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Caught in the Crossfire: Bangladesh as a Test Case for Development in a Geopolitically Fragmented World

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Caught in the Crossfire: Bangladesh as a Test Case for Development in a Geopolitically Fragmented World

Mohammad Abdur Razzaque[*]

1. Introduction

Bangladesh's impending graduation from the world's poorest and most vulnerable countries, known as the least developed countries (LDCs), represents a significant development milestone for a country that emerged as war-devastated, prone to regular natural calamities such as floods and cyclones, socio-economically fragile, and once regarded as the "test case of development".[1] Over the past five decades, it has transformed through sustained economic growth and remarkable improvements in social and human development indicators, being recognised as one of the countries with the fastest Human Development Index (HDI) progress in the world during 1990–2021 (Liller, 2023).[2] Propelled by apparel exports and migrant workers' remittances, amounting to approximately \$50 billion and \$30 billion annually in most recent years, together with steady agricultural growth that has enhanced domestic food security, Bangladesh has progressively evolved into an economy increasingly anchored in trade orientation and external competitiveness.

Yet, the prospect of LDC graduation comes with significant uncertainties and challenges. As an LDC, Bangladesh has long benefited from duty-free market access in major importing countries—except the United States—and flexibilities in complying with various rules and regulations of the World Trade Organization (WTO), including intellectual property obligations and protected policy space allowing export subsidies—norms not generally available to non-LDC countries. Graduation will thus result in the discontinuation of privileges that underpinned its development take-off. Furthermore, the withdrawal of LDC-specific benefits is unfolding at a time when the foundations of liberal global trade regimes and the rules-based multilateral trading system are being redrawn in an increasingly geopolitically charged context (Lee, 2025). The evolving global trade and economic development landscape has become increasingly uncertain—first set in motion by the U.S.–China trade confrontation and subsequently extending its repercussions across much of the world as the United

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[1] The phrase "test case for development" was coined in Faaland and Parkinson (1976), to argue that Bangladesh's extreme disadvantages and unique combination of constraints made it a critical empirical test of development theories: success there would suggest that even under harsh conditions development is feasible.

[2] Between 1990 and 2022, the overall HDI score of Bangladesh improved from 0.397 to 0.661. Only China had greater corresponding improvements in the Asia-Pacific region over the same period.

States adopted reciprocal tariff measures to curb bilateral trade imbalances and rolled back its principal development assistance programme.

For Bangladesh to build further on its past economic success is now being confronted by the confluence of those two disruptive forces: LDC graduation leading to the loss of international support measures and the growing geoeconomic rivalries shaping global trade and economic cooperation increasingly development-unfriendly. That is, the world in which Bangladesh's development transition is unfolding is fundamentally different from the one that once offered predictability grounded in rule-based fairness and developmental considerations. Multilateralism, which for decades offered smaller economies a framework of stable, predictable engagement and a degree of normative protection for their developmental priorities, is now steadily losing coherence and collective direction as major powers increasingly pursue unilateral, selective, and transactional approaches to trade. The paralysis of the WTO, the waning relevance of development-oriented compacts, and the erosion of trust in collective rule-making have together produced a global environment marked by uncertainty and diminishing accommodation for late-developing economies. Simultaneously, the contraction of aid commitments and the diversion of public resources toward defence and security signify a shift in global priorities, where growth and development no longer occupy the organising centre of international cooperation. Intensifying geopolitical competition accompanied by a surge in military spending, now at record levels, signals not only a renewed arms race but also the gradual crowding out of developmental solidarity. For Bangladesh, the task of sustaining growth and advancing structural reforms within such confrontational and volatile environments carries tangible risks, as a less predictable global trade regime and declining development finance threaten to restrict international support measures that are considered most essential for tackling development challenges.

Against this backdrop, the objective of this paper is to examine how Bangladesh's graduation from the LDC group intersects with the broader reconfiguration of the global trade and development landscape. It analyses the implications of graduating from the LDC category at a time when the multilateral trading system is losing its development orientation, aid resources are contracting, and geopolitical rivalries are reshaping the foundations of global economic cooperation. The paper seeks to identify the channels through which these global shifts may constrain Bangladesh's policy space, competitiveness, and access to external support, while also highlighting the strategic opportunities that could emerge from deeper regional integration and reform-driven domestic transformation.

The paper is organised as follows. After this introduction, Section II discusses the marginalisation of development concerns in multilateral trade governance and the erosion of the rules-based system that once provided predictability and fairness for smaller economies. Section III examines the growing power asymmetries in international trade relations, focusing on the shift from multilateral to power-based bilateral engagements. Section IV analyses the retrenchment of global development finance and its implications for Bangladesh. Section V explores the systemic risks arising from intensifying geoeconomic rivalries and their asymmetric impacts on developing countries. The final section, outlines some policy priorities for Bangladesh to navigate this evolving environment.

2. The Marginalisation of Trade Multilateralism and Development

From Development Promise to Stalled Multilateralism

For much of the post-war era, the promise of a rules-based multilateral order rested on the assumption that weaker developing economies would find some measure of stability in predictable arrangements, whether through tariff bindings, non-discrimination, or the principle of special and differential treatment (S&DT). Although the WTO was established with the objective of further liberalizing the global trade through the creation and enforcement of trade rules and settlement of disputes between countries, development needs of the weaker economies were also given consideration. The elaborate S&DT measures not only for LDCs but also for non-LDC developing countries, provisions Aid for Trade support, technical assistance and capacity-building support, all became indispensable component of WTO work programmes. In fact, the Doha Round of Multilateral Trade Negotiations, launched in 2001, was initiated keeping development in the centre stage and dubbed as the Doha Development Round. It encompassed nearly all areas of trade relevant to both developed and developing members but introduced a clear order of priorities: the so-called development issues were to be addressed first, followed by other fundamental areas of trade that had been part of earlier discussions or rounds of negotiation, and only thereafter would new topics be taken up. LDCs were generally not required to undertake new or full commitments under the Doha Round, but were instead expected to make concessions consistent with their individual development, financial, and trade needs, with special and differential treatment (S&D) provisions providing them with flexibility and exemptions from certain obligations (WTO, 2001).[3]

It is difficult to perceive such development-focused global trade regime is still intact. Tensions emerged from the early stage of the Doha Round as regards how to accommodate the development interests of the advanced developing countries, more prominently Brazil, Russia, India, China and South Africa or BRICS nations. Their significant supply-side capacities acted as a concern for Western Developed economies led by the United States that were reluctant to grant development concessions in negotiations that would benefit those advanced developing countries. Despite having diverse and at times competing economic interests, BRICS countries managed to develop a remarkable level of coordination in multilateral trade negotiations. Acting collectively, and with the support of much of

[3] The Doha Ministerial Declaration (paragraphs 42–44) made this clear: “We reaffirm our commitment to the objective of duty-free, quota-free market access for products originating from LDCs... LDCs will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs.” LDCs were exempt from making reduction commitments under the Agreement on Agriculture and were not expected to undertake additional regulatory commitments in services beyond their institutional capacity.

the developing world, they contested the longstanding dominance of advanced economies, particularly the United States and the European Union. Their alliance, as Hopewell (2017) observes, was instrumental in challenging the traditional power structure within the WTO and recasting the Doha Round as a negotiation increasingly defined by North–South divisions.

The Rise of Emerging Powers and the Rebalancing of Global Economic Influence

While the Doha Round was marked by the growing assertiveness of the global South, it was the emergence of BRICS, and particularly China’s meteoric rise as an economic powerhouse, that profoundly reshaped the dynamics of the WTO-led multilateral trading system. China’s exports surged from US $266 billion in 2001, the year it acceded to the WTO, accounting for 4.3 per cent of world exports, to US $1.58 trillion in 2010, exceeding 10 per cent of global exports and making it the world’s largest exporter. This would be widely interpreted as the country’s being the largest beneficiary from the rules-based trading system. Since 2015, China has also overtaken the United States as the world’s largest economy when measured in purchasing power parity (PPP) terms. Not only in China, but growth momentum was also prominent in other BRICS members. Using the same PPP methodology, the combined GDP of the Emerging Seven (E-7)—China, India, Brazil, Russia, Indonesia, Mexico, and Turkey—would surpass that of the G-7 economies (France, Germany, Italy, Japan, the United Kingdom, the United States, and Canada) (Commonwealth Trade Review, 2015). This unprecedented rebalancing of global economic outputs inevitably transformed the landscape of multilateral trade negotiations. The WTO Doha Round thus became, as Baracuhy (2012) argues, “caught in the middle of a tangled web created by the new geopolitics of multilateralism,” as shifting economic power from the traditional transatlantic core toward the BRICS generated institutional strain between the established and new aspirant rule-makers. With the emerging economies gaining economic weight, according to Kanth (2016), they demanded greater voice and equitable rule-making authority within the WTO, while traditional powers resisted ceding their long-held influence, giving rise to the resultant standoff that was no longer merely about tariffs and market access, but about the redistribution of power within global governance itself—one seeking to preserve the established order, the other striving to reshape it in line with a multipolar world economy.

At the same time, China’s expanding global reach, most visibly manifested through the Belt and Road Initiative (BRI), has further complicated the balance between economic interdependence and strategic rivalry, prompting the United States and its allies to re-evaluate their engagement with the WTO-led multilateral trading system. As China’s overseas investments, infrastructure financing, and trade linkages have deepened across Asia, Africa, and Latin America, the BRI has come to symbolise an alternative vision of economic connectivity, one in which global influence is exercised through networks of trade, connectivity, finance, and technology rather than through traditional geopolitical alliances (Pantekoek, S., et al., 2022). This projection of economic power has, in turn, reinforced the perception among Western economies that the WTO’s existing framework is increasingly unable to discipline state-led capitalism or address non-market practices. Consequently, rather than relying on multilateral institutions as the primary arena for managing trade relations, the United States and its strategic partners have increasingly resorted to plurilateral and regional mechanisms, combining economic alliances with broader strategic objectives.

In the rift between Western Developed economies and the emerging BRICS economies, the perceived development objectives in Doha Round was a clear victim with the overall Round would collapse in an unprecedented manner. In their 10th Ministerial Conference, held in Nairobi, Kenya, WTO members declared (paragraph 30 if the MC declaration), "We recognize that many Members reaffirm the Doha Development Agenda (DDA), and the Declarations and Decisions adopted at Doha and at the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the DDA on that basis. Other Members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations. Members have different views on how to address the negotiations. We acknowledge the strong legal structure of this Organisation." This decision, according to many analysts, laid the ground to discontinue the Doha Development Agenda negotiations and the Doha work programme while preparing the ground for pursuing "new approaches" (Kanth, 2022).

Fragmentation through Mega-Regionals and the Weakened Multilateral Framework

Given the members' active participation, the decision-making process in the WTO has been quite complex and slow often compounded by the single-undertaking principle. Along with this, the perception of existing rules benefiting the relatively advanced developing countries more, prompted the pursuance of what would be known as mega-regionals with the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) being two more prominent initiatives led by the United States. The main objectives of these initiatives was to liberalise trade faster under new rules, going beyond WTO standards—often known as WTO plus provisions—so that for benefiting from these new arrangements would require compliance with norms in which emerging economies were lacking and thereby giving them undue competitive advantage. Geopolitical motives, especially to contain the influence of China in the East-Asian economic grouping, was also a major reason (Yong, W., 2014).[4] Concerns were that these mega-regionals will marginalize the multilateral trading system along with its "development" space and would affect the excluded countries (Palit, A. 2017; Draper et al., 2014).

It would not be easy either to clinch the mega-regionals given the complexities in negotiations and U.S. internal political dynamics. The (TPP) faltered primarily because the United States withdrew from the deal after the 2016 presidential election.[5] On the other hand, the TTIP stalled amid rising public

[4] Then U.S. Defense Secretary Ash Carter once described the Trans-Pacific Partnership (TPP) "as important to me as another aircraft carrier," linking trade policy directly to American strategic posture and tool for power projection in the Asia-Pacific and highlighting how economic agreements were viewed through a geopolitical lens. For details, see Brunnstrom (2015).

[5] The remaining signatories later revived a trimmed version known as CPTPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, signed in March 2018 in Santiago, Chile. These include Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet

backlash over transparency, regulatory sovereignty, investor-state dispute settlement provisions, and divergent standards between the U.S. and EU and the shift in U.S. trade policy under President Trump.

In parallel to the collapse of the mega-regional trade initiatives, the United States' decision since 2017 to block the appointment of judges to the WTO's Appellate Body has dealt an equally damaging blow to the multilateral trading system. Often described as the "crown jewel" of the WTO, the dispute settlement mechanism was the only global forum capable of providing binding, rules-based adjudication of trade conflicts, offering smaller and weaker members protection against unilateral measures by economic powers (Hillman 2019; Howse 2023). By refusing to approve new appointments, first under the Trump administration and continuing under President Biden, Washington has rendered the system largely inoperative. The paralysis of the Appellate Body effectively allows the United States to disregard unfavourable rulings and manage trade disputes on its own terms, reasserting political discretion where legal discipline once prevailed. This shift, while eroding the credibility of the WTO, underscores how established powers can selectively weaken multilateral constraints when the distribution of benefits within the system ceases to align with their strategic or economic interests (Zaccaria, 2022; Howse 2023).

It is important to recognize that the 2008 global financial crisis (GFC), in the aftermath of an already protracted and proven to be much more acrimonious Doha Round of multilateral trade talks with the emergence of BRICS, led to a resurgence of state-led industrial policy across major economies, motivated not only by cyclical stabilization needs that the GFC would call for but also by strategic competitiveness and protectionism. Initiatives such as the United States' Inflation Reduction Act (IRA) and CHIPS and Science Act, the European Union's Green Deal and Horizon Europe (successor to Horizon 2020), PRC's Made in China 2025 and Belt and Road Initiative, and India's Production Linked Incentive (PLI) scheme, etc., all have some elements that could be seen as in conflict with multilateral disciplines.[6] These policies broadly aim to enhance manufacturing capacities, boost productivity, and strengthen domestic industries, signaling an increasing role for government in aiding competitiveness. Furthermore, recent estimates indicate that G20 economies, which together generate roughly 80 per cent of global GDP and three-quarters of world trade, have intensified their use of trade-restrictive policies (Evenett et al., 2024) with the proportion of G20 imports covered by such restrictions surging from about 2 per cent in 2011 to almost 12 per cent in 2024, equivalent to

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Nam. While retaining most of the provisions of TPP, the CPTPP suspended certain clauses that had been included at U.S. insistence, such as extended intellectual-property protections.

[6] The Inflation Reduction Act (IRA) represents one of the largest public investments in the U.S. economy, providing tax credits and subsidies for clean energy, electric vehicles, and advanced manufacturing to drive the green transition. Complementing it, the CHIPS and Science Act seeks to secure U.S. technological leadership through substantial funding for domestic research and semiconductor production. The European Union's Green Deal, supported by Horizon Europe—its €93.5 billion research and innovation programme (2021–2027)—aims to achieve climate neutrality while strengthening technological competitiveness. China's Made in China 2025 initiative similarly seeks to upgrade its manufacturing base into a high-tech powerhouse by raising domestic content in critical technologies, while India's Production-Linked Incentive (PLI) scheme promotes investment and self-reliance in sectors such as electronics, pharmaceuticals, textiles, and automobiles.

some USD 2.3 trillion in trade. Data from the Global Trade Alert further show that between 2019 and 2023 the number of new restrictions imposed by G20 members on goods, services, and investment tripled, exceeding 3,000 measures, and that they enacted more trade-distorting than liberalising interventions during this period.[7]

National security considerations have particularly become a defining feature of U.S. trade policy. From the legacy of Super 301 to newer instruments such as export controls, foreign-investment screening through the Committee on Foreign Investment in the United States (CFIUS), and conditional subsidies under the CHIPS and Science Act, Washington increasingly treats economic measures as extensions of national security. This securitisation of trade enables the United States to pursue industrial and geopolitical objectives beyond traditional WTO disciplines, shifting towards a regime where strategic imperatives outweigh multilateral rules (Fergusson 2020; CRS 2023).[8] Article XXI of the GATT 1994, the "security exception," has been cited as the legal basis to justify U.S. reciprocal tariffs. However, the invocation of the provision can only be done for exceptional circumstances such as war or genuine emergencies in international relations and not for addressing structural trade imbalances or advancing industrial competitiveness (Van den Bossche and Akpofure 2020).[9]

While trade multilateralism was already under crisis, the U.S. reciprocal tariffs, based on a “dubious assessment” that bilateral trade deficits stem from discriminatory trade barriers against the United States (Razzaque, 2025), have emerged as an existential threat to the system itself. By linking tariff rates to the perceived “fairness” of partner-country practices, these measures undermine the most fundamental pillars of the WTO: the principle of non-discrimination under Article I (Most-Favoured-Nation treatment) and the binding nature of tariff commitments under Article II of the GATT 1994. The reciprocal tariff approach thus replaces multilateral discipline with unilateral discretion.

Development Marginalised: Implications for Weaker Economies and Bangladesh

The weakening of the multilateral trading system has profoundly eroded the development-supportive character that once underpinned the World Trade Organization (WTO), rendering it

[7] The Global Trade Alert (GTA), launched in 2009 amid concerns of post-crisis protectionism, is an independent database that monitors policy measures affecting global trade and investment, widely used by governments and international organisations to track state interventions. Its website is located here: https://globaltradealert.org/

[8] Along with the strategic rivalry between the United States and the People’s Republic of China (PRC), Russia’s ongoing war in Ukraine, have heightened perceptions of the vulnerabilities associated with external dependence in advanced Western economies. This has led to a stronger fusion of national security considerations with economic and foreign policy agendas, manifesting in the adoption of ostensibly protectionist measures aimed at fostering greater self-sufficiency and systemic resilience (Millot and Rawdanowicz, 2024)

[9] As clarified in the WTO panel ruling Russia – Traffic in Transit (2019), Article XXI is not self-judging; its use is subject to good-faith review and cannot serve as a blanket defence for politically or economically motivated protectionism (WTO 2019).

increasingly unresponsive to the legitimate needs of capacity-constrained developing countries such as Bangladesh. The institutional paralysis of the WTO, exemplified by its inability to adopt decisions even on uncontroversial, development-oriented matters, reflects a growing perception among advanced members that any flexibility or "development space" accorded to weaker economies might be exploited by the advanced developing economies. As a result, proposals intended to assist the weakest and most vulnerable nations are now routinely stalled, exposing a widening trust deficit within the multilateral framework.

Bangladesh's experience provides a telling illustration of how the development issues have become so marginalised within the multilateral trade framework. For instance, WTO provisions under the Agreement on Subsidies and Countervailing Measures allow least developed countries (LDCs) and certain low-income developing countries, specifically those listed in Annex VII(b) with a per-capita income of up to US $1,000 in constant 1990 prices, to provide export subsidies that are otherwise prohibited for other members. Bangladesh is in a situation where, despite its upcoming LDC graduation, its gross national income (GNI) per capita in 1990 constant prices is projected to remain below this threshold for some time, which would make it eligible to continue offering such subsidies if granted Annex VII(b) status. Accordingly, Bangladesh has requested inclusion for consideration under Annex VII(b) of the Agreement on Subsidies and Countervailing Measures but no decision has yet been reached.

Similarly, Bangladesh has also formally requested to be recognised as a Net Food-Importing Developing Country (NFIDC) under the WTO framework. This category is designed for developing nations that import more food than they export and therefore face greater vulnerability to fluctuations in global food prices. Recognition as an NFIDC would allow Bangladesh to access certain flexibilities granted under the WTO's 2015 Nairobi Ministerial Decision such as the ability to continue providing marketing and transport subsidies for agricultural exports until 2030, and to enjoy longer repayment periods (36 to 54 months instead of 18 months) for food imports financed through export credits. Since Bangladesh's agricultural imports consistently exceed its exports, its request is well-justified on economic grounds. However, despite this clear evidence and the developmental rationale, the application remains pending, with no decision yet taken by WTO members.

A similar lack of progress can be seen in efforts to ensure predictable market access for countries that are about to graduate from LDC status. In October 2023, the WTO General Council adopted a decision that merely encouraged member countries to consider providing an extended period of duty-free and quota-free (DFQF) market access for graduating LDCs (WTO, 2023). This measure was intended to help smooth their transition by ensuring that preferential access to key export markets is not withdrawn immediately after graduation. However, the decision was not made legally binding, meaning that individual WTO members are under no obligation to implement it.

In addition, with the Appellate Body still dysfunctional, the risk landscape has become even more precarious for a country like Bangladesh, which because of its LDC status, has long been exempted from many multilateral trade rules and thus is confronted with challenges to adjust with new realities post-graduation. In the absence of a credible dispute-settlement mechanism, arbitrary trade actions can be imposed against weaker economies with little recourse to impartial adjudication. For Bangladesh, this combination of institutional paralysis, stalled decisions, and legal uncertainty in an increasingly geopolitically charged environment threatens to turn its long-awaited LDC graduation into a perilous transition rather than a developmental milestone.

3. Power Asymmetries in Bilateral Agreements and the Shift from Rules-Based to Power-Based Negotiations

One critical significance of trade multilateralism, which is often less appreciated, is the protection it provided to small and weaker economies by helping them avoid direct bilateral trade negotiations with more powerful nations. In accessing markets, contesting unfair trade practices, and relying on a collectively negotiated framework, the WTO-led multilateral trading system acted as a shield against the discretion of major powers. The disparities in bargaining strength were mitigated through agreed rules, consensus decision-making, and the practice of forming coalitions (WTO, n.d.). These coalitions enhanced the collective influence of developing nations in negotiations, ensuring that the agreements reached obliged every member including the most powerful to adhere to the same rules.

A salient feature of multilateral trade talks has been the widespread participation of countries of all types. Until the 1990s, it is the Quad—the US, EU, Japan, and Canda—were considered as the major players in deal making but soon other developing countries' participation would be clearly noticeable. Even many LDCs and small developing countries, including tiny island states, were active in various WTO councils, committees, and other relevant forums. They set up numerous coalitions to increase their bargaining power, particularly in negotiations. Country coalitions were often issue-based, built on shared interests that cut across developed–developing country boundaries. Of course, structural factors such as the resource constraints of many countries, which meant they could not allocate adequate numbers of officials in Geneva or afford large groups of trade negotiators and supporting experts at ministerial meetings, and difficulties in implementing trade agreements did impede effective participation (Bernal, 2001; Adam et al., 2024). But this is where coalition-building and joint negotiation helped advance collective interests and capacity-building. It also enabled some development partners, including UN agencies, to target collective capacity-building support, for example through programmes based in Geneva or New York or other geographic regional configurations.[10]

[10] Amongst others, for instance, the Commonwealth Secretariat has for long supported the negotiators from their small state member countries based in Geneva and Washington with negotiation capacity-building and championing their mutual interest. UN agencies and the WTO have also dedicated programmes based in Geneva and other regions for supporting different groups of developing countries.

From Collective Shield to Power-Based Bargaining

The introduction of the reciprocal tariff policy under President Donald Trump has marked a profound rupture in the norms and practices that have historically governed multilateral trade relations. The principle of reciprocity, once embedded within a cooperative framework of the WTO, was reinterpreted by the United States to justify unilateral tariff escalation on the grounds of trade imbalances. This departure represents a shift from rule-based engagement to power-based assertion, undermining the legitimacy of the multilateral system and eroding confidence in its ability to restrain the behaviour of dominant economies.

Reciprocal tariffs are not the first attempts in moving away from the rules-based system. In fact, rendering the Appellate Body of the WTO's dispute settlement ineffective has been argues to be a key component of the "power-based" approach employed by the United States (Pauwelyn, 2019). Furthermore, the initial round of trade conflict between the United States and China during President Trump's first term in office has also been interpreted as the former switching from a "rules-based" to a "power-based" approach to trade negotiations (Mattoo and Staiger, 2020) in which the US targeted with higher bargaining tariffs.[11] Sheldon (2022) argues while "power-based" bargaining in the first round of the US-China trade conflict did work in signing the US–China Trade Agreement (USCTA) in January 2020 as China committed to a voluntary import expansion from U.S. sources, its apparent success came at considerable economic losses for consumers, farmers, and taxpayers, failed to address key trade issue of how to deal with China's current economic model while undermining the multilateral trading system.

In contrary to the first round US-China trade conflict, reciprocal tariffs have taken the power-based negotiation at completely different level with so many countries being affected having to pursue side deals and concessions to secure or retain access to the U.S. market, often by offering greater investment privileges, accepting unfavourable trade terms, and aligning with U.S. geopolitical interests, undermining development-oriented trade principles.

Historically, U.S. protectionist measures such as the Smoot–Hawley Tariff Act of 1930, enacted when the United States was still consolidating its global economic position, provoked widespread retaliation, severely disrupting world trade and deepening the Great Depression (Irwin 2017)[12]. In contrast, the response to the Trump administration's most recent unilateral tariff actions have been far more subdued, reflecting a transformed balance of global economic power and a high degree of

[11] The United States used its concerns about China's higher average bound tariffs, manipulation of its exchange rate, and its alleged violation of WTO rules along with state-led investment activities (Morrison, 2018).

[12] The Smoot–Hawley Tariff Act of 1930, enacted under President Herbert Hoover, sharply increased U.S. import duties on over 20,000 goods, raising the average tariff rate from about 38 per cent to nearly 60 per cent. Intended to protect domestic industries during the Great Depression, it provoked retaliation from more than 25 trading partners, leading to a collapse in global trade and deepening the economic downturn. The Act remained in force until it was effectively dismantled through the Reciprocal Trade Agreements Act of 1934, introduced by President Franklin D. Roosevelt, which marked the beginning of the U.S. shift toward trade liberalisation and the eventual establishment of the multilateral trading system.

systemic dependence on the United States. Whereas the 1930s witnessed an international backlash against American unilateralism, the curent global economy operates within a U.S.-centred financial and trade order, where most countries cannot afford to risk exclusion from the world's largest consumer market or the U.S. dollar–dominated financial system. China's swift and forceful retaliation stands as an exception, consistent with its status as both a strategic and economic rival seeking to assert parity in an increasingly bipolar world. For Beijing, the confrontation extends well beyond commerce; it is part of a broader geoeconomic contest over influence and technological supremacy. The European Union, by contrast, has sought accommodation, pursuing managed trade arrangements with Washington, while Japan and the Republic of Korea have followed suit to safeguard their export access and security ties. Most developing countries, constrained by asymmetrical interdependence, have made desperate efforts to come to terms with the US implying a reluctant acceptance that the WTO-led multilateral order is losing its authority and that bilateral negotiation, however unequal, now appears the only viable path to preserve access to the U.S. market.

Consequences for Developing Economies and the Case of Bangladesh

The latest trade policy stance of the United States has unleashed what may be described as a global "race to the bottom," compelling countries to seek bilateral concessions and political accommodation in order to preserve access to the world's largest consumer market. Confronted with the prospect of steep tariffs and unpredictable unilateral measures, many countries have pursued expedient deals that often involve offering preferential concessions to the United States such as reducing or dismantling tariffs on U.S. goods, granting investment privileges to American firms, or aligning with Washington's broader strategic priorities. During President Trump's first term in office, the renegotiation of NAFTA into the United States–Mexico–Canada Agreement (USMCA) illustrated this approach. Mexico and Canada accepted stricter rules of origin, limits on non-market economy agreements, and new provisions on labour standards and digital trade to maintain tariff-free access. Likewise, South Korea's 2018 amendment to the KORUS FTA introduced U.S.-favoured quotas on steel exports and concessions on auto imports, underscoring the imbalance in bargaining power between the two partners (Council on Foreign Relations, 2020). Under the so-called reciprocal tariffs introduced by President Trump, this approach of seeking bilateral concessions has deepened.

For developing countries, the consequences have been even more acute. Many, heavily dependent on U.S. markets, have felt compelled to offer unilateral trade concessions or seek side deals outside the WTO framework to retain preferential access. Countries such as Vietnam have sought to appease U.S. concerns by pledging to reduce trade surpluses through targeted imports of American agricultural and industrial products, while India failed to secure a trade deal and faced a steep 50 per cent tariff after refusing to liberalise market access in sectors demanded by Washington. This tension in U.S.–India relations was further heightened by geopolitical factors, particularly India's continued commercial engagement with Russia and its substantial increase in purchases of Russian crude oil since 2022 (Yang, D., 2025).

For Bangladesh, while the outcome of receiving a tariff rate about 20 per cent lower than those applied to China and India has been viewed as a success, in reality, the overall tariff burden is expected to rise sharply: more than half of Bangladesh's exports to the United States would be subject to 35–40 per cent tariff range, while another 13 per cent would be hit by tariff rates exceeding 60 per cent. The cumulative effect of reciprocal tariff hikes on most countries would substantially reduce U.S. import demand, potentially resulting in an export loss for Bangladesh estimated at around US$1.2 billion (Razzaque et al., 2025). Excessive tariff burdens in the United States are also likely to prompt importers to pressure suppliers to absorb part of the cost increase, while rival exporters losing access to the U.S. market may redirect their goods to Europe and other destinations, thereby crowding existing market segments and driving prices downward. Against these consequences, the concessions that Bangladesh has offered raise questions as to whether any meaningful net benefit can be reaped at all.

The power-based negotiations therefore creates unpredictability and constrains the engine of trade-led growth and development especially weaker or capacity-constrained developing countries. As the multilateral system weakens, pressure may intensify for developing nations to enter into asymmetric bilateral arrangements with advanced economies In such an environment, recent shifts in U.S. trade policy risk entrenching a precedent for power-driven, transactional engagement, paving the way for increasingly unfavourable outcomes for vulnerable economies such as Bangladesh.

4. Aid Retrenchment and the Collapse of Development Finance

4.1 The Global Retreat of Development Finance

The crisis of global development is not confined to the erosion of the multilateral trading system, it is also mirrored in the what is becoming a profound retreat of development finance. What was once the second pillar of post-war international cooperation, international aid or Official Development Assistance (ODA), has increasingly been shaped and constrained by domestic political calculations, security priorities, and the strategic rivalries of major powers.

The global ODA flows is projected to a 9 to 17 per cent drop in 2025 after a 9 per cent drop in 2024 with the outlook beyond 2025 remaining highly uncertain (OECD, 2025). Projections by the Development Assistance Committee (DAC) indicate bilateral aid to LDCs may fall 13–25 per cent in 2025, with a 16–28 per cent drop for sub-Saharan Africa. According to the OECD, for the first time in nearly the past three decades, France, Germany, the United Kingdom, and the United States all cut their ODA in 2024.[13] This comes against the backdrop of the global financing gap for the Sustainable Development Goals (SDGs) widening dramatically in recent years to over $4 trillion annually, from an estimated $2.5 trillion in 2015 (UNCTAD, 2024). This surge in unmet needs coincided with a pullback by major donors, most importantly, the United States, under the Trump administration as the U.S.

[13] According to the OECD (2025), if these countries eventually proceeded with announced cuts in 2025, it would be the first time in history that all four would have cut ODA simultaneously for two consecutive years.

government, historically the world's largest aid donor, undertook an unprecedented rollback of foreign assistance, suspending nearly all foreign aid contracts and effectively dismantled parts of USAID, laying off most of its staff and terminating thousands of aid projects.[14] Furthermore, the US withdrew from the preparatory process and the Fourth International Conference on Financing for Development (FfD4).[15]

It is worth pointing out that the world's richest nations have long failed to meet their own pledges of providing 0.7 per cent of their gross national income (GNI) for ODA with the exceptions of a few.[16] Many OECD countries that never reached their pledged target and are now pulling back even further from that goal, citing domestic budget pressures. That is, the longstanding international commitment to devote a modest share of national income to development has largely gone unfulfilled and the ODA's role in international development is going to be diminished further.

Compounding the reduced aid volumes, a significant portion of ODA is being diverted to address refugee crises in donor countries, rather than financing development projects in developing countries. During the mid-2010s refugee influx into Europe, many donor governments counted their domestic refugee-hosting costs as ODA. In the aftermath of the Russia's war in Ukraine, in-donor refugee costs surged from 4.6 per cent of total ODA in 2021 to 14.4 per cent in 2022, a threefold increase in one year, amounting to a record USD $29.3 billion being spent within donor countries in 2022 (OECD, 2023), artificially inflating aid figures while actual transfers to developing countries fell.

As global aid declines, the United Nations system is also facing an unprecedented fiscal crisis as both its assessed and voluntary funding streams have come under severe pressure. On the assessed side, several major contributors, including the United States, which provides 22 per cent of the UN's regular budget, and China, which accounts for nearly 20 per cent, have delayed payments, leaving the UN Secretariat warning of a US $1.1 billion shortfall by late 2025 (UNDP, 2025). The liquidity crunch has triggered emergency austerity measures and prompted the Secretary-General's UN80 Initiative to reform and downsize operations. Voluntary financing, which underpins most UN development and humanitarian work, has been hit equally hard. Donor cutbacks have produced the sharpest funding shortfalls in decades, even as global needs surge. By mid-2025, the UN's global

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[14] Thalia Beaty, "US foreign aid cuts leave a funding gap that private donors are unlikely to fill," AP News, accessed October 13, 2025, https://apnews.com/article/usaid-foreign-aid-funding-cuts-donors-b76a6a1410349784f8136fb63eae41c3

[15] The U.S. withdrew from the preparatory negotiations for the FfD4, rejecting a draft text that it claimed would introduce "new, costly, and duplicative mechanisms" that overstepped the mandates of existing international financial institutions, and opposing proposals to expand multilateral development bank lending and a UN role in debt governance. After the US withdrawal, the conference proceeded with other countries, and an outcome document was adopted in Seville, Spain.

[16] Only a handful of countries such as Norway, Luxembourg, Sweden, Denmark, and (recently) Germany managed to meet or exceed the 0.7 per cent of GNI target. The United Kingdom matched the target for several years but reduced its aid down to 0.5 per cent of GNI in 2021, and further plans to shrink it to just 0.3 per cent of GNI by 2027. For details on the UK aid prospects, see https://commonslibrary.parliament.uk/uk-to-reduce-aid-to-0-3-of-gross-national-income-from-2027/#:~:text=The%20Prime%20Minister%20said%20the,in%202027

humanitarian appeal was only 17 per cent funded, down 40 per cent from the previous year, forcing agencies to reduce programmes and suspend services in crisis-affected countries such as Syria. The OECD warns that the eleven donor countries reducing ODA provide nearly two-thirds of WHO's and almost nine-tenths of WFP's budgets, creating systemic risks across the UN.[17]

Rising geopolitical tensions and a renewed arms race have put additional strain on aid budgets of donor countries. In the wake of security crises due to the Russia-Ukraine conflict, many Western governments are dramatically raising military and defense expenditures, often at the expense of development assistance. NATO countries had already pledged to boost defense outlays (to 2 per cent of GDP) after 2014, but since 2022 this push has accelerated: by 2024, 23 NATO members hit the 2 per cent target and others signaled rapid increases.[18] Defense budgets among major donors are climbing to levels not seen in decades, and political pressure is mounting for even higher spending (for instance, EU leaders have discussed a 5 per cent of GDP defense target, which would require $560 billion extra annually, funds inevitably drawn from other sectors). Unlike in past decades when aid and military spending sometimes rose in tandem, a clear divergence has emerged: defense outlays are surging while aid disbursements are flat or falling.[19] While the war in Ukraine did prompt donors to increase certain humanitarian aid (contributing to a record $204 billion in ODA for 2022), the same year DAC countries spent over $1.36 trillion on their militaries – more than six times the aid total (Liang and Tian, 2024).

One might hope that emerging economies and non-traditional donors could pick up some slack as Western aid recedes. Countries such as China, India, the Gulf states, and Turkey have indeed expanded their development finance in the past decade, often via South–South cooperation and infrastructure loans. However, evidence shows that these emerging donors are not yet a sufficient substitute for traditional aid sources. In aggregate, non-DAC providers contribute only a small

[17] The collapse in donor funding has plunged major UN development and humanitarian agencies into their worst fiscal crisis in decades. At UNDP, core resources, once over a billion dollars, have fallen to less than 10 per cent of total income, leaving the agency heavily dependent on earmarked funds that restrict its ability to respond to national priorities. UNICEF has lost key government donors, most notably the United States, which eliminated its $142 million core contribution for 2025, forcing widespread program cuts and jeopardising children's health and education services worldwide. WHO faces a near-40 per cent fall in health-related ODA since 2023, compounded by U.S. withdrawal and other donor retrenchment, threatening core functions from pandemic preparedness to maternal health. The World Food Programme, entirely reliant on voluntary funding, projects a 34 per cent drop in donor resources this year and plans to cut food aid for up to 16 million people while slashing up to 30 per cent of its workforce. Together, these shortfalls reveal a systemic contraction of multilateral financing capacity: as traditional donors retreat, UN agencies are forced into austerity, prioritisation, and "triage" modes that imperil their ability to sustain development gains or respond effectively to global crises. For details, see OECD (2025), UNICEF (2025), UNRIC (2025), WFP (2025), and World Food Programme/Devex (2025).

[18] Further details on the impact of defense spending on ODA can be found here: https://donortracker.org/publications/the-impact-of-defense-spending-on-oda-2025

[19] For example, the United Kingdom explicitly announced that it will cut its aid budget from 0.5 per cent to 0.3 per cent of GNI to free up money for defense, as it ramps military spending to 2.5–3 per cent of GDP later this decade. For details see https://commonslibrary.parliament.uk/uk-to-reduce-aid-to-0-3-of-gross-national-income-from-2027/

fraction of global aid. For example, the combined aid contributions of countries like China, Saudi Arabia, and Türkiye account for less than 5 per cent of worldwide ODA flows (IEP, 2025).[20] The limited scale of emerging donor aid means they cannot fill the widening financing gap left by OECD cutbacks. Moreover, newer donors have also shown a tendency to prioritize strategic or commercial projects over poverty- or social development-focused assistance. The bottom line is that no new major aid champions have emerged to replace the traditional donors' role. The international aid architecture still depends heavily on a few OECD countries – and as those countries retreat or divert funds, total official aid available for development is bound to decline.

4.2 Implications for Bangladesh: Navigating a Shrinking Aid Landscape

For Bangladesh, the global retreat of aid carries serious implications. As the country graduates from the LDC group, it will lose access to several concessional windows and preferential terms under the international aid architecture precisely when donor resources are tightening worldwide. Even prior to graduation, Bangladesh's access to grants and low-interest loans from institutions such as the International Development Association (IDA) and the Asian Development Bank have been constrained due to its moving into the lower-middle income country groups (from low-income country group), as per the classification of global economies by the World Bank. Along with this, bilateral assistance, largely due to reduced aid flows from the USA and UK, has shrunk. The present contraction in global development finance means sustaining Bangladesh's growth and poverty reduction momentum could prove to be far more challenging.

The contraction in funding for UN and other development agencies also poses downstream risks for Bangladesh. Many of the country's flagship social, environmental, and humanitarian programmes, ranging from climate adaptation and disaster resilience to child health, women's empowerment, and refugee assistance, are implemented in partnership with agencies such as UNDP, UNICEF, and WFP. Reduced donor contributions to these organisations will translate into smaller country allocations, slower project delivery, and fewer resources for capacity building or technical cooperation at precisely the moment Bangladesh needs greater support to manage its post-LDC transition. Cuts to global humanitarian budgets also threaten assistance for the Rohingya refugee response, where UN agencies play a central role. More broadly, declining multilateral resources may constrain the ability of the UN system to mobilise concessional financing, policy advice, and emergency support for Bangladesh, thereby weakening one of the few institutional mechanisms that has consistently buttressed its development progress.

It is true that macroeconomic stress such as high inflation and a pressure on foreign reserves have made debt servicing increasingly demanding given the weak fiscal space of the government. In such circumstances, concessional finance is vital for maintaining macroeconomic stability and advancing

[20] Measuring aid flows from non-DAC countries is also difficult. For instance, China's overseas development spending, while substantial in absolute terms, remains a low share of its GNI and is frequently delivered as tied loans or investments outside OECD aid definitions.

long-term development goals. Therefore, the decline in ODA and the erosion of concessionality present a double constraint: the need for greater external financing coinciding with fewer affordable sources to obtain it. Bangladesh's dependence on concessional resources has been strongest in areas like infrastructure, climate adaptation, and human development—sectors that commercial lenders often avoid due to low short-term returns. As traditional donors redirect aid towards domestic refugee costs and defence spending, concessional resources for such projects will dwindle further. Increased reliance on non-concessional borrowing and private capital markets exposes the economy to higher costs and refinancing risks, deepening fiscal vulnerabilities.

The post-graduation landscape also implies intensified competition for limited aid, as donors prioritise poorer or conflict-affected countries. Accessing global climate finance will depend on Bangladesh's institutional capacity to design and implement transparent, results-based projects. Engagement with emerging donors such as China, India, and Gulf partners could partly fill the gap, but these flows are largely loan-based, commercially motivated, and often tied to specific projects. Without stronger debt management and fiscal prudence, such financing risks compounding external vulnerabilities rather than easing them.

5. Geoeconomic Rivalries and Systemic Risks

Global geopolitics have shifted toward intense geoeconomic rivalry among major powers with economic tools such as trade, investment, technology, and finance increasingly weaponized in geopolitical competition, while multilateral cooperation has weakened. As observed by Len et. Al. (2025), "[T]he post-World War II liberal consensus—built on universal values and led largely by the United States—is breaking down under the pressure of renewed interest in nationalism, strategic decoupling, the weaponisation of policies, and the marginalization of international institutions." This trend is leading to a fragmented world order characterized by divided blocs, eroding trust, and ad hoc alliances instead of collective frameworks introducing heightened uncertainty, supply chain disruptions, and unfavorable growth prospects—outcomes that disproportionately hurt capacity-constrained, poor, and vulnerable developing countries.

5.1 Geoeconomic Fragmentation and the Return of Strategic Rivalries

Geoeconomic fragmentation, the deliberate splintering of trade, investment, and financial links along geopolitical lines, has emerged as a defining trend, which has also been described as a policy-driven reversal of integration, manifested in trade barriers, capital flow restrictions, and migration curbs as countries prioritize strategic alliances over global openness (IMF, 2023). Firms and policymakers are, as former UK Prime Minister Gordon Brown observes, moving away from the neoliberal world towards a more mercantilist one—defined by US "friend-shoring," European "de-risking," and Chinese "self-reliance"—and with this protectionist shift, governments' proactive roles in economic policy now extend beyond higher tariffs to include import and export restrictions, technology and investment bans, as well as the use of sanctions (Brown, 2024). These dynamics, which threaten to unravel decades of globalisation, may culminate in far-reaching geopolitical and geoeconomic fragmentation, manifesting in several possible configurations as delineated by Talebian and Lager (2025): (1) securitised supply chains, depicting a world in which states, driven by escalating security concerns, reorganise production and trade networks around heavily controlled and militarised systems; (2) resource clubs, representing a global order divided among a limited number of transnational alliances forged on the basis of shared political orientations and exclusive trade arrangements; and (3) regional islands, envisaging a future characterised by scattered, geographically bounded clusters of countries increasingly dependent on localised trade and resource management as global integration recedes.

Such tendencies, if entrenched, could fundamentally erode the interdependence, as reflected in Global Value Chains (GVCs) in which several countries participate in specialized components of individual products attaining efficiency gains and increased trade between them, that has long underpinned global prosperity, amplifying systemic risks, undermining multilateral governance, and constraining the developmental space for smaller and capacity-constrained economies. Geopolitically driven patchwork of exclusive trade blocs and restrictive rules (such as stringent rules of origin in trade deals) could severely hinder developing countries' participation in GVCs. It has been argued that by raising compliance costs and entry barriers and adopting discriminatory trade rules and higher barriers now could unravel decades of progress for developing countries, jeopardizing the poverty-reducing effect of global value chains (Checcucci, et al., 2025).

There is evidence of geoeconomic fragmentation exerting a markedly asymmetric impact on the global economy, disproportionately burdening poorer and smaller states. An IMF study covering 185 countries finds that while fragmentation universally reduces trade and income, its effects are far more pronounced for emerging markets and developing economies (EMDEs): real per-capita income losses for the median EMDE in Asia are 80 per cent higher, and for the median EMDE in Africa 120 per cent higher, than for the median advanced economy (Hakobyan et al. 2023). These disparities stem from structural vulnerabilities—narrow production bases, limited policy flexibility, and dependence on global value chains—that magnify the economic costs of geopolitical polarisation.

Great Power Rivalry and Emerging Cold War Dynamics: Geopolitical competition among major powers, principally the United States and China, with Russia and several regional actors playing secondary roles, has intensified to levels increasingly likened to a new Cold War (Vision of Humanity, 2025). Unlike the rigid bipolarity of the twentieth century, rivalries now unfold within a multipolar and economically interdependent system where economic and technological dominance have become central theatres of contestation. Strategic competition over artificial intelligence, semiconductors, and advanced digital infrastructure has led to sanctions, export controls, and deliberate decoupling in sensitive industries. Economic interdependence, once regarded as a stabilising force, is now weaponised through trade restrictions and financial coercion (Aiyar, et al. 2023). Fragmentation also heightens the fragility of supply chains with semiconductors, energy, and medical supplies becoming strategic battlegrounds, where disruptions caused by sanctions or conflict can trigger global ripple effects (WEF, 2025). In a deeply polarised world, such shocks are more likely to cascade across systems—encompassing economic, environmental, and health—creating feedback loops in which crises compound one another. The result is a global order increasingly defined not only by rivalry but by the erosion of collective capacity to manage shared risks.

This resurgence of power politics is accompanied by record-high global military expenditure, the highest since the Cold War's end, fuelled by conflicts such as Russia's invasion of Ukraine and escalating U.S.–China tensions (Vision of Humanity, 2025). Proxy confrontations and spheres of influence have re-emerged, from Ukraine and the Sahel to parts of the Middle East, heightening systemic risks and threatening developing regions with instability and external interference (WEF, 2025). Beyond conventional conflict, escalating geopolitical tensions have amplified systemic vulnerabilities across global networks. Cyber-attacks on critical infrastructure, disinformation campaigns, and competition over global commons such as outer space and the Arctic increasingly threaten international stability (WEF, 2025). The World Economic Forum's Global Risks Report 2025 warns that a world of "deepening divides and cascading risks" has weakened collective resilience, as geopolitical distrust undermines coordination on cybersecurity, financial stability, and pandemic preparedness (Supply Chain Digital, 2025).

5.2 Implications: Exposure to Geoeconomic Rivalries and Systemic Risks

While geoeconomic fragmentation imposes economy-wide costs across nations, its implications for Bangladesh are particularly acute given the country's structural dependence on external trade, remittances, and imported commodities. As a highly open, import-dependent, and apparel-concentrated export economy, Bangladesh remains deeply embedded in global supply chains, especially in textiles and garments, which account for over 85 per cent of its export earnings. Disruptions to these value chains, whether through geopolitical rivalries, protectionist industrial policies, or regionalisation of trade blocs, could sharply curtail market access and employment in the country's most labour-intensive sectors.

The vulnerability is further compounded by Bangladesh's limited economic diversification and narrow fiscal space to absorb external shocks. The COVID-19 pandemic and the Ukraine war starkly exposed these weaknesses: global supply disruptions and energy price spikes triggered inflationary pressures and balance-of-payments stress, while fiscal constraints limited the government's ability to protect real incomes.

Bangladesh also faces collateral exposure to big-power policy actions. Sanctions, export controls, and investment screening mechanisms—whether targeting Russia, China, or Iran—tend to reverberate through global commodity markets, raising import costs for food, energy, and raw materials. Similarly, the escalating technology decoupling between the United States and China could restrict Bangladesh's access to affordable industrial machinery and digital technologies essential for its manufacturing and financial sectors.

As competition for influence across the Global South, through infrastructure finance, aid, and defence partnerships, is turning development cooperation itself into a tool of geopolitical strategy (CGD, 2024), it also causes new concerns for sourcing foreign direct investment. Bangladesh's economic development and diversification will critically depend on attracting substantial foreign direct investment (FDI), particularly in export-oriented industries, infrastructure, and technology. However, intensifying geopolitical rivalries are reshaping global investment flows, with capital increasingly circulating within politically aligned blocs and declining for countries perceived as unaligned or geopolitically sensitive (IMF, 2023). For Bangladesh, this presents a strategic dilemma: while investment—especially from major powers such as China, the United States, and India—is essential for sustaining growth, deeper engagement with any one actor risks straining relations with others.

6. Strategic Recalibration for Bangladesh and Concluding Remarks

Bangladesh's post-graduation journey commences in a world where the very foundations of development cooperation, trade multilateralism, and global finance are being redefined. The earlier sections of this paper have illustrated how the erosion of multilateral disciplines, the retrenchment of aid, and intensifying geoeconomic rivalries have together created a far less enabling external environment. In this setting, Bangladesh's policy orientation must be recalibrated to sustain growth and competitiveness through a dual focus: defending external economic interests within an increasingly fragmented order, and simultaneously deepening domestic reforms to improve efficiency and build resilience. The following discussion outlines key strategic priorities for navigating this transition, combining external diplomacy with internal transformation to secure a smooth and sustainable post-graduation path.

Reinforcing Multilateral Engagement in a Fragmented Global Order: While the context of trade multilateralism has undergone fundamental changes owing to the weakening of the multilateral trading system, the increasing securitisation of trade policy, and the re-emergence of power politics in global economic relations, sustaining the momentum of trade as an engine of development will be increasingly difficult without a reinvigorated multilateral framework. Against the backdrop of this deep crisis, there is now greater recognition of the critical need for a rules-based system and a renewed call for rebuilding multilateralism through meaningful reform (Brown, 2024; Coulibaly and Qureshi, 2025). It is therefore imperative that Bangladesh, together with other developing economies, continues to contribute to the global effort for the revitalisation of the WTO. The focus should be on rebuilding confidence in the dispute-settlement mechanism, strengthening transparency and monitoring functions, and ensuring that special and differential treatment provisions are operationalised in a manner that reflects the evolving development needs of late-industrialising countries.

Economic Cooperation and Balancing Major-Power Engagements: Along with multilateral engagement, the need for greater economic cooperation as a complementary strategy for rebuilding and maintaining productive bilateral relationships should be given careful consideration. In the context of Asia, the rise of China and India as major economic powerhouses presents not only challenges but also unparalleled opportunities of deeper trade and investment linkages with both countries generating new avenues for specialisation, productivity gains, and market diversification, while their expanding roles as providers of technology and finance can support Bangladesh's industrial upgrading. Bangladesh should re-emphasise its vision of shared regional prosperity through enhanced trade, connectivity, and infrastructure linkages, ensuring that integration within South Asia and its extended neighbourhood yields mutual benefits. Nevertheless, the intensifying geopolitical rivalry between China and India carries inherent risks of strategic alignment pressures. A prudent foreign-economic policy stance for Bangladesh would therefore entail engaging constructively with both sides without showing overt preference for either. By positioning itself as a bridge rather than a participant in rival blocs, Bangladesh can maximise developmental spill-overs from both powers while contributing to regional stability and cooperation.

Securing Post-Graduation Market Access and Preference Continuity: As Bangladesh approaches LDC graduation, safeguarding export competitiveness and market access must remain a foremost strategic priority. Despite a weakened multilateral system, opportunities exist to preserve preferential treatment through diplomatic engagement and evidence-based negotiation. The most critical of these lies with the European Union, which absorbs nearly half of Bangladesh's apparel exports. Post-graduation, Bangladesh can seek eligibility under the Generalised Scheme of Preferences Plus (GSP+), though safeguard provisions may still restrict full duty-free access for certain apparel items. Proactive engagement with the European Commission and member states will therefore be essential to secure relaxation of these clauses.[21] Beyond Europe, Bangladesh should try to successfully conclude the ongoing FTA negotiations with Japan, while market access in the United Kingdom and Australia is expected to remain largely unaffected.[22] Collectively, these efforts would help sustain predictable market access for about 70 per cent of Bangladesh's exports. At the

[21] Even if Bangladesh meets both the vulnerability and sustainable development criteria for GSP+ eligibility, its apparel exports would remain excluded from preferential treatment under the proposed *EU Safeguards in the Textile, Agriculture, and Fisheries Sectors* (Article 29 of the draft EU GSP Regulation). This is because Bangladesh's market share in apparel exceeds the prescribed thresholds—over 6 per cent of total EU imports and more than 37 per cent of EU GSP-covered imports of the same products—making it ineligible for tariff preferences. Consequently, even as a GSP+ beneficiary, Bangladesh's clothing exports would face the standard MFN duty, averaging 11.5 per cent unless the EU offers a waiver or suitably amends its GSP provisions (Government of Bangladesh, 2025). It is important to note that the EU grants an additional three-year transition period after LDC graduation during which time Bangladesh should continue to receive the same LDC benefits.

[22] Like the European Union, the United Kingdom grants graduating LDCs a three-year grace period during which they continue to enjoy the same trade benefits as before graduation. After this period, Bangladesh would still receive duty-free access to the UK market; however, its apparel exports would need to meet stricter "rules of origin" requirements—meaning that instead of only sewing imported fabric (single-stage transformation), both fabric production and garment making (double-stage transformation) must take place within the country to qualify for duty-free entry.

multilateral level, continued advocacy for implementing the WTO General Council's decision on extended duty-free access for graduating LDCs will also be crucial.

Adapting to Declining Development Finance and Ensuring Resource Efficiency: Given the tightening of global development finance, it is going to extremely important to prioritise more effective mobilisation and utilisation of own resources rather than relying on traditional ODA flows. Enhancing the efficiency and developmental impact of public expenditure should comprise a key consideration, achieving through rigorous project appraisal, transparent budgeting, and stronger monitoring and evaluation mechanisms. Public investment should increasingly focus on projects with high long-term returns—particularly in infrastructure, human capital, and energy—while reducing allocations to fragmented and low-impact initiatives. At the same time, diversification of financing sources will be essential. Options should be explored for expanding access to climate and green finance, leveraging blended finance mechanisms, and adopting innovative instruments such as sustainability-linked bonds (LSE, 2023) that can help compensate for reduced aid flows. Strengthening domestic resource mobilisation through tax-base broadening, rationalisation of exemptions, and improved debt and fiscal management will reinforce macroeconomic stability and resilience.

Equally important is the redefinition of relationships with development partners—from aid dependency towards co-investment and partnership frameworks. Joint ventures in renewable energy, logistics, information technology, and agriculture, where concessional resources are used to catalyse private investment and technology transfer, can help sustain access to external finance and technical expertise. Through such recalibration, Bangladesh can maintain development momentum and ensure that fiscal and financial strategies are aligned with the broader objectives of a smooth and sustainable post-graduation transition.

Attracting Investment amid Geopolitical Realignment: As discussed earlier, the global investment landscape is being reshaped by shifting geopolitical alignments, with capital and production networks increasingly organised along regional and strategic lines. Within this environment, Bangladesh's central challenge lies in positioning itself to attract investment while maintaining strategic neutrality amid competing blocs. A pragmatic approach would be in prioritising diversified and balanced investment partnerships. Promoting joint ventures that combine resources and expertise from Western, Chinese, Japanese, and regional investors can reduce exposure to geopolitical volatility while maximising access to finance, technology, and markets. Such blended partnerships can also deepen Bangladesh's integration into global and regional value chains. To sustain investor confidence, policy predictability, transparent regulation, and credible mechanisms for contract enforcement will be indispensable.

Engagement with the Regional Comprehensive Economic Partnership (RCEP) offers an important opportunity in this regard. As a trade and investment bloc encompassing both China and Japan—two major but often counterbalancing geopolitical forces—RCEP provides a uniquely diversified platform for regional cooperation. Participation, or even alignment with its standards and rules of origin, could therefore help Bangladesh position itself within supply chains that cut across these spheres of influence, leveraging RCEP's internal balance to safeguard strategic autonomy. By anchoring itself within such a broad, inclusive regional framework, Bangladesh could simultaneously expand export markets, attract diversified investment, and strengthen its role in the evolving architecture of Asian production networks.

Ultimately, Bangladesh's ability to draw investment in a fragmented world will depend not only on diplomatic agility but also on domestic readiness—reliable infrastructure, a skilled workforce, and consistent policy implementation. External realignment must thus go hand in hand with internal transformation, ensuring that the country's investment strategy reinforces its broader objective of building a competitive, resilient, and innovation-driven economy.

Upgrading Bangladesh's Development Model and the Role of the Smooth Transition Strategy: Post-graduation, Bangladesh's development prospects will hinge on its ability to shift from a preference-dependent, low-cost production base toward a model grounded in productivity, innovation, and competitiveness. The traditional advantages of duty-free access, abundant cheap labour, and flexible compliance conditions are steadily diminishing, while heightened global standards and geopolitical uncertainties have made external privileges less reliable. Sustained progress will therefore depend on domestic reform-driven, efficiency-based growth, with policy efforts directed at improving productivity rather than relying on preferential treatment. To guide this transition, the Government of Bangladesh has adopted a Smooth Transition Strategy (STS) that sets out priority reforms across trade, investment, skills, innovation, and institutional capacity to help align short-term adjustments with long-term competitiveness. Its effective implementation will require coherence across ministries and consistency between macroeconomic, industrial, and social policies.

Given the adverse geopolitical shifts and the weakening of development-friendly multilateralism, the importance of reform-led efficiency growth cannot be overstated. As the global environment becomes more volatile, Bangladesh must rely increasingly on domestic drivers of productivity, diversification, and technological upgrading. Policy priorities should include improving the investment climate, strengthening research and skills ecosystems, and enhancing quality infrastructure.

The apparel sector, while remaining pivotal, must gradually move toward higher value-added and sustainable production to meet evolving environmental and labour standards. Parallel support for emerging sectors such as pharmaceuticals, agro-processing, light engineering, and ICT services will be essential for export diversification and resilience. Ultimately, Bangladesh's development success will depend less on preserving past advantages than on creating new sources of competitiveness through reform, innovation, and institutional strengthening. The Smooth Transition Strategy, if pursued with consistency and resolve, offers a credible framework for achieving this transformation.

Bangladesh as a Test Case for Post-Graduation Development

For Bangladesh, LDC graduation marks a historic achievement but also exposes the economy to a set of unprecedented challenges. Nearly three-quarters of its exports currently depend on LDC-related trade preferences, and the withdrawal of these advantages will coincide with an increasingly unfavourable global trade and development environment. The country's transition thus constitutes a test case of post-graduation development along three interrelated dimensions: first, the exposure of a highly preference-dependent export structure to the loss of international support measures; second, the constraints of limited policy and institutional reform that have left significant structural vulnerabilities; and third, the coincidence of graduation with a geopolitically charged global context characterised by shrinking space for development finance and cooperation.

In this setting, Bangladesh's future growth will depend less on external privileges and more on its capacity to convert domestic reforms into sustained efficiency and competitiveness gains. The strategy must balance external diplomacy with internal transformation—preserving market access where possible, while driving productivity, innovation, and institutional strengthening at home. There is a broad framework, STS, for this shift, outlining priority reforms in trade policy, investment climate, skills, and governance but the real test, however, will lie in implementation. Graduation should therefore be viewed not as the culmination of Bangladesh's development story but as the beginning of a more demanding phase—one that requires agility, credibility, and coherence. The external environment may no longer be as supportive, yet it also creates a compelling rationale for reform. If Bangladesh can harness its domestic potential through disciplined governance and a renewed commitment to efficiency-based growth, it may not only withstand the turbulence of the post-graduation world but also demonstrate how strategic adaptation can transform structural vulnerability into long-term resilience.

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