# Beyond Jobless Growth

## Towards an Employment-Centred Policy Framework for Bangladesh through a Post-Neoliberal Lens

RAPID
Empowering Development

Friedrich Ebert Stiftung

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# Executive Summary

## 1. Introduction

Bangladesh's development transformation provides a paradoxical case in which rapid structural shifts in output have not been accompanied by commensurate gains in employment. The industrial sector, despite its sustained growth, has failed to generate additional decent work opportunities. The ready-made garment (RMG) industry, once the primary driver of employment and women's economic participation, has experienced stagnant job creation even as production and exports have expanded. Meanwhile, new entrants to the labour force, especially young people, continue to face limited prospects amid widespread informality, underemployment, and skills mismatches. The paradox of rising output with weak employment absorption reflects a deeper disconnect between the structure of production and the structure of jobs, raising questions about the sustainability and inclusiveness of Bangladesh's growth trajectory.

These challenges are unfolding at a time when global economic thinking is undergoing a marked reorientation. The limitations of neoliberal market-centred approaches have led to the emergence of a post-neoliberal policy environment, which emphasises the strategic role of the state in shaping industrial capabilities, steering technological upgrading, and promoting inclusive employment outcomes. Across advanced and emerging economies, governments are increasingly reclaiming policy space to rebuild productive capacities and secure national competitiveness. Within this shifting paradigm, Bangladesh must rethink its own industrial and trade policies through a post-neoliberal lens, moving beyond passive liberalisation or protectionist tendencies toward a coherent, employment-centred policy framework that explicitly links industrial expansion to the creation of productive, decent, and inclusive work.

## 2. Current State of Growth and Employment in Bangladesh

Bangladesh's growth trajectory over the past decade has been marked by a persistent disconnect between output expansion and job creation. Manufacturing, including the export-oriented RMG industry, has experienced robust output growth but a contraction in absolute employment, illustrating the deepening phenomenon of jobless industrialisation. Automation and rising capital intensity have significantly reduced the labour required per unit of export, while the displacement of low-skilled workers has been most severe among women, contributing to a marked "defeminisation" of manufacturing.

Agriculture still employs nearly half of the country's workforce despite accounting for barely one-tenth of total output, reflecting underemployment and low productivity. Youth unemployment remains acute, accounting for nearly four-fifths of the total jobless population, with joblessness disproportionately concentrated among those with secondary or tertiary education. A growing share of young women, particularly in urban areas, are now classified as not in education, employment, or training (NEET), signalling their exclusion from both industrial and service-sector opportunities. Taken together, these patterns underscore Bangladesh's premature industrialisation and the urgent need for an employment-centred growth strategy that can translate structural transformation into productive, inclusive, and gender-equitable labour market outcomes.

## 3. Industrialisation and Employment in the Post-Neoliberal Era and the Context of Bangladesh

### The rise of the post-neoliberal era

The world economy is undergoing a decisive shift away from the neoliberal paradigm that dominated policy thinking since the 1980s. That model, which privileged free trade, capital mobility, and minimal state intervention, initially spurred global integration and productivity growth but gradually produced widening inequality, market concentration, and social discontent. Its market-based governance proved inadequate in addressing contemporary challenges such as climate change, technological disruption, and precarious work. The 2008 global financial crisis exposed the fragility of deregulated markets, while China's ascent and its strategic rivalry with the United States reshaped global power dynamics, eroding faith in multilateralism. The COVID-19 pandemic deepened this rupture by revealing the vulnerability of extended supply chains and forcing advanced economies to prioritise resilience and self-sufficiency over efficiency.

Against this backdrop, governments and international institutions have begun re-evaluating their economic doctrines. Even the IMF and World Bank now recognise the need for public investment, redistribution, and stronger social and climate infrastructure. A new intellectual current, described by Dani Rodrik as productivism, advocates the deliberate diffusion of productive opportunities across sectors and regions through state activism. Unlike neoliberalism, which relied on market primacy, or Keynesianism, which emphasised redistribution, productivism assigns governments a central role in rebuilding productive capacities and ensuring broadly shared prosperity. This rethinking has ushered in a post-neoliberal era marked by renewed policy interventionism and a pragmatic blending of market and state functions.

The emerging policy landscape is most visible in the proliferation of industrial strategies across major economies. The United States' Inflation Reduction Act and CHIPS and Science Act link public spending directly to domestic production and employment; the European Union's Green Deal and Horizon Europe integrate climate action with industrial competitiveness; China's Made in China 2025 and Belt and Road Initiative extend state-directed industrial expansion; and India's Production Linked Incentive programme combines export promotion with local value-chain deepening. Collectively, these initiatives illustrate the re-engagement of the state as an active economic agent, using fiscal incentives, subsidies, and regulatory coordination not merely to correct market failures but to shape technological upgrading, industrial structure, and employment creation within a reconfigured, post-neoliberal global order.

### Bangladesh in the post-neoliberal regime

Bangladesh's industrial and trade policy evolution presents a mixed and paradoxical picture in the context of the global shift toward post-neoliberalism. Although the country adopted a series of liberalisation reforms in the 1980s and 1990s, reducing tariffs, easing import restrictions, and promoting export-oriented industrialisation, the transformation was partial and uneven. The reforms coincided with the global relocation of labour-intensive manufacturing under the Multi-Fibre Arrangement (MFA), enabling Bangladesh's RMG industry to integrate into global value chains and drive export growth. This combination of limited domestic reform and favourable external conditions produced what became known as the "Bangladesh paradox": rapid export and income growth despite weak institutions and infrastructure. Yet, while Bangladesh embraced key tenets of neoliberalism such as outward orientation and private-sector-led growth, it never fully internalised its structural preconditions, such as strong institutions, competitive markets, and technological upgrading, resulting in a dualistic regime that was liberal towards exports but remained protectionist for import-competing sectors.

By the early 2000s, the liberalisation momentum had largely dissipated, giving way to a regime characterised by policy stagnation and static protectionism. Average tariff rates, though sharply reduced during the 1990s, have since remained among the highest in the developing world, reflecting defensive rather than strategic state intervention. In contrast to emerging economies such as China, India, and Vietnam that deepened reforms and used selective industrial policies to achieve export diversification and employment growth, Bangladesh's trade and industrial policies have failed to evolve into a coherent framework aimed at competitiveness or job creation. Persistent institutional weaknesses, inconsistent policy implementation, and rent-seeking behaviour have prevented the translation of policy activism into productive transformation. Consequently, while the global post-neoliberal turn is redefining industrial policy as a means to stimulate employment and technological upgrading, Bangladesh's approach has remained narrowly protectionist, preserving existing structures rather than fostering dynamic, employment-intensive industrialisation.

## 4. Reassessing Policy–Employment Dynamics in the Post-Neoliberal Context

**Policy activism without diversification and employment opportunities**

Bangladesh's experience underscores a paradox of policy activism without productive outcomes. Despite a long history of active state involvement in trade and industrial policy, job creation has remained weak, highlighting a gap between the existence of policies and their orientation toward employment generation. The problem lies not in the absence of intervention but in the nature and quality of such interventions, particularly the heavy reliance on tariff protection and incentive structures that have fostered complacency, distorted resource allocation, and insulated domestic firms from global competition. Consequently, Bangladesh's policy activism has often constrained rather than catalysed employment transformation, reflecting the limits of a protectionist model unaccompanied by performance benchmarks or institutional discipline.

Prolonged high protection has made domestic production more profitable than exporting, reinforcing an anti-export bias that discourages diversification and technological upgrading. Firms serving the home market enjoy tariff rents without improving productivity, while weak enforcement of product, labour, and environmental standards further undermines export readiness. As a result, most non-RMG sectors have failed to integrate into global value chains, and Bangladesh's export base remains narrowly concentrated. The RMG sector, in contrast, succeeded because it operated outside the protectionist environment, benefiting from the Multi-Fibre Arrangement, preferential market access, and targeted export incentives such as bonded warehouse and duty-free input facilities. These exceptional conditions, however, were not extended to other sectors, thereby entrenching a single-sector dependence and limiting broad-based industrial employment.

The cumulative effects of Bangladesh's protection-driven policies have been far-reaching: resource misallocation, subdued productivity growth, high consumer prices, and declining employment elasticity in manufacturing. Import-competing industries, sheltered by high tariffs, have grown without scale or competitiveness, while the constrained purchasing power of consumers has capped domestic market expansion and labour absorption. These inefficiencies have interacted with deeper structural and institutional weaknesses, ranging from inadequate infrastructure and compliance systems to weak enforcement of market discipline, preventing the emergence of a coherent link between growth and employment. Consequently, rather than advancing inclusive industrialisation, Bangladesh's policy activism has produced a narrowly based, low-employment industrial structure that stands in stark contrast to the strategic, performance-oriented state interventions characterising the new post-neoliberal industrial regimes.

**Competitiveness, Capability, and Structural Transformation: Scope of Policy Activism**

Bangladesh's inability to translate policy-driven industrial growth into broad-based employment stems not only from global technological trends but also from deep-rooted structural and institutional weaknesses that have constrained diversification, productivity, and competitiveness. The country's challenge lies less in automation itself than in its limited capacity to harness technology for inclusive growth. Strategic adoption of digital and Fourth Industrial Revolution (4IR) technologies offers significant potential for creating new forms of productive employment ranging from ICT-enabled services, logistics, and e-commerce to digitally linked manufacturing and modernised agriculture. Realising these gains, however, demands major investments in digital infrastructure, skills development, and human capital to close the digital divide and expand participation in the emerging knowledge economy. Without coordinated policy measures to guide technological transformation, the benefits of digitalisation may remain confined to a small segment of firms and workers, leaving overall employment elasticity unchanged.

At the same time, enduring structural constraints, including high business costs, weak infrastructure, limited access to credit, and governance deficits, continue to suppress competitiveness and job creation. These bottlenecks are compounded by fragmented policy frameworks, overlapping institutional mandates, and poor enforcement, which render existing industrial and trade policies largely ineffective. The government's Smooth Transition Strategy for LDC Graduation (2025) rightly acknowledges that the earlier growth model, which is anchored in protectionist import substitution and preference-dependent exports, is no longer sustainable. The strategy calls for a "high-road" transformation emphasising innovation, productivity, quality, and environmental compliance. This shift implies a new form of post-neoliberal state activism that moves beyond protectionism toward capability-building and coordination. By aligning industrial policy with sustainability, technological upgrading, and social inclusion, Bangladesh can position itself for a second phase of structural transformation that strengthens competitiveness, expands decent employment, and secures resilience in an increasingly green and fragmented global economy.

**Employment-Centred Public Policies in the Post-Neoliberal Context**

Bangladesh's employment challenge demands deliberate, employment-centred public policy. Rapid technological change, including AI, risks tightening entry points for young and newly graduated workers, yet it also creates scope to raise growth with similar investment by expanding productive activities across sectors. The policy problem is not only the quantity of jobs but their quality and inclusiveness: output growth must be translated into decent work that absorbs youth and women. This requires treating employment as a primary objective of economic strategy rather than a by-product of industrial expansion.

A shift toward employment-centred policy implies proactive labour-market measures that go beyond macro-stabilisation. Six complementary avenues are highlighted: (i) direct employment support for the poor and vulnerable, adapted for both rural and urban contexts; (ii) state-enabled sectoral expansion in health, education, care, and green activities; (iii) workforce readiness through large-scale skilling, reskilling, and upskilling aligned with industry demand; (iv) employment-centred macro and institutional activism that links public investment and incentives to net job creation and better job quality; (v) labour-intensive local infrastructure and service delivery; and (vi) entrepreneurship and social enterprise support, especially for youth and women. Together, these interventions raise labour absorption directly while strengthening the indirect drivers of private labour demand.

Social and fiscal investment is a cornerstone of this approach. Chronic underinvestment in education and health depresses both human capital and immediate job creation; scaling these systems generates large volumes of female-intensive employment with strong multiplier effects across construction, pharmaceuticals, logistics, and services. Evidence from national programmes and international experiences shows that well-designed training ecosystems increase employment and enterprise formation. The care economy, in particular, offers sizeable opportunities for women's employment and transferable skills as global demand for care workers expands; addressing Bangladesh's acute health-workforce gaps would simultaneously meet social needs and open domestic and overseas job pathways.

Two cross-cutting priorities determine success. First, women's economic participation must be intentionally expanded through targeted skills, safe and decent workplaces, childcare, and support for female entrepreneurship, reversing recent declines and unlocking significant productivity gains. Second, migration policy should be integrated into the employment strategy: upgrading skills, lowering migration costs, and strengthening protections can raise earnings abroad while easing domestic labour-market pressures. Underpinning all this is a more active, coordinated state that aligns industrial, trade, skills, and social policies; empowers local governments for labour-intensive projects; and uses fiscal levers to crowd in private employment, especially in green and digital sectors. This constitutes a coherent move toward an employment-centred, socially responsive development model consistent with the post-neoliberal policy turn.

**Creating fiscal space of employment-centred transformation**

Bangladesh's capacity to finance an employment-centred transformation is severely limited by its narrow fiscal base, low revenue mobilisation, and rising debt-servicing burden. Public expenditure has remained around 13 per cent of GDP, which is just about half the lower-middle-income average, largely due to a stagnant tax-to-GDP ratio of about 8 per cent, among the lowest globally. This chronic fiscal weakness has constrained investment in health, education, and social infrastructure, sectors essential for productive and inclusive employment growth. Mounting domestic and external borrowing, coupled with higher interest rates and growing debt-service obligations, has further eroded fiscal headroom. As concessional financing declines following LDC graduation and access to low-cost external borrowing tightens, the fiscal model built on limited domestic revenue and debt-financed development expenditure has reached its limits.

To sustain an employment-centred development agenda, Bangladesh must expand fiscal space without undermining macroeconomic stability. This calls for a strategic reprioritisation of spending toward high-employment sectors and the use of targeted external and innovative financing. Carefully designed programmatic and concessional loans should support productive transformation, while new financing frontiers, particularly climate and green finance, offer potential for mobilising low-cost resources aligned with employment and sustainability objectives. Accessing global mechanisms such as the Green Climate Fund or partnerships with multilateral banks can simultaneously address environmental challenges and create green jobs in renewable energy, waste management, and sustainable agriculture. However, effective project selection, transparency, and disciplined debt management will be critical to preserve fiscal credibility and ensure developmental returns.

Over the longer term, strengthening domestic resource mobilisation is indispensable. Reforming the tax system toward greater progressivity, broadening the base through digitalisation and compliance, and rationalising tax exemptions can raise sustainable revenues while improving equity. Complementary measures such as improving public financial management, reducing cost overruns, and rebalancing the Annual Development Programme (ADP) toward social and employment-intensive sectors, would enhance the quality and efficiency of expenditure. At the same time, diversifying financing through instruments such as green or social bonds, diaspora bonds, and well-governed public–private partnerships can attract private capital for job-creating projects. Ultimately, expanding fiscal space in Bangladesh requires both raising more revenue and spending better—linking fiscal reform directly to the goals of productive transformation, decent employment, and inclusive growth.

## 5. Policy Recommendations

The preceding analysis underscores that Bangladesh's employment challenge is not rooted in the absence of policy activism but rather in the misalignment of its orientation and effectiveness. A protectionist and fragmented policy regime has long favoured import-substituting activities, discouraging diversification, innovation, and job-rich industrial transformation. In the emerging post-neoliberal context, where states worldwide are reclaiming a strategic role in guiding development, Bangladesh must redefine its policy priorities to ensure that economic growth translates into productive, decent, and inclusive employment.

This calls for a deliberate reorientation from protection-led expansion toward a coherent, capability-driven, and employment-centred policy framework. The new framework should harness technology, sustainability, and human capital development as central drivers of competitiveness while promoting gender equity and social inclusion. Equally important, it must strengthen the institutional, fiscal, and governance foundations required to deliver measurable employment outcomes.

The following set of policy recommendations outlines key strategic directions for Bangladesh to build a high-employment, innovation-oriented, and socially responsive economy. Together, they chart a transition path from fragmented protectionism to a dynamic, post-neoliberal development model, anchored in state capability, policy coherence, and a decisive focus on decent work for all.

- **Adopt an Employment-Centred Policy Framework**
    - Reorient industrial and trade policies to prioritise job creation, productivity, and decent work rather than passive protectionism or output-led growth.
    - Integrate employment targets into macroeconomic, trade, and industrial strategies under a unified national framework.
- **Promote Strategic Industrial and Trade Policies for Diversification**
    - Move beyond a narrow export base by encouraging high-value manufacturing and modern services.
    - Reduce tariff-induced distortions and adopt selective, performance-based support that fosters competitiveness and innovation.
    - Strengthen export competitiveness through better infrastructure, logistics, and institutional coordination.

- **Harness Technological Advancement and Digitalisation for Inclusive Employment**
  - Expand digital infrastructure, affordable connectivity, and ICT-enabled services to create new jobs.
  - Encourage adoption of Fourth Industrial Revolution (4IR) technologies while promoting digital-skills training and inclusion of rural and low-income workers.
  - Ensure technological upgrading complements, rather than replaces, labour absorption in emerging industries.
- **Accelerate Green and Sustainable Industrialisation**
  - Embed environmental compliance, energy efficiency, and circular-economy practices within industrial strategy.
  - Mobilise climate and green finance for renewable energy, waste management, and sustainable agriculture, linking these initiatives to employment creation.
  - Align export competitiveness with global sustainability standards to safeguard market access post-LDC graduation. In an increasingly sustainability-conscious global trading system, such an approach is no longer optional; it represents the only viable pathway for Bangladesh to consolidate its industrial base, remain competitive after LDC graduation, and secure a more inclusive, resilient, and future-ready economy.
- **Invest in Human Capital, Skills, and the Care Economy**
  - Increase public spending on education, health, and technical training, reversing chronic underinvestment.
  - Strengthen Technical and Vocational Education and Training (TVET), aligning curricula with the evolving industry needs.
  - Expand the care economy through fiscal incentives, public–private partnerships, and certification systems to create large-scale, female-intensive employment.
- **Promote Women's Employment and Economic Empowerment**
  - Address barriers to women's labour-force participation through safe workplaces, childcare support, and flexible work arrangements.
  - Foster women's entrepreneurship via access to credit, business support services, and tax incentives.
  - Mainstream gender equity in all employment-centred industrial and social policies.
- **Enhance Global Employability and Protection of Migrant Workers**
  - Link skills development and certification with overseas labour-market requirements.
  - Reduce migration costs and strengthen social and legal protections for migrant workers, especially women.
  - Support reintegration of returning migrants through financial literacy, training, and entrepreneurship schemes.
- **Reposition Social Protection as a Productive Instrument of Transformation**
  - Integrate employment support into social safety nets, linking cash transfers with training, public works, and micro-enterprise support.

    - Expand employment-linked social protection to urban informal workers to stabilise incomes and reduce vulnerability.

- **Strengthen Institutional and Policy Coordination**
    - Establish a whole-of-government approach aligning trade, industry, skills, and social protection policies.
    - Improve implementation, monitoring, and evaluation mechanisms to ensure accountability and performance.
    - Reinforce state capacity for evidence-based policymaking and inter-ministerial coordination.

- **Mobilise Fiscal and External Resources for Employment-Centred Transformation**
    - Broaden the tax base, strengthen compliance, and shift toward more progressive taxation to expand fiscal space.
    - Rebalance the Annual Development Programme (ADP) toward education, health, and social sectors with high job intensity.
    - Use concessional and climate finance selectively for employment-rich projects and explore innovative instruments such as green, social, and diaspora bonds under strong governance frameworks.

- **Institutionalise Employment Objectives and Targets in National Planning**
    - Embed employment objectives across all ministries and in the forthcoming Ninth Five-Year Plan.
    - Monitor outcomes through results-based indicators linking job creation, productivity, and inclusion to fiscal and policy commitments.

Bangladesh stands at a critical phase in its development transition where sustaining growth and social progress will depend on its ability to translate economic expansion into broad-based, decent, and resilient employment. Its experience demonstrates that protectionist and fragmented policy activism has reached its limits, demanding a strategic shift toward coordinated, employment-centred transformation. In the post-neoliberal context, where state intervention is regaining global legitimacy, Bangladesh must exercise purposeful and evidence-driven policy leadership, one that balances openness with selectivity, integrates industrial and social priorities, and places employment at the heart of national planning. Building state capability, ensuring fiscal discipline, fostering innovation, and aligning industrial upgrading with inclusiveness and sustainability will determine whether Bangladesh can move beyond jobless growth to achieve a development model that is equitable, competitive, and future-ready.

# 1. Introduction

Bangladesh's sustained economic growth over the past three decades, though it has slowed somewhat during the past two years amid macroeconomic strains and political upheavals, together with improvements in various socio-economic indicators, has often been regarded as a development success story (Kumar & Kumar, 2024; Raihan & Khan, 2022; Uddin et al., 2024). From being overwhelmingly dependent on agriculture, the relative importance of the farm sector in the economy has fallen considerably alongside the rising significance of manufacturing, illustrating the classic case of structural transformation that has been a hallmark feature of economic development across advanced economies. However, this narrative of growth and structural transformation in the context of Bangladesh struggles under closer scrutiny, because while many broad socio-economic indicators look impressive, the transformation appears to be shallow given that productive, decent and formal employment opportunities have lagged behind. The export-oriented RMG sector that once spurred employment generation, especially for women, has lost its job-creation momentum, with output far outpacing a stagnant workforce.. Beyond RMG, the country has experienced robust manufacturing growth without commensurate growth in employment. Bangladesh thus presents a paradoxical case in which structural changes in sectoral output have led to a declining role of agriculture and rising significance of manufacturing, but when it comes to employment, the official data, as will be discussed later, depicts a reverse trend.

Despite impressive progress in economic growth and social development, the failure to generate substantial productive employment has remained a defining characteristic of Bangladesh's development paradigm. The sheer scale of new entrants into the labour force requires the creation of over two million jobs annually to prevent rising underemployment, a target that has been consistently missed over the years (Razzaque et al., 2019; Khatun, 2018; World Bank, 2025).[1] Youth employment generation continues to be one of the most critical challenges, compounded by persistent problems of informality, skills deficits, underemployment, and gender disparities.

These problems are not unique to Bangladesh. In several regions, the familiar path of structural transformation, which moves from agriculture to industry and then to the services sector, appears to be stalling. Many countries have moved directly from agriculture to low-productivity service sectors without going through a prolonged industrialisation phase (Heitzig & Newfarmer, 2023; Ravindran & Babu M, 2021).[2] This pattern is often described as structural transformation without industrialisation. Through improved productivity gains, technological breakthroughs, and enhanced connectivity, China and other East Asian nations have long dominated and further consolidated their position in global value chains, particularly in labour-intensive manufacturing activities, the very areas through which low-income countries typically seek to industrialise. As a result, industrialisation has become increasingly difficult in other parts of the world, further constrained by country-specific factors affecting competitiveness.[3]

[1] Bangladesh could, on average, create about 1.2 million jobs yearly between 2016 and 2020, compared to the overall goal of 2.2 million jobs annually to accommodate new entrants to the labour market (General Economics Division, 2020). Besides, a considerable majority of the working population (estimated at approximately 85 per cent) is confined within precarious, informal work settings.

[2] For example, in sub-Saharan Africa, the contribution of the manufacturing sector to GDP has hovered around 12 per cent, while the majority of new jobs have been captured by the service sector (Cilliers & Ngundu, 2026).

[3] Along with domestic factors affecting competitiveness, late industrialising countries have also been described as suffering from what is known as "imported deindustrialization". It describes a phenomenon where a country experiences deindustrialization not from domestic factors alone, but by being exposed to the effects of manufacturing shifts happening in other countries. This occurs when a country's manufacturing sector becomes less competitive due to the influx of cheaper imports or changes in global relative prices, forcing a decline in its own manufacturing output or employment (Rodrik, 2015).

Bangladesh's participation in global value chains has remained extremely limited, confined largely to the RMG sector and concentrated in lower value-added segments, without much wider technological adaptation or spillover effects.

In light of the above, is there a role for industrial policy in stimulating productive and decent employment? The issue has been receiving widespread policy attention, given the renewed global resurgence of industrial policy across both advanced and emerging economies. After decades of neoliberal restraint, industrial policy has re-emerged as a legitimate tool of state intervention, as governments seek to rebuild productive capacities, secure strategic value chains, and respond to technological disruptions and shifting geopolitical realities. In advanced economies, recent large-scale industrial initiatives exemplify this new wave of mission-oriented strategies (OECD, 2021). These developments reflect a broader rethinking of the state's role in economic transformation, signalling that market mechanisms alone may not be sufficient to achieve inclusive industrialisation and secure the kinds of productive employment that underpin long-term development. The shift from neoliberal restraint appears to have been driven less by a settled economic paradigm than by political and strategic exigencies: the intensification of geo-economic rivalry, weak productivity growth in Western economies, and social disquiet have all opened space for re-engagement with state interventions in industrial and labour policy (Ilyina et al., 2024).

Within this paradigm shift, Bangladesh presents a particularly distinctive context. Its export success, centred almost entirely on the RMG industry, was shaped by the global trade regime's transition from protectionism to neoliberal openness.[4] Parallel to these global shifts, Bangladesh undertook its own trade liberalisation measures as part of broader policy reforms in the 1980s and 1990s, reducing tariffs, dismantling quantitative restrictions, and encouraging export-oriented industrialisation. Yet the reform momentum gradually weakened, and by the 2000s, liberalisation had virtually stalled, leaving the country with one of the most protectionist trade and industrial policy regimes among developing economies. Against this backdrop, the ongoing global resurgence of industrial policy, driven by both economic and geopolitical imperatives, raises a critical question: to what extent is this evolving context relevant for Bangladesh, and how should it recalibrate its policy stance through a strategic, capability-driven trade and industrial framework to harness the new industrial policy wave for achieving productive, decent, and diversified employment growth? Ultimately, this paper argues that Bangladesh needs to adopt an employment-centred policy framework that explicitly prioritises job creation as the core objective of industrial and trade policy. Rather than pursuing passive industrial expansion or relying on protectionist measures, policies must be designed to link production growth with employment generation. Given the ongoing crisis of job creation, the paper contends that without reorienting national strategies and state capacities toward employment outcomes, the goal of achieving productive and decent work will remain unattainable within the emerging post-neoliberal order.

The rest of the paper is organised as follows: Section II provides a brief overview of the current state of economic growth and employment in Bangladesh, and Section III discusses the industrialisation of economic growth and job creation in Bangladesh. Additionally, section IV examines the institutional and structural drivers of the employment paradox of Bangladesh and the fiscal space required for transformation. Section V contains the policy recommendations. Finally, section VI provides the concluding remarks.

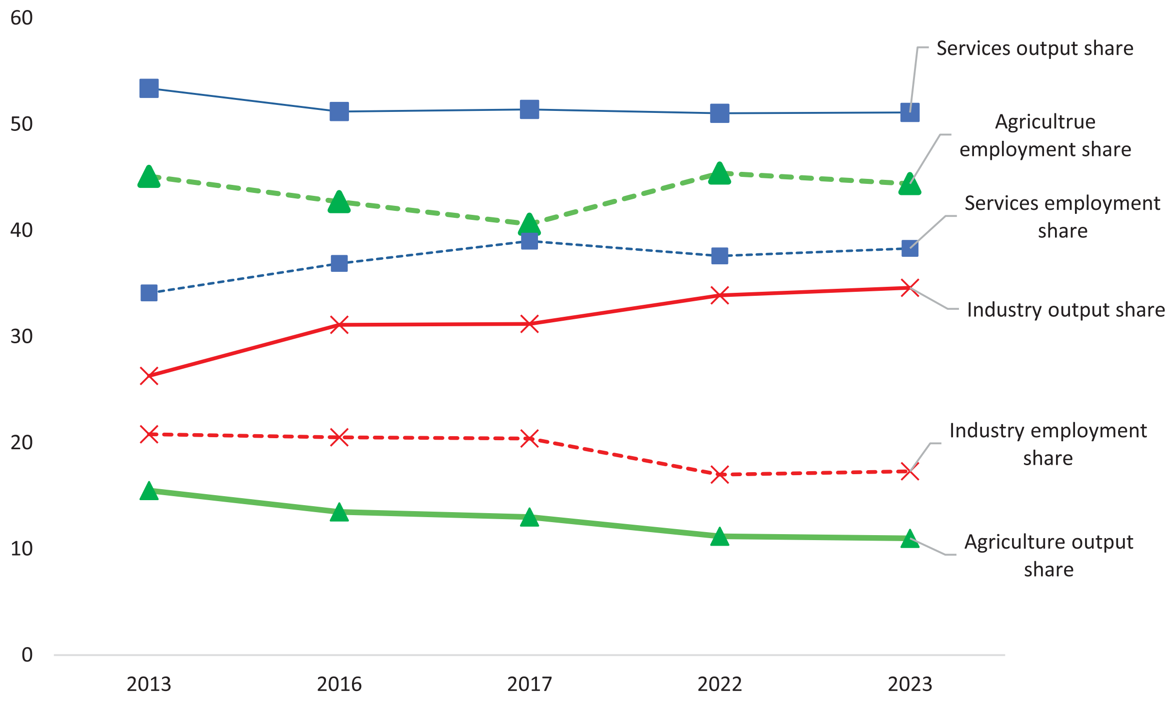
[4] The Multi-Fibre Arrangement (MFA) quotas of the 1970s and 1980s effectively redirected labour-intensive apparel production from relatively advanced economies to lower-cost destinations, and Bangladesh emerged as a prime beneficiary of this relocation.

## 2. Current State of Growth and Employment in Bangladesh

For Bangladesh, job creation has increasingly surfaced as one of the most deep-seated structural challenges confronting the economy. Despite sustained growth, poverty reduction, and progress in various socio-economic indicators, labour-market rigidities, entrenched informality, and the limited capacity of productive sectors to absorb new entrants have together produced a situation in which vast segments of the working-age population—most visibly youth and women—remain either unemployed, underemployed, or confined to precarious, low-productivity activities.[5] Between 2010 and 2024, while the average annual GDP growth rate stood at over 6.0 per cent, employment growth lagged significantly behind, averaging only 2.2 per cent (Razzaque et al., 2025).

The economy has shown signs of an early structural transformation, with the output share of agriculture continuing to decline, from about 15.5 per cent in 2013 to 11 per cent in 2023, while that of industry, comprising manufacturing and public utilities, rose from around 25 per cent to 34 per cent during the same period. Within the industry, the manufacturing sector registered an average annual growth in value added of around ten per cent during 2013–2023. However, in sharp contrast to the strong growth in manufacturing output, official data suggest a net loss of 1.4 million jobs in the sector (a fall from 9.5 million to 8.1 million) (Figure 2.2), accompanied by a marked reduction in the sector's share of total employment, from 20.8 per cent to 17.4 per cent, over the past decade (BBS LFS, 2024).

**Figure 2.1: Sectoral share: output vs employment (%)**




Source: Data are from World Bank World Development Indicators and Labour Force Surveys (various years).

[5] One of the principal impediments to job creation in Bangladesh lies in the overwhelming prevalence of informal employment, which represents about 84.1 per cent of the total workforce (Razzaque et al., 2025).
Also, A considerable share of Bangladesh's workforce remains underemployed, with many individuals engaged in tasks that do not match their skills or working fewer hours than they are both willing and capable of performing (ILO, 2024; Mahmud et al., 2021; Kabeer et al., 2021; Task Force Committee, 2025). Data from the Labour Force Survey 2023 indicate that the overall labour underutilisation rate is 5.2 per cent of the working-age population.

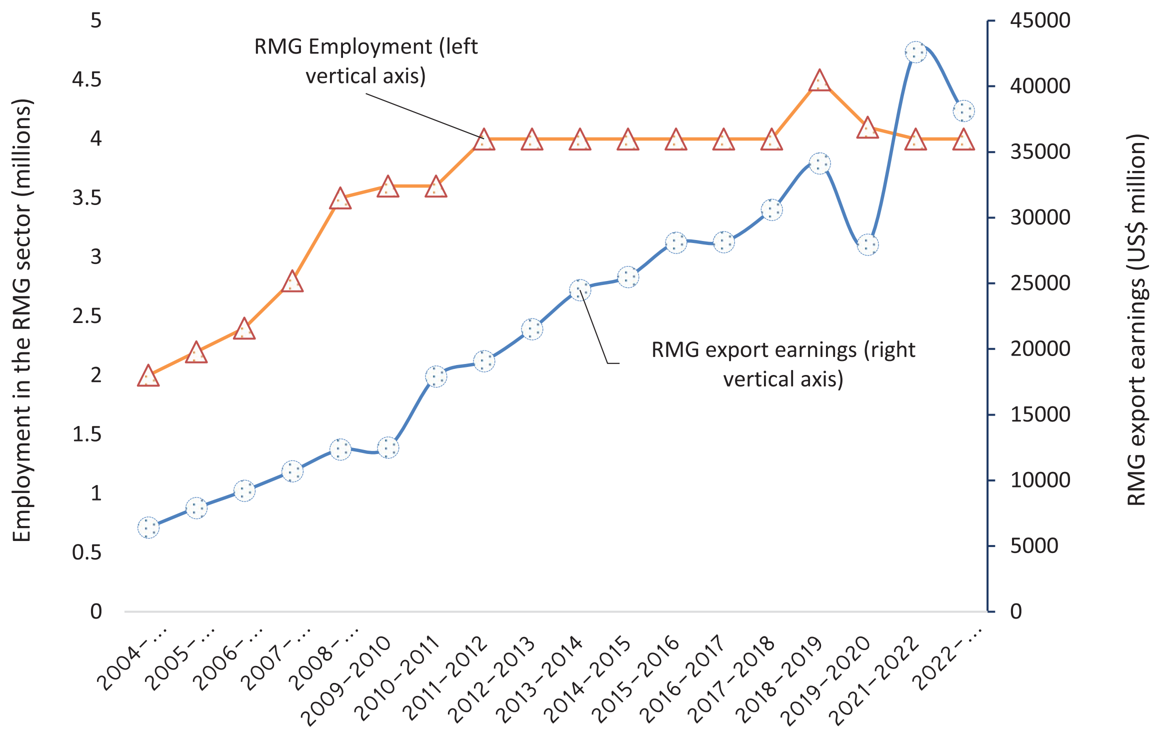
It is particularly striking that, with only an 11-per-cent share in output, agriculture still accounts for almost 45 per cent of total employment, underscoring the severity of low productivity or underemployment. An equally notable observation is that agriculture's employment share has actually been rising since 2017. Bangladesh thus exemplifies a form of structural change that, while consistent with the classical pattern of declining agricultural output shares and rising industrial value added, reflects symptoms of what has been termed "premature deindustrialisation". Rodrik (2016) distinguishes several variants of deindustrialisation: a declining manufacturing share in GDP, a shrinking manufacturing employment share, or a simultaneous fall in both. Unlike the experience of today's advanced economies, where industrialisation peaked at much higher levels of per-capita income, many developing countries, including Bangladesh, appear to have reached the turning point at relatively low-income thresholds. What is particularly disquieting in Bangladesh's case is not merely the erosion of the employment share in manufacturing but an outright contraction in absolute job numbers, despite steady expansion in industrial output.

A growing body of literature provides mounting evidence that many developing economies are finding it increasingly difficult to attain the classical transition from agriculture through industry to services (Rodrik, 2015; Newfarmer et al., 2022). Instead, labour is moving directly from agriculture into low-productivity services, a process often characterised as "premature servicisation,", thereby weakening the historical link between structural change and productivity growth. The outcome, in many instances, is the persistence or even expansion of informal, low-wage employment that contributes little to technological learning or value addition.[6] Bangladesh's recent employment trends thus underscore a broader concern facing developing economies: that economic transformation, if not accompanied by employment-intensive industrial upgrading, may fail to deliver the inclusive, productivity-driven growth, which was long considered to be associated with industrialisation.

The export-oriented RMG sector, the largest primary industrial employer in Bangladesh, demonstrates the crisis of job creation as pointed out in Razzaque and Dristi (2018). Between 2010 and 2023, RMG exports more than tripled from $12.5 billion to $40 billion, however, employment levels in the same sector remained static at approximately 4 million workers. Automation and increasingly capital-intensive production methods largely account for this stagnant employment record. Estimates suggest that every $1 million worth of RMG exports in the early 1990s required an average of 545 workers, which has fallen to below 90. Given that countries like China and Vietnam require fewer than 50 workers for the same export value, and as production technology in the export industry becomes standard worldwide, the employment intensity of Bangladesh's RMG sector is anticipated to decline further (Razzaque et al., 2025).

[6] It has however been argued that other activities, including tourism, ICT, and other services as well as food processing and horticulture, sharing the characteristics of manufacturing are beginning to play a role in African countries analogous to the role that manufacturing played in East Asia (Newfarmer et al., 2018).

**Figure 2.2: RMG export and employment in Bangladesh (in million)**

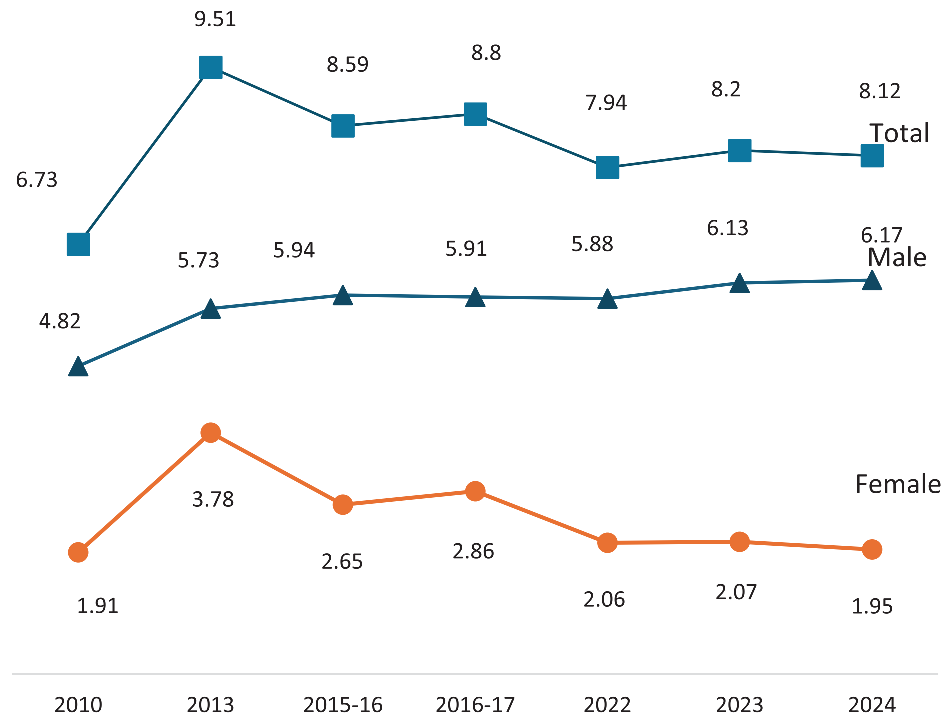



Source: Data are from EPB, BGMEA, GIZ, ILO.

This growth-employment disconnect has a larger toll on female employment. Recent data reveal a profound "defeminisation of manufacturing", with women's share of manufacturing employment decreasing from 40 per cent to 24 per cent between 2013 and 2024, and their absolute numbers fell from more than 3.75 million in 2013 to 1.95 million in 2024 (Figure 2.3). Within the apparel industry, where female employment once symbolised Bangladesh's integration into global production networks, the share of women declined sharply from nearly 80 per cent at its peak to 39 per cent in 2022.[7] Moreover, the decline in industrial employment also extends across other subsectors, including textiles, food products, and tobacco (Figure 2.4).

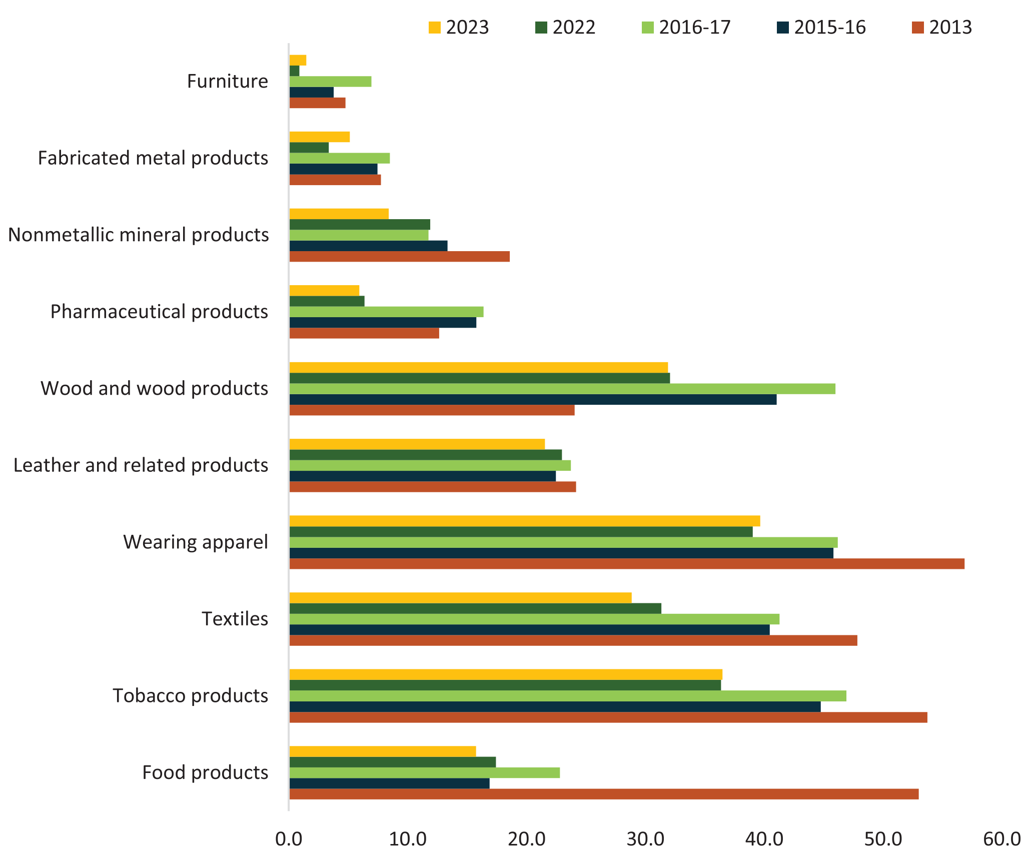
[7] The distribution of employed females in the manufacture of wearing apparel decreased from 1,704 thousand in 2013 to 1,307 thousand in 2024 (Approximately 23.3 per cent decrease) (BBS Labor Force Survey Bangladesh (LFS), 2013; LFS, 2024).

**Figure 2.3: Gender wise employment in the manufacturing sector (million)**




Source: Bangladesh Labour Force Surveys, BBS.

**Figure 2.4: Female share in employment in major manufacturing sectors (%)**




Source: Bangladesh Labour Force Surveys, BBS.

The displaced female labour force, unable to find productive work, has increasingly been confined to a narrow range of low-income and rural informal activities. Hence, a considerable share of women appears to have been reabsorbed into what may be described as a "feminised" agricultural economy that functions largely as a reservoir of surplus labour rather than a source of productivity gains. The key factor that has been argued behind this employment shift includes the rising capital intensity of production, which has disproportionately displaced women from the workforce, particularly those engaged in repetitive, low-skilled tasks that are more vulnerable to automation (Razzaque and Dristi, 2018; Tejani and Milberg, 2010). While a full causal decomposition is beyond the scope of this analysis, capital intensity and automation are unlikely to be the sole drivers. Post–Rana Plaza compliance restructuring, which raised entry requirements around physical endurance and technical skills, inadvertently favouring older, more experienced cohorts over new female entrants, may have reinforced this displacement. Shifts in international sourcing patterns following the phase-out of the Multi-Fibre Arrangement, as buyers consolidated orders among fewer, larger, and more capital-intensive suppliers, added further structural pressure on female-intensive production segments. Cohort selection effects may also be at work: as the pioneering generation of female RMG workers ages out of the labour force, they are not being replaced at equivalent rates, shrinking the female share even where gross layoffs are limited. Together, these mechanisms suggest that defeminisation reflects a compound process of technological, institutional, and demographic change, and that policy responses must address each dimension rather than automation alone. This shift suggests that women's employment has become increasingly informal, subsistence-based, and geographically concentrated outside dynamic industrial centres.

Additionally, this limited labour absorption capacity of the industrial sector has also become a major constraint for the country's growing youth population. Nearly four-fifths of Bangladesh's unemployed population are young people, i.e., they are not in formal or informal employment and unemployment rates among the youth have consistently remained more than twice the national average.[8] A striking shift in recent years, however, is the reversal of earlier patterns, with male unemployment rates now exceeding female rates across all youth age brackets since 2022 (Table 2.1).[9] Moreover, the youth unemployment problem is particularly acute among those aged 15–24, where joblessness surged after 2016–17 before only a partial recovery by 2024. Overall, Task Force Committee (2025) identifies the slow pace of private investment, low growth in labour-intensive manufacturing, and weak linkages between vocational education and labour demand as key determinants behind this stagnation.

[8] The overall unemployment rate in Bangladesh stood at 3.66 per cent in 2024, while the youth unemployment rate (as a percent of the total youth population) was 8.07 per cent (BBS LFS, 2024).

[9] One possible reason might be that the estimates of youth employment reflect a narrow ILO definition under which anyone working at least one hour for pay or profit in the reference week is classified as employed, masking labour underutilisation (ILO, 2016). Furthermore, the female labour force participation rate has fallen, mainly due to social norms that limit women's active job search and market engagement, especially where childcare and safe work options are scarce (BBS LFS, 2024; Task Force Committee, 2025). As many women withdraw from the labour market instead of reporting unemployment, male joblessness appears higher even though female underemployment remains more pervasive.

**Table 2.1: Youth unemployment rate by age groups (%)**

| | 2013 | | | 2016-17 | | | 2022 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| 15-19 | 10.4 | 9.8 | 10.2 | 10.7 | 17.7 | 12.7 | 14.5 | 7.3 | 11.2 | 15.1 | 4.7 | 10.4 |
| 20-24 | 9.0 | 9.1 | 9.0 | 9.6 | 16.3 | 12.1 | 14.2 | 7.6 | 10.8 | 13.6 | 5.2 | 9.2 |
| 25-29 | 4.1 | 6.3 | 6.3 | 5.9 | 13.1 | 8.5 | 4.7 | 3.3 | 4 | 7.6 | 4.7 | 6.1 |
| Youths | 7.0 | 8.1 | 8.1 | 8.2 | 15 | 10.6 | 10.2 | 5.7 | 8 | 11.3 | 4.5 | 8.1 |

Source: Bangladesh Labour Force Surveys, BBS.

Furthermore, the employment-generation challenge is compounded by the educational and skills mismatch that characterises much of youth unemployment. A disproportionate share of jobless youths now hold secondary or tertiary qualifications, accounting for nearly two-thirds of the total unemployed (Table 2.2). A possible reason behind it might be that higher-education expansion, driven largely by social aspiration, has not translated into employability. Many graduates lack technical or job-ready skills, while opportunities in dynamic sectors remain limited. The services sector, though expanding, continues to be dominated by informal and low-skilled activities that offer livelihoods but little prospect of advancement (Task Force Committee, 2025).

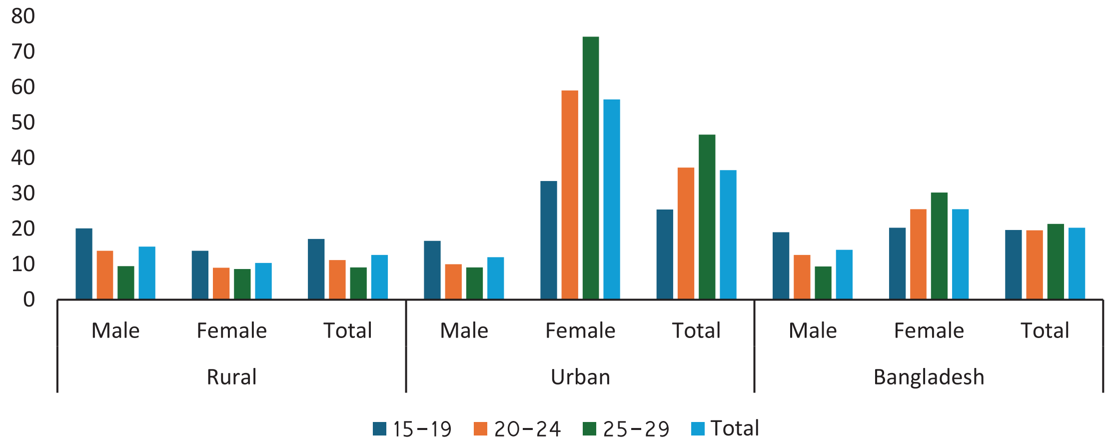
**Table 2.2: Youth unemployment in total unemployment, by education, sex and region (%) in 2024**

| | **Rural** | | | **Urban** | | | **Bangladesh** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** |
| None | 1.5 | 1.32 | 1.45 | 1.69 | 2.39 | 1.94 | 1.55 | 1.7 | 1.6 |
| Primary | 8.9 | 11.67 | 9.72 | 8.29 | 7.5 | 8.01 | 8.72 | 10.19 | 9.18 |
| Secondary | 25.45 | 19.77 | 23.78 | 20.72 | 15.02 | 18.69 | 24.06 | 18.08 | 22.18 |
| Higher Secondary | 15.45 | 9.42 | 13.67 | 14.5 | 8.53 | 12.38 | 15.17 | 9.1 | 13.26 |
| Tertiary | 25.53 | 32.02 | 27.44 | 27.87 | 38.57 | 31.68 | 26.22 | 34.35 | 28.77 |
| Others | 1.81 | 0.56 | 1.44 | 1.51 | 0.34 | 1.09 | 1.72 | 0.49 | 1.34 |
| Total youth unemployed | 78.64 | 74.76 | 77.5 | 74.58 | 72.35 | 73.79 | 77.44 | 73.91 | 76.33 |

Source: Data from Labour Force Survey (2024), BBS.

These structural and institutional constraints have produced a growing segment of young people not engaged in education, (formal or informal) employment, or training (NEET). More than one-fifth of the youth population now falls within this category, with similar rates across age cohorts but a markedly higher incidence among urban women (Figure 2.5).

**Figure 2.5: Youth NEET in Bangladesh, by age group, 2024 (% of youth workforce)**




Source: Data from Labour Force Survey (2024), BBS.

The White Paper Committee (2024) reported that while urban female employment fell by about 0.2 million between 2013 and 2024, rural female employment increased by nearly 7.9 million, suggesting that almost all net job creation for women occurred in rural areas. This shift, together with limited industrial diversification and persistent education-employment mismatches, has confined many young women to temporary or informal service work, subsistence agriculture, or migration abroad. These forms of engagement function less as engines of transformation and more as short-term outlets for demographic pressures, reflecting the fragility of employment generation and the continuing underutilisation of Bangladesh's labour potential (Task Force Committee, 2025; White Paper Committee, 2024).

# 3. Industrialisation and Employment in the Post-Neoliberal Era and the Context of Bangladesh

### 3.1 The rise of the post-neoliberal era

The global economy has been undergoing a major paradigm shift as advanced economies, led by the United States, move toward state-led industrial strategies, marking a departure from the market-centred neoliberal framework that has dominated since the 1980s. The neoliberal consensus had emphasised liberalised trade, capital mobility, minimal state intervention, and the primacy of markets in allocating resources.[10] That regime succeeded in various ways: it facilitated international integration through expanded trade and capital flows across borders, gave rise to global value chains as the main drivers of production and export, and spurred productivity growth in several developing countries. Nevertheless, the system has been criticised for on several grounds, including unchecked market power benefiting a few firms, reducing competition, and rising inequality; unfettered liberalisation without strong domestic institutions leading to sub-optimal outcomes; one-size-fits-all liberalisation being risky for developing countries; and liberalised trade and finance yielding aggregate gains, while large portions of the population remain excluded or vulnerable (because of for instance job displacement, wage stagnation, weakened welfare) causing political backlash (Stiglitz, 2002, 2019; Rodrik 2011, 2025, Vallier, 2021; Card et al., 2022). It has been argued that the deep structural inequality that the neoliberal system created is incompatible with long-term democratic stability, contributing to the growing call for alternatives to the neoliberal model (Laruffa, 2023; Davies, 2021; Rodrik, 2023).

Critiques also point out that neoliberalism failed to deal with such emergent challenges as climate change, changes in gender and race relations and technologies' impact at the workplace (Kramer, 2024). Specifically, the neoliberal environmental governance, with its market-based fixes, has been argued to be inadequate for the scale and urgency of climate change (Fremstad and Paul, 2022; Ciplet and Roberts, 2017). There is also the suggestion that the rise of digital platforms, the spread of precarious forms of employment, and mounting demographic pressures have revealed the limitations of a laissez-faire growth model in achieving inclusive and resilient economic outcomes (Laruffa, 2023).

Although the pitfalls of neoliberal orthodoxy had begun to attract serious attention since the late 1990s, most prominently through Nobel Laureate Joseph Stiglitz's *Globalization and Its Discontents* (2002), it was not until the global financial crisis of 2008 that the deep vulnerabilities of deregulated, finance-led growth models were fully exposed, revealing the fragility of liberalised capital and the inadequacy of self-regulating markets. Along with this, geopolitical rivalry due to the global ascendancy of China and the intensification of strategic competition with the United States would revive the logic of industrial policy as both powers seek to secure dominance in critical sectors such as semiconductors, green technologies, and artificial intelligence. Furthermore, within the World Trade Organization (WTO), which was created to promote and govern neoliberal multilateral trade rules, the growing significance of alternative groupings such as BRICS would challenge the Western-centric economic order by promoting

[10] It is difficult to pinpoint the specific period for neoliberalism, with some elements of it will likely continue. However, it is often suggested that beginning in the early 1980s, the Reagan administration in the United States and the Thatcher government in the United Kingdom implemented a series of neoliberal economic reforms to counter the chronic stagflation that the two countries had experienced throughout the 1970s. There is some suggestion that neoliberalism peaked in the early 2000s with China's accession to the World Trade Organization (WTO) before seeing its downfall with President Donald Trump's election in in 2016 (Mullholland, 2024).

developmentalism, with the WTO members finding it increasingly difficult to reach an agreement to advance trade multilateralism.[11] The COVID-19 pandemic further amplified these dynamics by exposing the vulnerabilities of globalised production networks and creating deep security concerns in Western developed countries over supply-chain dependencies, prompting them to prioritise resilience and self-sufficiency over efficiency.

Recent years have also witnessed a marked intellectual shift toward a post-neoliberal regime, reflecting growing disenchantment with the market-centred policy orthodoxy and even institutions once synonymous with neoliberal reform, such as the IMF and World Bank, have increasingly acknowledged the need for stronger state intervention, redistribution and dangers of inequality, the need for public investment in climate and social infrastructure and resilience-building. A new policy approach is being dubbed as "productivism", defined by Dani Rodrik as:

> "Productivism' is a new approach to economic policy that prioritizes the dissemination of productive economic opportunities throughout all regions of the economy and segments of the labor force. In contrast to neoliberalism, it gives governments a significant role in achieving that goal. In contrast to the Keynesian welfare state, it focuses less on redistribution, social transfers, and macroeconomic management. And unlike both neoliberalism and Keynesianism, it is more skeptical towards technocrats and less hostile to populism in the economic sphere. Mainstream economics can be this paradigm's ally, rather than its enemy." (Rodrik, 2023).

Alongside this broader paradigm shift, there has also been renewed interest in mission-oriented approaches which emphasise the state's role in setting clear strategic goals and mobilising public and private investment toward addressing societal challenges. As Mariana Mazzucato argues:

> "When public investment is guided by a clear mission, it can create new markets, crowd in private investment, and increase long-term growth, particularly in sectors such as renewable energy, sustainable infrastructure and clean technologies." (Mazzucato, 2024).

It remains too early to determine whether recent policy shifts in major economies reflect a genuine embrace of productivism and mission-orientation, or arise from a more pragmatic mix of geopolitical imperatives, climate considerations, and political incentives. In the United States, the pivot toward post-neoliberal regimes has been politically justified on grounds of national security, technological sovereignty, and the restoration of domestic manufacturing capability. There is a renewed recognition that industrial production capacity, particularly in selected strategic industries, and employment generation constitute two core objectives of policy shifts. In Europe, the turn has centred such themes of de-risking, resilience, and climate sustainability, with "de-risking" denoting efforts to curb overdependence on single partners, particularly China, through supply-chain diversification and strategic autonomy. These shifts, anchored

[11] The widening divide between Western developed economies and the emerging BRICS countries ultimately rendered the developmental aspirations of the so-called Doha Development Round of multilateral trade negotiations under the WTO a casualty, leading to the Round's unprecedented collapse. At the WTO's Tenth Ministerial Conference in Nairobi, Kenya, members acknowledged this divergence in their declaration (paragraph 30), stating: "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 statement effectively signalled the emergence of alternative negotiating approaches that would have far reaching implications for multilateral trade liberalization (Razzaque, 2025a).

in green-industrial and low-carbon investment agendas, reflect a broader recalibration toward security-conscious and sustainability-driven economic governance.

Since the global financial crisis of 2008, there has been a proliferation of proactive interventions by all major global economic powers, spectacularly marking the emergence of this new era of policy activism, with the industrial-policy measures having more than doubled in the past ten years (Juhász et al. 2023).[12] It has been estimated that around 20 per cent of all policy measures adopted by these economies were motivated by national security and geopolitical considerations, 37 per cent aimed at enhancing competitiveness, 28 per cent driven by climate-related objectives, and the remaining 15 per cent designed to strengthen supply chain resilience (Evenett et al., 2024). Initiatives such as the United States' *Inflation Reduction Act* (IRA) and *CHIPS and Science Act*, the *European Union's Green Deal* and *Horizon Europe*, People's Republic of China's *Made in China 2025* and *Belt and Road Initiative*, and India's *Production Linked Incentive* (PLI) schemes, etc., are all built with proactive industrial policy elements. Each of these initiatives embodies distinct policy instruments that collectively signal a return to state-led developmentalism and the resurgence of industrial policy as a central tool of economic strategy.

In the United States, the Inflation Reduction Act (IRA) deploys a mix of fiscal incentives, targeted subsidies, and tax credits to accelerate investment in clean energy, electric vehicles, and low-carbon technologies, explicitly tying public expenditure to domestic production and employment creation. Complementing this, the CHIPS and Science Act introduces extensive grant financing and federal procurement preferences to promote semiconductor fabrication and R&D capacity within U.S. borders, thereby linking technological sovereignty with national security objectives. In addition, President Donald Trump's adoption of so-called reciprocal tariffs marked a critical departure from the liberal trading order long underpinned by multilateralism and the principle of non-discrimination. By linking tariff levels to individual trading partners, the policy reframed trade as a transactional and power-based negotiation instrument rather than a rules-driven process. Reciprocal tariffs were not the first U.S. step away from a rules-based trading system since 2017, it has also blocked appointments to the WTO Appellate Body, effectively disabling the organisation's dispute settlement mechanism, long regarded as its "crown jewel." By paralysing the body, the U.S. can sidestep unfavourable decisions and manage disputes on its own terms, replacing legal restraint with political discretion and reinforcing a broader shift toward a power-based approach to global trade governance.[13]

In the European Union, the Green Deal and Horizon Europe combine regulatory mandates, carbon pricing mechanisms, and mission-oriented research funding to stimulate innovation in renewable energy, energy efficiency, and circular economy transitions, illustrating a coordinated approach that integrates industrial competitiveness with climate goals.

[12] The G20 economies, which account for about 80 per cent of global GDP and 75 per cent of international trade, have increasingly resorted to trade restrictive measures, including subsidies, with the share of G20 imports subject to such restrictions rising from around 2 per cent in 2011 to nearly 12 per cent in 2024 (representing a total value of USD 2,328 billion in 2024).

[13] During President Trump's first term, the United States blocked the appointment and reappointment of judges to the WTO Appellate Body, alleging judicial overreach and institutional bias. As the Body requires at least three members to function, this blockade rendered it inoperative by late 2019. Although many anticipated a reversal, the Biden administration (2021–2024) maintained the same position, leaving the WTO's dispute settlement system without a binding appellate mechanism and significantly weakening the enforcement of global trade rules.

China's Made in China 2025 represents a more state-directive model, relying on targeted credit allocation, strategic public procurement, local content requirements, and state-guided technology upgrading in advanced manufacturing sectors such as robotics, aerospace, and biopharmaceuticals. Parallelly, the Belt and Road Initiative (BRI) extends China's industrial policy outward through infrastructure finance, overseas investment facilitation, and the creation of transnational production networks that reinforce domestic industrial capacity. In India, the Production Linked Incentive (PLI) scheme exemplifies a hybrid approach: it provides performance-based fiscal incentives to firms achieving output and investment thresholds in sectors ranging from electronics to pharmaceuticals, effectively blending export promotion with domestic value-chain deepening.

Together, these instruments, spanning fiscal incentives, targeted subsidies, regulatory coordination, and strategic investment facilitation, reflect the assertive re-engagement of the state as an economic actor, not merely to correct market failures but to actively shape industrial structure, technological upgrading, and employment generation within a post-neoliberal global order.

### 3.2 Bangladesh in the post-neoliberal regime

Bangladesh provides an interesting context when it comes to the resurgence of global industrial policies. This is because, as explained below, Bangladesh's policy approach to trade and industrialisation appears to be already consistent with the turn to post-neoliberal regime, but its outcome, especially with achieving employment objectives, as discussed in the previous section, is not attained.

Bangladesh has always been known for its proactive stance on trade and industrial policies. Although it went through a phase of liberalisation, the transformation was neither deep nor uniform, as trade policies continued to embody a dual character, liberal towards exports but protectionist across most import-competing domestic sectors, revealing the incomplete nature of Bangladesh's neoliberal transition. Beginning with a very restrictive, inward-looking policy, Bangladesh also became part of the neoliberal reform wave that swept through developing economies in the 1980s and 1990s. Like many other low-income countries at the time, it attempted to move away from the import-substituting industrialisation framework that had dominated the early post-independence decades to embrace a market-oriented, outward-looking policy regime. The shift, initially gradual during the mid-1980s and then more decisive in the early-1990s, involved a major dismantling of import restrictions, reduction in tariffs, and promotion of export-oriented industrialisation.[14] These reforms coincided with a favourable external environment created by the Multi-Fibre Arrangement (MFA), which diverted labour-intensive apparel production from developed economies toward low-cost destinations such as Bangladesh. The country thus found itself in a unique position to integrate into global value chains through the RMG industry, which rapidly became its dominant export sector. This combination of global relocation of manufacturing and domestic liberalisation laid the foundation for what came to be described as the "Bangladesh paradox", which is described as  rapid growth, rising exports, and falling poverty, despite modest levels of institutional and infrastructural development. The early decades of reform, therefore, aligned Bangladesh closely with the broader neoliberal orthodoxy of open trade, limited state intervention, and private-sector-led growth, setting the stage for its first phase of industrial transformation.

[14] A significant policy shift began in the middle of the 1980s and continued throughout the 1990s, during which Bangladesh undertook World Bank and IMF-backed Structural Adjustment Programmes that promoted neoliberal reforms. These structural reforms typically included efforts toward the privatisation of state-owned enterprises, the deregulation of certain financial markets, and a general orientation toward trade liberalisation.

While the liberalisation measures of the 1990s reshaped Bangladesh's trade and industrial landscape, the reform momentum gradually lost steam in the years that followed. By the early 2000s, tariff rationalisation had slowed considerably, and the once-clear direction of policy reform began to blur.[15] The average nominal protection rate, declining dramatically from around 89 per cent in FY91 to about 30 per cent by FY00, stayed around that level (Table 3.1).

**Table 3.1: Average Tariff Trends, FY1992–FY2024**

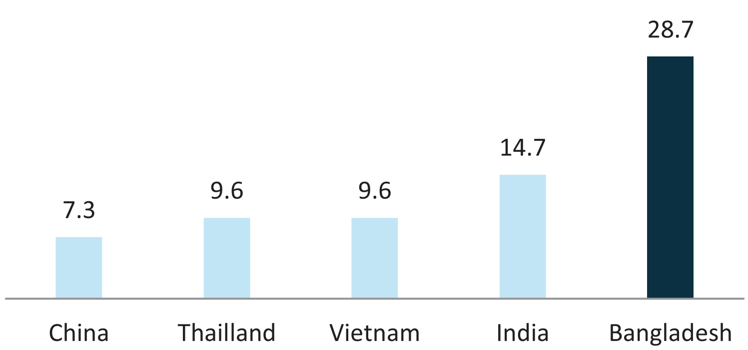
| | FY1992 | FY1995 | FY2000 | FY2010 | FY2024 |
|---|---|---|---|---|---|
| Average NPR | 73.32 | 37.26 | 29.09 | 23.88 | 27.2 |
| Average Output Tariff | 90.83 | 46.44 | 37.17 | 41.20 | 42.2 |
| Average Input Tariff | 56.2 | 26.82 | 20.62 | 12.5 | 14.5 |

Note: NPR (Nominal Protection Rate) is a protection indicator; TTI (Total Tariff Incidence). TTI includes trade neutral VAT. Output are consumer goods; inputs are capital goods, intermediate goods, and basic raw materials.

Source: Sattar (2021); Razzaque et al. (2024).

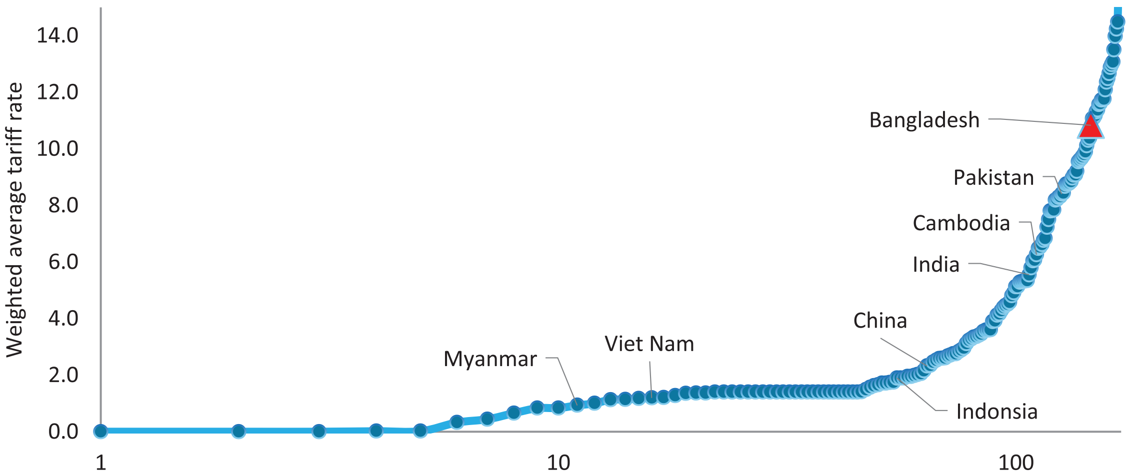
While the declining average Nominal Protection Rate (NPR) shown in Table 3.1 clearly reflects substantial trade liberalisation over the past three decades, from more than 70 per cent in FY1992 to around 27 per cent in FY2024, Bangladesh continues to rank among the most protected economies in the world when benchmarked against comparable developing and emerging countries. As shown in Figure 3.1, Bangladesh's average nominal protection rate of about 28 per cent contrasts sharply with those of India (14.7 per cent), Vietnam (9.6 per cent), Thailand (9.6 per cent), and China (7.4 per cent). When import-weighted average tariff rates are compared across global economies, Bangladesh again appears among the most protected. The phase of reform fatigue thus marked a turning point: while other emerging economies such as China, India, and Vietnam were deepening structural reforms and adopting more strategic forms of state intervention to enhance export competitiveness and achieve significant diversification, Bangladesh's trade regime became increasingly static, i.e., neither advancing towards greater liberalisation nor evolving into a coherent industrial-policy framework. This has coincided with an ever-growing dependence on a single export category, RMG, whose share in total exports exceeded 85 per cent in FY2024.

**Figure 3.1: Average nominal tariff protection (%), 2021**




[15] One salient feature of Bangladesh's trade policy has been the use of supplementary duties and regulatory duties, and advance income tax, in addition to custom duties. These duties are often called para-tariffs. The proliferation of para-tariffs quietly restored much of the protection that earlier reforms had dismantled.

**Figure 3.2 Weighted average tariff rates by countries (%)**




Source: World Bank's World Development Indicators (WDI).

The liberalisation agenda adopted by Bangladesh during the 1980s and 1990s was conceived as part of a comprehensive reform package encompassing privatisation, deregulation, exchange rate flexibility, and broader market-oriented restructuring aimed at improving competitiveness and stimulating private investment. In practice, however, implementation remained uneven and incomplete. Privatisation transferred ownership without enhancing efficiency or governance; deregulation proceeded selectively, leaving behind a dense web of bureaucratic controls and discretionary practices; and exchange rate management, though formally liberalised, continued to rely on administrative interventions. While other reforming economies in East and Southeast Asia translated similar policy frameworks into export diversification, technological upgrading, and dynamic manufacturing growth, Bangladesh's progress has been more modest. Institutional weaknesses, policy inconsistency, and rent-seeking behaviour have prevented the liberalisation mandate from translating into sustained productivity gains or deeper industrial transformation, leaving the country lagging behind many of its peers in most performance metrics, such as Doing Business and Logistics Performance Indicators.

More importantly, in terms of the outcomes of policy activism, Bangladesh's persistent protectionism has not translated into the kind of employment and structural transformation outcomes that the new post-neoliberal wave of strategic state intervention elsewhere is trying to achieve. In other words, while many economies are now using industrial policy and selective protection to promote competitiveness and job creation, Bangladesh's protection has been defensive and static, failing to generate productive or employment-intensive growth.

# 4. Reassessing Policy–Employment Dynamics in the Post-Neoliberal Context

It follows from the discussion in the preceding section that Bangladesh has never been a stranger to policy activism. Against this backdrop, the paradox is especially striking: advanced economies, having moved beyond neoliberal restraint, are embracing industrial policies with renewed conviction, while Bangladesh, long accustomed to a proactive policy stance, continues to experience weak job creation. The issue, therefore, is not the presence of policy but its orientation and effectiveness: whether existing instruments, institutions, and incentives have been capable of linking growth with productive and decent employment. This section begins from that question, exploring how the nature of policy activism itself may have constrained rather than catalysed employment transformation, and what a recalibrated, post-neoliberal approach might imply for Bangladesh.

## 4.1 Policy activism-led distortions limiting diversification and employment opportunities

Bangladesh presents an instructive case in the global debate on the revival of industrial policy. Formally, the country never abandoned state activism. High tariffs, directed credit, and sector-specific incentives have long been embedded in its policy regime, predating the current post-neoliberal turn. But this apparent similarity masks a deeper divergence in orientation and intent.

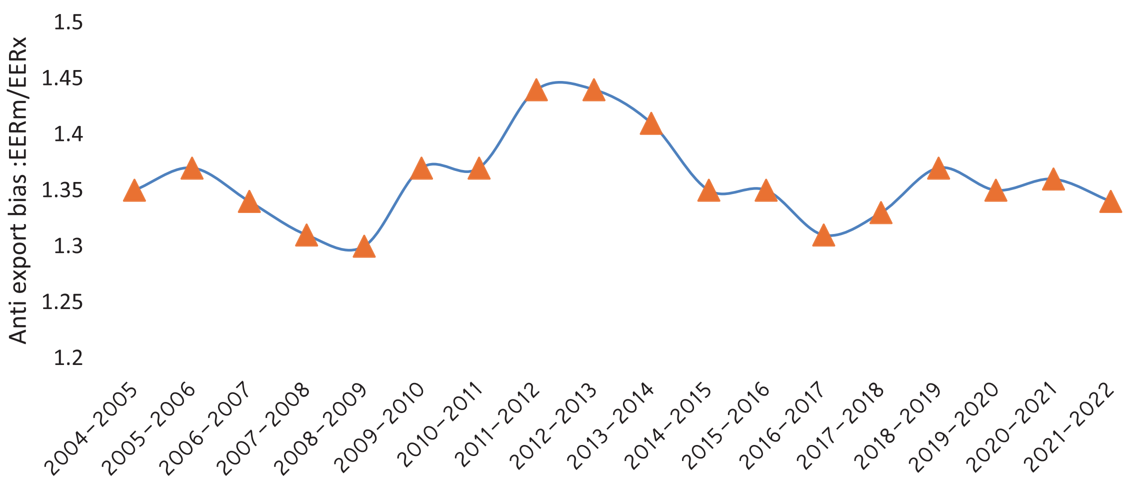
The new generation of industrial policy in East Asia, Europe, and elsewhere is largely directed toward capability-building. In Bangladesh, by contrast, state activism has remained predominantly defensive. Policy instruments have often been organised less around structural transformation than around rent preservation and the protection of incumbent industrial interests.

The paradox examined in this section, then, is not the absence of state intervention, but the character of that intervention. Bangladesh has had extensive policy activism, yet much of it has lacked transformative purpose. In other words, the problem lies not in the scale of intervention, but in the objectives it has served. This disconnect between activist policy form and weak developmental content helps explain why prolonged periods of strong economic growth have so often failed to generate decent employment at scale.

Bangladesh's trade and industrial policies have long featured the instruments of post-neoliberal activism including high protection, sector-specific incentives, directed credit, but without the strategic orientation that gives such tools their transformative potential. Rather than nurturing dynamic capabilities, this policy configuration has tended to shelter incumbents and entrench distortions, limiting diversification and constraining productive employment opportunities.

While shielding infant industries can, in principle, create space for learning and capability development, prolonged and extensive protection can discourage firms from venturing beyond the home market. Tariffs raise domestic prices and make local production more profitable for serving internal demand than competing internationally, thereby reinforcing a structural bias against exports (Sattar and Ahmed, 2012; Sattar, 2022; PRI, 2024). In most economies, firms begin exporting only after attaining competitiveness in their domestic markets; in Bangladesh, however, sustained protection has muted this process by insulating producers from external competition. It is found that the relative incentive for import-competing activities is at least 30 per cent higher than that for the export-oriented sector during the past two decades (PRI 2024).[16] The outcome is a form of resource misallocation manifested in capital and labour flowing toward import-substituting activities where profit margins are sustained by tariff rents rather than productivity gains. Over time, such incentives have weakened export diversification (Sattar, 2022) and discouraged industrial upgrading, leaving the export sector dominated by a narrow range of low-value-added products. The resulting anti-export bias is particularly detrimental in a developing economy where integration into global markets remains vital for productivity growth, scale economies, and sustained employment creation (PRI, 2024; World Bank, 2023).

**Figure 4.1: Anti-export bias (%) in Bangladesh**




Note: A ratio of 1 would mean the relative incentive for import-competing and export activities being the same.

Source: Chart created using the information provided in Smooth Transition Strategy for LDC Graduation, ERD (2025). Also, see PRI (2024).

While tariff protection has kept most firms comfortably oriented toward the domestic market, the weakness of domestic product standards together with lax enforcement of labour and environmental compliance has further compounded their limited preparedness for competing in global markets (PRI, 2024; Ginting et al., 2025). As local markets reward price over quality and compliance, firms have little incentive to invest in process upgrading, labour and environmental compliance, and certification. The resultant bifurcation in quality and standards reinforces a cycle of inward-looking production: weak standards cause a barrier for export ambition, while protection allows producers to thrive without confronting international benchmarks. Over time, this not only limits diversification but also erodes the country's export reputation in promising sectors such as leather, processed food, fish, and agriculture, where global buyers demand traceability and environmental assurance. The problem is aggravated by the country's limited testing and certification infrastructure, which leaves even well-intentioned firms without reliable channels for demonstrating compliance. It has been shown that in sectors such as agro-processing, light engineering, and leather and leather goods, the lack of testing and certification procedures has impacted firms' export competitiveness (Razzaque et al. 2023). The leather industry, in particular, offers a telling example, as major international buyers have discontinued sourcing Bangladeshi

[16] This estimate is based on a comparison of the effective exchange rate for imports (i.e., nominal exchange rate augmented by the nominal rate of tariff protection) with the effective exchange rate for exports (i.e., nominal exchange rate augmented by cash assistance and interest subsidy for exporters). This relative incentive structure disfavouring the export sector is known as the anti-export bias in trade policy (PRI, 2024; ERD, 2025; Sattar 2022).

leather because of its poor environmental compliance, but the same products continue to circulate freely in the domestic market.

Given the above argument of heavy protection leading to firms' being inward-oriented, one could ask how the apparel industry could then become so successful and why this success story could not be replicated elsewhere. The RMG sector's ability to flourish was due to a rare combination of factors that effectively shielded it from the prevailing anti-export environment. First, the sector's initial expansion was substantially assisted by the Multi-Fibre Arrangement (MFA) quota system until 2005, which created an economic advantage by encouraging global production dispersion into nations like Bangladesh that possessed unused quotas. This was further boosted by a substantial competitive advantage in major international markets, enabled by tariff preferences granted under Bangladesh's LDC status. Furthermore, export-oriented RMG enterprises are established specifically as born-to-export firms, whose operations are inherently structured around international orders, allowing them to circumvent the domestic anti-export bias (Ginting et al., 2024). Additionally, the same sector benefited from an extensive and heavily targeted export incentive mechanism, which included the back-to-back letter of credit facility, the bonded warehouse facility for duty-free input storage, generous cash assistance, and lower corporate tax rates.

The combination of unique global trade conditions including the previous quota system triggering initial export success and high tariff preferential margins, was not available for non-RMG sectors.[17] Besides, they also historically faced discrimination in accessing key export incentives, and remained significantly handicapped by the severe anti-export bias created by high customs and para-tariffs (PRI, 2024).[18]

[17] Tariff preference margins under LDC-specific schemes are considerably higher for textile and clothing products than for other manufactured goods, largely because apparel faces disproportionately high most-favoured-nation (MFN) tariffs in major markets. While the average MFN tariff on industrial goods in OECD countries typically ranges between 2 per cent and 6.5 per cent, apparel imports face rates as high as 16.2 per cent in Canada, 11.5 per cent in the EU and UK, 12.5 per cent in Korea, 9 per cent in Japan, and 10.6 per cent in the United States (Ginting et al. 2025).

[18] Para-tariffs are levies applied in addition to customs duties. Bangladesh uses several of these charges, which significantly raise the effective rate of protection beyond the statutory tariff. The main instruments are Supplementary Duty (SD), Regulatory Duty (RD), and Advance Income Tax (AIT). Supplementary Duty was designed to be trade-neutral by discouraging luxury consumption and applying equally to domestic production and imports, although in practice it has been imposed almost entirely on imports as a source of revenue. Regulatory Duty was introduced to address short-term surges in imports and protect sensitive industries but has become a permanent feature of the tariff structure. Advance Income Tax is nominally a pre-payment of income tax, yet importers cannot reclaim it when settling their tax liability, so it functions as an additional border charge. Together, these para-tariffs create a cascading protection structure that raises input costs for exporters, distorts resource allocation, and complicates tariff rationalisation for regional integration and participation in preferential trade agreements.

**Table 4.1: Outcomes of Bangladesh's Proactive Protectionist Policy Stance**

| Policy Orientation / Measure | Observed Outcomes and Implications for Employment |
|---|---|
| High tariff and para-tariff protection for domestic industries | Encouraged import-substituting production and rent-seeking rather than export competitiveness; capital and labour diverted to low-productivity sectors serving domestic demand. |
| Prolonged infant-industry protection without performance benchmarks | Fostered complacency and limited incentives for innovation or technology adoption; delayed diversification into higher-value activities. |
| Limited enforcement of product, labour, and environmental standards | Created dual markets—low-quality domestic production thriving under protection versus export sectors constrained by compliance requirements; weakened global market readiness. |
| Discriminatory export incentives favouring RMG sector | Enabled exceptional success in garments but entrenched single-sector dependence; other sectors remained excluded from incentive schemes and export infrastructure. |
| Weak integration between industrial, trade, and skills policies | Resulted in fragmented capability building; industrial support not complemented by human-capital or innovation policy, reducing job intensity of growth. |
| Inward-looking policy activism driven by tariff rents | Generated short-term fiscal gains but long-term inefficiency; constrained competition, consumer welfare, and the scale of employment creation. |
| High consumer cost and constrained domestic demand | Protection-induced price inflation imposed large implicit taxes on consumers, estimated at US$70 billion over FY2013–17 (Sattar 2018), suppressing purchasing power and keeping the domestic market for import-competing industries small, thereby limiting scale economies and labour absorption. |
| Overall impact on employment | Structural bias toward capital- and protection-dependent activities limited expansion of labour-intensive production; employment elasticity of manufacturing fell despite strong output growth, leading to premature deindustrialisation and underemployment. |

Source: Authors' synthesis based on PRI (2024); Sattar ( 2022); World Bank (2023); ERD (2025).

Despite the steady expansion of import-competing industries, it is important to recognise that the domestic market can only grow as fast as the purchasing power of consumers allows. While Bangladesh's home market has indeed widened with rising incomes, its pace of expansion has remained modest compared with the vast demand potential of global markets. As a result, firms that have concentrated on serving local consumers operate within a structurally limited space for scale and diversification. The emphasis on meeting domestic demand, often accompanied by technological deepening rather than broad-based industrial expansion, has therefore contained rather than expanded employment opportunities, reinforcing the narrow link between output growth and job creation.

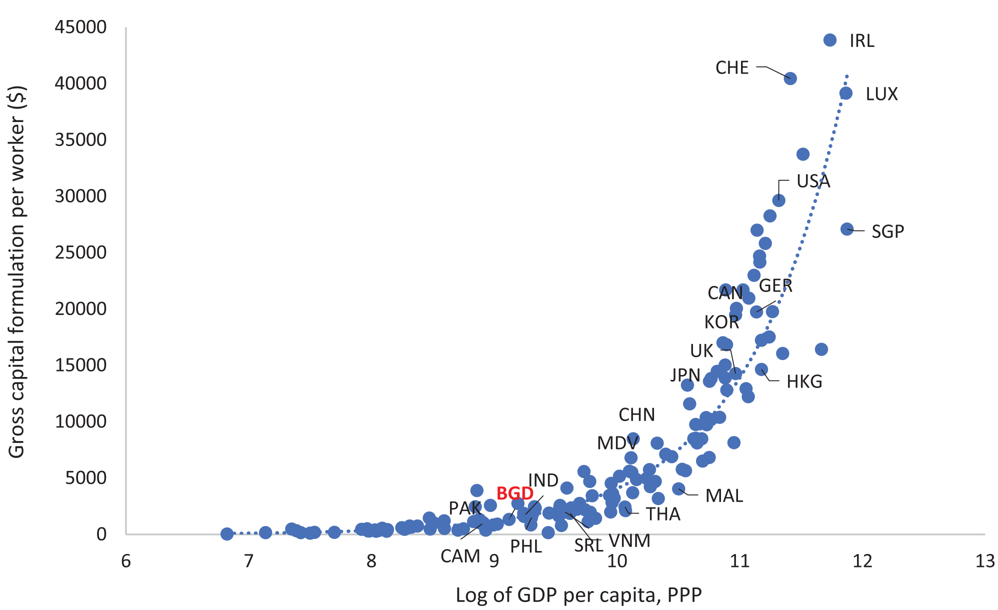
Moreover, in a highly protected domestic market, the burden ultimately shifts to consumers, and this in turn further limits market growth. Sattar estimates that over the five-year period FY2013–17 Bangladeshi consumers paid about US$70.6 billion in extra costs arising from protection-induced price inflation, and in FY2017 alone the protection cost stood at US$14.2 billion, equivalent to 5.7 per cent of GDP and 31 per cent of manufacturing value added. With such high price burdens, consumer purchasing power is constrained, the domestic market cannot expand freely, and firms that lean heavily on the home market face a ceiling on scale and employment generation. The overall outcomes of Bangladesh's long-standing protectionist policy stance are summarised in Table 4.1, which highlights how well-intentioned policy activism, when prolonged without performance discipline, has contributed to distorted incentives, consumer welfare losses, and limited employment generation.

While the highly protective policy regime epitomises Bangladesh's distorted incentive structure, where excessive reliance on tariff and para-tariff measures has bred complacency, misallocation, and inefficiency within inward-looking sectors, these distortions have interacted with a wider set of structural and institutional constraints that have undermined the effectiveness of policy activism itself. These inefficiencies, coupled with infrastructure deficits, high logistics and compliance costs, and fragile enforcement of market discipline, have prevented industrial policy objectives from materialising. Consequently, rather than yielding a coherent growth-employment nexus, Bangladesh's policy outcomes have often reflected the cumulative effects of protection-induced inefficiencies and systemic governance failures, resulting in an industrial structure that remains narrowly based, weakly competitive, and insufficiently employment-intensive.

## 4.2 Competitiveness, Capability, and Structural Transformation: Scope of Policy Activism

Bangladesh's experience of not being able to translate policy support-driven industrial expansion into broad-based employment is not merely about the outcome of global forces such as automation but also of structural and institutional weaknesses that have constrained its capacity for diversification, productivity and compliance upgrading across export and non-export sectors. Although technological progress and capital deepening are often portrayed as threats to labour-intensive growth, in Bangladesh, the greater challenge lies in the economy's limited ability to harness these processes for competitiveness and market expansion. The country's investment in machinery and equipment per worker remains just at par with its current level of development when compared with the set of global economies, with cross-country experience suggesting that capital intensity is expected to rise further (Figure 4.2). As production gradually becomes more technology-intensive globally, the central question is not whether automation or technology-deepening will affect employment but whether the economy can expand significantly and fast enough to offset labour displacement through productivity-driven growth.

**Figure 4.2: Gross captial formation and GDP of global economies**




Source: Authors' analysis using data from the ILO for gross capital formation per worker and GDP per capita in PPP terms from the World Bank World Development Indicators.

While technological change has often been perceived primarily through the lens of automation and labour displacement, for Bangladesh, it also presents a critical opportunity to generate new forms of productive employment, particularly for the country's expanding youth labour force. Strategic adoption of digital technologies, artificial intelligence, and other Fourth Industrial Revolution (4IR) innovations can drive job creation in ICT-enabled services, logistics, e-commerce, business-process outsourcing, and digitally linked manufacturing.[19] Equally important, the diffusion of digital tools across traditional sectors such as agriculture, retail, and small-scale manufacturing can raise productivity while stimulating secondary employment along value chains. For a country where technology penetration remains limited and digital inequality is pronounced, expanding access to digital infrastructure, affordable connectivity, and e-learning platforms can enable broader participation in the emerging digital economy. The challenge, therefore, is not to resist technological change but to guide it deliberately through policies that equip workers with digital skills, close the urban–rural technology gap, and ensure that digitalisation becomes a powerful driver of inclusive employment growth.

As the economy seeks to harness these technological possibilities, a key constraint on business growth remains the enduring structural rigidities that raise the cost of doing business. These were previously reflected in indicators from the now-discontinued World Bank Doing Business surveys, along with difficulties in land acquisition, high logistics and utility costs, cumbersome customs procedures, and limited access to long-term credit.[20] Widespread corruption has also been reported as a major constraint affecting the firms.[21] The weaknesses of infrastructures related to science and technology (e.g., digitalisation and innovation), social (health, education, social protection), physical (e.g., energy, roads, ports, etc) and quality and compliance (products, labour, and environment) further constrain quality upgrading, while fragmented regulatory procedures create further hindrance to business opportunities. These obstacles interact with protection-induced distortions to create a low-investment equilibrium in which firms operate below potential and job creation remains subdued (Table 4.2).

[19] Emerging service-linked and digitally enabled sectors offer a spectrum of employment opportunities that can expand both the quantity and quality of jobs available to young people and women. Logistics and e-commerce operations generate work in warehousing, transport coordination, delivery, inventory management, customer service, and digital marketing. Business-process outsourcing creates opportunities in call centres, back-office processing, transcription, data handling, accounting support, and research assistance. Digitally linked manufacturing requires mid-skill roles such as CAD operation, machine maintenance, quality control, compliance documentation, and industrial process monitoring. In parallel, e-learning provides avenues for online tutoring, content development, curriculum support, and learning management administration, while the growing creative digital economy has opened income streams in design, video editing, animation, social media management, and online entertainment platforms. Together, these segments constitute a broad set of labour-absorbing avenues that can be nurtured through targeted skills initiatives and modest digital infrastructure, offering practical entry points into productive work without requiring large fixed capital investments.

[20] Bangladesh ranked 168th out of 190 economies in the Doing Business 2020 ease-of-doing-business ranking. Among the weakest performing indicators were trading across borders (score roughly 31.8/100) and enforcing contracts (score around 22.2/100), signalling major bottlenecks in export logistics and legal dispute resolution. The domestic regulatory environment also shows significant lags: e.g., registering property ranked 184th and getting electricity ranked 176th, indicating that foundational infrastructure and regulatory frameworks remain major constraints for firms

[21] It is reported that more than 16 percent of Bangladeshi businesses identified corruption as the biggest obstacle to their operations in a survey undertaken by Centre for Policy Dialogue. See details here: https://www.thedailystar.net/business/news/graft-biggest-obstacle-doing-business-3755251

**Table 4.2: Structural Constraints Limiting Competitiveness and Employment Transformation**

| Constraint | Manifestation in Bangladesh | Employment Consequence |
|---|---|---|
| High cost of doing business | Unfavourable business climate including logistics bottlenecks, administrative complexities, cumbersome customs, and corruption. | Low investment mobilization, discourages SME expansion and labour-intensive investment. |
| Fragmented industrial, trade, and skills policies | Overlapping mandates and weak coordination among ministries and agencies. | Policy incoherence acts as a hurdle for business growth and thus employment intensity. |
| Weak infrastructure (physical, social, and quality) | Gaps in energy, transport, education, and compliance infrastructure. | Limits export competitiveness, productivity, firm survival. |
| Protection-induced inefficiency | Anti-export bias, reliance on tariff rents, low innovation. | Resource misallocation and low employment elasticity. |
| Low state capability and governance gaps | Weak enforcement, poor monitoring, and rent-seeking. | Policies become instruments for rent preservation rather than transformation. |

Source: Authors' synthesis from various sources.

Compounding these problems is a persistent deficit in state capability and policy coherence. Industrial policy tools such as Import Policy Orders, National Industrial Policy, Export Policy have existed along with various sector-specific interventions, but they mostly operate in isolation, without clear complementary objectives, coordination mechanisms, or performance-based evaluation. Overlapping institutional mandates and fragmented implementation dilute accountability, while weak governance in combination with administrative complexities, lack of enforcement and outright corrupt practices have made the policy instruments largely ineffective. Large-scale national development plans have featured prominently with the aspiration of directing public sector activities. However, implementation of these plan documents has remained weak and questionable. In addition, enforcement gaps and the lack of adaptive capacity mean that policies intended to promote structural change frequently become vehicles for rent preservation rather than transformation. Addressing these weaknesses requires a more coherent, evidence-driven, and learning-oriented form of activism emphasising coordination, implementation, monitoring and evaluation, and productivity enhancement over blanket protection for import-competing sectors.

The required change in policy directional approach has been recognised in the Smooth Transition Strategy for LDC Graduation, adopted by the Government (Government of Bangladesh, 2025). It argues that Bangladesh's development trajectory has reached a critical stage where the earlier model of growth, propelled by domestic protection-driven import-competing manufacturing and trade preference-dependent exports based largely on RMG, no longer offers a sustainable basis for competitiveness. The country's first phase of structural transformation, as reflected in the rise of export-oriented RMG industry, successfully diversified output away from agriculture and generated large-scale employment, only to plateau in the absence of other similar export-success sectors, although manufacturing output has broadened across sectors without translating into export dynamism.

The next phase of structural transformation, according to the STS, must therefore move beyond the narrow cost-competitiveness paradigm that has underpinned the past four decades. Reliance on cheap labour, trade preferences, and regulatory leniency may have delivered rapid gains in the early stages of industrialisation, but these sources of advantage are eroding as wages rise, preferential access diminishes, and global buyers demand higher standards. The STS therefore calls for moving towards a “high-road economic development”, referring to a strategy that emphasises sustainable and inclusive growth through the enhancement of productivity, innovation, quality standards and compliance within production systems. In an increasingly fragmented and sustainability-conscious global trading system, such an approach is no longer optional; it represents the only viable pathway for Bangladesh to consolidate its industrial base, remain competitive after LDC graduation, and secure a more inclusive, resilient, and future-ready economy.

The transformation agenda outlined for Bangladesh calls for a new form of state activism, which moves beyond mere protectionism and administrative complexities toward coordinated, capability-driven engagement with the economy. Table 4.3 summarises how such activism may manifest under a post-neoliberal framework, where the state assumes a strategic enabling role rather than a purely regulatory or interventionist one. It highlights the breadth of functions that an active government must perform to facilitate diversification, strengthen productivity, and align markets with long-term developmental goals.

A crucial dimension of this evolving policy framework lies in aligning industrial upgrading with environmental sustainability. As global markets increasingly condition access on compliance with carbon standards, traceability, and eco-labelling requirements, green transition is no longer an environmental aspiration but an economic necessity. For Bangladesh, where export competitiveness will hinge on post-LDC conformity to such benchmarks, embedding cleaner production, resource efficiency, and circular-economy principles into industrial strategy can yield simultaneous gains in productivity, resilience, and employment. Expanding renewable-energy adoption, waste recycling, and energy-efficient manufacturing would not only strengthen global market access but also create new areas of labour absorption in green industries and services. In this sense, industrial policy and environmental policy must converge to form the foundation of a sustainable, employment-centred transformation.

These areas collectively represent a shift in emphasis from shielding industries to building competitiveness through institutions, innovation, and inclusion. The state’s proactive role, therefore, lies in creating the ecosystem within which private enterprise can expand, adapt, and innovate. Each domain, whether in governance, human capital, sustainability, or infrastructure, illustrates that structural transformation depends on purposeful state engagement that links economic dynamism with social progress.

**Table 4.3: Policy activism under a post-neoliberal framework for Bangladesh**

| Specific Area | Broad Activities | Active State Actions (Analytical Framing) |
|---|---|---|
| Diversification of the Production and Export Base | Develop new manufacturing and service industries with higher value addition, technology adoption, and market diversification. | Requires coordinated industrial and trade strategies that foster competitiveness through sector-specific upgrading, investment facilitation, and targeted linkage programmes connecting emerging industries to global and regional markets. |
| Enhancing Productivity Across Sectors | Strengthen technological capabilities, promote automation and digitalisation, and integrate SMEs into global value chains. | Entails an activist role in building national productivity infrastructure through technology extension services, SME upgrading schemes, and digital innovation clusters that diffuse modern production methods across industries. |
| Investing in Human Capital and Skills Development | Improve education, vocational training, and workforce skills to meet demands of a technology-driven economy. | Calls for sustained public investment in education, training, and lifelong learning systems, complemented by partnerships with industry to align curricula with future skill needs and to raise the employability of new entrants into the labour force. |
| Strengthening Institutions and Governance | Build effective, transparent, and coordinated institutions capable of implementing complex reforms. | Involves redefining state capability around coherence, accountability, and learning, strengthening inter-agency coordination, digital governance, and data systems that allow policies to adapt based on performance evidence. |
| Improving Product Standards and Compliance | Ensure quality upgrading, labour rights, and environmental sustainability consistent with global standards. | Demands public investment in quality infrastructure including testing, certification, metrology, and accreditation alongside regulatory reform that integrates labour and environmental standards within industrial and export policy frameworks. |
| Fostering Innovation and Research | Promote research and development (R&D), technology parks, and innovation ecosystems. | Implies an enabling state function that bridges research institutions, universities, and enterprises, facilitating financing instruments, intellectual-property protection, and collaborative R&D platforms to accelerate technological diffusion. |
| Promoting Sustainable and Green Industrialisation | Integrate sustainability principles into industrial and urban planning. | Necessitates policy coherence across energy, environment, and industry through green-financing frameworks, incentives for cleaner production, and regulation that internalises environmental costs without eroding competitiveness. |
| Expanding Infrastructure and Connectivity | Invest in logistics, ports, energy, and digital infrastructure. | Encompasses strategic public investment guided by cost-benefit and connectivity analyses, crowding-in private capital through PPPs, and strengthening regulatory oversight to ensure reliability, interoperability, and efficiency of networks. |
| Building Economic Resilience | Enhance macroeconomic stability, manage external shocks, and expand domestic resource mobilisation. | Requires disciplined fiscal management, improved revenue mobilisation, and the creation of counter-cyclical buffers that sustain investment and social spending during downturns, thereby stabilising growth. |
| Ensuring Inclusive Growth | Create decent employment, reduce gender disparities, and strengthen social protection. | Involves aligning social policy with productive transformation—expanding coverage and quality of social protection, supporting care-economy and service-sector employment, and addressing barriers to female labour-force participation. |

Source: Authors' compilation using the Smooth Transition Strategy.

## 4.3 Employment-Centred Public Policies in the Post-Neoliberal Context

The grave challenge of inadequate job creation and its far-reaching social and economic implications, including the growing sense of frustration among youth that often manifests in sporadic protests and unrest, calls for urgent and deliberate public policy attention as a core component of any transformative reform agenda. As technological advancement reaches new heights, there is no denying that even with its relatively slower pace of adoption in Bangladesh, given the country's socio-economic conditions, it may exert adverse effects on employment generation within specific industries. This challenge must be offset through an expansion of productive activities across sectors so that the scale of output growth can outpace the potential employment-reducing impact of productivity gains. For an economy at Bangladesh's current stage of development, this actually presents an opportunity: to achieve faster growth with similar levels of investment while moving toward a more structurally transformed production base as discussed earlier. What is, however, concerning is that emerging evidence seems to strongly suggest ongoing technological changes driven by Artificial Intelligence (AI) is particularly constraining entry opportunities for young and newly graduated workers (English, 2025; Milmo and Almeida, 2025; and WEF, 2025), with 1 in 5 young people around the world being NEETs (O'Dell, 2024; ILO, 2024), underscoring the need for proactive and employment-centred policy interventions.

### 4.3.1 Towards an employment-centred policy shift

A clear lesson from the backlash against globalisation in advanced economies triggering the post neoliberal policies is that integration and technological change, while raising aggregate prosperity, have not delivered enough remunerative, secure jobs in many regions and for many workers (Autor et al., 2016) with trade and technology shocks eroding middle-skill employment, depressing wages, and weakening job ladders in "left-behind" communities (Salvatori and Manfredi, 2019; Arntz et al. 2016; OECD, 2024) with effects that persisting over time and spilled into political discontent. In response, there has been a renewed demand for proactive state policies that go beyond macro stabilisation to create and protect the supply of good jobs through place-based industrial strategies, active labour-market measures, and investments that improve job quality (earnings, security, and conditions), particularly for younger and less advantaged workers who face under-employment and limited progression.

Considering Bangladesh's current socio-economic circumstances, characterised by a youthful labour force, rapid demographic transition, and the need for structural transformation, the scope for proactive employment-centred policies appears both extensive and compelling. As underscored in the Smooth Transition Strategy, the challenge is not simply one of creating more jobs but of generating better jobs that enhance productivity and human capital formation. With nearly two million new entrants into the labour force each year, low female participation, and a high share of employment in informal or low-productivity sectors, Bangladesh's employment challenge requires more than market-based responses. Expanding the state's role in promoting labour absorption through investments in education, health, and the care economy, alongside comprehensive skilling, reskilling, and upskilling initiatives, can yield transformative gains. The STS and the Re-strategising the Economy Taskforce Report further recognises that strengthening technical and vocational education and training (TVET) systems, aligning skills development with industry needs, and supporting lifelong learning pathways are indispensable for sustaining productive employment in an economy that aspires to transition from factor-driven to efficiency- and innovation-driven growth. Within this broader reorientation, the design of proactive labour-market interventions assumes critical importance, offering both social protection and productivity dividends.

### 4.3.2 Proactive labour-market policies

Table 4.4 summarises some of the main avenues through which such proactive labour-market schemes can contribute to employment generation in Bangladesh, identifying key areas of policy action, specific activities, and their special significance within the country's socio-economic context. This framework attempts to capture the multifaceted scope of proactive public policies, structured around six broad avenues. The first two avenues, employment support for the poor and sectoral expansion in social and green domains, constitute the direct employment generation mechanisms, ensuring that those most affected by underemployment and informality are integrated into meaningful work. The subsequent pillars of skills formation, macroeconomic activism, infrastructure-led local development, and entrepreneurship operate through indirect yet durable channels that build human capital, enhance productivity, and stimulate private labour demand.

Employment support for the poor and vulnerable aims to stabilise livelihoods and prevent income shocks from becoming long-term exclusion from the labour market. Bangladesh's experience with public employment schemes such as the Employment Generation Programme for the Poorest offers a solid foundation to build upon. Yet, these schemes have remained largely rural in focus and temporary in nature. Extending them to urban informal workers, where poverty and vulnerability are now increasingly concentrated (Razzaque et al. 2025), would reflect a pragmatic adaptation to Bangladesh's changing employment geography.

**Table 4.4: Employment-supportive proactive labour-market interventions**

| Areas of Intervention | Specific Public Policy Activities | Special Significance for Bangladesh |
|---|---|---|
| Employment support for the poor and vulnerable | • Expand and modernise public employment programmes (PEPs) focused on labour-intensive public works in infrastructure, rural connectivity, and community assets. • Strengthen employment guarantee schemes or seasonal workfare programmes to stabilise incomes during agricultural slack seasons. • Integrate short-term work with basic skill training, financial inclusion, and social protection benefits. | • Bangladesh has extensive experience with rural employment and cash-for-work programmes (e.g. Employment Generation Programme for the Poorest, Food-for-Work, Test Relief). • There is strong rationale for urban adaptation of such schemes to support informal workers, youth, and returning migrants in cities facing under-employment. • Scaling such programmes can offer a safety valve against rural-urban distress migration and contribute to local infrastructure development. |
| State-enabled sectoral expansion (social and green economy) | • Increase public investment in health, education, and care services, expanding staffing and infrastructure. • Promote care-economy expansion through fiscal incentives, certification systems, and partnerships with NGOs. • Channel green-industrial spending into renewable energy, waste management, climate-resilient agriculture, and eco-tourism. | • Health, education, and care sectors are labour-intensive and have strong multiplier effects on productivity and gender inclusion. • Public expansion of these sectors would create large numbers of decent jobs while simultaneously strengthening human capital. • Investing in green sectors aligns with Bangladesh's climate-vulnerability agenda, opening employment in renewable energy installation, recycling, and adaptive agriculture. |

| Areas of Intervention | Specific Public Policy Activities | Special Significance for Bangladesh |
|---|---|---|
| Workforce readiness and activation (skilling, reskilling, upskilling) | •Establish a national lifelong learning framework integrating vocational, digital, and soft-skills training. • Expand public–private training partnerships linked to industry demand, apprenticeship schemes, and online learning platforms. • Target training at women, youth, and migrant workers, emphasising digital, technical, and care-related skills. | • Bangladesh's migrant workforce constitutes a major employment and foreign-exchange source, yet skill levels remain low; coordinated reskilling could raise both remittance earnings and job quality abroad. • Youth employability can be enhanced through continuous training aligned with emerging domestic industries (ICT, care, light engineering). • Reskilling is critical as automation and digitalisation shift occupational structures. |
| Employment-centred macroeconomic and institutional activism | • Use public investment in infrastructure, housing, and renewable energy to crowd in private employment. • Reform labour-market institutions to improve wage floors, collective bargaining, and working conditions. • Incentivise private-sector hiring via conditional tax rebates or wage-sharing arrangements tied to net job creation. | • With fiscal space gradually expanding, Bangladesh can leverage targeted public investment to stimulate labour demand and revive domestic supply chains. • Strengthening labour institutions is essential to ensure quality and stability of jobs rather than mere quantity. • Employment-linked tax incentives can attract private investment into under-served regions and SMEs. |
| Labour-intensive infrastructure and local development | • Prioritise small- and medium-scale public works (rural roads, water systems, schools, clinics) using community contracting and local procurement. • Integrate maintenance and repair components for sustained job flows. • Encourage local governments to implement employment-intensive service delivery. | • Rural and peri-urban infrastructure gaps in Bangladesh provide major potential for labour-intensive investment that directly creates jobs while improving connectivity. • Such decentralised works can empower local governments and communities while building resilience against climate shocks. |
| Support for entrepreneurship and social enterprise | • Establish inclusive enterprise funds and micro-credit plus training programmes for youth and women. • Support social enterprises in recycling, care services, and cultural industries. • Provide tax and procurement preferences for start-ups with measurable job creation. | • The informal sector dominates employment; formalising it through micro-enterprise support can generate stable livelihoods. • Social enterprises can expand decent work in care, green, and creative industries while addressing social needs. • Encouraging entrepreneurship diversifies employment beyond garments and migration. |

Source: Authors' analysis

State-enabled sectoral expansion in the social and green economy is premised on the view that government can actively shape labour demand by investing in sectors that are both labour-absorbing and socially desirable. Health, education, social care, and climate-related services share a particular characteristic: they create employment in local service delivery while producing long-term productivity gains by strengthening human capital, environmental resilience, and community well-being. Public spending in these sectors, when strategically directed, can stimulate complementary private investment, diversify employment away from traditional low-value activities, and support greater female labour force participation. A greater policy push into renewable energy, waste management, adaptive agriculture, and local care systems can begin a shift toward an employment structure that is less reliant on garments and migrant labour alone. In this respect, there are opportunities for policy innovation. One practical illustration of what could be termed as mission-oriented policy at a micro level relates to urban energy use. For instance, targeted building-code reforms requiring solar water-heating systems in new housing projects could generate employment for small light-engineering firms, reduce grid pressure, and expand local installation and maintenance services. The policy is modest in scope, but it would leverage public regulation to crowd in private investment, demonstrating how mission-oriented approaches can translate abstract state activism into tangible employment outcomes.

Under the intervention of workforce readiness and activation, it is recognised that labour-market outcomes also depend on whether workers have the skills, adaptability, and information to fill any available opportunities. Continuous skilling, reskilling, and upskilling form the backbone of this intervention because technological change, digitalisation, and the increasing complexity of production have altered the profile of employability. A coherent lifelong learning system that connects vocational training, soft skills, apprenticeships, and online learning is critical in economies where large cohorts of young people enter work with limited practical experience. Bangladesh is also confronted with a structural barrier, as the economy benefits enormously from overseas employment and foreign remittances, yet most migrant workers remain in low-wage, low-skill occupations abroad. Better coordination among training institutions, industry associations, and migration authorities would help raise the skill content of both domestic jobs and overseas contracts.

Employment-centred macroeconomic and institutional activism shifts the emphasis of macro policy from abstract growth targets toward explicit employment outcomes. Instead of assuming that growth will automatically translate into jobs, this approach requires public investment, fiscal policy, incentives, and labour regulation to be designed around job creation as a central criterion. Infrastructure spending becomes a mechanism to crowd in private investment and support local supply chains; tax rebates or hiring incentives become conditioned on measurable net job creation; and labour institutions, including wage standards and collective bargaining, are strengthened to ensure job quality rather than only job quantity. In the context of Bangladesh, where the growth-employment disconnect has become increasingly visible, such activism implies using expanding fiscal space more deliberately to support SMEs, labour-intensive industries, and underserved regions. This is not a return to heavy state Intervention, but a recalibration of macroeconomic instruments so that employment becomes an explicit and monitorable policy objective.

The next area of intervention, labour-intensive infrastructure and local development, focuses on generating employment through decentralised public works and community-level investment that responds to immediate infrastructure deficits. Small to medium-scale projects, including feeder roads, water systems, primary schools, rural markets, clinics, embankments, local transport facilities, etc., are highly labour-absorbing and can be designed to rely primarily on local contracting and community participation.

Unlike large, capital-intensive mega-projects, these types of interventions create more jobs per unit of investment and can provide continuous work through integrated maintenance cycles. The significance for Bangladesh is self-evident: connectivity gaps in rural and peri-urban areas remain substantial, and local development needs are diverse and climate-sensitive. If local governments can be empowered to implement labour-intensive service delivery, employment generation becomes geographically distributed, thereby helping reduce unplanned rural-to-urban migration and improving resilience to floods, salinity, and other climate-related disruptions.

Support for entrepreneurship and social enterprise recognises that a large proportion of employment in Bangladesh is generated by micro and small enterprises operating informally, often without access to finance, training, or reliable market linkages. Public policy can improve this landscape by establishing inclusive enterprise funds, integrating credit with mentoring and business development services, and creating incentives for firms that demonstrate measurable employment growth. Social enterprises, particularly in recycling, care provision, local services, or cultural industries, offer an added dimension because they operate at the intersection of social needs and labour absorption. Encouraging entrepreneurship is not limited to offering loans; it involves institutional support, certification, procurement preferences, and innovation ecosystems that help new ventures grow beyond subsistence survival. For Bangladesh, this kind of intervention can widen the employment base beyond garments and migration while promoting formalisation, local innovation, and diversified sources of livelihood.

While employment-centred strategies necessarily span all sectors, their success will ultimately depend on how effectively they integrate women into the productive economy. Bangladesh's female labour-force participation has declined in recent years despite improvements in education and fertility outcomes, reflecting deep-seated structural and social barriers. The contraction of women's garment sector jobs, together with limited formal opportunities and the persistent burden of unpaid family farm and care work, has curtailed women's access to decent employment. Yet this underutilised potential represents one of the most significant untapped drivers of growth and inclusion. Expanding women's employment through targeted skilling, investment in safe workplaces, accessible childcare, and incentives for female entrepreneurship would deliver large productivity gains and reduce household vulnerability. As the economy diversifies, ensuring women's full participation in both emerging and traditional sectors is not merely a matter of equity; it is an essential pillar of a sustainable, employment-centred development strategy.

Another critical dimension of Bangladesh's employment landscape lies beyond its borders. Overseas migration has long played a pivotal role in absorbing surplus labour and easing domestic employment pressures, while also serving as a major source of foreign exchange, with more than 12 million Bangladeshis currently working abroad and remittances contributing nearly 6 per cent of GDP. For many households, migrant work remains the most significant avenue for improving living standards and achieving upward mobility, while at the macro level, it supports the balance of payments and sustains domestic consumption. Yet the sector faces persistent challenges: low skill profiles that limit access to higher-value jobs, high migration costs that erode earnings, and weak protection frameworks that expose workers, particularly women, to exploitation and insecurity. Strengthening the global employability and welfare of migrant workers must therefore become a core element of Bangladesh's employment strategy, linking skills development, ethical recruitment, and social protection at home and abroad to ensure that migration remains a dignified and productive component of the country's development trajectory.

### 4.3.3 Harnessing social and fiscal investments for employment expansion

If public spending is regarded not merely as social expenditure but as strategic investment in human capital and employment generation, then Bangladesh's current fiscal commitment to education and health underscores a major missed opportunity. In FY2025, education accounted for less than 12 per cent of the national budget, equivalent to only 1.69 per cent of GDP, down from 1.8 per cent in FY2019, placing Bangladesh, as Figure 4.3 shows, among the lowest spenders globally. As Figure 4.4 shows, education expenditure in Bangladesh has remained consistently below the regional averages of South Asia and East Asia and the Pacific over the past four decades. Similarly, public spending on health continues to trail far behind regional comparators (Figures 4.5 and 4.6), highlighting a systemic underinvestment in critical social infrastructure.

**Figure 4.3: Public spending on education: Bangladesh within the set of global economies**

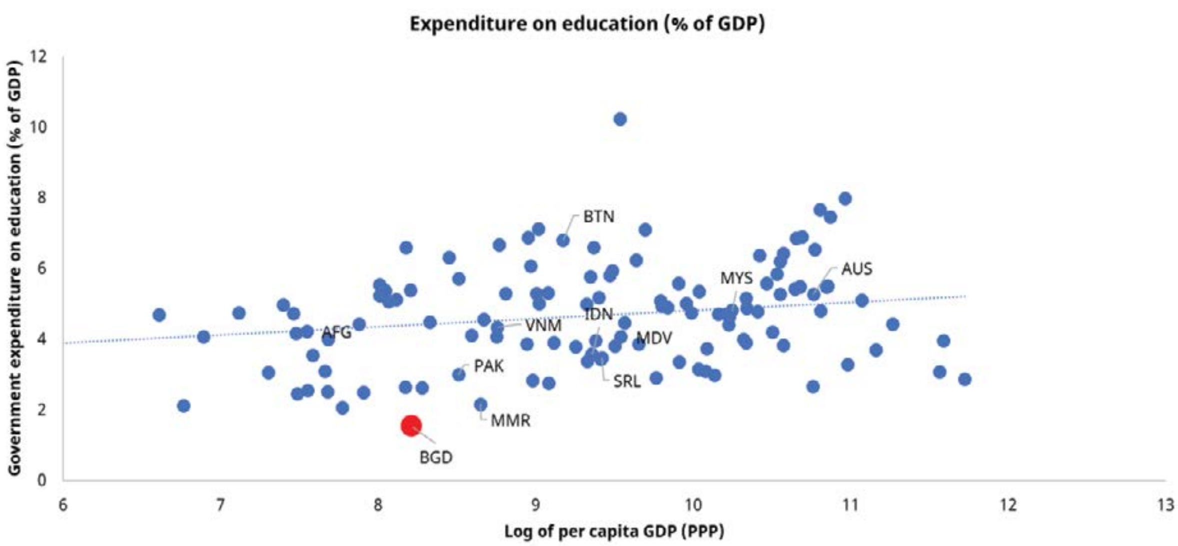
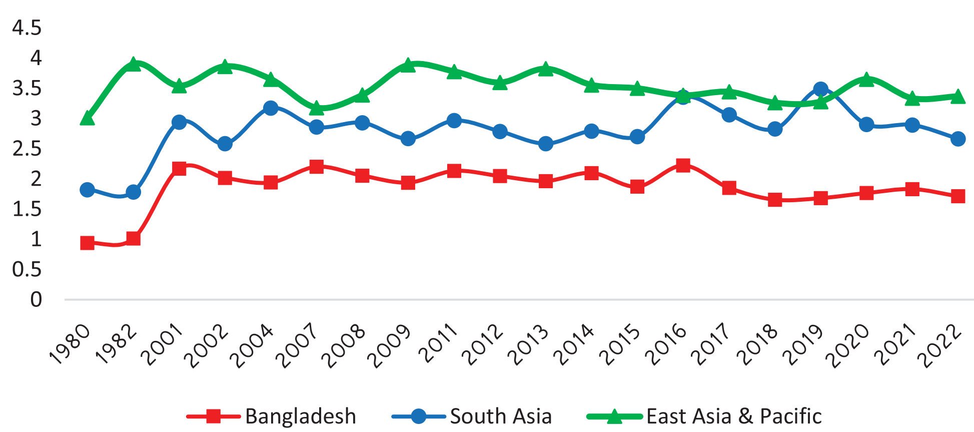
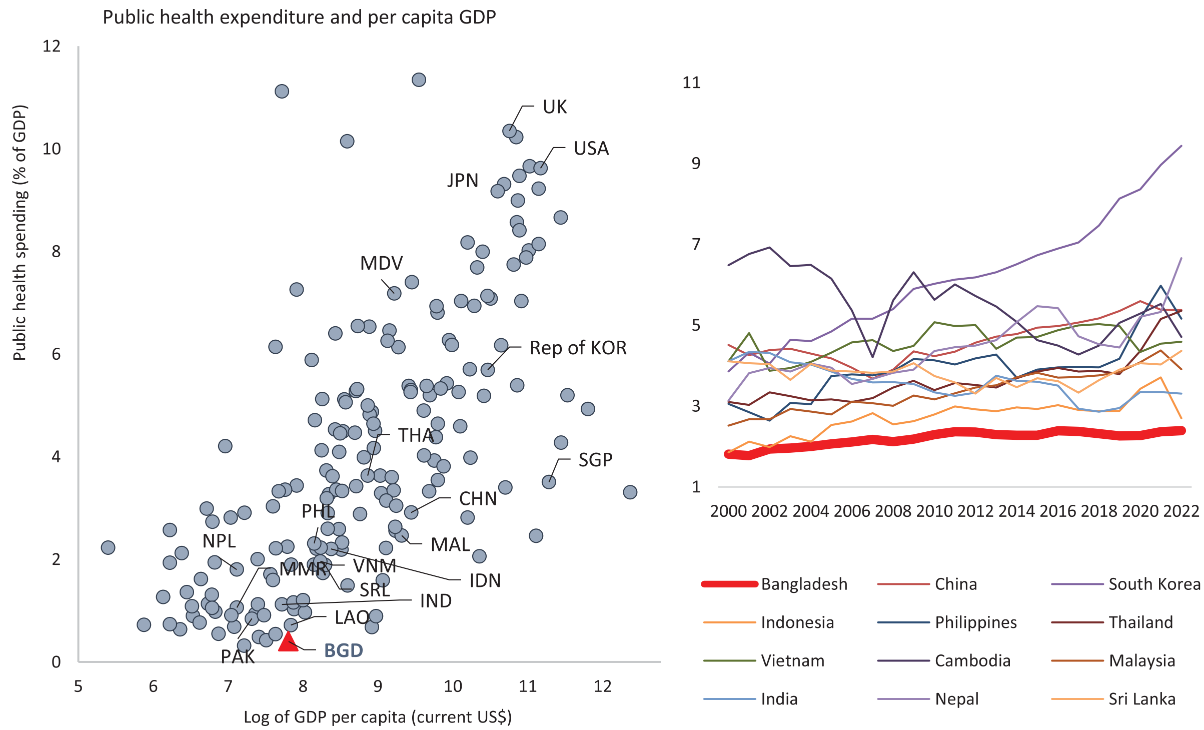



**Figure 4.4: Government expenditure on education (% of GDP), in some Asian countries**




Source: World Development Indicator (WDI). The World Bank Group.

**Figure 4.5: Health expenditure pattern in Bangladesh compared to other countries**




Source: World Health Organisation and World Bank World Development Indicators.

This chronic low investment has implications far beyond human capital accumulation. Expansion of public education systems, healthcare delivery networks, and community-based care services would not only improve access and quality outcomes but also create a large volume of direct and indirect jobs, particularly for women and young graduates. Moreover, such investments tend to produce strong multiplier effects, stimulating demand for related goods and services (e.g., construction, pharmaceuticals, transport) while contributing to a more equitable and resilient pattern of growth. In a context where private employment creation remains slow and technologically induced displacement looms large, scaling up social-sector investment offers one of the most immediate and inclusive avenues for job generation.

Bangladesh's experience with the Skills for Employment Investment Program (SEIP) vividly illustrates the dynamic connection between human capital formation and job creation. The programme's large-scale delivery of training has not only necessitated a substantial cadre of trainers, administrators, and institutional personnel but has also achieved strong employment outcomes: more than 60 per cent of its 300,000 graduates have reportedly secured gainful employment (Lee, 2020). This pattern is consistent with evidence from other developing contexts. A cost–benefit analysis of the Dual Training System (DTS) in the Philippines found measurable economic returns, with an average net benefit of around US$37 per trainee per month and roughly one-third of trainees obtaining regular jobs with host companies (Mapa et al., 2016). Comparable findings from Nepal show that before vocational training, more than half of women participants were confined to unpaid household work, whereas after completing training, all transitioned into income-generating activities—approximately 62 per cent through self-employment and 38 per cent through wage-based jobs (Gautam, 2023). Similar evidence from Uganda indicates that many TVET graduates have successfully established small enterprises, contributing directly to local economic growth (Zwane, 2024).

Global evidence further underscores the employment potential of social and care-sector investment. Estimates suggest that scaling up the global care economy could generate nearly 475 million jobs by 2030 (Ilkkaracan & Kim, 2019). National studies show similar magnitudes: in India, allocating an additional 2 per cent of GDP to care services is projected to create around 11 million jobs, of which nearly one-third of which would accrue to women (Business Standard, 2024), while in Nepal, an investment of approximately NPR 272 billion could generate 1.39 million jobs, 60 per cent of them for women (ILO, 2025).

For Bangladesh, these lessons hold particular relevance given the acute gaps in its health and care workforce. With only 9.9 doctors, nurses, and midwives per 10,000 people, compared to the WHO benchmark of 44.5 (Nuruzzaman et al., 2022), the shortfall reflects both an employment opportunity and a developmental constraint. Expanding medical and nursing education, allied health professions, and early childhood and geriatric care services could thus serve a dual purpose—addressing essential social needs while generating a broad base of formal, female-intensive employment. Moreover, as global demand for care workers rises, such expansion could link Bangladeshi workers to international job markets, particularly in ageing economies, thereby combining domestic welfare gains with remittance-earning potential.

At the same time, the skilling, reskilling, and upskilling agenda is central to addressing both domestic and overseas employment prospects. Bangladesh's Technical and Vocational Education and Training (TVET) system, though expanded in recent years, still suffers from limited coverage, outdated curricula, and weak links with market demand. Revitalising TVET through competency-based training, private-sector engagement, and flexible lifelong learning systems would allow the country to capture higher-value job opportunities domestically and abroad. Given that over 60 per cent of migrant workers remain in low-skilled occupations, targeted reskilling could substantially increase remittance earnings while easing labour-market pressures at home. This human capital agenda lies at the heart of Bangladesh's transition toward higher productivity and sustained structural transformation.

Bangladesh's social protection system already incorporates elements of employment support, particularly in rural areas, through programmes such as the Employment Generation Programme for the Poorest and Food/Cash-for-Work. These initiatives have proved valuable in stabilising incomes and sustaining local demand during slack agricultural seasons. However, comparable opportunities for income security and labour-market participation remain largely absent in urban settings, where informality, underemployment, poverty and deprivation have become a major concern. Extending employment-linked social protection to urban workers through temporary public works, community service schemes, and links with training/skill development or micro-enterprise support could significantly enhance household welfare and resilience.

Finally, the employment-supportive policy framework underscores that employment generation cannot be pursued in isolation from the macroeconomic and institutional architecture that underpins it. A more active fiscal stance oriented toward employment-intensive investment, coupled with strengthened labour-market institutions, can foster a virtuous cycle of private-sector job creation and wage growth. Public–private coordination, particularly in emerging industries such as renewable energy and digital services, will be vital to crowd in private investment. Moreover, empowering local governments to implement labour-intensive infrastructure projects and social enterprises can deepen decentralised development and inclusive growth. Together, these avenues delineate a comprehensive framework for Bangladesh to move toward an employment-centred, socially responsive development model consistent with the evolving post-neoliberal global policy discourse.

## 4.4 Creating Fiscal Space for Employment-Centred Transformation in Bangladesh

### 4.4.1 Fiscal constraints and the limits of the current model

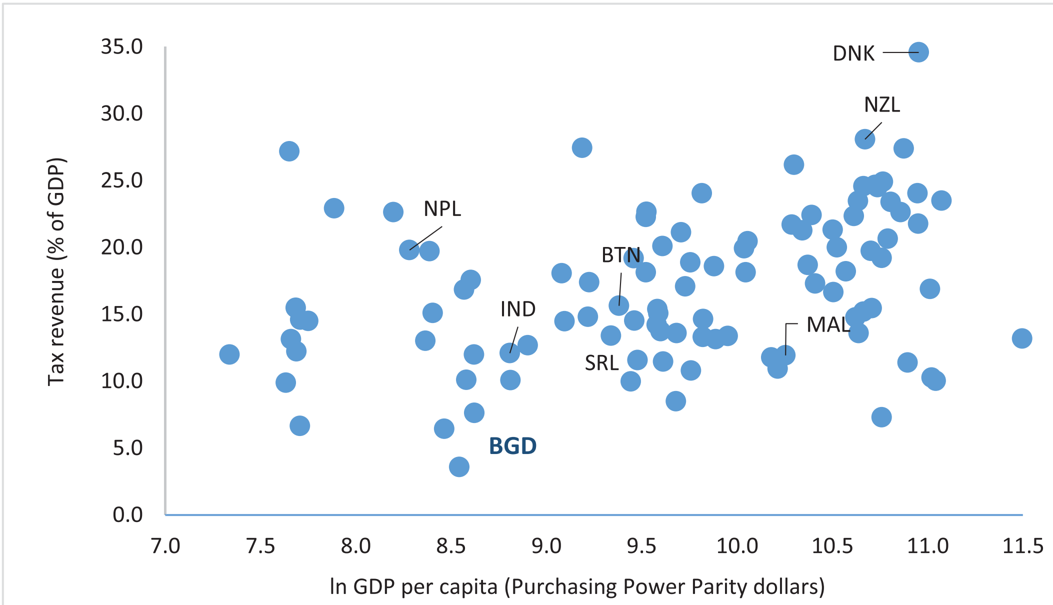
Bangladesh's fiscal capacity to finance an employment-centred transformation is severely constrained by a chronically narrow fiscal base and rising debt-servicing pressures that together limit room for developmental spending. The country's overall public expenditure, averaging around 13 per cent of GDP in recent years, is only about half of the 24 per cent average recorded for the group of lower-middle-income countries. This partly explains why public investment in health, education, and other social sectors has remained so constrained by international standards. The low level of overall public spending is largely attributable to Bangladesh's weak tax effort, as its tax-to-GDP ratio has stagnated at around 8 per cent, which is among the lowest in the world and almost half of the 15 per cent threshold associated with sustainable growth, fiscal self-reliance, and inclusive development (Choudhary et al., 2024; Gaspar et al., 2016).[22]

Bangladesh's weak domestic revenue mobilisation effort restricts the state's ability to undertake counter-cyclical investment or to scale up spending in employment-intensive sectors. At the same time, fiscal expansion through borrowing has reached a critical limit, as the government increasingly relies on deficit financing to sustain development expenditure. While Bangladesh's overall public debt remains moderate by international standards, interest payments already absorb nearly one-third of total tax revenue, significantly eroding fiscal headroom.[23]

[22] Gaspar et al. (2016) undertook an empirical assessment to find an answer to the question if there was a minimum tax-GDP ratio associated with a significant acceleration in the process of growth and development. Using historical time-series data from 139 countries, the IMF study finds that over 10 years, per capita GDP is 7.5 per cent larger than would otherwise. be expected in countries with tax revenues above the 'tipping point' 15 per cent level.1 That is, tax revenues above 15 per cent of a country's gross domestic product (GDP) would be crucial for stimulating economic growth along with which development aspirations such as poverty reduction and achieving the Sustainable Development Goals (SDGs) would be easier. On the other hand, Choudhary et al. (2024) demonstrate that there is a tax threshold around 15 percent of GDP where future inclusive growth significantly improves. This improvement is attributable to increased productive spending, more progressive taxes, and lower output volatility. They find that low-income countries graduate to middle-income status around the same threshold.

[23] Bangladesh's total debt-to-GDP ratio is reported at 40.5 (by the end of 2023-24), which remains below the IMF threshold of 55 per cent, the internationally recognised debt sustainability benchmark (Bangladesh Bank, 2024; MoF, 2024). However, it has been argued that the debt-to-GDP ratio is an inadequate measure of Bangladesh's debt management, given the country's low reserves and extremely limited fiscal space White Paper Committee (2024).

**Figure 4.6: Tax to GDP ratio (%) and per capita income of global economies**




Note: The latest available data between 2022 and 2024 has been considered.

Source: Data are from IMF and World Bank World Development Indicators.

The challenge of deficit financing to accommodate additional fiscal spending is further compounded by rising borrowing costs. Since Bangladesh's transition to lower-middle-income status in 2015, access to highly concessional external loans has been curtailed, while external debt has risen sharply: from less than US$30 billion in 2015 to more than US$110 billion in 2025. The resultant increase in debt servicing in foreign currencies has become a growing concern amid the recent stress on foreign reserves. Borrowing from domestic sources has expanded even more rapidly, accounting for close to 60 per cent of total public debt and carrying substantially higher interest rates than external debt. Interest costs on Treasury bills and bonds have climbed sharply in recent years, reflecting tighter monetary conditions, partly due to contractionary monetary policy aimed at addressing sustained inflationary pressure, and competition with private credit demand. Consequently, expanding fiscal space cannot rely on indiscriminate borrowing.

To bridge the ambitions outlined in Section 4.3.3 with the fiscal realities discussed above, it is useful to establish the approximate scale of the required financing, even in stylised terms. Two benchmark targets help illustrate the magnitude of the challenge.

**Education.** Raising education expenditure from the current 1.69 per cent of GDP to the 3 per cent target would require an increase of roughly 1.3 percentage points of GDP, equivalent to about BDT 650 billion (approximately USD 6 billion) at current prices. On its own, this amounts to more than 16 per cent of Bangladesh's present tax revenues. Financing such an expansion in a single step is fiscally implausible given the narrow tax base and rising debt-servicing obligations. A more credible path would phase the increase over a decade, implying an annual expansion of around 0.13 percentage points of GDP.

**Health workforce.** Closing the gap between the current density of 9.9 doctors, nurses, and midwives per 10,000 people and the WHO benchmark of 44.5 per 10,000 would require the training and employment of approximately 595,000 additional health workers for a population of 172 million. Spread over ten years, this translates into the addition of roughly 60,000 qualified health workers annually. With estimated training costs of USD 3,000–5,000 per worker in the Bangladesh context, the annual training expenditure would initially amount to approximately USD 180–300 million, or around 0.04–0.07 per cent of GDP per year. By the end of the implementation period, the recurrent wage bill associated with the expanded workforce would rise to roughly 0.4–0.5 per cent of GDP annually, financed predominantly through domestic revenues.

Bangladesh's tax-to-GDP ratio would need to rise from roughly 8 per cent to around 10 per cent merely to finance these two priorities, and higher still if the broader employment-centred development agenda is to be sustained. The financing options presented in Table 4.5 are therefore necessary, but insufficient on their own.

### 4.4.2 Mobilising external and innovative financing for employment-centred transformation

Given the fast-evolving debt dynamics, any expansion of public investment must be carefully costed and prioritised, ensuring that new spending on employment-centred policies does not jeopardise macroeconomic stability or inflate debt-servicing burdens. The imperative, therefore, is not merely to spend more but to spend better, mobilising and allocating resources in ways that directly enhance productivity, human capital, and job creation.

Despite the unfavourable conditions for external borrowing, marked by rising interest rates, Bangladesh's potential reduced access to concessional financing following LDC graduation, and the global downturn in official development assistance (ODA) amid geopolitical uncertainty, there remains room for selective and well-calibrated use of external financing. The critical consideration is to make sure that such financing directly supports long-term productive transformation and employment generation rather than short-term fiscal gap management. Programmatic and concessional loans that improve productive capacity with human capital development in mind can have a durable impact on employment-centred transformative changes if they are integrated within a coherent employment and industrial policy framework.

A particularly promising frontier lies in green and climate finance, which can provide access to low-cost resources while advancing Bangladesh's adaptation and mitigation goals. Given the country's acute climate vulnerability, greater mobilisation of global climate funds and just-transition facilities can be pursued for initiatives that generate green jobs, including renewable energy, waste recycling, ecosystem restoration, and sustainable agriculture. These areas are already emphasised in Bangladesh's National Adaptation Plan.[24] International mechanisms such as the Green Climate Fund (GCF) and the Global Environment Facility (GEF), alongside partnerships with multilateral development banks, offer potential financing avenues for employment-intensive and environmentally sustainable projects. Such efforts will require disciplined project selection, credible implementation capacity, and transparent debt management to maintain the confidence of development partners. The focus, therefore, should be on ensuring quality, concessionality, and developmental coherence of external financing, embedding employment and climate co-benefits into the design and evaluation of funded projects.

[24] Details can be found in National Adaptation Plan of Bangladesh 2023-2050, adopted by the Government of Bangladesh and as available at https://moef.portal.gov.bd/sites/default/files/files/moef.portal.gov.bd/npfblock/903c6d55_3fa3_4d24_a4e1_0611eaa3cb69/National%20Adaptation%20Plan%20of%20Bangladesh%20%282023-2050%29%20%281%29.pdf

### 4.4.3 Expanding fiscal space through reform and innovation

Expanding fiscal space for employment-centred public policies will ultimately depend on Bangladesh's ability to strengthen domestic resource mobilisation. A reorientation toward broad-based, progressive, and compliance-driven taxation appears important to build sustainable fiscal capacity. The country's revenue system continues to rely heavily on indirect taxes, a structural feature that limits both equity and buoyancy. In this regard, direct taxation may gradually assume greater significance, serving to improve fairness and create additional fiscal room for employment-oriented investment. A greater reliance on income and corporate taxation, combined with more effective enforcement and improved administrative capacity, could make the tax system less distortionary and more consistent with social and developmental objectives. Moreover, measures such as broadening the tax base through digitalisation, automation of tax administration, and enhanced auditing systems have been highlighted in several recent policy studies. Consideration of non-tax revenue and quasi-fiscal instruments may also complement these efforts, while gradual rationalisation of tax expenditures through the reduction of inefficient exemptions and rebates would help free up additional fiscal resources without raising statutory rates.

**Table 4.5: Potential options for expanding and aligning fiscal space with employment-centred transformation**

| Potential options | Key measures | Employment relevance/expected impact |
|---|---|---|
| Domestic Resource Mobilisation | Broaden the tax base, strengthen compliance, adopt digital tax systems, enhance direct taxation | Expands fiscal capacity for labour-intensive public investment; improves equity and long-term fiscal sustainability |
| Expenditure Quality and Efficiency | Strengthen public financial management (PFM), reduce cost overruns, improve procurement transparency | Ensures funds reach high-employment sectors; enhances multiplier effects of public spending |
| Reprioritising ADP Composition | Rebalance between mega physical projects and social-sector investments (education, health, care economy, social protection) | Redirects spending toward high job-intensity sectors and human-capital formation |
| External Borrowing and Concessional Financing | Selectively use concessional loans, climate funds, and programmatic support from MDBs and bilateral partners for employment-rich projects | Provides low-cost resources for productive transformation while maintaining fiscal sustainability; supports green and climate-resilient job creation |
| Innovative Financing Instruments | Develop green/social bonds, diaspora bonds, and PPPs under strong governance frameworks | Mobilises private and diaspora capital for employment-generating and climate-aligned investment |
| Tax Expenditure Rationalisation | Review and reduce inefficient exemptions and rebates | Frees up resources equivalent to revenue forgone, increasing fiscal space for employment-oriented investment |

Source: Authors' synthesis from the discussion in the text.

Enhancing fiscal space also depends on maintaining an appropriate balance between social and physical infrastructure investment under the Annual Development Programme (ADP). While large-scale physical projects often dominate the development budget, social sectors such as education, health, and social protection tend to deliver higher long-term employment and productivity dividends relative to their cost. A more balanced composition of public expenditure, supported by stronger public financial management (PFM) and expenditure tracking, could ensure that fiscal resources are channelled to areas with the highest employment and social impact. In this sense, raising revenue and improving spending quality should be viewed as complementary objectives; gains in governance and efficiency within expenditure management can, in turn, expand fiscal space over time by sustaining growth and future tax yields.

Expanding fiscal space is also about spending existing resources more effectively. Over the past decade, Bangladesh's development spending has been heavily weighted toward large-scale mega physical infrastructure projects. While such investments are also important, they have absorbed a disproportionate share of the Annual Development Programme (ADP), leaving comparatively little fiscal room for social sector public investment. Implementation delays, cost-overruns, and rent-seeking have together compromised the intended gains from these projects, while their impact on generating employment seems to have been limited. A more balanced expenditure composition would better align fiscal priorities with the country's evolving development needs. The Smooth Transition Strategy thus emphasises the quality and efficiency of public spending by reallocating resources toward employment-intensive and productivity-enhancing sectors. Diversifying financing portfolio beyond traditional tax and debt channels, innovative instruments, such as green and social bonds, diaspora bonds, and carefully structured public–private partnerships (PPPs) can supplement public resources.[25] There are, however, challenges in establishing strong governance, transparency, and credible regulatory frameworks to ensure that these instruments support national priorities rather than short-term financial objectives and are administered effectively.

### 4.5 The Case for a Coherent, Costed Employment Framework

In light of the deepening crisis in employment generation, the urgency of a coherent, fiscally grounded national employment strategy cannot be overstated. While Bangladesh's recent policy discourse has increasingly acknowledged the centrality of job creation, its dominant framing remains implicitly growth-centric. The National Jobs Strategy (Draft) (Islam and Rahman, 2019) attempted to consolidate this agenda, but its analytical foundation largely rested on the assumption that expanding output and productivity would automatically translate into sufficient employment. This expectation sits uneasily with the empirical record of the past decade, which has seen strong GDP growth accompanied by stagnation in productive, formal, and decent jobs. The draft, moreover, did not adequately embed the notion that, through more proactive and deliberate fiscal and institutional mechanisms in social infrastructure, care services, green investments, and labour-intensive public works, the state can act as an autonomous engine of labour absorption rather than treating employment merely as a derivative of growth. The report's remaining in draft form is symptomatic of the absence of a binding national framework that integrates employment objectives with fiscal instruments, institutional mandates, and accountability mechanisms.

Subsequent initiatives have only partially redressed this imbalance. The World Bank's recent call for a "new job creation agenda" (Galal, 2025) has usefully highlighted firm-level productivity constraints and the dualism between frontier and lagging enterprises, bringing greater nuance to earlier horizontal reform approaches. Nevertheless, the main argument still centres on growth enablement, assuming that enhanced firm competitiveness and investment climate reforms will indirectly yield the desired employment outcomes. It offers relatively little on the scope for direct public investment in labour-intensive sectors or on the institutional architecture necessary to translate employment goals into budgetary priorities and measurable outcomes (World Bank, 2025).

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[25] Green bonds can attract international investors seeking climate-aligned assets, while social bonds can finance health, education, and care-sector projects that create local jobs. Similarly, well-designed PPPs in renewable energy, digital infrastructure, and technical training can mobilise private capital and expertise for employment-rich development initiatives.

The White Paper on the State of the Bangladesh Economy (White Paper Committee, 2024) provides a sharper appreciation of the structural weaknesses in the labour market, particularly the skill mismatches, informality, and weak labour governance that undercut employability. Its emphasis on large-scale investment in technical and vocational education and training, stronger labour inspection, and better policy coherence across education, skills, and industrial strategies represents an important step toward a more proactive stance. However, the analysis stops short of proposing a comprehensive state-led employment generation strategy, especially one that explicitly incorporates financing and costing mechanisms within the fiscal policy framework.

Similarly, the Task Force Committee Report on Re-strategising the Economy and Mobilising Resources for Equitable and Sustainable Development (Government of Bangladesh, 2025) makes a compelling case for tackling the youth unemployment paradox through education and skills reform, entrepreneurship support, and international mobility. These proposals are critical for addressing the supply–demand disconnect in the labour market, but they remain predominantly supply-side responses. The absence of explicit strategies for domestic demand stimulation, labour-intensive public investment, or fiscal instruments linking public expenditure to employment outcomes reinforces the broader tendency to treat job creation as a by-product of growth and reform rather than as a central macroeconomic objective in its own right.

Taken together, these initiatives reflect an evolving policy recognition of the employment challenge but stop short of a decisive shift toward an employment-first policy design with credible resource backing. A national strategy that links programme design, costing, financing, and institutional delivery would thus provide a critical policy direction transforming employment from a residual outcome of growth into an explicit objective of public policy, which is so timely in the backdrop of a profound challenge faced by society.

# 5. Policy Recommendations

Within the broader global reorientation toward post-neoliberal policy frameworks, Bangladesh stands out as a distinctive case. While many advanced economies have rediscovered the developmental role of the state, partly in response to geopolitical competition, Bangladesh never fully retreated from state activism as its industrial policy has consistently been primarily geared toward protectionist ends. Despite decades of such a policy stance, productive and decent employment generation has remained elusive. This experience may thus offer a cautionary insight: industrial protection alone, when pursued without employment-focused approaches, cannot by itself secure inclusive growth. At the same time, the recent rise in youth NEET rates across many economies suggests that even as new industrial policies take shape, rapid technological change, particularly the advance of automation and artificial intelligence, is reshaping labour demand in ways that make job creation increasingly uncertain. For Bangladesh, where the employment challenge has become too severe to ignore, neither a continuation of business as usual nor reliance on growth-driven trickle-down can be considered credible policy responses. Also, simply replicating the protectionist reversals now underway in Western economies is unlikely to prove effective, given that Bangladesh has long maintained one of the most closed trade-policy regimes in the developing world. In this context, the more prudent course is not to import Western protectionist templates but to reorient Bangladesh's existing policy activism toward explicitly employment-centred objectives, reducing defensive protectionism where it suppresses competitiveness, and redirecting the instruments of state intervention toward capability-building, diversification, and decent job creation. The following recommendations therefore outline possible directions for embedding employment creation at the core of Bangladesh's development trajectory.

**Reorient Industrial and Trade Policy through Strategic State Capability for Employment-Centred Transformation**

While Bangladesh's long-standing industrial policy has remained heavily protectionist, with the objective of helping nurture early industrial import-competing capacity, it has also entrenched inefficiencies, discouraged diversification, and weakened employment growth. In the emerging post-neoliberal context, Bangladesh's challenge lies not in replicating Western protectionist resurgence but in reorienting its own policy stance toward competitiveness and employment creation. A strategic trade and industrial framework should therefore aim to promote efficiency, strengthen export competitiveness, and foster diversification across manufacturing and modern services, thereby expanding decent and productive employment opportunities. For import-competing sectors, the central priority is to raise productivity and strengthen product standards so that consumers benefit. Higher productivity can support rising wages, which in turn would stimulate domestic demand and generate more broad-based economic dynamism. Rather than blanket tariff protection or wholesale tariff cuts, international experience from East and Southeast Asia illustrates the usefulness of strategic selectivity: targeted opening and protection aligned with clearly identified sectors that offer export potential, domestic value addition, or resilience gains. This renewed policy orientation would emphasise building the state's analytical, regulatory, and implementation capacities to steer transformation through innovation, quality upgrading, and sustainability. By aligning industrial and trade policies around these broader objectives, the country can move beyond protection-driven growth toward an employment-centred development trajectory that is competitive, inclusive, and resilient in the face of global change.

While the trade policy reforms would imply reducing protection and expanding capability-enhancing expenditure, experience suggests that tariff rationalisation is politically and fiscally sensitive in Bangladesh due to reliance on customs revenue and longstanding policy rents. Therefore, any employment-centred transformation will need calibrated sequencing, targeting limited but high-impact reforms. Sectors with high export potential, such as leather, agro-processing, light engineering, and pharmaceuticals, can be provided with time-bound policy support.

**Address the Political Economy of Trade Reform through Institutional Restructuring and Sequenced Liberalisation**

Effective reorientation of trade and industrial policy requires confronting the political-economy constraints that have sustained Bangladesh's protectionist regime. High tariffs have persisted partly because their beneficiaries, concentrated import-competing industries in steel, cement, edible oils, and related sectors, are well-organised, while the costs fall diffusely on consumers and exporters. The Statutory Regulatory Order system, which allows firm-specific tariff adjustments outside the regular budget process, has further entrenched these arrangements by converting trade policy into a mechanism of political patronage. Dismantling this system and confining tariff-setting to a transparent, rules-based budget process should therefore be treated as a first-order institutional priority, preceding and enabling broader tariff rationalisation.

The political transition of August 2024 has created a genuine reform opening: several of the industrial interests most closely associated with the previous settlement are weakened, IMF programme conditionalities provide an external anchor for revenue reform, and the banking-sector cleanup has exposed the costs of politically-directed credit allocation. This window should be used to advance sequenced reforms, starting with sectors where consumer welfare gains are most visible and political resistance weakest, and extending progressively across manufacturing as direct-tax capacity strengthens and dependence on customs revenue declines. LDC graduation requirements and WTO commitments should be used proactively to lock in gains before new political coalitions reconsolidate around a different but equally defensive protection regime.

**Promote Industrial Upgrading and Green Transition through Technology, Quality, and Compliance**

Bangladesh's renewed industrial policy focus should prioritise upgrading in technology, product quality, and compliance along with green transition, as envisaged in the Smooth Transition Strategy (STS), which emphasises competitiveness, capability development, and sustainability as pillars of structural transformation. Upgrading will also require addressing the entrenched anti-export bias that limits firms' ability to exploit external market opportunities and diversify export products. Reducing such distortions and promoting adherence to quality and environmental standards would not only enhance competitiveness but also expand productive employment across emerging manufacturing segments. At the same time, a new policy focus on green and climate-sensitive industrialisation could create employment in the sectors of the emerging future, including renewable energy installation, waste recycling and circular economic activities, adaptive agriculture, and sustainability and resource-efficient manufacturing, where Bangladesh's own climate vulnerability can be turned into a source of productive transformation. In this sense, industrial upgrading anchored in technological, environmental, and compliance reforms represents both a competitiveness imperative and a proactive employment agenda for the next phase of development.

### Harness Technological Advancement for Inclusive Employment Growth

The rapid spread of artificial intelligence (AI), automation, and other Fourth Industrial Revolution (4IR) technologies is transforming production systems worldwide, and Bangladesh cannot remain insulated from these disruptive changes. Obstructing technological adaptation is not a viable option; on the contrary, given the country's current stage of development, strategic adoption of new technologies could accelerate productivity growth and enable faster catching up. In building future competitiveness, there is ultimately no substitute for embracing technological progress. With relatively low levels of technology penetration across industries, further investment in digital infrastructure, automation-ready processes, and ICT-enabled services could generate significant growth and employment opportunities, particularly in logistics, e-commerce, business-process outsourcing, digitally linked manufacturing, and emerging online sectors such as e-learning and creative or entertainment-based digital enterprises. However, as experiences from advanced economies have shown, uneven access to skills and digital capabilities can widen inequality. An employment-centred development agenda must therefore integrate targeted efforts to bridge the digital divide between urban and rural regions, men and women, and among different income and education groups, through expanded digital-skills training, affordable connectivity, and inclusive access to technology. Ensuring broad participation in the digital transformation would allow Bangladesh to harness technological change as a driver of both competitiveness and inclusive employment creation.

### Expand Public Investment in Human Capital, Skills, and the Care Economy with Special Attention to Youth and Women

Bangladesh's chronic underinvestment in education, health, and skills has weakened the link between growth and employment, leaving a large share of the labour force, particularly youth and women, outside productive and decent work. Addressing this requires recognising social and human capital investment as a central pillar of an employment strategy rather than a residual welfare objective. A key priority is to correct the growing skill mismatch through stronger collaboration between industry and academia, regular labour market assessments, and the upgradation and expansion of technical and vocational education and training (TVET). Introducing apprenticeship schemes, upgrading polytechnics, and integrating digital and green skills into curricula would prepare young workers for the evolving demands of the labour market. In parallel, greater public investment in childcare, eldercare, and community health services can create large-scale, formal employment, particularly for women, while freeing household members to participate in paid work. Rebalancing expenditure toward these areas would deliver high employment multipliers, strengthen workforce capability, and ensure that social spending becomes an active instrument of inclusive, employment-led growth.

### Promote Women's Employment as a Central Pillar of Employment-Centred Development

The declining participation of women in productive employment, particularly in manufacturing and urban labour markets, has emerged as one of the most pressing concerns for Bangladesh's labour economy. Technological deepening and automation are likely to have impacted women's access to wage employment in manufacturing. Along with this, social and cultural norms, unfavourable views about women's work, and inadequate safety provisions continue to constrain women's ability to participate fully and safely in the labour force. Promoting women's employment must therefore be treated as a defining element of an employment-centred development strategy. Targeted incentives for female hiring, investment in safe and accessible workplaces, improved enforcement of labour standards, and expanded opportunities for women's entrepreneurship and skills upgrading would not only advance gender equity but also deliver a substantial boost to productivity and growth that Bangladesh cannot afford to overlook.

### Enhance the Global Employability and Protection of Migrant Workers

Labour migration will continue to remain one of the most critical components of Bangladesh's employment and development prospects, serving both as a safety valve for domestic labour-market pressures and as a key source of foreign exchange. Strengthening this pillar requires a deliberate focus on upgrading the skills and certifications of prospective migrant workers to enable access to higher-value employment opportunities abroad and to increase their earnings prospects. Equal attention must be given to ensuring migrant safety and rights through stronger bilateral agreements, transparent recruitment practices, and rigorous enforcement of international labour standards. The persistently high cost of migration, which erodes the net benefits for many workers, calls for tighter regulation of intermediaries and more accessible formal financing channels. Within the country, improved and portable social protection support for returning and remittance-dependent families would help stabilise livelihoods and facilitate reintegration. Special measures are also needed to safeguard women migrant workers, whose vulnerability to exploitation remains acute in many destination countries. A coherent overseas employment strategy, combining skill enhancement, cost reduction, and protection both abroad and at home, would secure the contribution of migration to inclusive and sustainable employment outcomes.

### Reposition Social Protection as a Productive Instrument of Transformation

In Bangladesh, social protection has long functioned primarily as a safety mechanism rather than an enabler of productive participation in the labour market. In a post-neoliberal policy context, this paradigm needs to shift toward linking social protection more explicitly with employment creation, skills development, and income stability. Establishing a universal and adaptive protection floor that provides income support, unemployment assistance, and access to essential health and childcare services would help reduce vulnerability while encouraging labour-market re-entry. Integrating such schemes with active labour-market policies could facilitate productive transitions, especially for youth and women engaged in informal or precarious work. Over time, social protection should be treated as a form of investment in human capability and economic resilience, ensuring that protection measures contribute directly to growth and employment outcomes rather than remaining isolated from the broader development agenda.

### Strengthen Policy Coordination and Institutional Coherence around Employment Objectives

Bangladesh's fragmented policy landscape, where trade, industry, education, labour, social protection, etc., operate within separate administrative/institutional hierarchies, thereby diluting the employment impact of otherwise well-intentioned government initiatives. A whole-of-government approach is needed to ensure that employment generation becomes an organising principle of economic and social policymaking rather than a by-product of growth. Strengthening coordination among ministries and agencies, and embedding employment generation as a key performance indicator across sectors, would help align fiscal, industrial, and social policies toward common objectives. Over time, such coherence would transform employment creation into a deliberate and measurable outcome of national development efforts rather than a dispersed institutional responsibility.

### Mobilise Fiscal and External Resources for Employment-Centred Transformation

Implementing an employment-centred development strategy will require mobilising substantial additional resources and using them more effectively. Bangladesh's persistently low tax-to-GDP ratio and limited fiscal space remain binding constraints on its capacity to finance human capital development, employment-intensive infrastructure, and social protection. Strengthening domestic resource mobilisation through progressive taxation, improved compliance, and gradual reduction of inefficient exemptions would expand fiscal capacity while enhancing equity. In parallel, external and concessional financing should be guided by a strategy of borrowing better rather than borrowing more, prioritising low-cost, employment-rich investments in renewable energy, transport, and climate adaptation. Innovative instruments such as green, social, and diaspora bonds, as well as employment-linked public–private partnerships, could also help attract private capital for productive projects, provided governance and oversight remain credible. Rebalancing public expenditure toward social and care sectors with high employment multipliers would ensure that newly mobilised resources contribute directly to job creation and capability enhancement. In this way, fiscal and external resource mobilisation becomes not merely a financing exercise but a structural enabler of inclusive, employment-led transformation.

### Make the Ninth Five-Year Plan the Anchor of a National Employment Strategy

The completion of the Eighth Five-Year Plan and the ongoing political transition provide a critical opportunity to reposition Bangladesh's development planning around the central objective of employment generation. Bangladesh's next medium-term planning exercise, the Ninth Five-Year Plan, should reflect on the decade-long stagnation in productive employment despite sustained growth, growing youth frustration and episodes of social unrest, and the limited effectiveness of traditional protectionist approaches to job creation. The plan should be anchored in a proactive national employment strategy that sets clear priorities, aligns fiscal and institutional commitments, and integrates employment targets across industrial, social, and environmental policies. It should also incorporate results-based performance indicators for employment generation across sectors, supported by robust and objective evaluation mechanisms. In doing so, the Ninth Plan can provide the strategic framework through which employment creation becomes the defining benchmark of Bangladesh's next phase of development.

# 6. Concluding Remarks

Bangladesh's development experience presents a dual reality, at once quite remarkable while at the same time constrained and disquieting. Sustained economic growth over the past several decades has delivered a significant reduction in poverty and impressive progress across various social indicators, attesting to the country's socio-economic progress and resilience. In 2015, it transitioned from the low-income to the lower-middle-income category in the World Bank's classification. The country is also set to graduate from the group of UN-designated Least Developed Countries (LDCs) in November 2026. However, beneath this success narrative lies a profound structural imbalance as its economic transformation has resulted in the falling share of agriculture in overall output and rising significance of manufacturing, but this otherwise considered to be a positive trend has not translated into commensurate industrial employment opportunities. The potential of productive and decent work for all remains largely unfulfilled as more than fourth-fifths of the workforce engaged in the informal sector.

In an era when many advanced economies are rethinking the state's role in production, distribution, and employment, Bangladesh's challenge is not one of discovering state activism afresh but rather of redefining it. The imperative now is to move beyond defensive protectionism marked by high tariffs and weak standards and compliance for the domestic import-competing sectors. While many G20 economies aim at proactive industrial policies for generating manufacturing employment, along with their geopolitical ambition, one lesson which is clear from Bangladesh is that high protection alone can hardly ensure employment growth. In the backdrop of enormous employment challenges, especially faced by the country's youth, Bangladesh must reorient its policy options for finding an employment-centred development strategy that views productive job creation as the central measure of progress and a key determinant of political and social stability.

Delivering such a shift, however, will require much more than technocratic reconfiguration of policies. It calls for a profound reorientation in the country's policy governance mindset, one that treats employment generation not as a derivative of growth but as a deliberate policy outcome. The success of any employment-centred strategy will hinge on the ability of state institutions to coordinate across policy domains that have traditionally functioned in silos: trade, industry, education, social protection, and fiscal management. This in turn necessitates institutional reforms that prioritise accountability, coherence, and informed decision-making, supported by strong policy leadership and social consensus. The rediscovery of the developmental state must therefore be anchored not in arbitrary interventionism but in purposeful coordination, learning, and strategic discipline. These attributes will determine whether Bangladesh can move from a fragmented to a mission-oriented policy regime.

The implementation of any such policy framework will be challenging for a country with a historically weak record of reform. In the immediate term, the priority should lie in fostering labour-intensive growth within manufacturing and services through targeted incentives, improved logistics, and human-capital investments. Medium-term measures must focus on embedding technology, green transition, and quality upgrading into the industrial base, while expanding the care economy and social protection to cushion and empower vulnerable groups. Over the medium to longer horizon, structural reforms in taxation, education, and institutional capacity will need to sustain this transformation by aligning fiscal space, skills formation, and governance with the overarching employment agenda. The Ninth Five-Year Plan, if conceptualised as a truly national framework for employment-led development, could serve as the platform where these temporal dimensions converge, transforming policy coherence into measurable outcomes.

The global context in which Bangladesh must navigate this transition is itself in flux. Technological disruptions, climate imperatives, and the fracturing of global value chains are reshaping both the opportunities and risks for late industrialisers. While automation and artificial intelligence threaten traditional labour absorption patterns, they also offer avenues for leapfrogging through digital services, logistics, and innovation ecosystems. Similarly, the global green transition, if strategically embraced, could convert Bangladesh's climate vulnerability into a driver of green industrialisation and employment in renewable energy, recycling, and adaptive agriculture. In this sense, the external environment, though uncertain, may provide new windows for catching up provided the state can combine flexibility with foresight, and competitiveness with inclusiveness.

Ultimately, one important question for Bangladesh is not whether it can continue to grow, but whether it can grow with adequate and decent employment and equity. In light of the massive unemployment and underemployment of the workforce, along with social unrest, there is no denying that the country's future development trajectory will be determined less by the rate of GDP expansion than by the breadth of participation in its benefits. As the post-neoliberal policy landscape takes shape globally, Bangladesh's opportunity lies in demonstrating that inclusive growth is not a residual outcome of market forces but the result of deliberate public policy choices. The task ahead is to craft a coherent national strategy in which industrial dynamism, technological progress, and social investment are seen not as competing objectives but as mutually reinforcing pillars of transformation. If the lessons of the past decades reveal anything, it is that sustained prosperity cannot rest on the shoulders of growth alone; it must be built on the foundations of productive and decent work. Once the political will is clear and firm on this, the resources required to achieve such policy goals are indeed attainable.

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