The majority of respondents (73.7%) believe that training programs and workshops on financial literacy would help SMEs gain a better understanding of listing requirement, compliance

and market dynamics. Similarly, 73.7% of businesses support simplifying the listing process, as it would encourage more SMEs to consider listing. A significant 68.4% of businesses emphasized the need for alternative incentives, such as tax benefit and government-backed guarantees, to facilitate SME entry into the capital market. Additionally, 68.4% of SMEs stressed the importance of enhancing transparency and accountability within regulatory authorities. About 63.2% of respondents highlighted that simplifying documentation would make it easier for businesses to comply with listing regulations. Reducing underwriting cost was cited by 57.9% of businesses as a way to make the listing process more affordable. Furthermore, 52.6% of businesses stated that reducing audit costs would help SMEs meet compliance requirements without facing excessive financial burdens. Expanding access to credit rating services was suggested by 36.8% of businesses to assist SMEs in fulfilling listing criteria more effectively. Lastly, a small percentage (10.5%) of respondents proposed additional measures, including the implementation of an online-based transaction facility for SME listing.

Figure 16: Measures that could support SME listing on the capital market



Source: DCCI Survey on Listing of SMEs (2025)

4.2 Descriptive analysis on proposed actionable strategies and policy recommendation for creating an enabling environment that facilitates SME participation in the capital market.

4.2.1. Simplify the SME Listing Process

- **Reduce Processing Time:** Efforts should be made to accelerate the processing time for SME listing on DSE and CSE. Streamlining documentation, approval procedure and regulatory compliance can make the process more efficient.
- **Create One-Stop Service Centers:** Establishing a one-stop service center to guide businesses through the entire listing process can reduce complexity and make it more accessible for SMEs.

4.2.2. Provide Tax and VAT Exemption

- **Tax and VAT Exemption for a Minimum of 5 Years:** To reduce the financial burden on SMEs, it is recommended to offer tax and VAT exemption for at least five years after listing. This will help businesses focus on growth and reinvest profits without the added pressure of high tax.

- Consider a 10-Year Tax Exemption: For long-term sustainability, a 10-year tax exemption could be considered to encourage SMEs to expand and reach their full potential in the capital market.

4.2.3. Offer Stronger Support and Awareness Program

- Increase Financial Literacy for SMEs: There is a need for better financial literacy among SMEs to help them understand the benefits of capital market listing. Offering workshop, seminar, and dedicated resources can ensure that SMEs are well-informed.
- Offer Workshop and Ongoing Support: Continuous educational efforts such as workshop, training session and advisory service should be organized to address the specific needs of SMEs, covering topics like financial management, stock market process and business planning.
- Promote SME Board Awareness: There should be a focused campaign to raise awareness about the SME boards on both the DSE and CSE. This could include advertisements, social media campaigns, and events to inform SMEs about the capital market and its potential as a funding source.

4.2.4. Address Financial and Operational Challenges

- Provide Coordinating Efforts for Sustainability: SMEs often face challenges in marketing, product design, packaging, and quality assurance. Offering coordinated support service for these areas can ensure the sustainability and competitiveness of SMEs in the market.
- Reduce the Role of Middlemen: Many SMEs suffer from excessive involvement of middlemen in the distribution process. Encouraging direct trade or offering programs that reduce middleman dependency could increase profitability for SMEs.

4.2.5. Promote Capital Market as a Viable Financing Option

- Facilitate Access to Capital: While SMEs are often constrained by capital, simplifying access to funding through stock market listing as well as providing easy access to financing information can support growth.
- Advertising on social media and other platforms: To increase visibility, SME board listing can be advertised across social media platforms, trade magazines, and other media outlets, helping businesses see the potential of SME boards for raising capital.

4.2.6. Streamline Cost Structures for Listing

- Lower Listing Cost: The cost associated with listing, including registration, auditing, and reporting needs to be reduced or subsidized for SMEs to make the process more affordable and attractive. This would address concerns that many businesses have about the high initial expenses.

5. Major findings from the KIIs

SME listing offers an alternative source of financing for small and medium enterprises, reducing their dependence on traditional bank loans. It enables business expansion, improves brand reputation, and enhances transparency. However, participation remains limited due to a lack

of awareness and regulatory challenges, compounded by differing definitions of SMEs between capital market regulators and traditional classifications. The primary funding sources for SMEs include personal investment, bank loans, and capital markets. Yet, several challenges persist, such as high-interest rates on bank loan (typically above 10%), insufficient collateral for large-scale financing, lengthy loan approval processes, and a prolonged SME onboarding procedure for capital market entry. While the SME listing process involves due diligence, it is relatively more flexible compared to other capital market segments and offers the benefit of lower reliance on costly loans.

To qualify for listing, SMEs must meet several requirements: a minimum paid-up capital of BDT 5 crore, three consecutive years of profitability, submission of recent audited financial statements, conversion into a public limited company, and adherence to corporate governance standards. Challenges in meeting these requirements include ensuring full financial transparency, maintaining consistent profitability, delays in the listing process-which can range from six months to two years-and bureaucratic inefficiencies during onboarding. Despite these hurdles, SME listing offers long-term capital growth opportunities. Listed SMEs enjoy several benefits, such as fair company valuation, exit options for sponsors and shareholders, cost-effective capital raising with reduced fees, a dedicated market with flexible regulations, and the potential to migrate to the Main Board. Additionally, they benefit from tax incentives, exemption from stamp duty on share transfers, and improved branding and market credibility.

Triangulation : The combined findings from both qualitative and quantitative research reveal several consistent and overlapping themes regarding SME participation in capital markets. These shared insights provide a clearer understanding of both the potential and the persistent barriers facing small and medium enterprises in Bangladesh. A key overlapping finding is the limited awareness among SMEs about the capital market listing process. Despite the existence of an SME platform, participation remains low. Many businesses are unfamiliar with listing requirements, indicating a gap in outreach and communication from market regulators. Both findings highlight that interest in capital market participation is high, especially among SMEs that are aware of the potential benefits. Businesses are willing to explore this route if regulatory and financial barriers are addressed. Both sources consistently highlight a range of key challenges that hinder SME participation in capital market listing. These include stringent listing criteria, such as the requirement for a minimum paid-up capital of BDT 5 crore and three consecutive years of profitability, which many SMEs struggle to meet. Additionally, financial transparency and reporting difficulties remain a major barrier, as many businesses lack formal accounting systems or the capacity to maintain audited financial statements. The high cost of listing and ongoing compliance further discourages smaller enterprises from entering the market.

6. Conclusion and Recommendation

The research findings provide key insights into the characteristics, sector, financing and challenges of SMEs. Most SMEs operate in the services and trading sectors, with manufacturing being the least represented. A significant portion has been in operation for over five years, indicating stability in the sector. Despite the presence of mid-to-large-scale businesses, SMEs primarily rely on self-financing and commercial banks, with limited participation in capital market. Awareness of SME stock exchange platforms is low, and many businesses lack knowledge of

listing requirement. However, there is strong interest in capital market listing, provided regulatory and financial challenges are addressed.

Key barriers to SME listing include stringent regulation, financial transparency issues and high cost of listing and maintaining compliance. However, businesses that understand the process recognize benefits such as increased funding opportunities, better corporate governance, and improved brand visibility. Addressing these challenges can encourage SME participation in capital market, fostering long-term growth. The SME listing process offers access to low-cost capital and business expansion opportunities. However, high-interest rates, regulatory complexities, and limited investor participation hinder involvement. Bureaucratic delays and transparency concern further complicate the process. To facilitate SME market growth, regulatory bodies should simplify procedures, offer tax incentives, and increase awareness. Strengthening collaboration among key financial institutions and developing equity-based capital policies will create a more supportive environment, attract investment and ensure long-term SME sustainability. Based on the findings and observations, this study proposes the following set of recommendations for creating an enabling environment that facilitates SME participation in the capital market.

- Simplify Regulatory and Listing Procedures.
- Introduce Comprehensive Fiscal and Non-Fiscal Incentives.
- Enhance Financial Literacy and Advisory Support.
- Expand Access to Equity-Based Financing.
- Strengthen Institutional Coordination and Policy Alignment.

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Women, Politics, and Economic Development

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Abstract

The nexus between female political engagement and economic advancement constitutes a pivotal yet inadequately assessed matter within global governance frameworks. While women comprise over 50% of the worldwide population, they hold under 25% of the parliamentary roles internationally. This pronounced underrepresentation is a barrier to formulating inclusive policies that are indispensable for sustainable economic development. The meaningful involvement of women in political decision-making processes is essential, as female leaders frequently emphasize investments in healthcare, education, and the expansion of the labor market, domains that possess both immediate and enduring implications for economic progression. Empirical evidence from nations such as Rwanda, alongside scholarly investigations from Bangladesh, illustrates that women's leadership plays a significant role in promoting economic advancement by advocating for policies that enhance social welfare and gender equality. Ultimately, including women in political realms introduces a spectrum of perspectives, thereby nurturing innovation and social development crucial for ongoing economic prosperity.

Keywords: Women, Political Representation, Economic Development, Gender Equality, Governance, Bangladesh.

1. Introduction

The inadequate representation of women within political arenas represents a considerable barrier to achieving inclusive and sustainable economic progress on a global scale. As previously indicated, women account for nearly fifty percent of the global population yet hold fewer than twenty-five percent of parliamentary positions worldwide (Inter-Parliamentary Union, 2023). This significant deficiency in female political presence hinders the development of effective policies, thus limiting the creation of solutions that truly cater to the diverse needs of society. The exclusion of women from leadership positions poses a major obstacle, undermining economic stability and sustainability while exacerbating inequality. Empirical evidence, such as that from the World Bank Group (2018), illustrates that governance marked by gender equality enhances policy responsiveness and promotes more equitable economic results.

The establishment of resilient and equitable growth frameworks necessitates an increase in female engagement within political domains. The participation of women in political decision-making processes contributes a variety of perspectives that are crucial for developing comprehensive policy structures that inclusively reflect the interests of the entire populace. Advancing gender equality in the political landscape is essential for ensuring that critical policies concerning healthcare, education, social welfare, and labor markets, the foundational sectors for sustained economic success receive appropriate attention and resources. Furthermore, empirical studies indicate that female political leaders often improve governance quality by emphasizing transparency and initiatives aimed at reducing corruption, thus fostering an environment favorable to economic expansion (Wekwete, 2014). In Bangladesh, the heightened involvement of women in decision-making capacities has already resulted in noteworthy advancements in poverty reduction strategies and gender-responsive policies, consequently enhancing educational and employment opportunities for women. This article posits that economic progress is intricately connected to the proactive political engagement of women. It examines how female political leadership shapes the creation of inclusive economic policies, addresses the persistent obstacles that impede their complete political participation, and assesses the positive economic outcomes linked to increased female political representation. While acknowledging alternative perspectives that argue female political activism alone cannot resolve economic challenges, this article emphasizes that women's leadership is a vital component of the structural reforms necessary for achieving economic equality and prosperity. The analysis is supported by extensive research conducted in Bangladesh as well as international case studies, illustrating how the enhancement of women's political empowerment acts as a catalyst for sustainable economic development.

2. Political Representation and Economic Advancement: The Argument for Female Leadership

The dynamic relationship between the portrayal of women in political offices and the subsequent economic effects represents a crucial domain of examination within modern academic discourse. A growing body of empirical research indicates that nations with a greater percentage of female legislators tend to demonstrate more advantageous economic conditions. Investigations reveal that female leadership is instrumental in facilitating two essential results: the enhancement of gender equality and the promotion of sustainable economic systems characterized by inclusive growth (Mechkova et al., 2024). A significant connection has been established between increased

female representation in political institutions and improved economic outcomes at the national scale (Hornset & de Soysa, 2022). Hornet and de Soysa (2022) notably found that countries with heightened female political engagement display superior economic metrics.

Empirical studies consistently indicate that women in leadership positions tend to favor policies that promote public welfare, including investments in healthcare and education, which are critical factors for sustainable economic growth (Adams, 2015). Inglehart and Norris (2003) assert that the rise of female political leadership is positively associated with improvements in human development metrics, such as higher educational attainment, increased income levels, and longer life expectancy – all of which significantly enhance economic performance.

Rwanda exemplifies the advantageous effects of female leadership, boasting the highest percentage of women in parliamentary positions worldwide, exceeding 60% (Bauer & Burnet, 2013). In the aftermath of the 1994 genocide, Rwanda has experienced extraordinary economic progress, a trajectory significantly influenced by the proactive involvement of women in political domains (Jones, 2002). Rwandan legislators have effectively utilized their electoral power to create policies that greatly improve social welfare, expand educational access, and strengthen healthcare infrastructures. Burnet (2008) asserts that these initiatives have directly contributed to economic development by reducing poverty and fostering human advancement.

A fundamental area of policy emphasis for women in political roles is the enhancement of workforce empowerment. Research conducted by Milazzo and Goldstein (2019) indicates that female legislators are actively engaged in developing policy initiatives designed to aid women in overcoming obstacles to economic engagement. They advocate for legislation concerning fair compensation, improved childcare facilities, and educational equity, all of which promote women's involvement and success in the labor market. By endeavoring to achieve gender equity in the professional sphere, female leaders unlock significant workforce potential, thus contributing to economic growth.

The political landscape in Bangladesh following the revolution of July 2024 has prompted notable transformations in the representation of women within political arenas and their roles in economic development. The extensive mobilization for democratic reforms during this pivotal period has triggered initiatives aimed at increasing women's political participation. As highlighted by Chowdhury (2025), the proportion of women in parliament surged to around 25% in 2025, reflecting a significant increase from 20% in 2023. Previous policies under the post-revolutionary frameworks promoted gender integration, introduced microfinance programs, and improved access to education and healthcare for women. These initiatives have resulted in heightened literacy rates among women and an increase in their involvement in the economic domain. However, despite these advancements, women continue to encounter barriers to their full political engagement, such as cultural resistance, electoral violence, and discriminatory practices (Haug et al., 2020; Krook, 2017). Nonetheless, this transformation has facilitated new avenues for championing gender equality within the political domain, which is anticipated to further catalyze economic development throughout the nation.

3. Gender Parity in Governance: An Essential Component for Economic Advancement

Distinct and more effective economic strategies emerge from political leadership that exemplifies gender parity, thereby promoting more comprehensive frameworks in healthcare, education, and the employment sector. Equitable representation of women in political decision-making yields policies that more accurately reflect the needs of the entire populace, particularly those of demographics that are frequently overlooked. This inclusive model is essential for sustainable economic progress, as it ensures a broader distribution of developmental benefits across all segments of society (World Bank Group, 2018).

The economic progress of a nation is significantly more evident when women achieve enhanced parity in political leadership positions. Empirical studies conducted by Mechkova et al. (2024) demonstrate that nations with a greater presence of female legislators attain improved human development metrics, which are fundamentally associated with economic progress. The participation of women in political arenas has a direct influence on policy choices pertaining to healthcare, education, and social welfare—areas that yield both immediate and long-term benefits for economic prosperity. Gender-inclusive policies promote economic sustainability by enabling entire populations to utilize their comprehensive talents, rather than limiting contributions to a restricted subset of the community (World Bank Group, 2018).

Healthcare systems influenced by female leadership often prioritize the delivery of services related to maternal and child health, initiatives that contribute positively to the long-term productivity of the national workforce. Female political leaders have been pivotal in implementing healthcare policies that benefit rural populations and economically disadvantaged groups (Kabeer, 2018). Furthermore, women in governance advocate for legislative actions that enhance access to high-quality education for girls and women, thereby cultivating a more educated and skilled workforce.

The presence of gender parity in political leadership is associated with improved fairness in labor practices, which encompasses the advancement of equitable compensation structures and the enhancement of working conditions. Research by Hornset and de Soysa (2022) indicates that the participation of women in political decision-making serves as a catalyst for policy reforms that champion the fair treatment of workers, thereby promoting more efficient and equitable labor markets and increasing economic productivity. Achieving sustainable economic development requires the full political engagement of women, thus reinforcing the tenets of equality and justice and enabling the realization of economic potential.

4. Comprehending the Barriers to Women's Comprehensive Involvement in Political Leadership

Women across the globe, including those in Bangladesh, face significant barriers to their comprehensive engagement in political affairs, which arise from entrenched cultural biases, inadequate financial support, and hostile political climates. Societal perceptions frequently categorize women primarily as caregivers rather than leaders, which diminishes their capacity and societal endorsement to engage proactively in political activities (Haug et al., 2020). Conventional

societal norms in Bangladesh, similar to those in a large portion of South Asia, impose considerable pressure on women who seek to attain positions of political leadership (Haug et al., 2020).

The limitations imposed by economic resources significantly hinder political advancement. Successful political campaigns require substantial financial investments, which a considerable number of women are unable to secure due to inadequate access to financial support and professional networking opportunities. As evidenced by research conducted by the International Labour Organization, women in Bangladesh face considerable political challenges stemming from their restricted access to economic resources (Silva, 2022).

Political harassment and violent acts represent formidable deterrents for women seeking involvement in the political domain. The interrelation of political harassment and physical aggression forms a primary challenge faced by female politicians, especially in regions like Bangladesh, which frequently experience such occurrences (Krook, 2017). The hostile environment fostered by political violence significantly discourages a larger number of women from both entering and maintaining their presence within the political sphere (Krook, 2017).

Globally, women account for a mere 25.5% of parliamentary seats (Kumar, 2017), notwithstanding the efforts of countries like Rwanda and Sweden, which have instituted gender quotas to enhance female representation (Bauer & Burnet, 2013; Kumar, 2017). Despite the increase in numerical representation of women in Bangladesh due to the allocation of reserved parliamentary seats, considerable challenges persist that hinder women's full and equitable involvement in conventional parliamentary roles (Chowdhury, 2025). To adequately tackle these intricate barriers, a comprehensive strategy is imperative: the introduction of gender quotas that extend beyond reserved seats, the allocation of targeted financial support and capacity-building programs for female candidates, the creation and enforcement of legislation aimed at preventing violence and harassment in the political context, and the advancement of broader cultural reforms aimed at dismantling discriminatory practices (Krook, 2017; Haug et al., 2020). While the quota system in Bangladesh has proven effective in improving the political visibility of women, their overall participation and influence across the entirety of political spheres remain limited. Expanding these initiatives will cultivate a truly inclusive environment for all genders and encourage sustained gender equality.

5. Case Studies

Numerous nations have witnessed beneficial economic development correlated with the rise of female political leadership, with Rwanda exemplifying a particularly remarkable instance. Rwanda experienced exceptional economic growth and post-genocide recovery, largely due to its significant representation of women in political roles. Following the devastating genocide of 1994, Rwanda faced considerable economic and social hurdles. Recognizing the necessity for a transformative societal shift, the country enshrined gender equality as a core tenet of its political leadership strategies. Rwanda enacted pioneering gender quota legislation stipulating that public institutions across all levels must ensure a minimum of 30% female representation in leadership positions. In 2020, Rwanda garnered international acclaim for achieving the highest proportion of

female legislators in its parliament, with women accounting for over 60% of the Chamber of Deputies (Haug et al., 2020).

The deliberate integration of women's perspectives has resulted in profound shifts in policy and noteworthy economic progress. The substantial involvement of women in political domains has had a direct influence on fiscal and developmental policy structures. In Rwanda, the governance model, significantly shaped by women's contributions, advocates for policies that expand educational opportunities, enhance health outcomes, and promote gender equality. These initiatives have played a crucial role in the nation's impressive economic achievements. Women in leadership roles have been pivotal in devising strategies aimed at poverty alleviation, improving healthcare services, and increasing agricultural productivity, which is a vital economic sector. For instance, female legislators in the Rwandan parliament have actively sought to enact policies that enhance access to arable land and financial resources for women, thereby empowering their roles within this crucial domain.

Rwanda's economic progress after the conclusion of the genocide has been noteworthy. Between 2001 and 2015, the country recorded an average GDP growth rate of 8% while concurrently making substantial strides in reducing poverty levels. The active participation of women in leadership positions has been crucial in promoting these positive changes, thanks to their dedication to empowerment and inclusive development policies. Furthermore, various social indicators, such as maternal health and gender equality in education within Rwanda, have shown marked improvement. The engagement of women in the policymaking process directly enhances these results and is essential for cultivating sustainable, long-term economic development (Reyntjens, 2015; Lopez & Bannon, 2004; Ansoms, 2005).

An additional example of impactful female leadership can be discerned in New Zealand under the guidance of Prime Minister Jacinda Ardern. Her governance directed New Zealand toward economic progress through prudent investments in technology, education, and initiatives focused on renewable energy. Moreover, she established extensive social welfare programs and systems to ensure fair economic opportunities. Her globally recognized response to the pandemic, which emphasized public health and strategies for economic recovery, enabled the nation to navigate and exhibit resilience in the face of the crisis. These occurrences collectively validate the effectiveness of women in political leadership roles to foster significant and positive economic outcomes. These countries have achieved sustainable development and economic advancement through the implementation of gender-inclusive policies and a focus on human development, demonstrating a clear correlation between female leadership and economic success.

6. Counter-arguments

A widely acknowledged criticism asserts that the simple participation of women in electoral processes does not intrinsically lead to economic progress, considering the multitude of significant variables that influence economic growth. Opponents argue that fundamental developmental obstacles, such as insufficient infrastructure, widespread corruption, and restricted access to healthcare and education, require concurrent intervention for enduring economic progress, regardless of the identities of those in power.

While it is acknowledged that economic development represents a complex phenomenon influenced by a myriad of factors, this article asserts that women's leadership often introduces unique methodologies for addressing issues that can effectively tackle these critical challenges. Female leaders, especially in contexts like Bangladesh, tend to emphasize the creation of social welfare systems, the implementation of gender equality programs, and the formulation of inclusive growth pathways due to their recognition of these components as vital for enduring economic progress. For instance, women in leadership roles in Bangladesh have advocated for and supported policy changes that improve healthcare services, broaden educational opportunities, and increase resource distribution for underprivileged groups. These policies provide long-lasting advantages to the economy by enhancing the ability of each individual to contribute productively to society. Furthermore, female leadership has played a crucial role in fostering an entrepreneurial mindset among female peers, establishing new enterprises, and promoting economic development from the grassroots level.

The amplified presence of women in specified political positions in Bangladesh following 2024 highlights the strategic significance of female leadership within the governance paradigm of the nation (Chowdhury, 2025). While systemic reforms are essential for comprehensive economic transformation, the growing participation of women in decision-making roles in Bangladesh is driving a shift towards more equitable economic development. Their leadership extends beyond mere representation, acting as a vital impetus for sustainable financial advancement by ensuring that developmental policies are just and address the needs of the entire population.

7. Conclusion

The increased political participation of women serves as a fundamental catalyst for sustainable economic progress. Despite facing persistent societal, economic, and political challenges, women's leadership offers critical insights necessary for the development of effective and inclusive policies. Exemplary instances, such as that of Rwanda, illustrate that female leaders prioritize essential domains such as healthcare, education, and social welfare, which are vital for enduring economic advancement. Their active involvement enhances governance transparency and contributes to the reduction of corruption, thereby fostering a stable environment that is conducive to economic growth. Recent advancements in Bangladesh concerning inclusive gender policies and the enhancement of women's political representation following 2024 create a strong foundation for equitable economic development. Realizing the economic benefits associated with women's leadership necessitates comprehensive reforms, including the reinforcement of gender quotas, the provision of financial and institutional support, and the enactment of laws against political violence. In summary, empowering women in political spheres is not only a significant ethical imperative but also a crucial strategy for promoting national wealth and ensuring a fair and prosperous future for all.

AI Declaration: This document exclusively uses artificial intelligence to enhance the language, elevating coherence, fluidity, and understanding while maintaining the essential essence of the ideas expressed.

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Examining the Macroeconomic Drivers of Household Consumption in Bangladesh: A Time Series Econometric Approach (1993-2022)

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Keywords: Human
Development Index,
Household consumption,
Economic Growth,
Unemployment.

Abstract

This analysis uses annual time series data from 1993 to 2022 from the World Bank, UNDP, and ILO to examine the macroeconomic factors influencing household spending in Bangladesh. The research assesses both short and long-term dynamics using the Autoregressive Distributed Lag (ARDL) bounds technique, Ordinary Least Squares (OLS), the Augmented Dickey-Fuller (ADF) test, and an Error Correction Mechanism (ECM). According to OLS results, household spending is considerably increased by GDP growth (coefficient = 5.41, $p < 0.01$), although the Human Development Index (HDI) and unemployment are statistically negligible. Although long-run coefficients indicate negative impacts of GDP, reflecting inflation, inequality, and informality in the labour market, ARDL bounds testing validates long-run co-integration between GDP, HDI, and consumption. ECM estimations show that lagged consumption is the primary driver of short-run changes (coefficient = 0.93, $p < 0.01$), with GDP and HDI having only a minor impact. The results suggest that welfare gains cannot be guaranteed by macroeconomic growth alone. Reforms to the labour market, inclusive growth methods, and closer ties between income-generating and human development should be the top priorities of future policy. Strategies to maintain household welfare in Bangladesh can be better informed by more studies on remittances, geographical differences, and income distribution.

1. Introduction

Household consumption reflects a population's socioeconomic well-being, living standards, and total effective demand. Household consumption is a major component of economic activity, and trends in consumption are a key indicator of economic development and macroeconomic stability. Household consumption is a component of gross domestic product and contributes to reducing poverty and meeting sustainable development goals (SDGs), therefore it is an important area for emerging economies like Bangladesh, particularly when considering its determinants. Household consumption in Bangladesh has been the most powerful contributor to the country's rapid economic development in the last 20 years, and household consumption also has a strong bearing on aggregate demand. It has long been acknowledged that household spending is a key determinant of macroeconomic stability and welfare. Keynes (1936) initially highlighted the connection between income and consumption, a notion that was later expanded upon by ideas like Modigliani's (1966) Life-Cycle Hypothesis and Friedman's (1957) Permanent Income Hypothesis. While emphasizing the structural hurdles that mediate the income–consumption nexus, empirical research conducted in emerging nations has confirmed these connections.

In the World Bank Economic Review, Loayza and Raddatz (2010) showed that structural inequality restricts how much GDP growth in developing nations can be converted into increased household expenditure. In a similar vein, Khan (2017) discovered that although Bangladesh's expansion helped to reduce poverty, its effects on household welfare were limited by the informal labor market and growing inequality. The reciprocal relationship between human development and consumption is highlighted by studies published in the World Development and Journal of Development Economics (Ranis, Stewart & Ramirez, 2000; Anand & Sen, 1994). These studies contend that improvements in income, health, and education increase capabilities, which in turn boost household demand. Numerous studies have also been conducted on the role of unemployment. Chaudhury and Rakhimov's (2021) study on youth unemployment in Bangladesh (Journal of Development Studies) corroborated Muellbauer's (2007) finding that rising unemployment decreases consumption by lowering disposable income and confidence. Recent works in The World Economy (Sekwati & Dagume, 2023) and Economic Modelling (Biloshkurska et al., 2023) demonstrate how labor market variables influence the effects of macroeconomic growth on household welfare.

Exports, remittances and urbanization have propelled Bangladesh's strong economic growth since about 2000, averaging over 6% per year for 20 years (ADB, 2021). This economic development was accompanied by significant human development. From 1990, the Human Development Index (HDI), a composite index that captures income, education and health, increased from 0.388 to 0.670, an estimated value in 2022, which is a consistent progression in provision of services, exemplified in youth literacy (92%) and life expectancy (72.6 years) (BBS, 2021). These advancements have come almost all from public investment in health and education, which increases the ability and capacity of people to participate in the economy in a meaningful way.

Evaluating household consumption is crucial not only for lawmakers but also for business planners, investors, and financing institutions aiming to estimate market demand, build consumer-driven goods, and plan investments in rising economies like Bangladesh. Household consumption

drives significant portions of aggregate demand and is an important measure of welfare in developing countries. Policymakers can devise targeted policies that foster more equitable growth and mitigate poverty if they better understand the influences on consumption. Income is an important determinant of consumption, but according to Keynesian consumption theory (Keynes, 1936), contemporary research focuses more on the wider issues of socioeconomic status, labor market conditions, education, and human development. The human development index has become an important measure of welfare beyond economic output - the human development index is a composite measure that encompasses income, health and education. Research indicates a robust positive correlation between household welfare and HDI. Higher HDI, for example, indicates greater capabilities and access to basic services, which usually translates into better spending patterns, according to Anand and Sen (1994).

Keynes (1936) laid the groundwork for the consumption function in macroeconomics by highlighting the influence of income on consumption. According to Loayza and Raddatz (2010), structural inequality frequently inhibits GDP growth in developing nations from immediately increasing household spending. Khan (2017) also pointed out that although economic expansion in Bangladesh helped to lower poverty, inequality and unorganized labor markets continue to limit its effects on household spending. Ranis, Stewart, and Ramirez (2000) and Anand and Sen (1994) emphasized the reciprocal relationship between economic growth and human development, contending that gains in income, education, and health result in increased capacity for consumption.

In a similar vein, Ranis, Stewart, and Ramirez (2000) emphasized the reciprocal relationship between economic growth and human development, whereby higher HDI indices support household spending and individual productivity. Another important factor influencing consumption patterns is unemployment. Growing unemployment has a detrimental effect on expenditure since it lowers disposable income and household confidence (Muellbauer, 2007). This is especially noticeable in countries like Bangladesh that have weak social safety nets. The Permanent Income Hypothesis (Friedman, 1957) states that consumers base their consumption on their predicted lifetime income, so even in cases where current income is constant, job insecurity may have long-term depressing consequences on consumption. Consumption and GDP growth have a complicated relationship. Even while conventional macroeconomic models point to a beneficial relationship, empirical results are conflicting, particularly when considering developing nations. Because of structural inequality and a lack of wealth redistribution, economic progress does not always translate into higher household consumption in many low-income countries, according to Loayza and Raddatz (2010). These connections are not consistent or predictable across socioeconomic levels, though. The benefits of development are mediated by labor market structure, employment status, and income inequality, which may restrict consumption for vulnerable populations.

One enduring structural issue facing Bangladesh's economy is unemployment. Even while the official unemployment rate is only about 4%, underemployment and informal work are more common, especially among young people, whose unemployment rates can reach 11.6% for those between the ages of 15 and 24 (ILO, 2020; 2021). This state of the labor market severely limits household consumption and disposable income, particularly for low-income and rural households (Chowdhury et al., 2019). Although household income and consumption

are theoretically increased by economic expansion, the magnitude of this gain is primarily dependent on job creation and equitable distribution (Khan, 2017). Household spending is shaped by the dynamic and intricate interactions between HDI, unemployment, and economic growth. Studies that have already been done have mostly looked at these elements separately or in relation to GDP growth or poverty, frequently ignoring their combined and direct effects on household consumption patterns, especially in emerging nations like Bangladesh. The socio-economic impacts of unemployment, poverty, and HDI have been looked into internationally and regionally in the form of studies by Aji (2021), Alshuwaiee et al. (2020), and Bintis et al. (2024). This is in line with global research by Hasan and Uddin (2020), who contend that inclusive economic policies are necessary to encourage human development, which by itself does not inevitably result in higher household consumption.

However, no specific investigations have been conducted into the effect on household consumption in Bangladesh. This study is based on the assumption that understanding this relationship is important to formulate appropriate policies to raise living standards, reduce inequality and achieve inclusive economic growth. This paper adds significantly to the conversation in academia and policy. The results can help policymakers implement focused policies that balance economic growth with job creation and human development. It provides academics with a multifaceted framework that combines indices of human development and macroeconomic performance to explain consumption patterns. By doing this, it provides a more comprehensive and inclusive view of family economic dynamics in the context of developing nations, going beyond typical consumption models that only consider income and prices. Thus, this study closes this significant research vacuum by empirically analyzing how Bangladeshi household spending is impacted by the Human Development Index, unemployment, and economic growth. This study's primary goal is to determine how household consumption is impacted by economic growth, unemployment, and HDI. The study's particular goals are as follows:

- i. To analyze the relationship between unemployment, economic growth and Household Consumption in Bangladesh.
- ii. To evaluate the role of the Human Development Index (HDI) in influencing Household Consumption levels in Bangladesh.

1.1. Research Gap

Few empirical studies explicitly investigate their combined effects on household spending patterns using a thorough time-series approach, despite the fact that previous studies have looked at the effects of economic growth, human development, and unemployment on poverty and GDP in Bangladesh. Previous research has tended to concentrate on either human development or economic growth separately, frequently ignoring the ways in which these two variables combine to affect consumption patterns in developing nations. Furthermore, there is still a dearth of integrated analysis that links macroeconomic growth, labor market circumstances, and human development indicators with household spending behavior, even in the face of Bangladesh's swift economic and social transformation. By analyzing these macroeconomic factors collectively, this study fills this knowledge gap by gaining a better understanding of their immediate and long-term effects on household spending in Bangladesh.

2. Methodology of the Study

2.1. Data sources and availability

Using yearly time series data from 1993 to 2022, this study examines the connection between household consumption and economic growth in Bangladesh. The World Bank's World Development Indicators (WDI) were used to calculate household consumption (as a proportion of GDP) and GDP growth rate (as an annual percentage). Missing values were cross-checked with publications from the Bangladesh Bureau of Statistics (BBS) to guarantee data veracity. STATA version 14 was used for all calculations and estimations.

For forecasting and determining long-term linkages and temporal dynamics, time series data are especially well-suited. This dataset's selection enables the use of dynamic econometric models to comprehend how development indices affect consumption over the short and long term. Because time series data capture both short-term fluctuations and long-term structural changes, they are especially well-suited for studying macroeconomic dynamics. GDP growth has been chosen as the main explanatory variable in this study due to its strong theoretical and empirical ties to consumer behavior. According to Keynesian theory (Keynes, 1936), increases in income have a direct impact on aggregate consumption. Accordingly, recent research (Khan, 2017; Loayza & Raddatz, 2010) highlights that, despite the possibility that inflation and inequality will moderate its benefits, GDP growth is a key factor in determining household demand in developing nations.

Based on their theoretical and empirical significance to household consumption patterns in developing economies, the three main independent variables—GDP growth, unemployment rate, and Human Development Index (HDI)—were chosen. GDP growth is a measure of the economy's overall performance and income generation, and it frequently affects household consumption by creating job opportunities and income (Keynes, 1936; Khan, 2017). A measure of labor market circumstances is the unemployment rate; a greater unemployment rate may result in less disposable income, which could have an impact on consumer behavior (Muellbauer, 2007). Both the ability and inclination of households to consume can be influenced by the HDI, which measures broader facets of human well-being such as health, education, and living standards (Anand & Sen, 1994; Ranis et al., 2000).

2.2. Model Specification

2.2.1. Ordinary Least Squares

The baseline linear relationship between household consumption and its predictors is first estimated using the Ordinary Least Squares (OLS) method. Under traditional assumptions, OLS yields the Best Linear Unbiased Estimators (BLUE) (Wooldridge, 2016). The model's specifications are as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu_i \dots \dots \dots (1)$$

Where,

Y = Household Consumption in Bangladesh, X_1 = Unemployment Rate in Bangladesh, X_2 = Economic Growth Rate in Bangladesh, X_3 = Human Development Index in Bangladesh, β_0 = Intercept Term and $\beta_1, \beta_2, \beta_3$ = Regression Coefficient, μ_i = Error Term

2.2.2. Unit Root Test

Unit root tests were used to evaluate the stationarity of the variables in order to guarantee the correctness of time series estimations. Regression results can be erroneous when the series is non-stationary. The following theories were put to the test:

Hypothesis:

Null, H0: Variable is non-stationary or has a unit root
Alt, H1: Variable is stationary or doesn't have a unit root

The primary test used was the Augmented Dickey-Fuller (ADF) test. Before estimating the model, the proper differencing was applied based on the stationarity results. The stationarity of both variables was checked using the Augmented Dickey-Fuller (ADF) test to prevent false regression. The findings show that whereas household spending becomes stagnant at first difference, GDP growth is stationary at level. The application of the Autoregressive Distributed Lag (ARDL) model is justified by this combination of integration orders.

2.2.3. ARDL model and bound testing for co-integration

The Autoregressive Distributed Lag (ARDL) method is applied because of the possible combination of I(0) and I(1). According to Pesaran, Shin, and Smith (2001), ARDL is especially beneficial for mixed orders of integration and small sample sizes. To determine whether there is a long-term equilibrium link between GDP growth and household spending, the ARDL bounds testing approach was used. The F-statistic was used to compare critical values. Co-integration was validated by the test, indicating a steady long-term relationship between household expenditure and economic growth in Bangladesh.

The bounds testing approach to co-integration complements the long-run ARDL model framework. The hypotheses are:

Null, H0: No long run relationship (no co-integration)
Alt, H1: Long run relationship exists (co-integration)

Critical values are compared to the F-statistic. Co-integration is verified if the F-statistic is greater than the upper bound. Otherwise, the null hypothesis is upheld if it drops below the lower bound.

2.2.4. Error Correction Model

An ECM was estimated to account for both short-term adjustments and long-term equilibrium once co-integration was demonstrated. The findings indicate that while GDP growth has a large short-term impact but a weaker long-term one, household consumption is heavily impacted by its lagged values. This suggests that although consumption in Bangladesh reacts favorably to economic growth, structural problems like inflation and inequality reduce the impact of growth on household well-being.

Following co-integration confirmation, the ARDL Error Correction Model (ECM) is designed to account for both long-term equilibrium and short-term dynamics. The ECM can be written as:

$$\Delta HC_t = \beta_0 + \sum_{i=1}^p \beta_1 \Delta HC_{t-i} + \sum_{i=0}^{q1} \beta_2 \Delta GDP_{t-i} + \sum_{i=0}^{q2} \beta_3 \Delta UR_{t-i} + \sum_{i=0}^{q3} \beta_4 \Delta HDI_{t-i} + \lambda ECT_{t-1} + \mu_t$$

Where,

HC =Household Consumption, GDP = GDP growth rate, UR = Unemployment rate, HDI = Human development index, Δ Denotes first differences

ECT_{t-1} The error correction term is derived from the long-run equation.

λ : The speed of adjustment toward long-run equilibrium

In order to analyze the short- and long-term interactions between variables with different integration orders (I(0) or I(1)), this study uses a time series econometric method with the ARDL (Autoregressive Distributed Lag) model. Given the sample size and the variables' mixed stationarity characteristics, the ARDL limits testing approach is very suitable and a reliable option for time series analysis in macroeconomic research (Pesaran, Shin, & Smith, 2001).

When modeling dynamic interactions among macroeconomic indicators such as GDP growth, unemployment, and the human development index, the ARDL method's flexibility in lag selection is advantageous families for consumption (Ranis et al., 2000; Anand & Sen, 1994).

2.2.5. Diagnostic Checking

A number of diagnostic tests were carried out in order to validate the estimated model. Variance Inflation Factor (VIF) results from the multicollinearity test showed no discernible multicollinearity. Autocorrelation: The Breusch-Godfrey LM test and Durbin-Watson statistic verified that there was no serial correlation. Specification and Stability: Test statistics and residual plots validated the robustness of the model. The existence of a long-term link between variables is supported by the bounds test.

3. Data Analysis and Result Discussion

3.1. Descriptive Statistics

The table of descriptive statistics reveals initial data on the distribution and fluctuation of the variables under study within the 1993–2022 timeframe.

Table 1. Descriptive Statistics of the selected variables

Variable	obs	mean	std. dev.	min	max
Household Consumption	30	103.188	84.96	27.44	317.84
Unemployment rate	30	3.947	.949	2.3	5.8
HDI	30	.544	.073	.423	.67
GDP Growth	30	5.72	1.167	3.4	7.9

Source: Authors' Computation, 2025

Household consumption averaged 103.19% of GDP with high volatility, illustrating sensitivity to shocks and remittance flows. Unemployment stayed stable (3.95%) but likely masks underemployment due to informality. HDI gradually improved (mean = 0.544), signaling gains in health, education, and income. GDP growth averaged 5.72%, with recent decreases linked to COVID-19. Regardless of risks from global inflation, climate change, and geopolitical conflicts, Bangladesh’s shift toward middle-income status is reshaping consumption through growing urbanization, digital availability, and rising female labor participation. Persistent disparities in consumption highlight the need for policies promoting labor effectiveness, social protection, and human capital investment for inclusive growth.

3.2. Unit root test

Table 2. Unit root test of the selected variables

Augmented Dickey-Fuller Test											
Variables	t-statistics	Critical values			p-values*	Variables	t-statistics	Critical values			p-values*
		1%	5%	10%				1%	5%	10%	
GDP Growth	-5.065	-	-	-	0.0002	GDP Growth	-7.911	-	-	-	0.0000
		4.343	3.584	3.230				4.352	3.588	3.233	
Unemployment rate	-2.955	-	-	-	0.1450	Unemployment rate	-5.274	-	-	-	0.0001
		4.343	3.584	3.230				4.352	3.588	3.233	
HDI	-1.287	-	-	-	0.8911	HDI	-4.136	-	-	-	0.0056
		4.343	3.584	3.230				4.352	3.588	3.233	
Household Consumption	2.677	-	-	-	1.0000	Household Consumption	-3.614	-	-	-	0.0287
		4.343	3.584	3.230				4.352	3.588	3.233	

Notes: MacKinnon's approximate p-value (5%)
If p-value<0.05, the null hypothesis of non-stationarity is rejected; that is, the series is stationary.

Source: Authors' Computation, 2025

According to the ADF test (Table 2), household consumption, the unemployment rate, and the HDI are non-stationary ($p > 0.05$), although only GDP growth is stationary at the level ($t = -5.065$, $p = 0.0002$). All variables become stationary at the 5% significance level following initial differencing. For dependable time-series regression, these findings support the use of first-difference transformations. The structural trends in Bangladesh, which are fueled by remittance inflows, urbanization, and ongoing advancements in health and education, are reflected in the level of non-stationarity of HDI and consumption. GDP growth is continuously steady, yet it varies depending on factors like COVID-19. Despite being officially low, unemployment stagnates after differencing, suggesting that the informal labor market may be volatile. All things considered, the results support the use of differenced-variable modeling to evaluate the changing dynamics of household consumption in Bangladesh.

3.3. Regression Analysis

The table presents the results of a linear regression analysis to analyze the factors driving Household Consumption. The independent variables consist of GDP Growth, Unemployment Rate, and Human Development Index (HDI), while Household Consumption is the dependent variable.

Table 3. Linear Regression of the selected variables

Household Consumption	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
GDP growth	5.415	1.541	3.51	.002	2.24 8.59	***
Unemployment rate	1.113	3.933	0.28	.779	-6.988 9.214	
HDI	219.921	434.649	0.51	.617	-675.255 1115.098	
Constant	-23.134	10.159	-2.28	.032	-44.058 -2.21	**
Mean dependent var	10.014		SD dependent var	10.576		
R-squared	0.345		Number of obs	29		
F-test	4.381		Prob > F	0.013		
Akaike crit. (AIC)	213.829		Bayesian crit. (BIC)	219.298		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Authors' Computation, 2025

GDP Growth (5.415): Household consumption and GDP growth are related and positively correlated (p -value = 0.002); thus, when the economy is growing, it also causes household consumption to increase. Unemployment Rate (1.113): The unemployment rate did not affect household consumption significantly (p -value = 0.779). The Human Development Index (HDI) overall was not significant enough for households to affect consumption (219.921) (p -value = 0.617). Constant (-23.134): The constant was negative but should be taken into consideration as it is a more theoretical value and still significant (p -value = 0.032). The regression model was statistically significant (F-test = 4.381, p -value = 0.013) and accounted for 34.5% of the variation in household consumption (R-squared = .345). Therefore, given the p -value of 0.002 and the coefficient of 5.415 indicates that GDP growth does positively impact household consumption in Bangladesh overall. It could be concluded that household consumption either goes up with economic growth, or that it generally follows the larger trends of economic growth in Bangladesh over the last few years. But we do not see any statistically significant effects of the unemployment rate or the Human Development Index (HDI) on household expenditure in this model. While the social and economic condition of the labour market has the potential to be captured in not observing a significant association between unemployment and consumption (p -value = 0.779), high unemployment does not always relate to lower consumption, perhaps due to other factors such as remittances or informal work. And, with economic and social benefits in Bangladesh yet not entirely accounted for in household consumption decisions, it is possible that the lack of relevance of the HDI also points to a gap between participation and reported development indicators and current consumption choices.

According to the analysis, GDP growth continues to be the main macroeconomic factor that has a major impact on household consumption in Bangladesh. This finding is consistent with traditional economic theories that relate aggregate demand and national income (Keynes, 1936). The impact, however, seems to vary between models, which may be a reflection of systemic issues that temper this link in the Bangladeshi context, such as income disparity, inflationary pressures, and unequal income distribution. However, in most models, neither the HDI nor the unemployment rate has statistically significant effects on household consumption. This is consistent with previous findings that, particularly in informal economies like Bangladesh's, improvements in human development or changes in unemployment rates may not immediately result in higher household spending (Muellbauer, 2007; ILO, 2020).

As a result, even though economic growth has a discernible impact, deeper socioeconomic systems mediate this effect, highlighting the necessity of inclusive growth methods. These results suggest that while economic growth is still undoubtedly a key factor of household consumption in Bangladesh, interventions that are potentially more substantive may be necessary to account for the modes of influence from variables such as unemployment and development indices to consumption.

3.4. Multi-collinearity Test

The Variance Inflation Factor (VIF) is used to measure the degree of multicollinearity among the independent variables in the model. A VIF value below 10 generally indicates no significant multicollinearity.

Table 4. The variance inflation factor

Variables	VIF	1/VIF
Unemployment rate	1.112	.9
GDP growth	1.112	.9
HDI	1.011	.99
Mean VIF	1.078	

Source: Authors' Computation, 2025

All variables have modest Variance Inflation Factor (VIF) values; the HDI has a VIF of 1.011, while the GDP growth and unemployment rate have VIF values of 1.112. The model has very little multicollinearity, as evidenced by the mean VIF of 1.078, which is far below the cutoff of 10. These findings imply that there is little correlation between the explanatory variables, guaranteeing the validity of the regression estimations and demonstrating that multicollinearity does not materially skew the study.

3.5. Bound test for co-integration

The table represents the results of a Bound Test for co-integration to determine long-run relationships between variables. It includes three dependent variables: Household Consumption, GDP, and HDI.

Table 5. Co-integration test of the selected variables

Dependent Variables	F-statistics	Lower Critical Value		Upper Critical Value		t-statistics	Co-integration
		10%	5%	10%	5%		
Household Consumption	1.866	6.58	8.21	6.58	8.21	-1.366	Absent
GDP growth	65.095	6.58	8.21	6.58	8.21	-8.068	Present
HDI	13.812	6.58	8.21	6.58	6.58	-3.717	Present

Source: Authors' Computation, 2025

The dependent variables (household consumption, GDP growth, and HDI) and their corresponding critical values at the 10% and 5% significance levels are tested for co-integration

using the F-statistics and t-statistics shown in the table. There is no co-integration since the t-statistic (-1.366) and the F-statistic (1.866) are both below the threshold and below the crucial values (6.58 and 8.21). This implies that, in the case of Bangladesh, household spending does not show a long-term equilibrium relationship with the other variables. Co-integration is evident from the high F-statistic of 65.095 and the t-statistic of -8.068, both of which are above the critical limits. Given the tremendous impact of economic growth on consumption patterns in Bangladesh, this points to a significant long-term link between GDP growth and household consumption. Co-integration is shown by the F-statistic (13.812) and t-statistic (-3.717), both exceeding the crucial thresholds. This suggests a strong, long-term correlation between household consumption and HDI, suggesting that consumption patterns in Bangladesh are influenced by aspects of human development such as health and education.

The findings emphasize the long-term effects of GDP growth and HDI on consumption patterns by demonstrating their co-integration with household spending in Bangladesh. Nevertheless, there is no co-integrating link between household consumption and these variables, indicating that other factors can have a short-term impact on consumption.

Table 6. Long run coefficients of ARDL

Variables	Household Consumption			
	Coefficient	S. Error	t-statistics	Probability
GDP growth	-13.51134	37.22995	-0.36	0.020
Unemployment rate	9.518613	45.15991	0.21	0.035
HDI	586.592	5176.646	0.11	0.011

Source: Authors' Computation, 2025

The GDP growth coefficient (-13.51134) has a probability of 0.020 and a t-statistic of -0.36. This indicates that household consumption and GDP growth appear to have a weakly negative relationship. However, the t-statistic indicates a poor statistical significance at conventional levels.

Regarding the coefficient for unemployment rate (9.518613), the t-statistic of 0.21 and probability of .035 indicate a positive coefficient, suggesting a weakly positive but statistically significant effect on household consumption. This can reflect consumption habits driven by remittance or work in the unorganized sector. Though the HDI has a positive coefficient (586.592), the t-statistic (0.11) and probability (.011) indicate a weak and statistically insignificant effect on household consumption.

The correlations between GDP, CPI, and household consumption are weak and statistically insignificant in the current Bangladeshi economy. These correlations may be explained by ongoing structural challenges like income inequality and inflation, dampening the effects of GDP growth on consumption. Unemployment has a weak positive association with consumption, which suggests that the unorganized sector may be more resilient, and formal unemployment rates may not have a direct impact on consumption. Finally, given the narrow measure of the HDI, it is

possible that improvements in human development may not have fully translated to concrete changes in consumer behavior yet.

3.6. ARDL and ECM Result

Table 7. ECM representation for selected ARDL

Variables	Household Consumption (1 1 0 1)			
	Coefficient	Std. Error	t-statistics	Probability
ECT (-1)	-0.071177	0.122858	-0.58	0.069
HC(L1)	0.928823	0.122858	7.56	0.000
GDP	-1.962026	1.0336	-1.90	0.071
UR	0.6775065	2.883963	0.23	0.817
HDI	576.8704	292.5514	1.97	0.062
R ²	0.7584			
Adjusted R ²	0.6893			
F-statistic	10.99			
F-significance	0.0000			
DW-statistic	2.23585			
Constant	1.391566	3.434949	0.41	0.689

Source: Authors' Computation, 2025

ECT (-1) shows a weak, statistically insignificant adjustment term is suggested by the coefficient of -0.071177, t-statistic of -0.58, and likelihood of 0.069, suggesting that previous departures from equilibrium have little bearing on present consumption levels. HC (L1) is representing that there is a substantial favorable correlation between current household consumption and its lagged value, as indicated by the positive coefficient (0.928823) and significant t-statistic of 7.56 (p-value = 0.000). This suggests that previous consumption has a considerable impact on present consumption behavior. There is a slightly negative correlation between GDP and household consumption, which is nearly statistically significant at the 10% level, according to the coefficient of -1.962026, t-statistic of -1.90, and probability of 0.071. This might be a reflection of Bangladesh's difficulties converting GDP growth into household welfare, which is probably brought on by inflation and income disparity. According to this model, increases in unemployment do not significantly affect household spending, as indicated by the coefficient (0.6775065), which has a t-statistic of 0.23 and a probability of 0.817. The coefficient of HDI (576.8704) shows a weak but positive effect of advances in human development on household consumption, with a t-statistic of 1.97 (p-value = 0.062) that is marginally significant at the 10% level. Much of the variation in family expenditures can be attributed to the model, R-squared 0.7584, Adjusted R-squared 0.6893. The model is statistically significant with the F-statistic (10.99) at p=0.0000 and has no severe autocorrelation issues (DW-statistic (2.24)).

The strong correlation between current consumption and lagged household consumption HC(L1) in Bangladesh highlights how crucial historical consumption patterns are in influencing current patterns. GDP's somewhat negative impact raises the possibility that structural problems like inflation or unequal income distribution are preventing growth from yet fully transferring into household consumption. Although human development may have an impact on consumption, its

influence is still limited in the current economic climate, as seen by the insignificance of unemployment and the poor effect of HDI. All things considered, the model fits the data rather well and suggests that the most powerful predictor of present-day household spending in Bangladesh is historical consumption trends. There are no significant autocorrelation problems, according to the DW-statistic (2.24).

Table 8. LM test for autocorrelation result

chi ²	df	prob > chi ²
0.720	1	0.3961

Source: Authors' Computation, 2025

The table reveals the results of the Breusch-Godfrey LM test for autocorrelation, used to check for the existence of autocorrelation in the residuals of a regression model. The Chi² statistic value is 0.720, and the degrees of freedom (df) is 1. Prob. > Chi² is 0.3961, which is more than the commonly used significance level of 0.05. This suggests that there is no pertinent autocorrelation in the model's residuals. This result shows that our model is stable.

4. Conclusion and Recommendation

This study used annual time series data from 1993 to 2022 to examine how household spending in Bangladesh was affected by macroeconomic factors such as GDP growth, unemployment, and the Human Development Index (HDI). The investigation demonstrated both short- and long-term dynamics using OLS, ARDL bounds testing, and an Error Correction Model (ECM). While unemployment and HDI are statistically negligible, the OLS results show that GDP growth significantly increases household spending (coefficient = 5.41, $p < 0.01$). The long-run coefficients show that the impact of GDP growth on household consumption diminishes, reflecting structural issues like inflation, inequality, and informality in the labor market, even though the ARDL limits test confirms co-integration among the variables. The ECM also demonstrates that whereas GDP and HDI have relatively little effects, lagged consumption accounts for the majority of short-term variations (coefficient = 0.93, $p < 0.01$).

These results imply that long-term gains in household welfare are not guaranteed by economic development alone. The main goals of policy initiatives should be to promote equitable growth, fortify labor market institutions, and more closely connect investments in human development to sources of revenue. Stabilizing consumption also requires increasing social safety and containing inflation. In order to better capture distributional impacts, future research should look at how remittances, financial inclusion, and geographical differences shape consumption patterns. It should also conduct income-group-based analysis. These extensions would shed more light on how macroeconomic development in Bangladesh might be converted into widespread welfare improvements.

4.1. Policy Recommendation

Encourage equitable and steady economic growth

Household consumption in Bangladesh is significantly driven by GDP growth, according to the OLS results (coefficient = 5.41, $p < 0.01$). However, the results of the ARDL and ECM show that inflationary pressures, inequality, and informality in the labor market cause the long-term impact

of GDP on consumption to wane and even go negative. In order to guarantee welfare gains at the household level, policymakers should give priority to inclusive growth policies. Targeted redistribution, improved social protection, and inflation control are necessary to guarantee that growing GDP results in long-term increases in household expenditure.

Boost Formal Employment and Labor Market Institutions

The unemployment rate did not have a substantial short-term impact on consumption because informal work and remittance driven consumption are so prevalent. However, ECM data indicate structural dependency, with lagged consumption driving present spending considerably (coefficient = 0.93, $p < 0.01$). Bangladesh must improve job security and move informal workers into formal employment in order to end this cycle and turn growth into increases in consumption. It is imperative to implement labor market changes that prioritize skill development, wage growth, and the expansion of the productive sector.

Connect Opportunities for Income Generation with Human Development

While the ARDL results indicate some long-term co-integration, the HDI indicated modest or statistically insignificant impacts in the majority of models. This suggests that household spending power has not yet completely reflected advancements in health and education. Therefore, policies should boost vocational training, increase support for entrepreneurship, and match education and skills to labor market needs in order to close the gap between income opportunities and human development accomplishments.

Strengthen Social Safety Nets and Reduce the Risk of Inflation

Consumption and GDP growth have a negative long-term connection, which implies that rising prices and inequality reduce household well-being. Bangladesh should implement price-stabilization measures and strengthen social safety nets like cash transfers, food subsidies, and unemployment insurance to counteract this and safeguard the actual consumption levels of households that are most at risk.

Promote Additional Distributional and Regional Dynamics Research

The findings demonstrate that the entire welfare picture cannot be captured by GDP alone. To guide targeted strategies, future research should look at class based purchasing patterns, regional inequities, as well as remittances. Policymakers can create interventions that guarantee more comprehensive and fair welfare gains by having a better understanding of how various income groups react to growth, inflation, and human development.

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Smooth Transition of Bangladesh's RMG Sector: Post-LDC Graduation with Circular Economy Principles

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Keywords: RMG, Circular economy, LDC, MIC, International trade, MMF, Sustainability

Abstract

Bangladesh is towards to Developing Country from Least Developed Country (LDC) in November 2026. This upgradation refers that country meets economic vulnerability, per capita income and human resources. Significant economic development is indicated by this, but there are drawbacks to the shift as well, especially in terms of trade gains and the requirement for strategic planning. As Bangladesh's economy heavily depends on the ready-made garment (RMG) sector, this sector will have to contend with issues like declining trade preferences. This paper explores the potential way forward for RMG sector to cope up with post LDC graduation by Circular economy principles. At the same time, this paper aims to enhance the environmental sustainability by circular approach. After LDC graduation, maintaining export growth requires fostering domestic value addition, and fortifying backward linkage. The paper explains number of policy recommendation to support a circular, resilient RMG sector in the competitive global market.

1. Introduction

The ready-made garment (RMG) industry, which accounts for a sizable amount of Bangladesh's export revenue and it is also vital to the nation's economy, contributing 7.87% of the GDP in 2024 (Bangladesh Bank). The sector boasts a multifaceted structure encompassing cotton, synthetic textiles, ready-made garments (RMGs), and home textiles. In 2024, the industry's value reached an estimated \$38.48 billion and rising domestic and international demand for Bangladeshi RMG. For the past ten years, Bangladesh's garment industry has remained one of the top exporters in the world. Favorable international trade facilities, a large labor pool, and supportive national policies are the main drivers of this success story. Right now, as trade preferential scheme Bangladesh enjoying LDC criteria. Therefore, Bangladesh met certain criteria to graduate like Gross National Income (GNI), Human Assets Index (HAI) and the Economic Vulnerability Index (EVI) (Chaity et al., 2025). A nation's credit ratings and reputation are improved by graduation, and investors' perceptions in the public and private sectors are also improved (Sarker et al., 2020).

Currently, the traditional reliance on virgin materials in textile production comes to a concern for upcoming LDC graduation due to great loss of export opportunities. Leads to increasing large amount of manufacturing cost including export cost. Resulting Bangladesh will be more vulnerable to carry out its export competitiveness in the world at the same time possibility to potential buyer lose. Graduation is an irreversible track for Bangladesh (Sarker & Rahman, 2019). Bangladesh requires strong international support in terms of stirring necessary knowledge, technologies, and capacities (Sarker et al., 2020). Therefore, need domestic value addition by boosting the national backward linkage sector and at the same time reducing reliance on cotton using. For the smooth transition from Least Developed Country (LDC) to Middle Income Country (MIC), Bangladesh government should take necessary measures to cope with the changing economic scenario and some of them have been recommended. (Rahman et al., 2020) Implementing circular economy principles could be potential way by reducing MMF import and value addition of plastic. On the other hand, Bangladesh's plastic management could significantly mitigate the environmental threat posed by plastic pollution. Therefore, the most common understanding of the circular economy is one which designs out waste and pollution, keeps products and materials in use for as long as possible, and regenerates natural systems (Barrie & Schroder, 2021).

2. Literature review and Research gap

However, there are very few research studies on the concept of Circular economy (CE) in the context of poor nations, particularly Bangladesh (Kirchherr and van Santen, 2019). On the other hand, Kirchherr and van Santen (2019) emphasized the study of CE, especially for emerging and developing countries, as there are very few articles (only 5%) that focus on the concept of CE. Schroder et al. (2019) stated that, some of the SDG targets, including SDG-6 (Clean Water & Sanitization), SDG-7 (Affordable Clean Energy), SDG-12 (Reasonable Consumption & Production), and SDG-15 (Life on Land), can be linked to the circular economy approach. After careful review of relevant literature this paper provides a strategy for product design and business model innovation for a circular economy.

Therefore, cost-effective sophisticated technologies are required to smoothen the transition (Khan & Ali, 2021; Serrano et al., 2021; Winterstetter et al., 2021). The developing countries, most of them lack and efficient structured approach to address climate objectives to their policy

decisions and overall development approaches (Serrano et al., 2021). Ahmed et al. (2022) shows that, In India the practice of CE though, making of paper out of elephant dung; collection of E-waste; collection of organic wastes, and turning them into compost fertilizer; bus service running on renewable biogas. In real scenario developing country like Bangladesh shifting circular economy is quite challenging due to lack of proper technological capability. A multifaceted, inclusive, and cooperative approach from stakeholders is required to address the difficulties of implementing CE practices. (Gunarathne et al., 2019; Mishra et al., 2019; Radelyuk et al., 2021).

3. Circular economy context

Circular Economy (CE) was probably first defined and conceptualized in the Ellen MacArthur Foundations report, as “an industrial system that is restorative or regenerative by intention and design”. This means pursuing and creating the opportunities for a shift from an “end-of-life” concept to Cradle-to-Cradle, from using unrenewable energy towards using renewable, from using toxic chemicals to their elimination, from much waste to eliminating waste through the superior design of materials, products, systems, and also business models. (Lewandowski, 2016).

Secondly, Scott provided a useful conceptualization of circular economy as “a concept used to describe a zero-waste industrial economy that profits from two types of material inputs: biological materials are those that can be reintroduced back into the biosphere in a restorative manner without harm or waste (i.e: they breakdown naturally); and, technical materials, which can be continuously re-used without harm or waste” (Lewandowski, 2016).

The European Commission prioritized the circular economy in its economic approach by introducing the Circular Economy Action Plan (CEAP) and subsequently updating it with CEAP 2.0. The European Parliament is advocating for further "science-based binding EU targets for the mid-term and long-term reduction of primary raw material usage and environmental effects". A number of multilateral partnerships, including the African Circular Economy Alliance, the Platform for Accelerating the Circular Economy (PACE), and the Global Alliance for Resource Efficiency and Circular Economy (GARECE), have been formed in recent years to hasten the shift to a circular economy on a regional and global level. Adopting a circular economy is seen at the national level as a way to improve economic competitiveness and reduce the risks brought on by erratic global supply networks. By 2030, for example, the Dutch government wants to reduce its resource use by 50%, and more than 33 national circular economy roadmaps have been unveiled throughout Europe. (Barrie & Schroder, 2021).

4. Aims of circular textiles economy

A circular economy is one in which natural systems are restored, waste is eliminated, and everything is utilized to its fullest potential for as long as feasible. The idea of circularity is very similar to nature, which has no waste because all materials are valuable and used in a variety of ways to support life. If we effectively deploy these strategies, we will require fewer materials to meet similar societal needs (Bocken et al., 2016).

The four strategies we can use to achieve these objectives, and in particular in the context of textiles, are:

4.1. Regenerate flows-Make clean

Regenerate ecosystems and safeguard health by using renewable resources (fibers, water and energy) from sustainably-managed environments, eliminating substances of concern in the production of textiles; addressing microfiber release from synthetic textiles and eliminating textile pollution and waste.

4.2. Narrow flows-Use less

Narrowing resource flows, aimed at using fewer resources per product. Narrowing loops is about reducing resource use associated with the product and production process. Reduce the size of the problem by reversing the overproduction and overconsumption of textiles and reducing demand for resources through resource efficiency in the production process.

4.3. Slow flows-Use longer

Slowing resource flows, through the design of long-life goods and product-life extension (i.e. service loops to extend a product's life, for instance through repair, remanufacturing), the utilization period of products is extended and/or intensified, resulting in a slowdown of the flow of resources. Furthermore, "slowing" is about prolonged use and reuse of goods over time, through design of long-life goods and product life extension. Make textiles last by designing products for longevity and durability, repairability and recyclability; by investing in new circular models for reuse and repair; and by engaging citizens to extend the lifetime of their textile products through, e.g., better care, maintenance and repair.

4.3.1 Design strategies to slow flows

4.3.1 (a) Designing long-life products

- Design for attachment and trust
- Design for reliability and durability

4.3.1 (b) Design for product-life extension

- Design for ease of maintenance and repair
- Design for upgradability and adaptability
- Design for standardization and compatibility
- Design for dis- and reassembly

4.4. Close flows-Use again

Closing resource flows, through recycling, the loop between post-use and production is closed, resulting in a circular flow of resources. These two approaches are distinct from a third approach toward reducing resource flows. In addition, closing loops is about reuse of materials through recycling. Bring textiles back into the loop by dealing with the legacy of the existing textile waste mountain and boosting textile recycling and markets for recycled fibers. (Bocken et al., 2016).

4.5. Design strategies to close loops

- Design for a technological cycle
- Design for a biological cycle
- Design for dis- and reassembly

Note: Design for dis- and reassembly fit both strategies for closing and slowing loops.

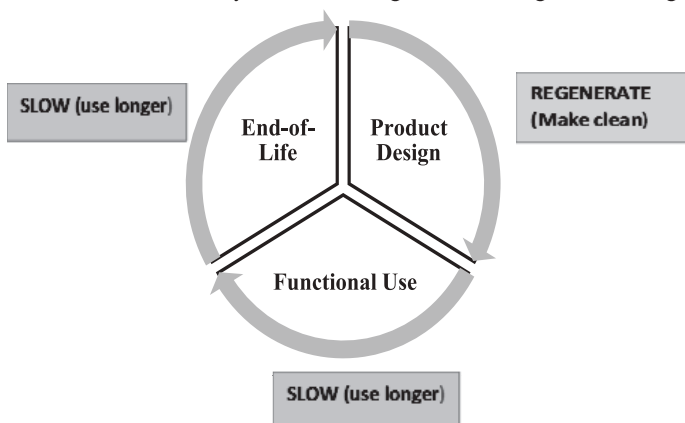


Figure-1: Circular textile Economy

5. Upcoming challenges associated with LDC graduation

Upgradation of country status enhance economic stability as like draw more foreign investment and development. However, Bangladesh is not fully prepared to become Developing Country in terms of post LDC criteria. Furthermore, as Developing Country to qualify for GSP Plus in the EU (the proposed import ceiling for the single market will need to be increased), and to secure enhanced preferences in the UK (the new rules of origin will necessitate double transformation in both spinning and weaving), it will be essential to significantly reinforce the backward and forward linkages within the apparel industry. (Rahman, 2024). Below the table shows the EU GSP arrangement and provisions as per eligibility criteria-

Table 1: EU GSP arrangement and provisions

Preference scheme	Eligibility criteria	Non-sensitive goods	Sensitive goods	Rules of origin (important provisions only)
Standard GSP	Low or lower-middle income countries	Duty reduction for around 66% of all EU tariff lines.	Duty reduction: 30%-up to 3.5 percentage points	Double transformation for textile and clothing items. For all other products, a minimum local value added of 50%

Preference scheme	Eligibility criteria	Non-sensitive goods	Sensitive goods	Rules of origin (important provisions only)
GSP+	Vulnerable (for export diversification, export and import volumes) Standard GSP beneficiaries that have ratified the 27 GSP+ relevant international convention	Duty suspension for around 66% of all EU tariff lines, including textile and clothing items.	Duty suspension	Double transformation for textile and clothing items. For all other products, a minimum local value added of 50%
EBA	LDCs	Duty suspension for all goods except for arms and ammunition.	Duty suspension	Single transformation for textile and clothing items. For all other products, a minimum local value added of 30%

Source: European Commission website (2022)

Above table explains that- after LDC graduation as per rules of origin we must comply double transformation for textile and clothing items. For all other products, a minimum local value added of 50%. So, it is clear we need to strengthening backward linkages industries. In this transition Man Made Fiber can elevate domestic value addition in exports by strengthening backward linkages with transformation of plastic to textile. In addition, reducing reliance on foreign imports support to meet the double transformation criteria for post LDC graduation.

After graduation, the country will need to incur costs that are more indirect, it may rise from the opportunity loss for export divergence or entrance into the new market. In addition, LDC-specific support measures including financial assistance, international trade, and other general support measures will be withdrawn. RMG sector fall at great risk without the current facilities. At the same time reduction of access to external financing may cause balance-of-payments problems, which could put at risk the continuance of the progress (Rahman & Rahman, 2020).

6. Opportunities of Post LDC graduation with Man Made Fiber (MMF)

Now a days, world fashion demand is moving to circularity method with regenerate, narrow and slow concept. The relative significance of cotton in RMG has seen a decline over the past decade. While cotton apparel exports, in absolute terms, saw an increase from \$127 billion in 2005 to \$219 billion in 2021, MMF (Man Made Fiber)-based apparel more than doubled from \$126 billion to \$271 billion during the same time frame. Where Bangladesh's MMF and blended apparel exports remain around 25%. However, recycling plastic to textile could be a potential initiative to face the post LDC graduation challenges.

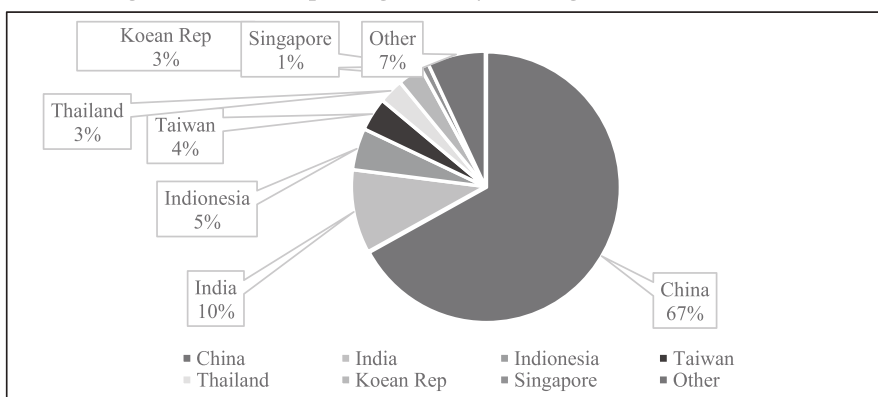
In Bangladesh most of the plastic products are made of thermos-plastic which can be recycles again and again (BPFMEA, 2024). In recent years due to lower costs, synthetic fibers have replaced natural fibers. Not only those synthetic fibers are durable and long lasting then cotton

fibers. This has made plastic materials one of the most important sources of the textile sector. Implementing circular economy principles in Bangladesh's plastic management could significantly mitigate the environmental threat posed by plastic pollution. Plastic could be reuse as circular way to made synthetic fiber and accessories for RMG sector. On the other hand, it brings economic sustainability by reducing import of Man-Made Fiber (MMF) and accessories resulting increase the domestic value addition by plastic recycling in addition fostering double transformation of RMG sector. It has been observed that global apparel products are dominated by MMF products, not only that it has been projected that cotton apparel market are become narrow in future. A contrasting export composition- World vs Bangladesh shows that, almost half of all global apparel exports are man-made fiber products, while 42% are cotton-based where 72% of Bangladesh's garment exports are cotton based apparel besides that 24% are man-made fibre based. Over the past ten years from 2010 to 2019 it has been observed that U.S. MMF apparel imports grew from \$23 billion to \$40.5 billion (average annual growth 6.5 %) and Cotton apparel imports during the same time declined by 1.2% annually. At the same time EU MMF apparel imports rose from \$45 billion to \$74 billion (average annual growth was 6.2%) and Cotton apparel growth was 1.3%.

7. LDC graduation with circularity

Rules of origin are an essential prerequisite for the utilization of trade preferences. Each preference scheme has its own set of rules of origin, be it an LDC-specific scheme, a general GSP or an RTA. In practice, rules of impact of LDC Graduation on the Textiles and Clothing Sector – 13 origin entail compliance with three components: (i) specific rules prescribing the realization of minimum manufacturing processes, local value addition or change of tariff classification (e.g. minimum 40% regional value content); (ii) specific requirements to prove that such rules have been met (e.g. certificates of origin); and (iii) the non-alteration of the goods during their transit to its preferential destination (i.e. direct consignment or non-alteration). If a good complies with the specific preferential origin requirements, it will be eligible for preferential treatment under the respective trade preferences. If it does not comply, it may still be imported but MFN duties will apply. (WTO, 2020). According to Rules of origin Bangladesh must meet the compliance by value addition by domestic material, specific certification of origin and non-alternate of goods during transit.

Figure 1: MMF importing Country of Bangladesh (FY 2021)

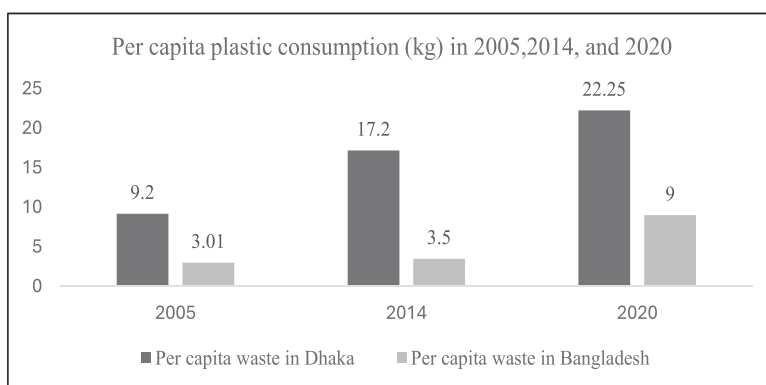


Source: ITC trade map (2024)

However, part of post LDC graduation preparedness specifically for (i) where clearly stated - realization of minimum manufacturing processes, local value addition by minimum 40% regional value content. Bangladesh could adopt circular approach by plastic to synthetic fiber (e.g. Man-Made Fiber) manufacturing. The chart (1) shows that currently Bangladesh importing Man Made Fiber from neighbor country. If Bangladesh going for domestic value addition by using own Man-Made Fiber, that supports to meet the Rules of Origin criteria of Post LDC graduation.

Bangladesh needs to adopt strategy to reduce reliance on MMF import and strengthening backward linkages industry and implement circular economy approach. This means reducing reliance on foreign imports, thus enhancing fibre security. On the other hand, Bangladesh has a lot of promise in the plastic to textile industry. Bangladesh's plastic pollution issue is made worse by a lack of efficient recycling programs and low public awareness. Plastics that are single-use are common, yet there is little infrastructure in place to collect, sift, and recycle them. Rivers are responsible for an estimated 2.8–18.6% of coastal plastic emissions, with Asian rivers accounting for 86% of the global inflow. (Lebreton et al., 2017). This is attributed to high-population density, high levels of waste mismanagement, and seasonal flood events (Hurley et al., 2018).

Figure 2: Per capita plastic consumption in Bangladesh



Source: World Bank (2021)

Only 2.2% of respondents considered other factors as challenges to attract FDI as Not trying for FDI, Indifference of the government to ensure policy and legal support to increase the rate of foreign investment in small and medium enterprises, Indifference of the government to the overall development of the jute sector, Inefficient and mismanaged Ministry of Finance, Bangladesh Bank and Banking Sector, Doing whatever the unscrupulous big business wants and with no accountability, Legal complexities in the field of TAX & VAT, Reliability issue. Scarcity of quality materials of construction materials.

In response to this growing environmental threat, the concept of circularity has gained attention as a potential way for plastic waste management. Where waste turns into resources. With an emphasis on waste reduction, product life cycle extension, and resource efficiency, circularity entails rethinking the production, use, and management of plastic. By embracing circularity, the current plastic pollution crisis can be mitigated. Circularity concept stands on 4 principle –

durability, recycling, reusing, and repurposing Fortunately, a global shift towards using recycled plastic for clothing offers a promising solution. Consumers, particularly in Western markets, are increasingly demanding eco-friendly garments made from recycled yarn. This trend presents a significant opportunity for Bangladesh to leverage its existing textile expertise and contribute to a more sustainable future. Now global fashion trend is more competitive and environmental conservation approach. Where plastic to textile concept brings an acceptance solution to reduce environmental pollution on the other hand business viability. Bangladesh needs to grab the opportunity to become a sustainable manufacturer by less harm to earth and step forward to global competitiveness.

Table 2: Top 10 MMF & blended apparels of Bangladesh and its share in total-apparel export

HS Code	Product	20-21 (Million BDT)	21-22 (Million BDT)	22-23 (Million BDT)	MMF Share (%) in total Apparel in 20-21	MMF Share (%) in total Apparel in 21-22	MMF Share (%) in total Apparel in 22-23
611030	Jerseys, pullovers and cardigans	1,298.57	1,968.02	1895.12	8.12	9.20	4.032
620343	Men’s or boys’ trousers	1,012.77	1,589.28	1,496.99	6.34	7.43	3.18
620193	Men’s or boys; anoraks	553.93	713.08	40.93	3.46	3.33	0.087
620293	Women’s or girls; anoraks	465.69	487.00	20.82	2.91	2.28	0.04
620640	Women’s or girls’ blouses	189.44	228.18	278.21	1.18	1.07	0.59
620463	Women’s or girls’ trousers excluding knitted or crocheted	181.24	377.87	538.64	1.13	1.77	1.14
610463	Women’s or girls’ trousers knitted or crocheted	154.75	267.02	283.29	0.97	1.25	0.60
620530	Men’s or Boys’ shirts	151.99	237.77	418.64	0.95	1.11	0.89
621040	Men’s or Boys’ garments of textile fabrics	148.46	231.13	243.69	0.93	1.08	0.52
621050	Women’s or girls’ garments of textile fabrics.	180.27	199.44	197.51	1.13	0.93	0.42

Source: Author owns calculation based on ITC trade map data (2024)

Above data shows that, in Fiscal Year 2021-2022 MMF blended apparel export increased with significant amount compared to previous year. Notably in Fiscal year in 2022-23 the export has been declined. So there need a proper nurturing for this sector to figure out the actual potentiality.

8. Post LDC graduation preparation by explore MMF apparel export:

Considering the trend growth rate of the last decade, \$625 billion global apparel market by 2030. If Bangladesh can achieve 12% of MMF apparel market share and 20% cotton apparel market by 2030. \$95 billion exports of Bangladesh by 2030.

Below The Revealed Comparative Advantage (RCA) analysis identifies the top 20 promising cotton and MMF & blended apparel with high RCA values.

Table 3: Most promising products and their export potential (value in USD million)

HS Code	Type	EU	US	UK	Japan	South Korea	Canada	Total
610342	Cotton	179	22	30	4.8	0.939	3.4	240.1
610711	Cotton	328	35	NAP	10	0.685	6.3	379.9
610510	Cotton	290	98	37	22	5.1	14	466.1
611120	Cotton	295	141	90	10	2.6	14	552.6
610462	Cotton	511	219	28	21	3.8	28	810.8
620520	Cotton	749	NAP	73	49	13	15	899.0
620462	Cotton	1326	202	74	39	19	13	1673.0
611020	Cotton	1048	424	152	52	11	53	1740.0
610910	Cotton	1499	404	201	222	53	73	2452.0
620342	Cotton	2370	NAP	130	66	43	43	2652.0
620530	MMF & Blended	60	NAP	NAP	6.9	4.1	3.9	74.9
610463	MMF & Blended	125	34	6	2.4	0	9.9	177.3
620463	MMF & Blended	155	11	NAP	10	4.1	NAP	180.1
620640	MMF & Blended	160.3	38	8.7	10	3.9	5	225.9
621040	MMF & Blended	210	NAP	30	7	0.244	NAP	247.2
621050	MMF & Blended	197	17	27	6.2	NAP	13	248.5
620293	MMF & Blended	348	NAP	32	2.7	8	NAP	390.7
620343	MMF & Blended	427	NAP	19	25	10	2.6	483.6
620193	MMF & Blended	452	NAP	48	9.7	1.8	NAP	511.5
611030	MMF & Blended	983	371	117	15	NAP	39	1525

Note: NAP stands for No additional Potential.

Source: Up scaling the RMG report (2024)

In the category of MMF and blended apparel, HS611030 (including jerseys, pullovers, cardigans, waistcoats, and similar items made from synthetic fibers, knitted or crocheted) presents a significant opportunity valued at \$1,525 million. Meanwhile, HS620343 and HS620193 also indicate considerable potential figures of \$483.6 million and \$511.5 million, respectively. The

cumulative export potential for the top twenty products in MMF and cotton across major export markets is approximately \$16 billion, with cotton apparel comprising about \$12 billion and MMF & blended apparel making up the remaining \$4 billion.

9. Benefits of circular textile economy

Circular economy approach offers number of benefits for Economy, environment and social aspect.

9.1. Economic benefit

A plastic-to-textile (Polyester) value chain promotes circular economy principles by utilizing resources efficiently and ensure economic benefits as well.

Table 4: Water Requirement to produce fiber based on fiber types

Staple Fibre	Water Footprint (L/kg)
Cotton	4342-6902
Hemp (bast)	3108
MMCF	352-520
L-MMCF	290
Polyester	84-143

In addition, A key approach to reduce a product's ecological footprint is to enhance its longevity via intentional design (European Court of Auditors, 2023). This emphasizes the need for RMG manufacturers to investigate more resilient materials. To save economic wastages. Now a days companies are using recycled materials can leverage a positive brand image associated with grab potential buyer as well as economic sustainability.

9.2. Environmental Benefit

A circular textile economy enhances a long-term environmental benefit as well. When compared to utilizing virgin materials, the European Environment Agency claims that using recycled plastics can save anywhere from 30% to 80% of energy. Furthermore, according to the Carbon Trust, up to 1.5 tonnes less CO₂ emissions can result from recycling plastics for every tonne of recycled plastic. (Ellen Macarther Foundation, July 15, 2024). Not only that, A major environmental concern associated with cotton farming is its tendency to lead to soil erosion and alter the composition of the soil. The extensive land area required for cotton growth presents another significant challenge. In 2016, cotton represented one-third of the world's fiber production, utilizing 27 percent of the land designated for its cultivation (CIRFS, 2017). In comparison, synthetic polymer MMF, which accounted for 68 percent of global fiber production, essentially eliminated the need for land use.

9.3. Social Benefits

Utilization of plastic into textile reduce environmental pollution as well as community pollution. Resulting healthy, safe and decent working environment for RMG employee and community people. Besides that, currently 4.1 million employees where 65% are female are working RMG sector and 1.5 million employees where 18% of female employees are involve this sector. There has a projection that if plastic to textile circularity works properly, it creates additional 3 million employment in this sector (BPGMEA).

10. Recommendation for transition of LDC though circular economy approach

Bangladesh is the nation poised to graduate based on all three criteria of the CDP. To achieve sustainable graduation, Bangladesh must effectively and efficiently pinpoint the signs of graduation, potential consequences, and alternative scenarios. This research suggests the following strategy that the government should adopt for a seamless transition from LDC to MIC. Below given the possible recommendation on circular textile economy approach by plastic to textile transformation for policy makers to make this sector sustainable-

- Proactive efforts to secure favourable market access after LDC graduation can significantly enhance diversification prospects into MMF products while reinforcing the strength of cotton apparel.
- Encouraging the circular economy to improve the textile industry's sustainability through plastic to textile transition and less resource using mechanism is essential for industry readiness and preserving global competitiveness in a market that is becoming more and more environmentally sensitive.
- Government should create a separate technological fund for MMF entrepreneur to set up MMF industry.
- Proper mapping and required infrastructural support for plastic collection, segregation and plastic recycling is essential to foster the MMF production as well as reduction of environmental pollution.
- Government need reinforce in waste collection method where plastic waste could be collected in separate manner and send it to recycler.
- Government needs to take immediate implication and action on Extended Producer Responsibility (EPR) policy. Which aimed to control plastic pollution in Bangladesh.
- Take into account a two-pronged expansion plan for Bangladesh's garment industry: Increasing MMF apparel production and exports while solidifying market dominance in cotton apparel exports.
- Industries that concentrate on recycling PET bottles, flakes, plastic debris, and petrochemical processes ought to receive incentives. Additionally, it is necessary to examine the export of essential raw materials needed for the manufacturing of man-made fiber.
- Particularly attention should be paid to developing a fiber security plan for the apparel sector that diversifies the sources of both natural and synthetic fiber and increases domestic MMF capacity.

11. Conclusion

Bangladesh's economy heavily depends on the ready-made garment (RMG) sector, which boosts both GDP and export revenue. The RMG sector will have to contend with issues like declining trade preferences resulting impose duty fee during export resulting growing production costs leads possibility of lose buyer. The export basket is highly concentrated in the RMG sector, meaning the implementation of tariffs can lead to a recession in garments, which is the largest source of employment in the industrial sector. Consequently, product diversification is essential, along with the improvement of strategies. So, it is necessary to developing effective policy and strategy to save this sector. There need to take initiative for strengthening backward linkage industries, national value addition by facilitating Man Made Fiber (MMF) manufacturing, product diversification by circular textile approach, market competitiveness to sustainable practice by production process, and explore new market access.

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Bridging the Policy Gaps in Addressing Non-Performing Loans in Bangladesh

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Abstract

The management of non-performing loans (NPLs) has become a major risk to the financial stability of Bangladesh and credit growth, investor confidence, and macroeconomic stability. This paper explores the policy, governance, and regulatory ambiguities that keep the NPLs thriving even after reforms. We used qualitative methodology and a total of 23 in-depth interviews (IDIs) conducted with the six groups of stakeholders, including industry owners/managers, credit authorities, bank board members, auditors, industry associations, and regulatory authorities. The respondents were chosen using non-probability convenience sampling. A case study of a scheduled bank was involved in the study to conceptualize systemic and political aspects of loan defaults. The results indicate that the enforcement and accountability mechanisms have been compromised or misused. In addition, the political interference in the loan disbursement and recovery has promoted willful defaulting behaviors, and institutionalization of governance failures. The structural changes that the respondents highlighted were automation of credit monitoring, legal frameworks, transparent loan classification, and full regulatory autonomy of the central bank. The paper finds that in order to restore financial discipline in the banking sector and ensure the long-term sustainability of the banking sector in Bangladesh, it is necessary to bridge policy and governance gaps by institutional reforms, digital integration and depoliticized regulation.

Keywords: Non-Performing Loans, Policy Gap, Financial Governance, Regulatory Reform

1. Introduction

NPLs impact a lot on the financial market stability and the development of the market in the long run. NPLs can be known as non-performing loans, in which the borrowers do not pay their obligations—both interest and principal within a certain period, usually 90 to 180 days (Farne & Vouldis, 2024). Banks are the major holders of NPLs, which conduct their business as financial intermediaries through the receipt of deposits and the provision of credit. Banks should ideally do business with good borrower or organizations that possess the capacity to repay within the specified timeframe. But failure by borrowers to meet these obligations results in the loan being considered non-performing.

The banking industry in Bangladesh is going through one of the most crucial periods in its history with a historic high increase in NPLs, declining growth of the private-sector credit and an ever-increasing loss of investor trust. Statistics indicate that NPLs have surged beyond Tk. 4.2 lakh crore (Bangladesh Bank, 2025) that is greater than the regional peer figure and directly threatens financial stability. Although the policy rate has been kept at 10% as a goodwill measure to curb inflation without having any effect on the money circulation in the private sector, has gone down to 6.4%, a 22-year low, business opening, and is now headed toward a complex situation that has taken over in all the core productive sectors like CMSMEs.

Systematic failure of governance such as regulatory incompetence to address wilful defaulters, weak risk management structures and culture of political-backed loans have further increased the economic vulnerabilities, which is being exploited by major business conglomerates to empty the banking system with impunity. The failure of the Bangladesh Bank to implement the provisions of the amended Bank Company Act 2023, which permits travel bans, restrictions on purchase of asset, and criminal punishment for wilful defaulters, has resulted with social mistrust and weakened accountability. Although it is commendable that the 14 bank boards are being restructured, and the corrupt directors are being rolled out under the new central bank management, experts caution that without a decisive measure against politically inclined borrowers and enhance transparency, the situation will not turn around.

International studies on emerging markets have shown that the incidence of NPLs is largely driven by a complex interplay of macroeconomic volatility, weak enforcement mechanisms, and insufficient technological infrastructure. Numerous research articles continually highlighted that transformation standards of the financial technologies to optimize credit risk management, allowing bank to track the borrowers in real time and stream, could optimize the procedures of recovering the loans. Nevertheless, such innovations cannot be implemented and scaled in such countries as Bangladesh due to the lack of financial literacy, limited internet access, cultural inertia and resistance to change, which drastically limit the NPL recovery.

The primary aim of this study is to explore the policy gaps to minimize the risk of NPLs in the banking system of Bangladesh by identifying policy-oriented aspects, the efficacy of policy reforms, the effectiveness governance and supervisory structures in eliminating the vulnerability associated with NPLs. To be more precise, this paper discusses the perception of the stakeholders regarding policy reforms, governance, and supervision to minimize the risks of NPLs reduction.

2. Literature Review

NPLs have a substantial importance across the relevant industries, bank managers, loan supervisors, academicians and financial regulatory bodies due to their profound implications for the stability and efficiency of the banking sector. There are several types of factors closely related to loans default and among them seven specific factors have been identified as the most critical. First, high levels of NPLs hinder the credit growth and consequential impact is visible in the real economy, production, consumption and overall economic growth (Ozili, 2025). Ozil's (2025) findings align in the context of Bangladesh and over the years its compounded impact has become evident in the current context of NPLs and the banking sector. Currently, economic growth, private sector credit growth and consumption have declined and that proves the dynamics of NPLs. Quantitatively, the facts are valid with the empirical arguments however, study needs cross verifications through more rigorous investigations using qualitative approaches. Secondly, NPLs are inherently procyclical, and go up in economic downturns and decline during periods of economic expansions (Ari et al., 2020; Alnabulsi et al., 2022) and strongly correspond to the status quo of the NPLs rate in Bangladesh. Thirdly, performance monitoring is a significant factor and may reduce credit risks. The factor needs to be reassessed in terms of the Bangladesh contexts to understand the level of monitoring and its urgency for improvement.

Fourthly, NPLs reflect the level of management and operational practices across the banking sector and any elevated ratios signify weakness in regulatory oversight and supervisory effectiveness. This issue is highly important and the current levels of NPLs strongly reflect the regulatory loopholes. Therefore, these issues need to be re-examined to understand the causes behind the changes in ratio. Fifth, banks with large loan portfolios face a high risk of loan default when macroeconomic instability exists. These unforeseen factors may hinder borrowers' ability to repay (Serrano, 2021). The findings of Serrano (2021) are logical in the case of Bangladesh because sudden changes in exchange rate and interest rate have significant impacts on NPL rate. Sixth, a high volume of loan disbursement contributes to financial instability and erodes banks' capital base and reduce bank profitability. This factor indicates limited relevance in the case of Bangladesh context; however large disbursements have significant impacts on NPLs. Seventh, NPLs highlight the importance of the regulatory issues and are often subject to prescribed single-digit threshold levels for NPL ratio (Kanoujiya et al., 2023). Despite the seven factors analysed, there are a number of other issues e.g., macroeconomic shocks, market volatility, borrower specific circumstances which are beyond control and can directly impact the borrowers' ability to meet their repayment obligations (Bellotti et al., 2021; Foglia, 2022).

The persistence of these challenges remains at the core of debate over the years and call for further study to refine theoretical and regulatory literatures. Increasingly, various study-based loopholes are calling for further in-depth investigations through more dynamics and problem specific approaches to understand the default rate and their co integration with the macroeconomic consequences as well policy-level variations impact. So, current empirical investigations create the perceptions behind the NPLs but further review create the reason more specifically.

Empirical studies have not only focused on the macroeconomic perspective to understand the nature of NPLs but have also identified bank specific several determinants. These commonly

include: loan growth, net interest margin, loan loss provisions, diversifications, of banking activities, operational efficiency, bank size, profitability and interest rate (Ahmed et al., 2021); income diversification (Ciukaj & Kil, 2020; Khan et al., 2020; Ristić & Jemović, 2021); capital adequacy ratio (Kryzanowski et al., 2023; Pancotto et al., 2024) operating cost (Nguyen, 2024) return on equity (Erdas & Ezanoglu, 2022) return on assets (Kjosevski & Petkovski, 2021) liquidity ratio (Msomi, 2022) and bank business model (Farne & Vouldis, 2024). The contributing factors to NPLs are diverse and mostly identified in global context; however, the banking industry in country like Bangladesh has not considered these for comprehensive integration. The questions still arise as to what operational inefficiency remains as loophole to reduce NPLs in Bangladesh banking sector. The study aims to identify the policy-oriented reforms which may capably bringing the NPLs under control. Along with these what non-financial determinants emerging from the recent literature also take into consideration. However, corporate governance is most dominant factor (Tarchouna et al., 2022) in NPLs but study will take other factors along with corporate governance.

There is different level of reasons across the continents to contribute NPLs and every single reason have some common types of facts to NPLs. In Europe, interest rate on new loans, bank concentrations, Gross Domestic Product (GDP) growth, debt level, current account balance and real house prices are significant factors to raise the NPLs. In European countries real interest rate are highly integrated with housing prices and any changes in interest rate have significant impacts on the NPLs changes. However, number of factors identified in European context but the factors are not consistent over years. Asian context is bit different from European Union e.g. unemployment rate, real interest rate, external debt to GDP ratios, GDP, sovereign debt, inflation rate, money supply, governance failures, GDP growth, the ratio of liquid assets to total asset. Loan growth, banking sector development, gross loans, and capital adequacy ratio. Among these dominant factors GDP, debt levels and loan growth emerge as the most commonly reported determinants across the Asian region (Ozili, 2025).

Findings from African reasons are mostly similar with the Asian countries in case of NPLs default rate to change. Along with the current structural facts the findings in Africa strongly included strong regulatory environment, gender considerations and digital financial inclusions are major determinants behind the NPLs. So, in terms of Bangladesh context digital inclusion are considerable facts to verify and study looks to policy matters to take into consideration. In the Middel East and North Africa (MENA) region, NPLs determinants are not different than Africa and Asian regions where differences found in national level of corruptions, global financial crisis, liquidity creation through on balance sheet and off-balance sheet actives along with the factors already mentioned. Ozili (2025) strongly criticised that country level national corruptions are the major causes behind the NPLs in MENA regions. On the other hand, Americas, BRICS, G20, and G7 economies NPLs are closely related to the bank specific issues as well macroeconomics while GDP and GDP growth are the most dominants to change the NPLs (Ozili, 2025). In Bangladesh, Rahman (2022) found that GDP, unemployment, exchange rate, inflation, lending rate, money supply (M2GDP) has a close relationship with NPLs which indicates that macroeconomics factors and their status quo.

Cross-country, country-specific and region-specific findings are vary depending on the nature of the economy, regulatory framework and bank structure, and operational context. Most factors,

e.g. macroeconomics conditions, operational inefficiency, economic growth, and GDP are the common determinants of NPLs. The long-run relationships between NPLs and macroeconomic factors align with growth theory and evidence suggest that NPLs have directly connected with growth dynamics. Theoretical frameworks indicate that macroeconomic stability contribute to a more stable business environment and enhance business performance and vice versa. According to Richards & Smith (2002), to achieve pro-cycle business environment government and governance mechanism are essential. The government deals with bureaucracy, legislation, financial control, regulation and force. This indicate that financial control, regulation, implementation, enforcement lie in hands of the government, and if managed properly, NPLs can be reduced. Empirical evidence suggests that government components are ineffective in implementing to the instrumentation of NPLs control.

Beyond the macroeconomic context it's also partially related to the socio-economic status, unprecedented COVID-19 pandemic effects and so on. Kartika et al. (2022), investigated the influence of corporate governance on NPLs by analysing data from 440 banks in emerging markets, using data sets from 2016 to 2020. They concluded that corporate governance has significant impacts on the NPLs. Governance is a significant issue and it defines actions, methods, and function of governing (Halfani et al., 1994) and taking these factors into consideration, their functionality becomes a key concern in NPLs. Also, Landell (1991) mentioned that good governance means how people are ruled, how the affairs of the state are administered and regulated as well a system of national politics and integration of these with the laws. Two theoretical perceptions indicate that a country like Bangladesh has clear lack of good governance and that has close integration to raise the NPLs. Adusei and Adeleye (2020) cross country study found that credit information sharing among creditors has an impact on NPLs and process of sharing or nor sharing is quite complex. Sharing or Withholding of information is related to the governance and good governance ensure proper management of state affairs and adherence of rules of law.

The majority of studies have adopted a quantitative approach while qualitative studies on NPLs are scarce in the literature. Research uses interviews, questionnaires, or surveys to elicit the opinions of bank managers and credit risk officers on the causes and consequences of NPLs. The response data generated from the interviews, questionnaires or surveys of bank managers and credit risk officers offers new insights that cannot be gained from using secondary data or quantitative methods. Therefore, this research studies undertaken qualitative research when investigating the determinants and consequences of NPLs in terms of policy and technological bridging. Based on the Ozili (2025) findings research has taken initiative to go beyond the quantitative to qualitative in-depth study where non probability convenience sampling helps the reasons behind the NPLs.

Among the policy gaps, the regulatory/supervisory style of the bank regulator/supervisor on bank NPLs need to be assessed. This is crucial because commercial banks will make every effort to minimize NPLs if they understand that the bank regulator/supervisor is adopting a regulatory/supervisory style. The regulatory signals to the banking industry that the bank is in severe distress. There will no guaranteed bailout from central bank. Such regulatory/supervisory inclination or style will incentivize banks to enhance their effort to mitigate NPLs.

2.1 Research Gap

Although a considerable amount of literature exists concerning determinants of NPLs, there could be gaps in policy issues. The majority of the studies are based on the quantitative approach that involves secondary data, whereas there are few qualitative observations of bank managers, credit authorities and regulators. Other unconventional drivers like attitudes of borrowers are understudied yet they can have a significant impact in repayment behavior. In addition, regulatory and supervisory frameworks are recognized, but the role of the supervisory body and credibility on the incentives of banks to manage NPLs has not been adequately addressed. Such gaps underscore the necessity of conducting future studies that also take into consideration qualitative views and supervisory strategies to bring about a more holistic insight about NPLs and future implications on financial stability.

2.2 Theoretical Framework

The prolonged existence of NPLs in the banking sector is a complex issue that is affected by economic, behavioural and institutional factors. Although a lot of empirical research has been able to identify macroeconomic as well as bank-specific factors that cause NPLs, significant gaps still exist in terms of qualitative and policy aspect behind loan default and recovery. Yet, the complex and policy loopholes need to be reconsidered in the context of Bangladesh approach due to the exponential increase in the NPLs of the financial institutions. The policy implementations, legal actions and institutional autonomy that government excessively interferes and creates inefficiency in the regulatory bodies make the NPLs crisis worse, which is highlighted by government theory (Richards & Smith, 2002). In the meantime, Agent Theory (Jensen & Meckling, 1976) stated that such conflicts of interest among stakeholders, driven personal interest, political favor and tolerance can lead to risky lending and loan defaults. Besides these theories, there is the Theory of Governance (Landell, 1991) that describes weak institutional control, absence of transparency and poor accountability mechanisms in bank resulting in ineffective loan monitoring. Regulatory Capture Theory (Stigler, 1971) was considered in this study which serves as an effective prism to examine how institutional weaknesses and supervisory failures can be related to the current problem of dealing with NPLs. This theory argues that even regulatory agencies, instead of to serve the interests of the people, can be captured or in other words influenced by the same industries that they are supposed to be regulating. This seizure may be due to information asymmetry, personal contacts, and or dependence between regulators and financial institutions (Dal Bó, 2006).

Regulatory Capture Theory is useful in the NPLs management context as it can be used to explain how regulatory generosity or biased enforcement can undermine the efficacy of supervisory structure. Close relationship between regulators and the business people of bank to provide information and resource can lead to weak enforcement and supervision on them. This circumstance may induce moral hazard in the banks and prompt them to report less credit risks, have interrelated lending or postpone the classification of the NPLs (Barth et al., 2013). This consequently erodes the plausibility and preventive effect of the regulatory system, thus enabling the continuation of risky lending habits and the accumulation of systemic susceptibility.

Thus, the use of Regulatory Capture Theory enhances the current knowledge of the determinants of NPL by connecting regulatory credibility, institutional incentives and behaviour of borrowers. It highlights the necessity of reforms that would increase regulatory independence, promote transparency and decrease the chances of being captured by political or personal favor. A more holistic approach that incorporates both quantitative determinants and institutional knowledge can therefore result in a more detailed explanation of the development and existence of NPLs, and its consequences to financial stability in the long run.

3. Research Methodology

3.1 Nature of research

This research is explanatory in nature and investigated to understand the multifaceted strategies for reducing NPLs risks in the banking sector of Bangladesh by examining institutional dimension. The study also analysed the effective mechanism to enhance loan performance and reduce default rates through scrutinize the perspectives of the relevant stakeholders. Within the qualitative context, IDIs have immense power to dig out the hidden and unexplained facts which have multiplicative impact on the NPLs to explore. Key Informant Interviews (KIIs) and Focus Group Discussion (FGD), IDIs have extensive power to go beyond the normal perceptions and can help to solve specific problems with detailed explanation. In this study, researchers followed IDIs with relevant subject matter expertise using non probability convenience sampling.

3.2 Research approach

To get sufficient answers in line with the research question of the study, the researchers adopted a qualitative research approach. The research utilized IDIs, along with secondary data review for triangulation to validate the result. The study covered key sectors such as Bank/ Non-Bank, Bangladesh Bank, Industry or Business Owners/Managers, Industry Association Representatives, Bank board members, Independent Auditors/Governance Experts, Borrowers and Industry Experts.

3.3 Sampling technique

To ensure inclusion of stakeholders directly linked to NPLs issues, a non-probability convenience sampling was employed to conduct 23 IDIs using eight unstructured interview schedules. Besides, a Case Study approach was adopted to learn in detail the Bank-Specific Financial and Non-Financial Determinants of NPLs.

3.4 Data collection technique

Six unstructured interview schedules were administered to collect primary data through IDIs from Industry Owners/Manager, Credit Authority, Bank Board Members, Auditors, Industry Association and Regulatory Authority. DCCI R&D team designed the In-depth interview (IDI) schedule. The study took around one month to complete.

3.5 Analytical Technique

The qualitative data that were gathered in the study was systematically analysed through thematic and content analysis method. Themes of recurrent ideas, attitudes and behaviour patterns were identified and grouped together through thematic analysis to manifest the underlying themes with regard to repayment behaviour. Content analysis also allowed exploring narratives and textual information to understand the frequency and the importance of a particular response. Special emphasis was laid on the interpretation of the behavioural predispositions and cultural standards according to which people decide on how they pursue a loan repayment. This method of analysis allowed gaining a better understanding of the social and contextual issues that affected the repayment practices in the community under study.

4. Results

This section presents the findings related to the overall objective of the study, which aims to investigate the multifaceted strategies for reducing NPL risks. The data collection timeline for this research was from September 15, 2025, to September 27, 2025. A total of 23 IDIs were conducted among Industry Owners/Managers (7), Credit Authority (6), Bank Board Members (3), Auditors (1), Industry Association (3), and Regulatory Authority (3). Besides, to validate the information gathered from the IDIs, a detailed case study was also conducted with a bank official.

4.1 Stakeholder perceptions

4.1.1 Industry Owners/Manager

The study focused understanding the loan repayment and interest rate effects on the NPLs from the industry owner/manager's points of view. The respondents emphasized that it is not a matter of the cost of borrowing, but the problem is associated with the systems of borrowing loans and repaying them in Bangladesh. The respondents stated that in most cases, borrowers experience significant challenges whenever there are delays in loan repayments despite the situations that may be beyond their control. Representatives of the industry also clarified that in the time of the COVID-19 pandemic, a significant number of Small and Medium Enterprises (SMEs) could not make payments because the crisis has never been experienced before. Even in this extraordinary case, banks were not willing to give the required flexibility which forced some businesses to sell off its assets to pay off the dues. New credit facilities that were supported by collateral were also not granted in various instances and this made these borrowers to be considered as defaulters (Raihan et al., 2020).

Even though stimulus packages facilities were officially announced for SMEs, most entrepreneurs complained that they had trouble accessing them. As a matter of fact, small enterprises were not favored by the banks as they seemed to focus on giving more credit to the big borrowers most of whom were already at the brink of bankruptcy or loan classification. The main problem, therefore, is not just high interest rates but the existence of discriminatory and in a few cases, politically biased practices of granting loans and repayment (World Bank, 2024). The recent

rise in the interest rate has had a negative impact on the cash flow of the business and it has increased the general cost of operations and added more financial strain. Moreover, the new recovery measures adopted by banks are limiting the repayment of the SMEs and thus raising the chances of default (BRPD¹ Circular No. 15, 2024). The representatives of the business proposed that in case terms of loans were more lenient, i.e. by allowing longer periods to repay them, or by installments payments according to real income streams, the repayment would be easier. They also stressed that there was a need to have a reduction in interest rates to facilitate business sustainability.

Although disruptions in the supply chain, market variability and poor macroeconomic conditions were recognized, the respondents highlighted some other barriers e.g., internal operational challenge was also mentioned as the significant challenge by the business owners. SMEs are high-risk borrowers and the banks focused on quick recovery efforts instead of providing flexibility. On the other hand, large, and politically linked borrowers were enjoying the better treatment as well as they were being re-financed even after massive defaults. Respondents emphasised that these types of double standards are the direct cause of NPLs in the banking sector. In addition, inefficiency and corruption among bank officials were also reported as the major challenges. Besides, the respondents also complained that there is no industry friendly roadmap in the policies like Industry policy, SME Policy for the CMSMEs.

The interaction between most of the industry owners and the bank officials during repayment delays were usually unpleasant as reported. Borrowers were in a number of cases given notices in harsh terms or pressured which led to a lot of mental disturbance. Nevertheless, some banks were recognized to have more customer-friendly practices, which allowed the clients to reschedule repayments in a free and friendly way. Entrepreneurs positively saw these approaches.

The study finds that there were significant discrepancies in evaluating loans in dissimilar industries (Hassan et al., 2024), (TIB, 2020). According to the respondents, the evaluation processes tend to be too formal and in other instances, they have been used discriminatively. As an example, some companies were in desperate need of financing and their Letters of Credits (LCs) were valid, but they could not get the required funds in time. However, on the other hand, where companies had large deposits, the banks are seen to be more receptive and eager to loan out money implying favoritism (Hassan et al., 2024), (TIB, 2020).

Most of the respondents when questioned on whether the assessment of loans across industries was fairly done indicated that, it was not fair. They observed that banks are inclined to prefer those enterprises that have greater current debts or better financial impact. SMEs have more rigorous loan approval conditions and take longer to process than their larger counterparts, which tend to be approved faster and under better conditions. This balance, the respondents found, remains disadvantageous to the advancement and competitiveness of the smaller sector.

¹ Banking Regulation and Policy Department (BRPD), a department within Bangladesh Bank responsible for creating and enforcing prudential regulations for the banking sector in Bangladesh.

Table 1: Summary of Findings from the Industry Owners and Managers

Key Findings	Gaps Identified	Insights from Interviews
Loan repayment challenges due to the banks' rigid system and lack of required flexibility.	The borrowing and repayment system is inflexible, not just Interest-related.	Delayed payment occurs due to disruption in the regular cash flow, e.g., COVID-19, political unrest, etc.
Most SMEs faced difficulties accessing financing packages.	Lack of transparent and equitable loan allocation for SMEs	Recent interest rate hike has little impact on NPL; rather, the lending system is faulty.
New recovery measures adopted by banks, like seizing collateral, are limiting the repayment of the SMEs and thus raising the chances of default.	No flexible repayment system or real income-based installment system.	Installments tied to real income streams would make repayment easier and reduce default risk.
Double standards and corruption among bank officials fuel NPLs.	Weak governance and oversight in loan process.	SMEs perceived unfair evaluation and favoritism in loan approval.
SMEs are high-risk borrowers, and the banks focus on quick recovery efforts instead of flexibility.	No customer-friendly rescheduling system.	Large and politically linked borrowers enjoy preferential treatment and refinancing even after massive defaults.
Inefficiency and corruption among bank officials.	Inconsistent and discriminatory appraisal.	SMEs' loans take longer to process and are subjected to stricter conditions compared to large borrowers.

(Source: Authors' findings, 2025)

4.1.2 Credit Authority

The study focused on bridging the policy gap to address NPLs within the context of both banking and non-banking sectors in Bangladesh. To explore the various facets of NPLs, the study engaged with the credit and compliance divisions of Bank to understand their specific policy-oriented issues in both perspectives. The bank representatives were highly experienced in credit and compliance, and each representative with more than fifteen years of professional experience. They willingly shared their experiences, insights, and perspectives revealing several important facts related to policy development and implementation strategies.

The study examined six different sections to understand the diffusion and contagion effects of NPLs. This section focused on the policy specific credit and compliance factors to influence NPLs and its dynamic norms across the industry. Several issues, e.g., including political, system integration or broadly management they were mentioned (Hossain, 2025). Among these, according to a senior representative of one of the major commercial banks, the latest Master Circular on the subject Loan Classification and Provisioning BRPD Circular No. 15, 2024 resulted in a massive increase in the officially reported amount of NPLs in Bangladesh. Nevertheless, the official

explained that this increase is not a sign that the behavior of borrowers has worsened or that the number of loan defaults in fact has risen. This is actually a product of the restriction of loan classification criteria which are intended to reflect the actual status of the non-performing exposures in the banking system. The officials pointed out that the regulatory reform will make the domestic prudential framework of Bangladesh compliant with global best practices, especially the standards of Basel III ² and IFRS 9³.

The most significant change to be enacted by the circular as the official claims is the shortening of the overdue period which initiates the classification of loans. However, all sorts of loans will be treated as non-performing once they are overdue by three months, which is a drastic change in terms of loan management compared to the previous regime that gave the bank a grace period of nine months before the loan is classified as non-performing. Loans that were Non-performing with a period greater than three months could be placed under forbearance of another six months. The new regulation does not have this flexibility and this means that risk recognition is more immediate and realistic (Islam, 2024). As a result, a large amount of loan classified as Special Mention Accounts (SMA) or even unclassified will be put on the official NPL portfolio. The official said the change will improve transparency and accuracy in the description of the real credit risk profile of the banking industry.

The circular also requires the incremental adoption of the Expected Credit Loss (ECL) methodology as necessitated in the IFRS 9, and full adoption is expected by 2027 (BRPD Circular No. 15, 2024). According to the official, the shift of the historical model of incurred losses to a prospective, risk-sensitive one is a paradigm shift in the assessment of credit risk. In this system, the banks will be expected to identify the anticipated losses before they happen and not after a default event has taken place. As the official pointed out that this change will require increased provisioning and strong internal risk management capacity. Moreover, it will also strengthen the credit management system and will increase the resilience of the financial sector.

What is more, the circular sets more rigid provisioning requirements. This new provisioning rates have been standardized to 20 % on Substandard loans, 50 % on Doubtful loans, and 100 % on Bad/Loss loans, and SMA currently have to have a general provision of 5 % (BRPD Circular No. 15, 2024). In addition to this, the general provisioning rate has been raised in the case of CMSME sector to 1 % as opposed to 0.75 % previously. According to the official, these new standards of provisioning will make banks have more capital buffers against possible credit risks. These, together with the expedited schedule of classification, guarantee that the balance sheets of banks also have a more realistic representation of their actual financial position and the risk of their balance sheets.

To conclude, the bank official emphasized that Master Circular is not the cause of new loan defaults but it eradicates regulatory forbearance and advocates a more rule based and transparent

² Basel III is an international set of banking regulations developed by the Basel Committee on Banking Supervision in response to the 2007-2008 financial crisis to strengthen the banking system. Its core goals are to improve banks' ability to withstand economic and financial shocks by increasing their capital requirements and to improve risk management and transparency through enhanced liquidity, leverage, and disclosure rules.

³ IFRS 9 is an international accounting standard that sets the rules for the classification, measurement, impairment, and hedge accounting of financial instruments.

reporting regime. The increase in the reported NPL ratio shown to project should therefore be viewed as a realignment of its regulation and not a change in the quality of the loans. The measures included in the circular of creating stricter standards of classification and provisioning will increase the stability of the banking system in Bangladesh, instill confidence among investors and bring the regulatory regime of the country nearer to international practices in credit risk management.

On the other note, a top executive of a major commercial bank in the country claims that NPL crisis in Bangladesh is a complex problem that cannot be blamed only on regulatory circulars like BRPD Circular No. 15. The issue is very structural, institutional and macroeconomic backward that has been maturing with time (BRPD Circular No. 15, 2024). The official pointed out that the crisis is actually a failure of governance, as well as operational flaws within the banking ecosystem which are exacerbated by poor economic factors.

According to the official, the most prominent factor that is leading to the present situation of NPLs is the inadequacy of corporate governance, and the all-encompassing impact of political meddling and interfering in the banking activities. According to him, lending in a corrupt manner, especially the lending of the connected-party, nepotism and the lending decisions based on political considerations is the worst thing that has destroyed the integrity of the sector. Karim et al. (2025) also find the similar findings in their study. Banks often lend money to persons who are associated with the bank directors or politically powerful persons without due diligence. When such loans default, then political favors and influence are employed to hinder recovery efforts or regulation actions. This has been termed as willful default and it has become an industry wide phenomenon. He also noted that lack of a robust accountability system has become a culture of defaulting loans without any form of legal or social repercussion, which has encouraged the culture of repeat delinquency among borrowers.

Another issue that was highlighted by the official is weak supervision. Political pressure, fragile institutions, and lack of autonomy in their operations tend to make Bangladesh Bank and other regulatory bodies not capable of imposing compliance. The enforcement measures are, in most cases, delayed or watered down and this undermines the integrity of the supervisory structure and allows influential defaulters to remain non-compliant. Such lapses in governance have rendered a condition in which the abuse of the banking resources is condoned and continued.

When talking about bank specific operational shortfalls, the official noted that most of the banks are plagued by a poor credit evaluation procedure and ineffective post-disbursement surveillance measures. Loans are granted in many instances without thorough risk assessment and due evaluation of the feasibility of the projects (Karim et al., 2025). Once the funds are given, it is not commonly followed up to see how the money is being used and when the organization realizes that something is amiss, it is usually too late to change as the situation turns into default. The problem is worsened by inefficient management particularly in state owned commercial banks and failure to make sound decisions and poor internal controls. He also noted that there is also a moral hazard issue where some bank owners and managers indulge in lending on risky or unwise terms and believe that any losses they incur will be ultimately borne by the government or depositors.

On the macroeconomic level, the official noted that increased economic instability on a broader level has also led to the increase in NPLs. Sluggish economies, stagnation in sectors and reduction in GDP growth have damaged the ability of the borrowers to earn incomes and pay their

loans punctually. The inflationary pressure and fluctuating exchange rate have not only hiked the cost of production especially to those sectors which rely on imports, but have also ensured that financial pressure among corporate clients is compounded (World Bank, 2024). He also added that the high interest rates have greatly contributed to the cost of servicing a loan and many borrowers cannot afford to make regular repayments. Such circumstances, in their turn, increase the %age of non-performing assets in the banking sector.

On a final note, the official once again echoed that the NPL crisis is not such just a regulatory failure but an expression of institutional under-strengths, politicization, and lack of proper risk management (Hassan et al., 2024; TIB, 2020; Banerjee, 2025). The issue will not go away despite the new circulars or reforms without the renewed corporate integrity, independence of regulatory bodies, and credit discipline among banks. He requested a concerted strategy that encompassed tightening of the belt, open management practices and better management of the macroeconomic system to protect the long-term stability of the financial system.

Table 2: Summary of Findings from the credit authority

Key Findings	Gaps Identified	Insights from Interviews
Strict Loan Classification and Provisioning	Overly strict criteria, shorter overdue periods, and insufficient assessment of borrower capacity.	Regulatory tightening without understanding borrowers' repayment capacity contributes significantly to NPL risk.
Governance failure and operational flaws within the banking ecosystem are exacerbated by poor economic factors.	Weak governance and operational inefficiencies in the banking system.	Weak governance and operational flaws, combined with adverse economic conditions, hinder borrowers' ability to repay loans.
Inadequacy of corporate governance and political interference in the banking activities	Political interference in the banking activities.	Weak corporate governance and political interference contribute to rising NPL.
High provisioning requirements can sometimes erode banks' capital base.	Higher capital buffer requirements strain bank resources.	Excessive provisioning erodes banks' capital base and increases financial risk.
Weak credit evaluation and inefficient post-disbursement monitoring.	Inadequate analysis of borrowers' capacity and market conditions.	Undermining the loan quality band increased the risk of NPL.
Moral hazard issue and managers extend loans on risky or unwise terms.	Lack of check & balances in the loan approval process.	Compromising asset quality escalates default risk due to managerial discretion without accountability.
Economic instability on a broader level also led to an increase in NPLs.	Absence of a flexible loan repayment schedule during economic shocks.	Economic downturns reduce borrowers' repayment capacity.

(Source: Authors' findings, 2025)

4.1.3 Bank Board Members

The majority of the respondents agreed that they combine both Integrated Software and Paper-based checklist to incorporate corporate governance in the process of loan approval and monitoring in bank. The respondents indicated that they can have access to the integrated system to check the profile of the borrower but physical verification is still in place. Systems inform them on the history of repayments of their clients, yet cannot inform them of whether a factory machine is not in use. It is the reason why managers are compelled to look before they can sign. The digital tools that are available in public banks are not fully dependable as in the case of the private banks.

Even when a borrower has a clean Credit Information Bureau (CIB) report, there are usually underlying financial weaknesses concealed in the form of misleading borrowing and classification of loans. This discrepancy is depicted by three common patterns. First is the practice of loan shuffling or debt rolling which gives a false impression of repayment on time because outstanding debts are being repaid by new short-term loans that are meant to signal a cash flow crisis even though the CIB record is perfect. Second, the problem of business-use loans being misclassified as personal loans would conceal the actual risk of business operations, as the supposedly low-risk personal credit would be directly at risk as a result of defaults in business operations. Third, off-balance sheet or informal loans of the CIB have no sense of shadow liabilities since the lenders are private or other parties (Chowdhury, 2025).

These practices point to a severe shortcoming of CIB-based tests: an unblemished credit history can be misleading about the soundness of the borrower. Field checks and total financial review are thus the complementary needs to the credit bureau data to determine actual credit risk.

This study found that, in spite of increased efficiency in loan processing software, the human judgment in credit assessment is important. An example is a loan case in agro-industrial loan in Rangpur, the system data indicated that there was low risk, but a visit to the field revealed that the factory of the borrower did not have the equipment needed to start a likely default. This example indicates that the software decisions are restricted to the quality of the input, data, whereas realities unknown to paper work are revealed through the experiences of the managers and shop floor inspections. Finally, technology may help, but even good lending requires human checks and balances.

The Risk Management Committee (RMC) is in the middle of loan approval and its role is not only to analyze each borrower but to oversee the issue in a wider scope. The RMC has stringent scrutiny of sectoral exposures, exposes the entire portfolio of credits to stress tests conducted in unfavorable economic conditions, and sees to it that due diligence is always punished in all lending decisions. In essence, they spearhead the management in setting and defining risk assessment structures. One tangible outcome of them was their vote in 2023 to impose restrictions on the exposure to single borrowers at 10% below the ceiling of Bangladesh bank. This initiative is the very reason behind the reduction of high-risk credit concentrations in the bank.

The work of the RMC has been complemented by the Audit Committee that has played an important role in lending discipline. It has raised the issue of the continuity of re-scheduling of high defaulters severally enough. The committee made a decisive move in 2023 and was able to

put a halt to the long-standing trend of evergreening loans. This activity that includes taking more loans to clear other ones had earlier enabled the bank to overstate its NPL level artificially. After these interventions, the bank has been making an aggressive recovery campaign in 2024. The campaign was able to recover a considerable amount of Tk. 12,728.90 million of classified loans using special tribunal to recover the largest defaulters. This goes to show that strong surveillance and timely tribunal actions were effective in making them reclaim over Tk. 12.7 billion despite the fact the NPL ratio of the bank remained at a high of 41.60 % in the same year (Bhuiyan, 2024).

These recovery efforts are however confronted with a consistent and aggravating challenge in the legal system that adds to the continuous NPL problem. Upon default of a borrower, the bank usually tends to proceed to collect the debt by auctioning off the assets that the borrower has mortgaged. The borrower will usually appeal to the court, and get a stay order of the auction in a typical legal gambit. Such a legal injunction essentially puts a complete stop to all the recovery system of the bank and the borrower is not obliged to pay a single penny; the bank cannot sell the collateral either. This time-consuming and frozen legal procedure will see the loan that was defaulted listed and never recovered, and day after day the NPL figures of the bank are soaring.

According to the respondents, some loans in the past failed due to political influence and weak due diligence. To prevent such occurrences, banks now require dual legal vetting of collateral and independent valuation reports. However, valuation anomalies still exist, as some assets are found to be significantly overvalued. For example, a property of a company worth no more than Tk. 1 crore might be reported as Tk. 10 crore, inflating the borrower's financial position and misleading the credit committee (Anti-Corruption Commission, 2025). Respondents noted that independent valuers often escape accountability because they are not required to provide a traceable verification number such as a Document Verification Code (DVC) number used by chartered accountants in audit report. To address this, they emphasized the need for an automated system that assigns a unique identification number to every valuation report. Furthermore, if any credit authority later proves that a valuation was intentionally overestimated or underestimated, the responsible valuer should be held legally accountable and subject to disciplinary action. It was also observed that in earlier times, branch managers were hesitant to reject loan proposals from influential individuals. The introduction of dual legal assessments and independent valuations, however, has given officers stronger grounds to reject unviable or politically motivated loan proposals with greater confidence.

In this respect, the respondents believe that the profitability comes when the loans are well serviced and held in good health. They stated that they would concentrate more on SMEs and remittance-backed retail loans as this is an area with a superior repayment discipline as opposed to reliant on high-risk corporate loans. They said that they survive on a constant government business and secure investments. They further stated that it is not about risky corporate borrowing in order to make profits but smart use of capital and liquidity. They also described that they deal with risks through diversification. Although the returns of industrial loans are higher, they have more risks hence balance it by targeting CMSME and export backed sectors who are more likely to make reliable repayments.

The respondents indicated that there is need to have a *centralized credit scoring system* that would be shared by all banks. They also insisted on the need to have tougher bankruptcy

legislation. In their opinion, NPLs are not going to be reduced until banks will be able to sell collateral in a short period of time. They also said that banks ought to have independent professional directors in place of having the government appointees as the only ones. Besides this, they also pointed out that more cases of loans recovery should be expedited in court. The absence of these changes meant to them that NPLs would not reduce. Moreover, the respondents further indicated that the collateral auctions ought to be implemented at a faster rate. They advised that there should be an enhancement of digital monitoring to be in a position to monitor loans. Finally, they understood the need to have a work culture where the loan officers are encouraged to give good quality loans and not huge loans.

Table 3: Summary of Findings of Bank Board Members

Key Findings	Gaps Identified	Insights from Interviews
Both an Integrated Software and a Paper-based checklist to incorporate corporate governance in the process of loan approval and monitoring is important.	Banks rely too heavily on digital processes without complementary physical checks.	Physical inspection can reveal issues that are not comprehended by software.
Hidden weaknesses may exist despite having a clean CIB.	CIB data is incomplete and may not capture off-book loans.	Loan shuffling and misclassification distort true borrower risk, making NPLs harder to predict.
Overvaluation of collateral and lack of accountability for valuation experts.	Misleading collateral assessment and valuation due to a lack of independent verification.	Independent or third-party valuations provide accurate and true information, preventing inflated collateral claims
Need for a centralised credit scoring platform	Absence of a unified credit scoring system or platform.	A centralised system can track borrowers' credit history and improve risk assessment.
Dual legal assessments and independent valuations help reject risky, politically motivated loans.	Absence of mandatory dual legal assessments and independent valuations in place.	Implementing dual assessment can significantly reduce sanctioning of risky or politically motivated loans.

(Source: Authors' findings, 2025)

4.1.4 Auditors

According to the respondents, the existing governance system in banks is still mostly manual. Paper files are *physically moved around*, which causes delays and opens the door for manipulation. They further expressed the view that board-level committees do exist, but they often fail to act effectively. As an example, in 2024, a major company's loan kept getting rescheduled. Even though it was flagged, the Risk Committee approved it because the company was considered strategically important. An example of such dilemma in the view of strategic importance prevailing over risk considerations can be seen in a large organization that has a substantial presence in the pharmaceutical industry in Bangladesh (Daily Sun, 2025). In the event that such a company failed

to repay their loan. In this regard, the short-term and harsh effect on the supply of medicine in the country would be a significant strategic issue. Since the production of medicines is critical, the loss of a large industry would not be easily substituted in the short run. As such, to ensure the medicine supply smoothly that strategically important company can be provided support to maintain the business, stabilizing the market and ensuring current prices of medicine to serve the common good.

On the other hand, one well-known bank recruited the *independent experts* to assess the value of collateral in 2021. As a result, fewer properties were overestimated as loan security. This smart move helped the bank avoid major losses later on.

They explained that with a high default rate of NPL at 41.60%, it's challenging to maintain profitability. Profit should come from performing assets, not by artificially cleaning books. In order to reduce NPLs, respondents suggested making the loan approval process fully *digital to avoid delays and manipulation*. For setting aside funds to cover risky loans, they emphasized strengthening the rules. They also highlighted the necessity of holding managers accountable for approving bad loans by linking their performance to the quality of loans they sanction.

Table 4: Summary of Findings of Auditors

Key Findings	Gaps Identified	Insights from Interviews
Existing bank governance is largely manual, with paper files circulating physically.	Relying on paper-based process increases delays and allows manipulation.	Manual assessment can lead to delays and potential manipulation of loan approvals.
Board committees often prioritize strategic interest over risk; as a result, NPL increased.	Biased decision-making and absence of a collective decision-making process.	Concentrated power in boards sometimes bypassed proper risk assessment.
A fully digital loan process prevents delays and reduces manualization, and increases transparency.	Absence of a digital loan process system with an integrated monitoring system.	Loan sanction can be done digitally, which reduces time and borrowers' excessive paperwork.
Need to reduce NPLs and improve loan governance	Absence of a fully digitalised loan approval and monitoring system	Fully digital loan processing to eliminate delays and manipulation, strengthening provisioning rules and holding managers accountable.

(Source: Authors' findings, 2025)

4.1.5 Industry Association

According to the respondents, the prevalence of NPLs among the RMG industry members is moderate. The representative from RMG sector opined that the NPLs ratio from RMG sector is similar to other sectors and this sector alone is not responsible for the present situation. Regarding the trends in loan repayment patterns across different business sizes, the respondents stated that NPLs are currently rising and are expected to increase further for classified loans (Quarterly

Financial Stability Assessment Report, 2025). In the previous term, the government did not disclose the data on classified loan properly. But now, because of Bangladesh Bank's stricter rules, that hidden data is coming to light, so older NPLs are finally being seen.

The respondents believed that NPLs are rising because of decision making capacity by Bangladesh Bank and unethical buying practices in the global market. They felt these factors are making the situation worse instead of improving it. They also mentioned that businessmen should not be blamed for delaying bank instalments. Many businesses suffered heavy losses, after the COVID-19 pandemic, which made it difficult for them to repay loans on time. Consequently, several factories have already shut down, and more closures are expected if banks do not offer better support.

According to the respondents, the businessmen from knitwear sector usually took smaller loans, less than 100 crores, while those in spinning and textile (backward linkage industries) borrowed much larger amounts, ranging from 200 to 1000 crores. Therefore, they suggested that the latter group might carry more responsibility for the rising NPLs. They added that despite introducing several policies, there has been no visible improvement in reducing NPL level. Finally, they pointed out that while SME loan borrowers generally pay their instalments on time, they still face difficulties with the monthly payment system, which needs to be addressed.

Most respondents felt that banks' lending rules do not match the real situation in the country (Raiser, 2024). They believed that the criteria used by banks are often unrealistic and don't reflect the actual challenges faced by businesses. They pointed out that Bangladesh is still a developing country, so banking policies from developed nations may not work here yet. According to them, advanced systems like *automated notification and quick legal actions should be introduced* slowly and step by step. Respondents warned that applying strict foreign-style banking practices too suddenly could increase pressure on borrowers and lead to a rise in NPLs. They stated that while some of Bangladesh Bank's current policies were seen as practical, most were considered out of touch with the realities of the local economy.

They explained that there are two types of loan defaulters: those who intentionally avoid repayment (willful defaulters) and those who default because of tough circumstances (involuntary defaulters) (The Daily Star, 2024). Most businessmen fall into the second group, as they didn't get a supportive business environment but banks are not taking this into account. The respondents stated that Bangladesh Bank needs to create its own banking policies based on the country's current situation. According to them the industries are struggling due to ongoing gas and electricity deficiencies, and the government has not yet been able to fix these problems. Consequently, many factories are operating at only 40% of their full capacity, which has made it tough for businesses to produce goods and repay loans on time. They realised that banks should take these challenges into account when designing loan policies. According to them, policies must reflect the real conditions borrowers are facing, or else NPLs will continue to rise.

The respondents also mentioned that simply using automated financial monitoring tools has not helped reduce NPL risks. They explained that NPLs depend on two key factors: the overall business environment and the borrower's intention to repay. In cases where borrowers deliberately avoid repayment, strong legal action is needed. They believed that NPL data should be made public

and transparent. Although some corrections are now being made, they stressed the importance of taking timely action based on current circumstances.

Respondents recommended that all banks should offer SME loans to new entrepreneurs, as they are not responsible for the existing NPL problem. They highlighted some scheduled banks approved collateral-free loans of up to Tk. 5 crore at single digit interest for members of an Association. These loans are easy for members to access. They further suggested that borrowers in this sector should be allowed to repay instalments every six months, similar to the Cash Credit Loan system. They believed that this *flexible repayment option would encourage more businessmen* in the sector to apply for SME loans.

A recent initiative taken Bangladesh Bank’s initiative was appreciated by the respondents, where borrowers are allowed to reschedule their loans by paying only 2% upfront, along with a grace period of up to two years (Bangladesh Bank, BRPD Circular No.07, 2025). They considered this a helpful step for struggling businesses. However, they suggested that the two-year grace period should be extended based on the actual repayment ability of the businessmen but have to align with bank policy too. They felt that a more flexible timeline would better support borrowers facing financial challenges. The respondents also emphasized the need to remove political influence from banking decisions. They believed that *interference from board members within banks should be reduced*, and that recommendations from the Central Bank should not be allowed to affect loan approvals or rescheduling decisions (Bangladesh Bank, 2021). Regarding the collateral-free SME loan, they noted that the documentation process is smooth and borrowers can access to the loan easily. However, they recommended that the instalment payment period should be extended to make repayment more manageable for these entrepreneurs.

Table 5: Summary of Findings of industry association

Key Findings	Gaps Identified	Insights from Interviews
Banks do not offer better support to businesses.	Polices do not account for business constraints.	Many factories suffer during economic shocks.
Banks’ lending rules are often unrealistic and do not match the country’s real economic and social situation.	Banks’ lending criteria fail to reflect actual economic challenges.	Banks’ lending rules don’t reflect developing countries’ economic challenges.
Most businessmen fall into the involuntary defaulters.	Monthly installments do not align with cash flow patterns	Six-month installment or grace periods are preferred to manage repayments effectively.
Interference from board members and influence from Central Bank recommendations affect loan approval.	Absence of a conflict-of-interest policy and robust governance system.	Such interference often leads to high NPL and undermines fair lending practices.

(Source: Authors’ findings, 2025)

4.1.6 Regulatory Authority

The respondents shared that the challenges in the banking sector are complex and come from many directions. They mentioned that loan classification rules are often made more flexible, and the actual number of defaults is not clearly shown. In many cases, borrowers with *political connections are given special treatment*, which weakens the system of monitoring and reduces accountability (Banerjee, 2025). They also pointed out that the *attitude of borrowers* adds to the problem. Many borrowers think that defaulting on loans is something they can negotiate, rather than a serious issue. Because loans are often rescheduled without any real consequences, the habit of repaying on time has become less important. This, according to the respondents, has made the overall loan discipline much weaker (Modak, 2025).

The respondents thought that numerous macroeconomic forces are aggravating the situation. They said that the problem is being worsened by slow GDP growth, increasing inflation, fluctuating currency rates, and strain in various business sectors. They noted as well that there are *still significant restrictions on the independence and capacity of Bangladesh Bank*. Banks are grappling with the lack of talented officers, ineffective application of risk analysis applications, and ineffective loan borrower tracking systems notably in knowing who will pay and who will not. Indeed, the respondents indicated that NPLs have emerged to be a major challenge to the economy of the country. The banks are losing their capacity to lend to other parties, particularly the SMEs as they are compelled to hold back more money to cater to these risky loans. The greatest sufferers are SMEs since banks have become more careful with issuing loans.

The respondents stated that even though Basel-III standards have been adopted, there are still major gaps in banking regulations. They said that banks and non-bank financial institutions continue to have weak capital reserves, and enforcement of rules is not being done properly. They also pointed out that *a lack of transparency* is making the situation worse. According to them, there are no strong policies in place to *monitor borrowers* who take loans from multiple banks. In addition, they mentioned that there are limited research and *not enough reliable data* available to support better decision-making in the financial sector.

The respondents indicated that the problem of NPLs in Bangladesh has escalated to a very high level particularly in the banking sector. They believe that the *poor administration, laxity in following laws and the mindset of borrowers* are exacerbating the situation. They further noted how political interference, inadequate control and irresponsible lending methods have gradually eroded confidence in the financial system. They state that such issues are now posing greater threats to the economic development of the country, future investments, and the stability of the country in general.

The respondents said that *effective and reliable reforms* are necessary to solve the NPL crisis. They wanted the Bangladesh Bank to be *granted complete independence*, not interfered with politically, with the strict adherence to loan classification and provisioning rules. They also focused on the importance of enhancing accountability of borrowers. This, according to them, would be achieved by making legal adjustments, blacklisting individuals who default repeatedly and conducting awareness campaigns that will motivate them to repay loans on time.

In addition, the respondents mentioned that more effective monitoring and research is very much needed. They proposed to have a *centralized credit registry that is connected to unique IDs* and obligatory interbank checks. This would aid in real time tracking of borrowers. They also suggested further research based on the requirements of the policy, such as stress tests of particular sectors, and early warning reports to enable banks to prepare against risks. Moreover, they recommended that an Asset Management Company should be established promptly in order to assist in lowering NPL ratios. They thought that the credit guarantee programmes would help reduce the chances of loan default and legal recovery procedures should be simplified and expedited to lessen the burden on banks. Lastly, they also proposed that the names of *loan defaulters should be published publicly* so as to deter voluntary non-payment as well as enforced non-payment to enhance overall loan discipline.

Table 6: Summary of Findings of Regulatory Authority

Key Findings	Gaps Identified	Insights from Interviews
Many borrowers think that defaulting on loans is something they can negotiate, as a result habit of repaying on time has become less important.	Lack of enforcement and accountability, as well as political influences.	Borrowers with influential connections receive leniency, making late repayment a recurring habit for some borrowers.
Ineffective application of risk analysis and loan borrower tracking systems.	Weak risk analysis and a borrower's tracking system.	Borrowers exploit weak risk analysis and intentionally conceal information.
Limited research and <i>not enough reliable data</i> available to support better decision-making in the financial sector.	Absence of a centralized interbank credit registry system	Difficulty in tracking borrowers across multiple banks leads to poor lending decisions.
Absence of a credit guarantee mechanism and asset management support	No dedicated institution to manage bad assets or mitigate default risk.	Establishing AMC and a credit guarantee programme can reduce NPL ratios.
Weak borrowers' accountability and culture of impunity	No public disclosure or penalty for repeat offenders.	Publishing defaulters' names and enforcing penalties to top defaulters could improve repayment behaviors.

(Source: Authors' findings, 2025)

5. Case Study

The case study relies on the thoughts and experiences of one of the top officials of a scheduled bank in Bangladesh. The insights indicate that the emergence of NPLs and their maintenance have been affected by financial and non-financial aspects especially political interference. The official believes that the increase in NPLs in Bangladesh cannot be explained only by the weaknesses in the banking rules or policies. Rather their roots lie much deeper, such as:

- **Inadequate due diligence in selection of the borrowers:** The income, business viability and management capabilities of borrowers are not properly evaluated.

- **Fraudulent documents:** Sometimes fraudulent or falsified documents are accepted, particularly where the borrowers are well-connected.
- **Collateral complication:** Properties have been overvalued or mortgaged with more than one bank and it is hectic to recover property.
- **Group based lending risks:** It did not consolidate loans among various businesses in the same ownership that they could assess their risks leading to unsustainable debts.
- **Weak enforcement environment:** The time-consuming court proceedings do not allow banks to liquidate collateral and retrieve capital.

Also, politically powerful borrowers were usually able to borrow at lax conditions. This kind of favoritism destroyed banking discipline and encouraged impunity culture. The official emphasized that non-financial factors like corporate governance and quality of management were not the main factors behind the growth of NPLs in Banks, especially Islamic and State-owned banks. Rather, it had been decided by political factors. The previous government was targeting Islamic banks with a wider campaign of political suppression.

- **Propaganda and delegitimization:** *The state supported propaganda falsely alleged that the Islamic banks funded terrorist groups, this brought down their credibility.*
- **Politically related forced takeover:** *In 2017, a series of Islamic banks were virtually given away to strong business conglomerates. The banks were used by these actors to direct money towards personal gain, increasing the pace of NPLs growth.*

In this atmosphere, boards and internal bank officials had no power to make decisions and were left helpless to contain politically inclined lending. Therefore, the accusation of NPL growth as a result of poor governance or management was viewed as being misleading because the issue was systematic political manipulation and not internal incompetence.

In the past, the Islamic banks used Shariah-compliant risk assessment models, which focused on Borrower creditworthiness and project viability. But, these structures were compromised by politics. Loans were granted under duress particularly in the situations that risk assessment processes identified risks. Following the removal of the authoritarian regime, risk management was once again of importance with improvement being greater verification of customers, improved collateral re-valuation, cross-checking to avoid two or more mortgages, aggregated analysis of group lending and powerful legal and recovery teams.

5.1 Policy Change and Direct Effect on NPL Ratio

The largest policy-related change in NPL ratios was in or about 2017, when the government organized a takeover of Islamic banks by politically affiliated entities. The policies that were implemented by this regime compelled banks to grant loans on political grounds and before long they were NPLs as a result of embezzlement and misappropriation of funds. The collapse of the government led the government to tighten its regulatory control over the banking sector; its depositors once again gained confidence and the Islamic banks once more adopted prudent lending. As a result, there were more deposits and the NPL burden decreased over a period of time.

This case demonstrates that the main factor that caused NPL growth in the Islamic banks was not weak internal government but political interference. It is a fact that even the well-managed banks can be turned into vulnerable ones due to systematic abuse of financial institutions. The reforms that have followed after the crisis like increased verification, assessment of lending by groups and tougher legal recovery measures are essential in restoring sanity.

6. Discussion

According to findings, major concern is borrowing system. Meanwhile, discriminations in loan distributions are the pushing factors in NPLs as well industry specific operational challenges and double standards in loans disbursement remain causes behind the loan defaults. Alongside, the study revealed that bank officials' behaviour and assessment system remain heterogenous to the business specific loan distribution while contributions to the economy almost same. Similarly, Ahmed et al. (2021) mentioned that interest rate is the factor to contribute to NPLs rising while study results indicate that loan distributions are not considerable issue rather than concern about the loan processes. This issue raises two perceptions either borrowers not getting access to the loans or borrowers do not care about loans rate because they can make good profit even the define rate. In terms of operational challenges, it aligns with Ahmed et al. (2021) findings but double standards in loan distributions are the unique points to raise in NPLs changes.

Credit authority findings revealed that policy specific BRPD Circular No. 15, absence of credit scoring, lack of experience in businesses and corporate governance are the major concerns behind changes in NPLs rate. Corporate governance and business experience is aligned with the Tarchouna et al. (2022) findings. There are numerous risk management processes available yet the lack of interest in risk diversification is an inherent reason for defaults and example are visible across the industries in NPLs rising. These findings strongly support the results of study results while absence or not undertaking instruments means NPLs may rise (Ciukaj & Kil, 2020; Khan et al., 2020; Ristić & Jemović, 2021).

In terms of bank board members integrated system and paper checks are available and there has access to verify the personal data. The findings aligned with Ozili (2025) digital inclusion perceptions in NPLs reduction and study support that system based digital integration may reduce NPLs. In addition, real facts need to verify in person as well need to improve judgement to the loans with real facts checks. They also exposed that dual loans processing and stringent monitoring helped them to take control over loan defaults. Study further revealed that engagement of independent professional director in bank board member and digital monitoring can acts as significant factors to change loans defaults. Independent auditors' findings exposed that auditing files still in paper based and manipulative. In addition, emphasized that independent valuations and digital transformation can reduce time and falsifications.

Industry association representatives revealed that the decision-making capacity by Bangladesh Bank and unethical buying practices in the global market are the major causes behind changes in NPLs. Meanwhile, they mentioned that SMEs loan borrowers pay their instalment in time but they face difficulties which need to be addressed. Automation and prompt legal actions may help reduce defaults, while foreign styles practices could increase pressure and lead to rise in NPLs. However, Ozili (2025) mentioned in this study that the policy issues while instalment process is a unique

contribution to this study. Respondents suggested incorporation of the flexible repayment option would encourage more businesses in the sector to apply for SME loans and discourage the board member interfere in the loan process.

Regulatory authorities' opinions reflected a reaffirmation of political connections which weaken the monitoring and accountability of the loans. In addition, borrower behaviour and the lack operational independence hinder the efficiency of the central bank's capacity to cope with defaults. The authorities also emphasized the lack of transparency and the policy gaps existing in multiple loans monitoring, along with the absence of reliable data. They believe that poor administration, lenient enforcement of laws and borrower's attitude. A centralized credit registry linked to unique IDs should be established, and mandatory interbank checks and public disclose loan defaulters should be implemented to reduce NPLs.

7. Conclusion and Recommendation

NPLs are a significant issue in countries like Bangladesh, affecting the financial sector through governance, economic, and system weaknesses. The study covers diverse multi-party perceptions to understand the core and fundamental causes behind the extent of literature. The approach of this study is distinctive and relies on subjective expertise to identify the major flaws that still remain to raise NPLs. The study covers six key stakeholders' groups, e.g., industry owner/manager; credit authority or compliance; bank board's members, regulatory body, auditors and industry associations to provide contextual insights. The IDIs engaged experts from each group to address the issues and contribute unique findings to the literature.

The research findings align with existing literature with a few divergent views and exceptions such as decision-making capacity of the central bank, procedural inefficiencies that need to be resolved. The study also found that double standards in loan distribution and behavioral distortions in loan repayment make it difficult for borrowers to access finance. From the perspectives of credit authorities, the loan classification policy is a significant cause behind the changes NPLs while introduction of credit scoring can mitigate the unexpected manipulation.

In terms of digitalisation, industry associations and independent auditors revealed that paperless valuations, system automation, and time variant Bangladesh Bank policy may reduce NPLs. In addition, the study found that flexible installment options for SMEs loans, prompt legal actions, unbiased loan processing can significantly lower NPLs rate. Regarding regulatory issues, the study identified operational independence particularly for the central bank, as fundamental. Furthermore, establishing a centralized credit registry, connections with IDs and publicly disclosing willful defaulters could help bring NPLs under control.

The findings also highlighted the need for feasible reform roadmap. Bangladesh Bank can enforce uniform loan classification, strengthen supervision, introduce a centralized credit scoring framework, and improve data disclosure practices. Over the long term, structural reform such as accelerating loan recovery through specialized tribunals, ensuring full autonomy of Bangladesh Bank and appointing independent professional directors can help reduce NPLs to a great extent. In this regard, a coordinated efforts among the Bangladesh Bank, The Ministry of Finance, commercial banks and NBFIs is needed. Moreover, digital transparency, good governance,

accountability and depoliticizations of financial decision are essential to restoring discipline and stability in the banking sector.

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