

BANGLADESH IN A TIME OF UNCERTAINTY: POLITICAL HARDENING AND ECONOMIC AFTERSHOCKS



LAURENT AMELOT
BRIEFING NOTE 100, FEBRUARY 2026



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Executive Summary

Bangladesh as a laboratory of political reconfiguration in South Asia • South Asia is undergoing profound political shifts driven by youth movements and a rejection of traditional elites, amplified by social media. The weakening of established power structures is fostering the rise of new actors but also generating lasting instability, fuelled by economic hardship, strong social expectations, and limited state capacity. Bangladesh illustrates these dynamics: after decades of bipartisan dominance and a period of relative stability under the Awami League, the 2024 uprising opened a phase of deep political uncertainty. Economically, the interim government's main challenge is now to restore the confidence of investors and trade partners.

Responding to the demands of the Monsoon Revolution • The July 2024 movement, which began as a student protest against a controversial quota system abolished in 2018 but reinstated by the Supreme Court, transformed into a nationwide uprising against corruption, favouritism, and rising living costs, triggering the fall of Sheikh Hasina on 5 August. Her departure set off a period of profound instability. Muhammad Yunus was appointed Chief Adviser to lead an interim government tasked with organising elections and developing a political charter. The authorities have moved to sideline the Awami League, while charges of crimes against humanity have been brought against Hasina, heightening tensions with India. At the same time, the National Consensus Commission is drafting a charter on institutional reforms, supported by many parties yet contested by the BNP and others. The announcement of elections for February 2026 responds to domestic and international pressure, but political rivalries and the legacy of disputed elections weigh heavily on the democratic transition.

Confronting an increasingly uncertain economic environment • Bangladesh's economy, long driven by the ready-made garment sector and characterised by sustained growth, has revealed its structural weaknesses since 2024. The political crisis following the student protests, institutional instability, and the fall of the government weakened investor confidence, worsening an already fragile situation marked by high inflation, a troubled banking sector, and limited export diversification. The IMF has downgraded its growth forecasts and tied its support to ambitious fiscal, banking, and monetary reforms that the interim government is attempting to implement. Despite some signs of recovery — rising exports, higher remittances, and stabilising reserves — the economy remains under pressure. The increase in US tariffs amplifies risks for the textile sector, the backbone of exports. These tensions, combined with a volatile political climate, weigh on the country's attractiveness and complicate the implementation of reforms essential to its stability.

Navigating the troubled waters of regional geopolitics • The fall of Sheikh Hasina in 2024 has altered Bangladesh's geopolitical landscape, weakening its privileged relationship with India. The interim government led by Muhammad Yunus seeks to leverage competition between India, Pakistan, and China. India, on the defensive, fears growing Pakistani and Chinese influence, particularly regarding security and infrastructure. Pakistan is strengthening political, commercial, and security ties with Dhaka, while China is expanding its footprint through investments, infrastructure projects, and economic cooperation. Despite these shifts, Bangladesh must maintain pragmatic cooperation with India, an essential economic and security partner.

Bangladesh in a time of uncertainty • The upheaval following Sheikh Hasina's exile in 2024 and the ensuing political reconfiguration have generated significant instability and economic uncertainty. The 2026 elections, guided by a non-binding Political Charter, offer no guarantee of genuine reform. A postponement of the vote could lead to political deadlock, military intervention, and capital flight. The lack of political predictability, which darkens macroeconomic prospects, together with the risk of declining economic competitiveness due to weakened rule of law, is raising concerns among business communities and international observers.



Introduction

Since the early 2020s, South Asia has experienced successive waves of political movements that are reshaping local power structures and the governance models built around them. The growing momentum of youth and anti-elite mobilisations across the region shows that political transitions are far from complete. As traditional power structures weaken, new political actors are emerging. Governments face mounting pressure to demonstrate democratic accountability and deliver economic growth despite budgetary constraints, a combination that steadily increases the risks of political instability and unevenly distributed gains. These changes are therefore likely to reshape the regional political order, fostering greater citizen participation and institutional reform while testing governments' ability to maintain social cohesion and deliver consistent policy outcomes.

Discontent with ruling elites and the political system, on the one hand, and the weaknesses of fragile economies plagued by unemployment and mismanagement, on the other, have acted as the spark — amplified by social media — behind mass mobilisation and political change across South Asia. These grievances are the primary drivers of reform efforts, fuelling initiatives to combat corruption and rebuild independent institutions. Furthermore, the instability generated by these dynamics is likely to remain a persistent feature of South Asian politics in the years ahead. While incumbent elites and dynastic leaders will face increasing pressure to govern more responsibly, their removal or weakening does not eliminate risk.

The reshaping of political alliances and the emergence of new actors are opening the way for new forms of political polarisation, greater uncertainty in policymaking, and broader social frictions as new centres of power arise and compete for influence — both with those they replace and among themselves. Persistent budget deficits and economic constraints will limit governments' ability to fulfil their promises and meet public expectations. In parallel, these movements may accelerate the democratisation of institutions, the reform of political structures, and the decentralisation of power, ensuring that future leaders can no longer rely solely on patronage networks or entrenched relationships. Although such developments may, in theory, lead to positive change, they will inevitably generate new conflicts over the control and exercise of power.

Taken together, these trends suggest that South Asia's political landscape is entering a period marked by challenges to authority and increased civic participation, with long-term implications for governance, public policy, and social cohesion. While the outcome of these processes remains uncertain, the region is likely to continue facing major challenges in the medium term, shaped by political rivalries, evolving power structures, and economic pressures.

Bangladesh is at the forefront of this wave of contestation. A young state, the ninth most populous country in the world (1) and located at the heart of the Bay of Bengal, bordering India and Myanmar, it gained its independence at the cost of a bloody war of secession against Pakistan — with India's support — in 1971. Since then, it has been dominated by two major parties: the Awami League, with its Bengali nationalist origins, central role in the struggle for independence, and close ties to India; and the Bangladesh Nationalist Party (BNP), an Islamist-leaning party deeply hostile to India and inclined toward closer relations with China or even Pakistan, under the influence of some of its allies — particularly Jamaat-e-Islami, which maintains close connections with parts of the Pakistani state apparatus.

(1) Gilles Pison, Svitlana Poniakina, « Tous les pays du monde (2024) », *Population et Société*, n° 626, October 2024.



Although the July 2024 protest movement reflects hopes for change amid profound social transformation, it has above all propelled Bangladesh into a phase of uncertainty marked by political, social, and economic instability — a sharp contrast with the period of relative stability ushered in by the Awami League's return to power in 2019 under Sheikh Hasina. Despite its authoritarian tendencies, this nearly two-decade period allowed Bangladesh to consolidate its economy around a key sector — textiles — and build a business environment attractive to foreign investment, whether Western, Indian, or Chinese, enhancing the appeal of the "Bangladesh model," despite structural weaknesses closely monitored by the IMF.

The phase that began in July–August 2024 reverses this trend, despite overall economic indicators being less negative than feared. The central challenge for the interim government is therefore to restore investor confidence, shaken by the economic aftershocks of the country's political fragility, and to reassure trade partners at a moment when the United States is waging a global tariff "war" whose effects on the Bangladeshi economy could prove dramatic.



Responding to the Demands of the Monsoon Revolution

In early July 2024, after a Supreme Court decision reinstated a controversial quota system — abolished in 2018 and revived following a petition from relatives of veterans (1) — student protests erupted. From mid-July onward, these demonstrations gradually transformed into a large-scale anti-government movement denouncing favouritism in the allocation of public-sector jobs, but more broadly corruption, repression of dissent, and the high cost of living. The crackdown organised by the authorities did not deter the demonstrators, and Sheikh Hasina, Prime Minister since 2009 and leader of the Awami League, was forced to resign on 5 August 2024, taking exile in India. (2)

With Sheikh Hasina's fall, Bangladesh entered a phase of major political instability that required urgent containment. After swift consultations between the army chief, General Waker-uz-Zaman, the President, Mohammed Shahabuddin, and the main opposition parties (3), Muhammad Yunus was appointed Chief Adviser, a position equivalent to that of Prime Minister. (4) He was sworn in on 8 August 2024. While his primary tasks are to form an interim government responsible for preparing new elections and drafting a political charter — a true blueprint for constitutional reforms aimed at addressing public discontent (5) — he is also expected to bring Sheikh Hasina, one of his fiercest political adversaries, before the courts, while removing her party, the Awami League, from the political landscape. This would offer the Bangladesh Nationalist Party (BNP) and its Islamist allies a central role in the future political configuration of Bangladesh.

(1) This system reserved 30% of public sector jobs for members of the families of veterans who fought in Bangladesh's 1971 War of Independence. It also reserved jobs for minorities, persons with disabilities, and women. However, the protesters were primarily outraged by the advantages granted to the veterans, who were seen as being politically close to the Awami League (AL) government led by Sheikh Hasina. Despite the violent repression of the protests and the reduction of the job quota for descendants of former fighters from 30% to 5%, these measures did not calm the protesters' anger.

(2) The daughter of Sheikh Mujibur Rahman, the founder of Bangladesh, Sheikh Hasina comes from an extremely influential family. She served as Prime Minister from 1996 to 2001, then from 2009 to 2024. Her second tenure was marked by substantial economic growth and development initiatives, including major infrastructure projects. However, her time in office was also marked by controversy, with frequent allegations of authoritarianism, repression of political dissent, and human rights violations.

(3) In particular the Bangladesh Nationalist Party (BNP) and its allies, the Jatiya Party and the Jamaat-e-Islami (JI) party.

(4) The appointment of Muhammad Yunus as chief adviser reflects a dual intention on the part of the Bangladeshi army, an important actor in local political life. It sought to place a credible figure in a politically sensitive post in order to respond to the demands of the student protesters by appointing their preferred candidate, while also reassuring national and international observers about the interim government's commitment to fair governance and reform. Yunus's reputation as a Nobel laureate and his dedication to social entrepreneurship serve as assurances aimed at easing discontent and social unrest. Moreover, since he is not affiliated with any political party, Yunus is perceived as a mediator capable of reconciling different political factions and managing the transition period with a focus on economic and social stability. However, Yunus is also a fierce opponent of Sheikh Hasina, with whom he has clashed in the past. In 2011, Sheikh Hasina's government removed him from the leadership of Grameen Bank, claiming he had exceeded the legal retirement age of 60. In January 2024, he was sentenced to six months in prison for labour law violations. In June, he was charged with embezzling money from the employee welfare fund of a telecommunications company he had created. Although he denies all the accusations, Hasina's animosity toward him stems from his attempt to enter politics in 2007, when he announced the creation of a political party perceived as a direct challenge to the established political order. Although he ultimately abandoned political life, this initiative left lasting marks on his relationship with Hasina.

(5) The interim government is composed of 17 members designated as advisers. It includes human rights advocates, legal experts, NGO founders, economists, academics, a retired military officer, and two key coordinators of the student movement.



The Fall of Sheikh Hasina and the Political Disqualification of the Awami League

Sheikh Hasina's flight to India brought an end to fifteen uninterrupted years of Awami League rule and triggered, under popular pressure, the resignation of many of her supporters. The Chief Justice of Bangladesh, Obaidul Hassan — regarded as a loyal ally of the former Prime Minister — was forced to step down on 10 August, along with five other Supreme Court judges, the Vice-Chancellor of the University of Dhaka, and the Governor of Bangladesh Bank, Abdur Rouf Talukder. These departures formed part of a broad political and administrative restructuring intended to reduce, if not eliminate, the Awami League's influence in national politics and ensure a more equitable judicial process.

This purge continued in October 2024 with the dissolution of the Awami League's student wing, the Bangladesh Chhatra League, and again in November, with the revocation of accreditation for more than fifty journalists deemed sympathetic to the party's positions. Finally, on 11 May 2025, the interim government officially decreed that the Awami League would not be permitted to field candidates in the upcoming 2026 elections, and that it was now banned from conducting political activities. These decisions were justified on grounds of preserving "public order" and were taken under the authority of the Antiterrorism Act, adopted in 2009 under Sheikh Hasina's own government and amended in 2025 to enable the repression of the Awami League.

Three months earlier, protesters opposing Sheikh Hasina had destroyed the residence where her father — the founder of Bangladesh — was assassinated on 15 August 1975, causing considerable discomfort among parts of the population. These decisions also provoked reactions within the Bangladeshi political class. While the Citizens' National Party (CNP) demanded that justice be delivered before the February 2026 elections, the BNP sought to disconnect the electoral process from the judicial timeline. Eager to prevent this new party, the CNP, from consolidating an electoral base that might challenge it, the BNP pushed for early elections.

Internationally, various NGOs, including Human Rights Watch, expressed concern about the actions of the interim government, which they viewed as an infringement of fundamental freedoms and a politically motivated manoeuvre little different from the practices of the previous authorities. Some opponents of the Awami League and of Sheikh Hasina also questioned these measures, describing them as "antidemocratic."

In parallel, on 14 August 2024, a complaint for crimes against humanity and genocide was filed with the International Crimes Tribunal of Bangladesh (ICT), in Dhaka — a special court created by Sheikh Hasina herself in 2009 to try the most serious offences, notably those committed during the 1971 war of independence — in order to hold the former Prime Minister accountable for her responsibility in the repression of demonstrations between 15 July and 5 August 2024. The UN estimated the death toll of these events at 1,500. Following its investigations, the ICT issued arrest warrants for Sheikh Hasina as well as several former ministers, advisers, and military and civilian officials, formally accusing them of crimes against humanity and genocide. It subsequently sent a diplomatic note to New Delhi at the end of 2024 requesting her extradition.

This move significantly strained relations between Dhaka and New Delhi, already damaged by Sheikh Hasina's flight to India. The Bangladeshi interim government warned Delhi that refusal to extradite the former Prime Minister would be interpreted as a breach of the 2013 bilateral extradition treaty. Yet given the close political ties between the Awami League and the BJP, and between Sheikh Hasina and Narendra Modi personally, the likelihood of compliance was virtually nil. Moreover, India could rely on a clause in the 2013 treaty allowing it to refuse extradition if the offence was judged to be of a "political nature," which it ultimately invoked.

The ICT's decision on 17 November 2025 to sentence Sheikh Hasina to death in absentia, in line with the prosecutor general's submissions, was widely expected. Delhi acknowledged the verdict, stating that it remained committed to the "higher interests of Bangladesh," but gave no indication that extradition was



under consideration. Numerous human rights organisations, including Amnesty International, condemned the political nature of the ruling, arguing that it demonstrated the limited independence of the Bangladeshi judiciary and the weakness — if not complete absence — of institutional checks and balances.

Domestically, the verdict galvanised supporters of Sheikh Hasina and activists of the Awami League, who, while remaining relatively discreet amid the uncertain climate, will likely undertake actions aimed at disrupting the smooth conduct of the electoral process in early 2026, further aggravating the prevailing instability. Awami League activists have taken note that the interim authorities are firmly hostile to them and are prepared to resort to repression if necessary.

The Interim Government and the Question of the Political Charter

The manoeuvres of the interim government led by Muhammad Yunus to disqualify the Awami League have gradually restored the Bangladesh Nationalist Party (BNP) and its Islamist allies to a central position in national politics, giving them significant influence over the work of the National Consensus Commission. Created in mid-February 2025, the Commission was tasked with drafting the Political Charter of Bangladesh — a consensual roadmap intended to reshape the legal and administrative architecture of the country's political landscape.

However, with the creation on 28 February 2025 of the Citizens' National Party (CNP), founded by students who took part in the July 2024 uprising — including Nahdi Islam, former adviser within the interim government — the BNP quickly found itself facing a potentially formidable competitor in the run-up to the February 2026 elections. The CNP appears to enjoy certain advantages granted by the interim government and has the ear of the National Consensus Commission, partly because some of its leaders played key roles in the July 2024 protests and maintain ties with associations linked to the interim authorities, even though the party is structurally distinct from the interim government.

Although both parties are nominally associated with the interim authorities, the BNP and the CNP diverge sharply both ideologically and on constitutional reform. The BNP favours retaining the current constitutional framework, supports maintaining the five-year parliamentary term, and opposes reforms that would separate the roles of party leader and parliamentary party leader. The CNP, by contrast, considers the existing framework fundamentally flawed and advocates for deep constitutional reform under the banner of a "Second Republic." Furthermore, the CNP supports reducing the parliamentary term to four years and separating the leadership of the party from that of the parliamentary group in order to prevent the concentration of power. While the BNP seeks to restore and improve democratic norms through moderate institutional reform, the CNP calls for a more radical restructuring of the political order. CNP leaders argue that BNP objections could obstruct the reform process, preventing meaningful change and rendering the student uprising ineffective.

It was in this context that the July National Charter was signed on 17 October 2025 by twenty-five political parties and alliances, including the BNP and Jamaat-e-Islami. However, three days later, on 20 October, the National Consensus Commission received a delegation of thirteen "July fighters" demanding legal and social protections for the protesters of summer 2024. These demands followed demonstrations that began on 17 October in front of Parliament, which had become the scene of clashes. In response to the unrest, the government conceded, and the Commission revised its draft to incorporate these demands in order to end the turmoil.

The July National Charter was drafted by the National Consensus Commission, and brings together proposals from six reform bodies covering the constitution, the judiciary, the electoral system, the anti-corruption



commission, and the civil service. The Charter's purpose is to strengthen accountability, transparency, and democratic governance, and to prevent any return to the concentration of power observed under Sheikh Hasina's rule. Key provisions include the establishment of a bicameral parliament to replace the current unicameral system and a ten-year limit on the tenure of the Prime Minister — both requiring constitutional amendments. The Charter also proposes creating an independent body to oversee judicial appointments, a measure intended to reinforce judicial independence and reduce political influence.

More broadly, the Charter seeks to address widespread public frustration and restore trust in major political parties, which have faced growing discontent since the 2024 uprising. However, not all parties signed the document. The CNP and four left-wing parties refused to sign, arguing that the Charter was not legally binding and therefore offered no guarantee that future governments would adhere to its provisions. The Awami League likewise distanced itself. The absence of legal enforceability underscores the largely symbolic nature of the Charter, despite its status as a historic political agreement.

While most parties will likely comply with its provisions due to the wide political consensus reached during consultations — and the risk of political repercussions for non-compliance — the sincerity of this commitment remains uncertain. Some parties may publicly endorse the Charter before the elections while preparing to challenge its applicability later or invoking the primacy of other national priorities, making it difficult to predict whether the reforms will be fully implemented. If the new government fails to pass the necessary constitutional amendments or delays their adoption, renewed protests and increased political instability are likely. Some proposals are broad and principle-based, lacking detailed implementation guidelines or timelines, which may lead to divergent interpretations among parties.

Nevertheless, the signing of the Charter represents the fulfilment of a key objective for the interim government, which sought to secure political support for the Charter's policies ahead of the February 2026 elections. (1) The aim was to ensure that the next administration would pursue the reform agenda — particularly measures requiring constitutional amendments — since the interim government chose not to advance such amendments itself in the absence of a sitting parliament. By obtaining commitments from political parties in advance, it hopes to pave the way for these reforms to be adopted once the new parliament is in place.

The Stakes of the February 2026 Elections

The signing of the National Charter occurred at a pivotal moment in Bangladesh's political transition. Only a few months earlier, the first elections of the post-Sheikh Hasina era had been officially announced, ushering the country into an intense and uncertain political phase marked by renewed hope.

Amid growing pressure from political parties, the business community, and the army — each demanding a swift return to the polls — heightened domestic and international scrutiny, and fears that further delays might provoke more serious unrest, the Principal Secretary of the Election Commission, Akhtar Ahmed, submitted a draft roadmap on 18 August 2025 to the interim government outlining preparations for the upcoming vote. Once approved, the interim administration announced that elections would be held in February 2026.

(1) The BNP, in particular, voiced strong objections to several provisions before stating that it would sign only if its concerns were taken into account...



Yunus appeared to relent to mounting pressure for a clear and precise electoral timeline. The announcement of elections for February 2026 came amid rising frustration over the interim government's delays in implementing reforms, with promises slow to materialise. Many activists from the July 2024 movement had hoped for the rapid establishment of a more democratic political system to prevent a return to authoritarian practices.

The government has fulfilled part of its commitments by taking steps such as reforming the judicial and policing frameworks and establishing commissions to restructure anti-corruption agencies. However, the timeline for the political transition remained uncertain, as Yunus repeatedly emphasised that electoral reforms were a minimal prerequisite for holding credible elections. These reforms include appointing new members of the Election Commission and implementing measures to strengthen its independence and authority, notably by improving voter registration and tightening safeguards against fraud. The interim government has so far appointed a new Election Commission, created reform bodies, and drafted a reform charter. Yet deeper changes, such as further strengthening the commission's independence, enhancing voter registration systems, and adding additional protections against fraud, remain pending.

It must be recalled that Bangladesh has a long history of disputed elections. Both the Awami League and the Bangladesh Nationalist Party have been accused over the past fifty-five years of manipulating the electoral process, repressing their rivals, and using state institutions for political ends. Allegations of voter intimidation and influence over the Election Commission have repeatedly undermined public confidence in the electoral system. While Bangladesh remains vulnerable to electoral delays due to ongoing reforms and logistical challenges, Yunus aims to honour his commitment to hold elections in February 2026 to prevent a further escalation of political tensions. Doing so would ease pressure from the opposition and help pave the way for a functioning parliament and greater political stability.

Although this may reduce the short-term risk of anti-government unrest, significant challenges remain. The Election Commission's roadmap, which must cover updating voter rolls, delimiting constituencies, printing ballot papers, deploying polling personnel, and implementing security measures, will require meticulous coordination to finalise. This effort is supported by the Commission's active preparations and by the European Union's €4 million assistance plan, which will contribute to capacity building, technical expertise, effective planning, and strengthened dispute-resolution mechanisms.

Holding elections in Bangladesh will be a decisive step toward restoring a functional democratic system, allowing a fully empowered parliament to debate and pass legislation, oversee the executive, and implement reforms. Although divisions among political parties may persist, credible elections would offer an opportunity to legitimise a new model of governance, build consensus around essential reforms, and grant the next government a clear mandate to govern effectively.

Thus, the February 2026 elections resemble a chronicle of a foreseen victory for the BNP. However, beyond the fact that election outcomes are never guaranteed in advance, does the death of Khaleda Zia (1) on December 30, 2025, have the potential to challenge this scenario? While the BNP enjoys a broadly established political base across the country, could the loss of its emblematic figure—immediately succeeded by his son, Tarique Rahman, returning from a voluntary seventeen-year exile in the United Kingdom on December 25,

(1) Bangladeshi politician and rival of Sheikh Hasina, Khaleda Zia served as president of the Bangladesh Nationalist Party (BNP) from 1984 until her death, and as Prime Minister from 1991 to 1996 and again from 2001 to 2006. She was later accused and convicted of corruption, and imprisoned between 2018 and 2024. Released in the summer of 2024, following Sheikh Hasina's temporary flight to India, Khaleda Zia gradually repositioned herself at the center of Bangladesh's political landscape. In August 2025, when the interim government announced elections for February 2026, Khaleda Zia declared her candidacy and took the lead of her party's BNP ticket.



2025—weaken the party? Especially as the BNP now faces its former ally, the Jamaat-e-Islami, whose rise is notable and whose influence in Bangladeshi politics is growing. An alliance between the latter and the CNP could, in this context, make the election outcome more uncertain. Yet, this alliance between Jamaat-e-Islami and the CNP is controversial and appears largely circumstantial. The political philosophies and ideologies of the two parties diverge sharply, and this decision has triggered multiple tensions between the “partners.” While these developments could ultimately favor the BNP, the question of political succession within the nationalist party remains open, as Tarique Rahman’s political experience is limited and his intimate knowledge of Bangladesh, after seventeen years of voluntary exile, may be questioned.

Thus, the party’s ability to meet the growing aspirations of a frustrated population and a skeptical business community is at stake. Although the national charter adopted in July provides some guidance, translating it into concrete political measures represents a major domestic policy challenge. The winner of the February 2026 elections will be expected to deliver on this point.



Confronting an Increasingly Uncertain Economic Environment

Over Sheikh Hasina's four most recent terms in office (2009–2024), Bangladesh's economy recorded average annual growth of more than 6 percent, contributing to a significant reduction in poverty and enabling over 95 percent of the population to gain access to electricity. This growth was largely driven by the ready-made garment sector. Although positive, this trajectory also revealed fragility: Bangladesh shaped its economy around a largely mono-sectoral structure heavily exposed to external constraints and domestic political and social volatility. However, this trend was weakened by the uncertainty following the protests of summer 2024, combined with the Trump administration's decision to impose tariffs of around 35 percent on Bangladeshi imports. The economic consequences of these developments are far from negligible, and their impact on Bangladesh's business environment has been anything but insignificant.

A Weakened Economy Under IMF Oversight

Bangladesh has experienced sustained economic growth (more than 6 percent per year on average in recent years), peaking at 8 percent in 2019. This dynamism substantially reduced poverty (halved in twenty years) and quadrupled GDP per capita, reaching roughly USD 2,700 in 2025. (1) The ready-made garment sector performed particularly well: accounting for about 13 percent of GDP, it generated nearly 85 percent of export earnings in the 2023–24 fiscal year. Growth has been accompanied by improved socio-economic indicators, and the economy's resilience translated into a steady decline in poverty. (2)

Moreover, the country benefits from an abundant, low-cost labour force thanks to favourable demographic trends, while remittances — especially from the Gulf — are substantial and support the current account. (3) Bangladesh also enjoys moderate public debt, estimated at 40 percent of GDP, and a sustainable level of external debt. Financial inclusion has improved through microcredit and mobile services, and international aid continues to support financing needs.

Despite these strengths, the Bangladeshi economy suffers from significant structural vulnerabilities. It is poorly diversified and heavily dependent on the textile and apparel sector and on Western markets for exports. (4) This sectoral and geographic concentration leaves the country highly exposed to external shocks, especially as export growth has slowed recently due to weaker global demand. (5) The labour market remains dominated by informal employment (85 percent of jobs in 2022), while youth unemployment has reached alarming levels (those aged 15–29 accounted for 83 percent of the unemployed in 2023). (6) The shortage of skilled workers hampers industrial development. Additionally, the business environment is constrained by inadequate infrastructure, heavy bureaucracy, and endemic corruption. (7)

(1) Directorate General of the Treasury, "Bangladesh. Indicators and Outlook," Ministry of the Economy (France), July 2025, [available here](#).

(2) Raphaël Cecchi, "Bangladesh: the forced resignation of Prime Minister Sheikh Hasina opens the way for a complex and uncertain political transition," Credendo, 17 October 2024, [available here](#).

(3) Coface, « Business Risk Dashboard : Bangladesh », October 2025, [available here](#).

(4) Directorate General of the Treasury, *op. cit.*

(5) World Bank, "Strong Economic and Fiscal Reforms will Help Bangladesh Sustain Growth Amid Global Uncertainty," press release, 23 April 2025, [available here](#).

(6) Tanya Dawar, "From Hasina to Yunus: reforms, recovery, and economic transition in Bangladesh," Asia Pacific Foundation of Canada, 18 June 2025, [available here](#).

(7) Lloyds Bank, « Foreign direct investment (FDI) in Bangladesh », November 2025, [available here](#).



In parallel, inflation has surged from 5.36 percent in July 2021 to 11.7 percent in July 2024, significantly eroding household purchasing power. Public finances are fragile, with extremely low tax revenues (less than 8 percent of GDP in 2025), limiting the state's ability to invest in public services and infrastructure. The banking sector is struggling: after years of poor governance, non-performing loans exceed 30 percent and several banks are effectively insolvent. Bangladesh is also highly vulnerable to natural disasters, including floods and cyclones, due to its deltaic geography, resulting in major recurring economic losses.

Since 2024, these structural weaknesses have been compounded by a major political shock with significant economic repercussions. The mass student protests of summer 2024, followed by the fall of Sheikh Hasina's government and the installation of an interim government under Muhammad Yunus, generated a period of instability marked by violence, administrative paralysis, and prolonged institutional ambiguity. (1) This instability led several economic institutions to revise their forecasts: the IMF estimated that growth would fall to around 3.3 percent for the 2024–2025 fiscal year, compared with much higher projections before the crisis, with inflation close to 11 percent and foreign reserves below USD 20 billion.

Political uncertainty has also weighed heavily on investor confidence: several analyses note a decline or freeze in new projects — both foreign and domestic — while private-sector credit growth remains weak amid widespread caution. (2) Some observers fear that actions taken against political or economic figures linked to the previous government — including asset freezes and judicial measures — may weaken the business climate, heighten legal insecurity for companies, and hinder private investment.

On 30 July 2024, S&P Global Ratings downgraded Bangladesh's credit rating from B+ to BB-. The textile sector, the backbone of exports, experienced disruptions due to temporary factory closures, delays in orders, and reduced production capacity linked to social unrest. (3) The financial system's vulnerability, already highlighted by high levels of non-performing loans, was exacerbated by declining confidence and tighter liquidity in some banks. Finally, heightened political uncertainty increased perceived sovereign risk among foreign investors (4), potentially raising external financing costs or reducing the country's short-term attractiveness. (5)

In 2022–2023, Bangladesh sought financial assistance from international institutions amid mounting macroeconomic difficulties. In January 2023, the IMF approved a 42-month loan programme totalling roughly USD 4.7 billion (combining an Extended Credit Facility, an Extended Fund Facility, and a Resilience and Sustainability Facility). (6) The programme aims to stabilise the economy, strengthen fiscal reforms, and support climate-resilient investment. (7) After an initial disbursement of about USD 476 million in 2023, Bangladesh received USD 2.3 billion across the first three tranches. However, subsequent disbursements were delayed in late 2024 due to disagreements over reforms — particularly the adoption of a more flexible exchange rate and raising the very low tax-to-GDP ratio (around 8.5 percent). (8)

(1) International Crisis Group, « Bangladesh », [available here](#).

(2) Aditya Dhand and Nishant Singh, « Bangladesh in 2025: Political and Economic Landscape Analysis », J.S. Held, [available here](#).

(3) The Foreign Investors' Chamber of Commerce and Industry (FICCI) estimated the cost of the summer 2024 protests to the Bangladeshi economy at more than 10 billion dollars. Meanwhile, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) estimated that nearly 40,000 containers were blocked in the ports during this period, with many garment suppliers seeing a 30 to 40 percent drop in the orders they received.

(4) Charza Shahabuddin, "After the Monsoon Revolution, What Political Future for Bangladesh?" IFRI, March 2025, [available here](#).

(5) Junayed Chowdhury, « The Good, the Bad, the Ugly and Everything in Between: The State of Affairs in Bangladesh under the Post-July Revolution Interim Government », Australian Institute of International Affairs, 9 October 2025, [available here](#).

(6) IMF, "IMF Executive Board Concludes Bangladesh Combined Third and Fourth Reviews under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility," press release, 23 June 2025, [available here](#).

(7) Reuters, « Bangladesh to receive \$1.3 billion from IMF as reform deal reached », 14 May 2025, [available here](#).

(8) Saifuddin Saif, « World Bank signals \$500m budget support for Bangladesh amid IMF uncertainty », The Business Standard, 12 May 2025, [available here](#).



In April 2025, Bangladeshi authorities and the IMF reached a staff-level agreement combining the 3rd and 4th programme reviews. The IMF agreed to release USD 1.3 billion in June 2025 (covering the 4th and 5th tranches), after Bangladesh implemented measures deemed satisfactory regarding the exchange-rate regime (introduction of a crawling peg), tax reform, and banking-sector governance. Dhaka also requested an increase of about USD 760 million in programme resources to address worsening external financing needs. The government committed to maintaining prudent monetary and fiscal policy, accelerating banking-sector restructuring, and strengthening climate-related investment to improve long-term economic resilience. (1)

In parallel, Bangladesh is seeking increased support from the World Bank and other donors. In May 2025, the World Bank granted in-principle approval for a USD 500 million budget-support loan under a Resilience and Recovery Credit, following consultations with the IMF. (2) This financing could pave the way for additional support, notably from the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB). The ADB was preparing a USD 500 million loan dedicated to banking reforms, while Japan and the AIIB were considering financing for broader economic and climate-related reforms. Bangladesh had already secured roughly USD 1.2 billion in external support for the 2024–2025 fiscal year (including USD 500 million from the World Bank and USD 600 million from the ADB at the end of 2024) even before these new negotiations. Relations with donors therefore appear to be moving in a positive direction, provided the country maintains progress on the agreed reforms.

The Issue of Structural Reforms

The new administration launched an extensive programme of economic reforms in 2024–2025 to restore macroeconomic stability and comply with IMF conditionality. (3) A key priority was restoring financial stability: the Central Bank, under a newly appointed governor, raised interest rates to curb inflation and replaced the boards of eleven distressed banks to improve governance. (4) In parallel, a new banking legal framework was introduced. The *Bank Company Act* underwent major amendments in 2025 to strengthen supervision: the reforms placed state-owned banks under the direct control of the Central Bank, unified capital requirements, and limited political interference in the boards of private banks. A *Bank Resolution Ordinance 2025* also granted the Central Bank broader powers to restructure or merge failing institutions. (5) For example, a plan was announced to merge five troubled Islamic banks — some with non-performing loan ratios as high as 77 percent — to stabilise the sector.

Other economic reforms are underway. On monetary policy, Bangladesh adopted a crawling-peg exchange-rate regime in May 2024 to allow a gradual depreciation of the taka and increase foreign-exchange market flexibility. (6) On fiscal policy, the interim government undertook a restructuring of the tax administration: the National Board of Revenue was dissolved and replaced in 2025 by two separate entities — one responsible for tax policy and the other for collection — in an effort to modernise revenue management and broaden the tax base. Finally, to improve economic governance, an independent anti-corruption commission was appointed to tackle the misuse of public funds and banking fraud. (7)

(1) Reuters, *op. cit.*

(2) Saifuddin Saif, *op. cit.*

(3) Tanya Dawar, *op. cit.*

(4) Jagaran Chakma, « FDI rose 20% in FY25 », *Daily Star*, 22 August 2025, [available here](#).

(5) Directorate General of the Treasury, *op. cit.*

(6) Reuters, *op. cit.*

(7) Tanya Dawar, *op. cit.*



However, long-standing weaknesses in Bangladesh's judicial system (ranked 125th out of 143 in the World Justice Project Rule of Law Index and 151st worldwide by Transparency International), combined with heightened political tensions and polarisation, cast doubt on the effectiveness — and possibly the sincerity — of these measures. Between January and August 2025, the Bangladesh Financial Intelligence Unit (BFIU), under the Ministry of Finance, froze nearly 58,000 crore taka in assets belonging to ten major business groups and their leaders, members of Sheikh Hasina's family, and institutions linked to the Awami League. Among those targeted were Salman F. Rahman, former adviser to Sheikh Hasina and vice-chairman of Beximco Group; Ahmed Akbar Sobhan, founder of Bashundhara Group; Saifuzzaman Chowdhury, former Agriculture Minister and owner of Aramit Group; and Mohammed Saiful Alam, chairman of Alam Group — who in October 2025 filed an international arbitration claim with the World Bank's International Centre for Settlement of Investment Disputes (ICSID). The Centre for Research and Information (CRI), the Awami League's research institute, also saw its assets frozen. As part of its investigations, the BFIU also opened negotiations with various foreign governments and international institutions to trace and freeze assets belonging to individuals and companies such as Salman Obaidul Karim and the Orion Group. These wide-ranging probes have alarmed potential investors, especially given concerns that the Anti-Corruption Commission (ACC) — which supervises BFIU investigations — shows signs of partiality and limited professionalism, with many cases dropped before reaching court. This "*witch hunt*" climate has led numerous business leaders to flee the country, fearing both for their assets and their safety.

Meanwhile, unregulated liquidity injections into troubled banks and continued financial pressures linked to debt servicing have made it difficult to rebuild foreign reserves. Despite tax revenues falling short of expectations — owing to weaker economic activity and limited improvements in compliance — the government managed to keep the fiscal deficit within agreed limits for fiscal year 2024–2025, mainly by sharply reducing public spending and domestic borrowing. This adjustment offset the revenue shortfall and brought the primary budget deficit down to 1.5 percent of GDP in 2024 — well below the 2.8 percent target — generating a primary surplus of 0.6 percent in the first half of 2025.

In the second half of fiscal year 2024–2025, exports showed signs of recovery, rising 11 percent year-on-year and reversing the downward trend observed in FY 2023 and 2024. Remittances also remained strong, jumping nearly 28 percent compared with the same period in FY 2023–2024 — more than double the 11 percent growth recorded in the first half of FY 2024–2025. These two developments likely contributed to strengthening Bangladesh's foreign-exchange reserves.

Imports, however, grew slowly, by only 3.5 percent year-on-year. This modest increase reflects weak import demand linked to foreign direct investment (FDI) and continued currency restrictions imposed by the government to limit external spending. Although exports and remittances improved, around USD 2 billion in unrecorded capital outflows — likely linked to the banking sector and debt repayments — left the country during the second half of FY 2024–2025, weakening the balance of payments. As a result, Bangladesh still faces a financing gap of USD 3.8 billion for the fiscal year, meaning it must secure this amount to meet its external payment obligations.

The stock of foreign direct investment in Bangladesh remains modest, at around USD 18.8 billion as of March 2025. (1) This level is low compared with neighbouring countries and considering Bangladesh's strong economic growth. Furthermore, FDI is concentrated in a few sectors: textiles and apparel alone accounted for roughly 22.6 percent of total FDI stock at end-June 2024, (2) followed by banking (16 percent) and electricity

(1) « At a glance: Countries with largest FDI stock in Bangladesh », The Business Standard, 28 September 2025, [available here](#).

(2) Lloyds Bank, *op. cit.*



(14.5 percent). Telecommunications (7.2 percent) and hydrocarbons (gas and oil, 6.1 percent) follow. The United Kingdom is the largest source of FDI (around 17 percent), followed by Singapore (10 percent), South Korea (9 percent), and China (8 percent).

Recent FDI flows into Bangladesh show a slight rebound in 2025 but still fall well short of the country's needs. In 2024, net FDI inflows were recorded at around USD 1.51 billion (down from USD 2.4 billion in 2018), marking six consecutive years of decline amid a tense political climate. (1) FY 2024–2025 (1 July 2024 to 30 June 2025) saw a roughly 20 percent rebound in inflows, reaching USD 1.71 billion. (2) This was welcomed as a sign of renewed investor confidence, but the absolute level remains far below what is required to sustain the country's development. Analysts estimate that Bangladesh needs to attract at least USD 8 billion in FDI annually (compared with USD 1.5–3 billion in recent years) to significantly boost economic growth, highlighting Bangladesh's lag in the regional competition for investment. Persistent political fragility and legal unpredictability naturally do not create favourable conditions for achieving such ambitions.

The Textile Industry Confronted with Rising U.S. Tariffs

Bangladesh's trade performance reflects its limited diversification. Ready-made garments remain by far the country's leading export product (around 85 percent of export earnings) and are directed primarily toward a handful of key markets. Europe (roughly half of total exports, including the United Kingdom) and the United States (about 15–20 percent) together absorb two-thirds of Bangladeshi sales. (3) This low-cost, textile-centred model has supported rapid export growth — now close to USD 40 billion annually — but leaves the country exposed to fluctuations in Western demand. (4) Indeed, the sharp slowdown in European and American demand contributed to declining export growth in 2023 and 2024, which in turn weighed on economic performance.

Looking ahead to 2026, Bangladesh faces the challenge of graduating from Least Developed Country (LDC) status, which will lead to a gradual loss of preferential tariff access in developed markets. The European Union, for example, currently grants duty-free access under the "Everything But Arms" initiative, covering nearly half of Bangladesh's textile exports. According to WTO estimates, losing this advantage could reduce Bangladeshi exports by around 14 percent after a three-year transition period. (5) To mitigate this shock, Bangladesh is seeking to diversify its trade partnerships by negotiating new agreements with major Asian partners (China, India, Japan) while moving its industry up the value chain. Alternative export sectors, such as leather and shrimp, have so far struggled to take off, though other industries are beginning to emerge, including pharmaceuticals, information technology, and agrifood, encouraged by government support.

Despite strong export growth in recent years, Bangladesh suffers from a structurally large trade deficit (typically 4–6 percent of GDP). In 2024, for instance, the trade deficit reached USD 15 billion, while modest FDI inflows and weaker-than-expected remittances (USD 22 billion) were insufficient to offset this imbalance. As a result, pressure mounted on the exchange rate and foreign reserves: reserves fell from USD 46 billion in 2021 to around USD 19 billion at the end of 2024 (from 5.8 months of imports to 2.3 months), while the taka depreciated by roughly 45 percent against the dollar over the same period.

(1) World Bank, "Foreign direct investment, net inflows (BoP, current US\$) – Bangladesh," [available here](#).

(2) Jagaran Chakma, *op. cit.*

(3) Directorate General of the Treasury, *op. cit.* and Coface, *op. cit.*

(4) World Bank « Strong Economic and Fiscal Reforms will Help Bangladesh Sustain Growth Amid Global Uncertainty », *op. cit.*

(5) Directorate General of the Treasury, *op. cit.*



Nevertheless, external conditions showed signs of improvement in 2025: export growth (+7.7 percent in FY 2024–25) and a surge in remittances (+26.8 percent) helped stabilise the current account and lift reserves to USD 26.7 billion in June 2025. (1) This recent improvement, combined with stronger support from international donors, should provide some short-term relief for the Bangladeshi economy.

However, the Trump administration's decision to impose 35 percent tariffs on Bangladeshi exports entering the U.S. market could severely impact the country's export revenues. These tariffs place Bangladesh at a competitive disadvantage compared with some regional competitors that have secured more favourable market access. Bangladesh may need to accelerate efforts to shift export volumes toward Europe, Canada, and Japan, even though such diversification may not fully compensate for reduced access to the American market. The combined effects of these tariffs and persistent political instability risk leading to factory closures, large-scale layoffs, and a loss of market share, (2) as American and European buyers diversify their sourcing toward countries with lower tariff barriers such as India (3) and Latin American states.

Recognising this threat, the Bangladeshi interim government has begun negotiations with the United States in an effort to obtain tariff reductions, while also considering raising its own import duties on American products. The new U.S. tariff regime therefore risks worsening Bangladesh's already precarious economic situation. The consequences may include higher inflation, further depreciation of the taka, and prolonged economic instability. Reduced export earnings could delay the rebuilding of foreign reserves — essential for macroeconomic stability — and hinder fiscal consolidation efforts, making it more difficult to implement the reforms required by the IMF, such as improving revenue collection and strengthening the financial sector. By complicating Bangladesh's ability to meet IMF conditions, these financial pressures also put at risk the country's continued access to the institution's crucial financing. Combined with an increasingly complex regional environment, this outlook is unlikely to restore confidence among international investors.

(1) Coface, *op. cit.*

(2) Around 15 to 20 percent of clothing orders were cancelled due to production disruptions during the second half of 2024.

(3) A survey by the American Fashion Industry Association revealed that the 30 largest U.S. clothing brands are increasingly favouring India over Bangladesh, citing the political instability that gripped Dhaka in the summer of 2024 as a key factor behind this economic shift.



Navigating the Troubled Waters of Regional Geopolitics

The fall and subsequent exile of Sheikh Hasina, followed by the appointment of Muhammad Yunus to lead the interim government in August 2024, have reshaped Bangladesh's relationships with its geographically closest partners. While India remains central to Bangladesh's geopolitical equation, Pakistan and China may assume an increasingly influential role in the years ahead. With the political disqualification of the Awami League, India has lost its primary ally within Bangladesh's domestic political landscape, whereas the BNP and its partners, whose anti-Indian orientation has continued to strengthen, exert constant pressure on the interim authorities to pursue a significant diplomatic realignment with Pakistan and China.

Nonetheless, in a context where political uncertainty is intensifying the country's economic fragility, the interim government's priorities remain the successful completion of the electoral process and the translation of the July National Charter's proposals into concrete policy decisions. Consequently, although the interim administration's foreign policy may appear more assertive, it is likely to capitalise on the triangular competition between India, Pakistan and China to extract maximum advantage. Within this evolving balance of power, India stands as the principal loser, facing a regional environment increasingly unfavourable to its interests.

India: The Indispensable Partner Under Pressure

Relations between India and Bangladesh — strong throughout Sheikh Hasina's tenure — deteriorated following her flight to India in August 2024 amid a wave of student protests. At the same time, the strengthening of Bangladesh–Pakistan relations, combined with China's growing influence in Dhaka, poses a direct challenge to India's regional strategic interests. Delhi fears that the February 2026 elections could result in heightened Pakistani influence and expanded bilateral defence cooperation, potentially exacerbating security threats — particularly in the Siliguri Corridor, a narrow and geopolitically sensitive passage linking India's northeastern states to the rest of the country. (1)

Moreover, any shift in Bangladesh's security posture could increase the risk of Bangladeshi militant groups crossing into India through less-secured border zones to carry out attacks or establish a presence, potentially reigniting insurgent threats that India has been working to contain for more than seventy years. In parallel, Dhaka's rapprochement with China — a close ally of Pakistan — also raises concerns for India. In recent years, China has expanded its presence in Bangladesh through investments and infrastructure projects, which could further limit India's economic influence in the region.

However, despite adopting a more assertive foreign policy, Bangladesh must maintain pragmatic cooperation with India on critical issues: the economy, security, and regional stability. The interim government is therefore expected to continue along the trajectory outlined since August 2024. This shift toward a more balanced foreign policy may prompt Dhaka to put pressure on Delhi for more equitable solutions on sensitive issues, such as water management and river-sharing disputes, especially regarding the Teesta River. Dhaka may even consider granting the Teesta development project to China as leverage in future negotiations with India.

(1) The Siliguri Corridor is a narrow strip of land in the state of West Bengal that constitutes India's only land link to its north-eastern states. Its strategic importance lies in its vulnerability, as it borders Bangladesh to the south and Nepal to the north, making it susceptible to external influence or blockade. Any disruption in this corridor could isolate the northeast from the rest of India.



Yet Bangladesh's geographic reality and deep economic ties with India make an openly anti-Indian posture unlikely. Bangladesh depends on India for essential infrastructure development, electricity supplies, and joint responses to shared challenges such as climate change and rising sea levels. India, for its part, relies heavily on Bangladesh for regional stability, especially in the northeast, where transit routes through the Siliguri Corridor are crucial to linking the geographically isolated states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura with the rest of the country. These common priorities — trade, water management, and border security — are therefore likely to sustain ongoing pragmatic cooperation between India and Bangladesh, despite rising tensions.

Bangladesh is India's largest trading partner in South Asia, while India is Bangladesh's second-largest Asian trading partner after China. India's principal exports to Bangladesh include vegetables, tea, petroleum products, and machinery, whereas Bangladesh exports mainly fish, plastics and garments to India. In the 2023–2024 fiscal year, Bangladesh exported USD 1.97 billion worth of goods to India, bringing total bilateral trade to USD 14.01 billion. Bangladesh is also the largest destination for Indian cotton exports, accounting for 34.9 percent of India's total cotton exports.

Bangladesh is among India's major development partners. Over the past eight years, India has granted Bangladesh three lines of credit totalling around USD 8 billion, funding infrastructure projects across sectors such as roads, railways, shipping, and ports. These include the Akhaura–Agartala rail link, the India–Bangladesh Friendship Pipeline, and extensive dredging of Bangladesh's inland waterways.

Pakistan and the Delicate Question of Rebalancing Relations with India

Since the war of secession that resulted in Bangladesh's independence, relations between Bangladesh and Pakistan have remained tense due to the inherently conflictual nature of their separation and Sheikh Hasina's reluctance to pursue closer ties. Although Bangladeshi leaders have made periodic attempts to engage with their Pakistani counterparts, these efforts produced no tangible results. Sheikh Hasina, whose party, the Awami League, led the independence struggle under her father's leadership, consistently resisted improving relations with Pakistan because of Jamaat-e-Islami's collaboration with Islamabad during the 1971 war. By contrast, the interim government led by Muhammad Yunus appears open to significantly improving relations between Dhaka and Islamabad, especially as India's longstanding support for Sheikh Hasina has fostered distrust of Delhi among interim leaders.

In September 2025, on the sidelines of the UN General Assembly in New York, interim Prime Minister Muhammad Yunus and his Pakistani counterpart, Shehbaz Sharif, expressed support for strengthening bilateral relations. The two partners aim to increase annual trade to USD 3 billion — up from the current USD 700 million. This ambition could be facilitated by the creation of a Pakistan–Bangladesh Joint Business Council, discussions on a free trade agreement, and other economic initiatives. The resumption of the Karachi–Chittagong maritime link, suspended since 1971, is expected to ease bilateral trade, particularly in ready-made garments and essential goods. Pakistan could thus become a complementary supplier alongside India and China. Building on this momentum, discussions regarding one or several new air routes are also expanding the scope of possible cooperation.

In parallel, Bangladesh resumed direct trade with Pakistan in February 2025, importing 250,000 tonnes of rice from Port Qasim to Chittagong — a clear signal of its willingness to curb food inflation, move beyond its contentious past, and benefit from deeper trade ties. Defense and security cooperation is also strengthening, reflecting both sides' intention to establish a durable partnership and highlighting growing military-to-military



exchanges. However, for this rapprochement to be truly solid and lasting, it must meet Dhaka's long-standing demands: official recognition of Pakistan's responsibility for wartime atrocities and a formal apology and compensation for war damages. India is closely watching these developments but remains aware of the limits of the Bangladesh–Pakistan rapprochement.

China, a Powerful Outsider and Attentive Observer

China has long maintained good relations with Sheikh Hasina's Bangladesh, despite ideological differences between the Awami League and the Chinese Communist Party. Beijing valued the political stability Sheikh Hasina provided and her openness to Chinese trade and investment. Several major initiatives — such as the Khsiyara River project and the deep-sea port plan on Sonadia Island — were launched during her tenure. While China is closely monitoring post–Hasina political and economic developments, it will likely find it easier than India to work with and negotiate with the new authorities.

During Muhammad Yunus's state visit to Beijing in late March 2025, he and Xi Jinping concluded an economic and technical cooperation agreement, along with eight memoranda of understanding covering culture, scientific research, and economic collaboration. On this occasion, Yunus invited Chinese companies to participate in the Teesta River management and restoration project, signalling a break with Sheikh Hasina's preference for stronger Indian involvement. The two sides also agreed to begin negotiations toward a bilateral free trade agreement and to update their existing bilateral investment treaty. Talks were also launched on establishing a dedicated Chinese economic and industrial zone, as well as on modernising and expanding the port of Mongla.

China is Bangladesh's largest trading partner, with annual exchanges estimated at USD 25 billion, while Bangladeshi exports amount to barely USD 1 billion. A free trade agreement could therefore strengthen bilateral trade, ease Bangladeshi access to the Chinese market, and stimulate Chinese investment. During Xi Jinping's visit to Bangladesh in late March 2025, Muhammad Yunus urged China to reduce interest rates on Chinese loans in order to ease Bangladesh's debt burden and, by extension, reinforce fiscal stability. Bangladesh joined the Belt and Road Initiative (BRI) in 2015, facilitating Chinese investment — estimated at nearly USD 8 billion between 2005 and 2024 — for projects such as the Karnaphuli tunnel and the ongoing construction of a coastal highway in Chittagong.



Conclusion

The fall and subsequent exile of Sheikh Hasina in August 2024 have profoundly reshaped Bangladesh's political landscape. The political sidelining of her party, the Awami League, has placed the Bangladesh Nationalist Party (BNP) and its Islamist allies back at the centre of national politics — though they may face serious competition from a newcomer, the Citizens' National Party (CNP), created in February 2025 and reportedly well-connected within the interim administration. The political instability triggered by this upheaval is compounded by mounting uncertainty over the country's economic future, in a context of heightened trade tensions with the United States and a shifting regional geopolitical environment that carries considerable risk.

The lack of political predictability — darkening macroeconomic prospects — and the threat of declining competitiveness due to the erosion of the rule of law are major concerns for the business community. The elections scheduled for February 2026 offer a framework for post-election reforms, but the Political Charter signed on 17 October 2025 and amended on 20 October is not legally binding. The Charter therefore leaves future election winners free to decide whether or not to revise Bangladesh's political rules of the game. A refusal to act in accordance with the Charter could send an already distrustful public back into the streets, confronting a political class perceived as corrupt and determined to preserve its privileges at any cost — a worrying prospect.

Scenario: Failure of the Electoral Consultation Process

A postponement of the elections risks worsening political instability, increasing the likelihood of military intervention, prolonging the political crisis, and exacerbating economic difficulties, particularly in the ready-made garment sector. Delays in the consultation process on constitutional reforms are likely given the deep disagreements between the main political parties. Although the interim government does not intend to implement these reforms itself, it is seeking consensus so that the next elected government can carry them forward.

If such consensus proves difficult to obtain and a political deadlock emerges, the elections could be delayed. This would heighten political uncertainty and undermine the legitimacy of the interim government, especially if it is widely perceived as unduly extending its mandate. Such a context could increase the risk of military intervention, particularly if social unrest intensifies and political institutions appear incapable of resolving the crisis.

The army has previously intervened under similar circumstances in Bangladesh since independence, particularly during prolonged periods of caretaker governments. Any intervention could take the form of a direct military takeover or a more discreet assertion of control over the interim administration. Although such a move would likely be presented as an effort to restore stability, it could indefinitely delay the return to electoral democracy and provoke negative international reactions, including diplomatic pressure and possible sanctions.

Political instability also risks eroding investor confidence and delaying foreign assistance or IMF disbursements. Key sectors such as the garment industry would likely face further disruptions, as foreign companies, already beginning to scale back operations, could accelerate their relocation to more stable production bases like India.



Political Scenario: February 2026 Elections

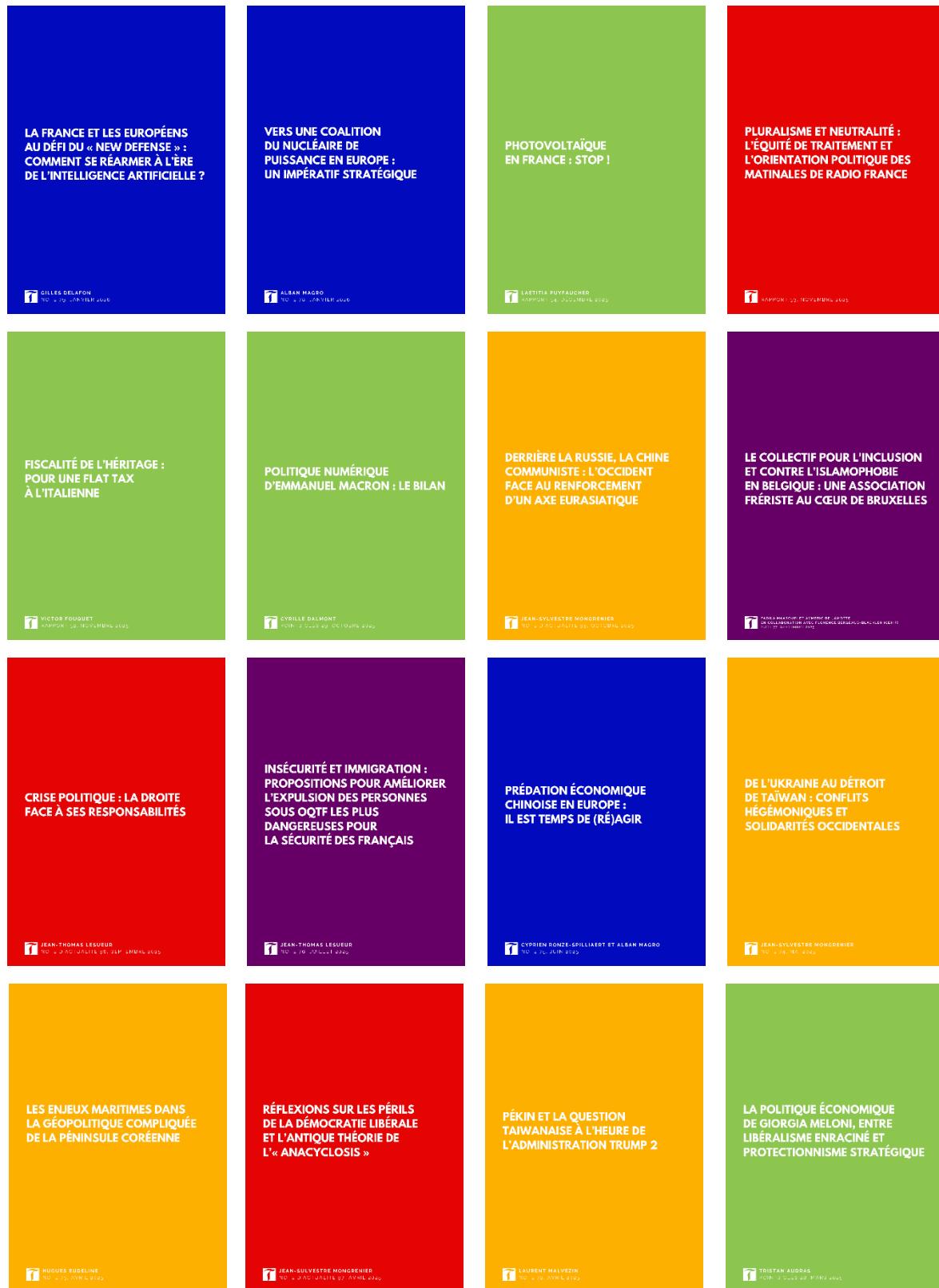
The Bangladesh Nationalist Party (BNP) has gained popularity through its anti-establishment stance. However, its frequent reliance on unrest to protest the Awami League's rule, combined with the absence of a clear political programme beyond opposing the League, has generated growing public frustration and increasingly sharp criticism of its approach.

Thus, even if the BNP or a coalition of parties wins the elections, it may still face rising public dissatisfaction and criticism once in government, potentially requiring continued military involvement in political affairs to maintain stability. This situation would be compounded by the likelihood of unrest led by Awami League supporters protesting unfavourable electoral results.



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