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Highlights

Bangladesh's graduation from the LDC group is expected to be a landmark success in contemporary development experience.

Smooth transition will depend on the country's ability to take comparative lessons from co-graduates and experiences of graduated LDCs.

In preparation for the future, policy uptakes need to address concerns regarding strong governance, mobilising domestic resources, encouraging private and foreign direct investment, diversifying exports and markets, and proactive and timely discussions with trade and development partners to collaborate on smooth transition strategies.

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Learning from the Past, Preparing for the Future: What Bangladesh Needs to Know

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Problematique

The outlook for the United Nations list of least developed countries (LDCs) is finally becoming optimistic following 47 years of lacklustre performance since the category's establishment in 1971. There have been 52 inclusions and only five graduations to date (CDP and UN DESA, 2015). At least 10 countries are predicted to graduate from the LDC category between 2011 and 2021 (UNCTAD, 2016). Bangladesh, an LDC, remains on track. Unless affected by major unanticipated setbacks in the near future, the country is highly likely to meet the graduation criteria in 2018 and graduate as early as 2024. What can Bangladesh learn from LDC graduates and co-graduating countries? The present brief sheds some light in that regard.

Bangladesh in the Unfolding Graduation Scenario

Bangladesh's graduation is expected to be a landmark success in contemporary development experience. The five countries that graduated from the LDC category, namely Botswana, Cape Verde, the Maldives, Samoa and Equatorial Guinea, are all characterised by smallness in terms of size of the economy and population – Botswana is a landlocked developing country, Equatorial Guinea is a small oil-exporting developing country, and the other countries are small island developing states (SIDS). Bangladesh's graduation would be important since it is the first large developing country – in terms of population, size of the economy, exports and poverty alleviation – poised to leave behind the LDC status. Bangladesh is also likely to be one of the first LDCs to meet all three graduation criteria – the income criterion of gross national income (GNI) per capita and the Human Assets Index (HAI) and Economic Vulnerability Index (EVI) criteria – at the time of graduation.

Comparing with Peers

Ten countries are expected to graduate between 2015 and 2021 (UNCTAD, 2016). Of these ten, Equatorial Guinea graduated in 2017, Angola and Vanuatu have been recommended for graduation, Kiribati, Timor-Leste and Tuvalu are under review for recommendations and Bhutan, Nepal, São Tomé and Príncipe, and the Solomon Islands became eligible for graduation for the first time in 2015. Comparing Bangladesh's performance on various socio-economic indicators with these countries – especially Bhutan and Nepal – can be insightful. Table 1 compares the performances of Bangladesh and co-graduating countries on graduation criteria at the 2015 review of the United Nations Committee for Development Policy (CDP).

Over the last five years, growth in Bangladesh's real gross domestic product (GDP) was higher than that of co-graduating countries. Moreover, despite being one of the largest recipients of official development assistance (ODA) among LDCs, Bangladesh's dependence on ODA was relatively low and has been declining over the 2010–14 period compared to its graduating Asian counterparts. Any loss in ODA as a result of graduation is thus likely to have a minimal impact on the country. Bangladesh has also been one of the largest beneficiaries of remittances by volume, regardless of a sharp decline in 2015. In terms of the contribution of remittances to GDP, the

Table 1: Performances on Graduation Criteria at the 2015 CDP Review

Country	Graduation Criteria (thresholds)		
	GNI per capita (USD) (>1035.00)	HAI (>66.0)	EVI (<32.0)
Bangladesh	926.00	63.8	25.1
Bhutan	2,277.00	67.9	40.2
Nepal	659.00	68.7	26.8
Graduating oil - exporting African LDCs	10,303.50	48.35	39.5
Graduating SIDS	2,979.00	77.15	53.0

Source: Authors' calculations using data from CDP (2015).
Note: Angola and Equatorial Guinea are oil-exporting African LDCs, Kiribati, São Tomé and Príncipe, the Solomon Islands, Timor-Leste, Tuvalu and Vanuatu are SIDS.

country lags behind Nepal but outperforms other co-graduating countries (Table 2).

Further, Bangladesh is a small recipient of foreign direct investment (FDI) compared to most of the co-graduating countries. It is also a poor performer with respect to mobilising domestic resources and has one of the lowest tax-GDP ratios in the world, let alone among LDCs. Between 2004 and 2014, average tax revenue as a percentage of GDP for Bangladesh was 8 per cent as opposed to 11 per cent, 12 per cent, 15 per cent and 39 per cent for Bhutan, Nepal, graduating African LDCs and graduating SIDS, respectively (World Bank, 2017).

Finally, trends in structural transformation in Bangladesh and co-graduating countries indicate that the manufacturing sector has been stronger in Bangladesh than other graduating countries both in terms of share in total value added and employment over both 2005-09 and 2010-14 periods. Despite Nepal and the two African LDCs' apparent success in graduating ahead of Bangladesh, they are worse off in terms of structural transformation. In Nepal, the shares in total value added of both manufacturing and services fell with commensurate falls in shares in employment over the years. Graduating oil-exporting African LDCs also had very weak manufacturing and services sectors with rather small shares of employment in both periods (UNCTAD and ILO, n.d.). In the case of these countries, both of which are graduating based on the income-only criterion, weak progress on the HAI could be a reflection of their inability to transform their production structures.

However, Bangladesh is estimated to have the second least productive labour force among graduating LDCs and projected improvements are at a much slower rate than most others (ILO, n.d.). The country also lags seriously behind in terms of export diversification with an export concentration index of 0.40 compared to Bhutan's 0.36 and Nepal's 0.14 (UNCTAD, n.d.). For Bangladesh diversification is essential, particularly in view of the loss in preferential market access that will follow graduation.

Table 2: Trends in GDP Growth, ODA, FDI and Remittances

Country	GDP growth (%)		ODA (% of GNI)		FDI (% of GDP)		Remittances (% of GDP)	
	Average (2005–09)	Average (2010–15)	Average (2005–09)	Average (2010–14)	Average (2006–10)	Average (2011–15)	Average (2006–10)	Average (2011–15)
Bangladesh	6.05	6.27	1.68	1.32	0.93	1.00	9.05	9.15
Bhutan	9.38	5.19	9.50	8.36	3.80	1.44	0.34	0.78
Nepal	4.60	4.27	5.77	4.51	0.16	0.36	19.89	27.52
Graduating oil exporting African LDCs	12.12	1.54	0.56	0.24	4.69	1.94	0.04	0.01
Graduating SIDS	4.52	2.41	24.21	25.41	9.57	3.41	6.55	6.15

Source: Authors' calculations using data from UNCTAD (n.d.) and World Bank (2017).

Comparing with Predecessors

Useful insights can be gained from comparing where Bangladesh stands along key economic indicators a few years before its likely graduation with where former LDCs (except Equatorial Guinea) stood before theirs. Post-graduation developments are especially helpful in drawing lessons for Bangladesh. While Bangladesh's real GDP growth over the past five years is comparable with that of Cape Verde before its graduation, Bangladesh's growth is slower

Table 3: Changes in Key Indicators of Former LDCs and Comparison with Bangladesh

Country	Reference year	Real GDP growth (%)	Current account (% of GDP)	FDI (% of GDP)	ODA (% of GNI)	Remittances (% of GDP)	Tax revenue (% of GDP)	Merchandise exports (% of world trade)
Botswana	Before Graduation (5 Years)	10.55	7.78	-0.66	3.67	2.01	26.15	0.0510
	After Graduation (5 Years)	5.05	7.93	1.32	2.06	1.16	17.21	0.0430
Cape Verde	Before Graduation (5 Years)	6.18	-8.50	6.66	15.92	13.14	21.91	0.0002
	After Graduation (5 Years)	3.89	-13.74	10.46	14.04	8.64	20.20	0.0003
Maldives	Before Graduation (5 Years)	9.09	-16.67	7.83	3.08	0.26	11.56	0.0020
	After Graduation (4/5 Years)	7.40	-8.14	12.14	1.70	0.12	18.47	0.0020
Samoa	Before Graduation (5 Years)	0.43	-4.70	1.73	16.44	21.05	20.68	0.0004
	After Graduation (1/2 Years)	1.53	-5.90	2.41	11.98	18.91	23.06	0.0003
Bangladesh	Average (2010–14)	6.31	1.00	1.00	1.32	9.15	8.40	0.1557

Source: Authors' calculations using data from UNCTAD (n.d.) and World Bank (2017).

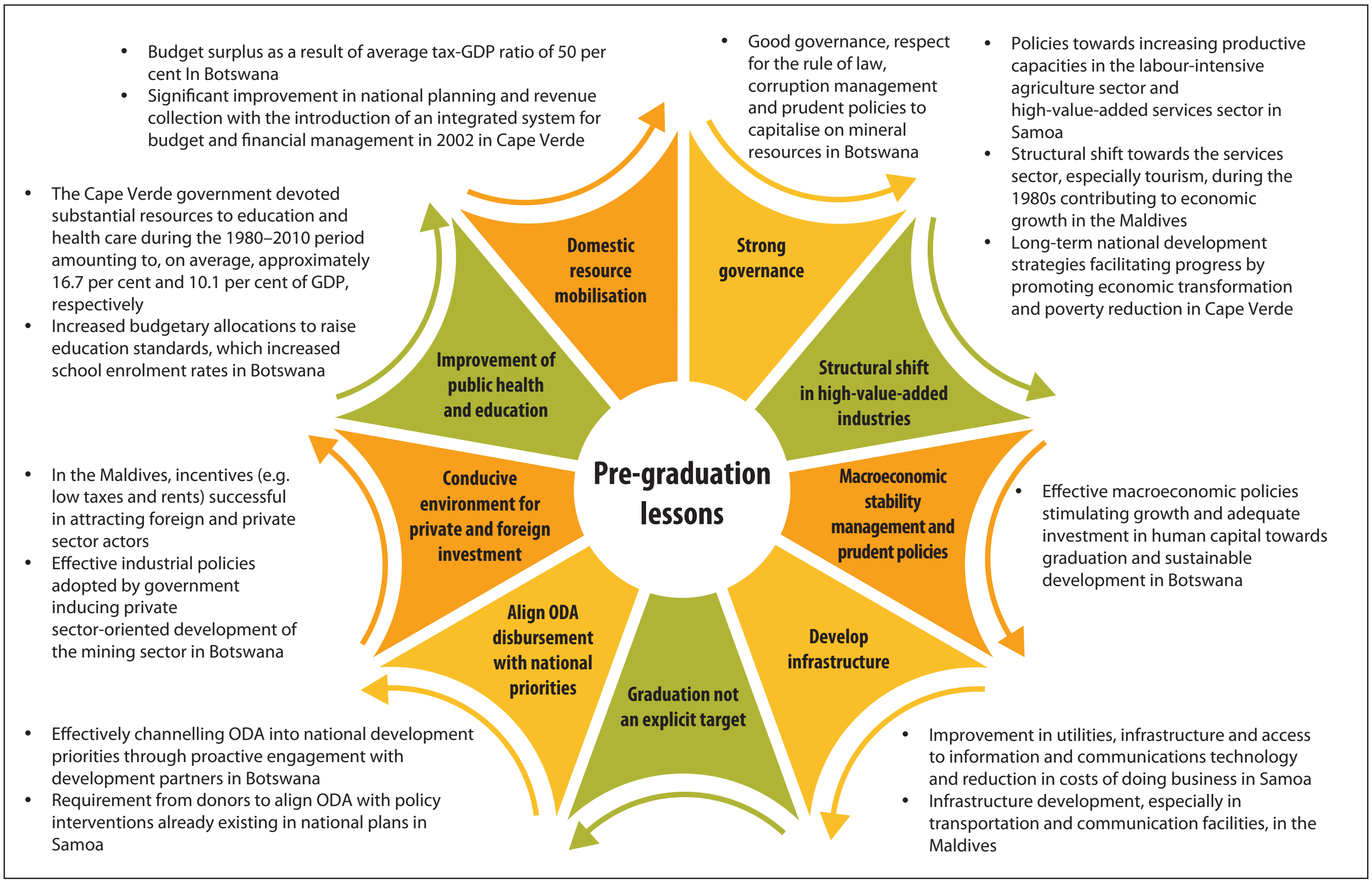
compared to what it had been for Botswana and the Maldives. Real GDP growth slowed down in all former LDCs after graduation except Samoa. Bangladesh is relatively better off in terms of its current account and merchandise exports, though relatively worse off in terms of FDI and tax revenue (Table 3).

Indicators of structural transformation depict that the contribution of agriculture in total value added and employment declined for former LDCs (except Botswana) after graduation. Bangladesh has a relatively higher, though declining, dependence on agriculture during its run up to graduation compared to former LDCs before their graduation. On the other hand, the country has a favourably higher share of manufacturing in total value added and employment compared to former LDCs. Bangladesh is also ahead in terms of its share of merchandise exports in world trade compared to where former LDCs stood before and stand after graduation (UNCTAD and ILO, n.d.). In terms of structural change, Bangladesh may thus be exhibiting better trends. The trends also indicate that graduation does not necessarily ensure structural transformation.

Lessons for Bangladesh from Graduation Experiences

From former LDCs' experiences, good practices for both pre-graduation and post-graduation phases can be identified for the benefit of graduating countries including Bangladesh. Figure 1 depicts some common lessons for the run up to Bangladesh's graduation while Figure 2 highlights some common lessons for smooth transition after graduation.

Figure 1: Pre-graduation Lessons from Graduated Countries



Source: Based on information from different CDP documents and UNCTAD (2016).

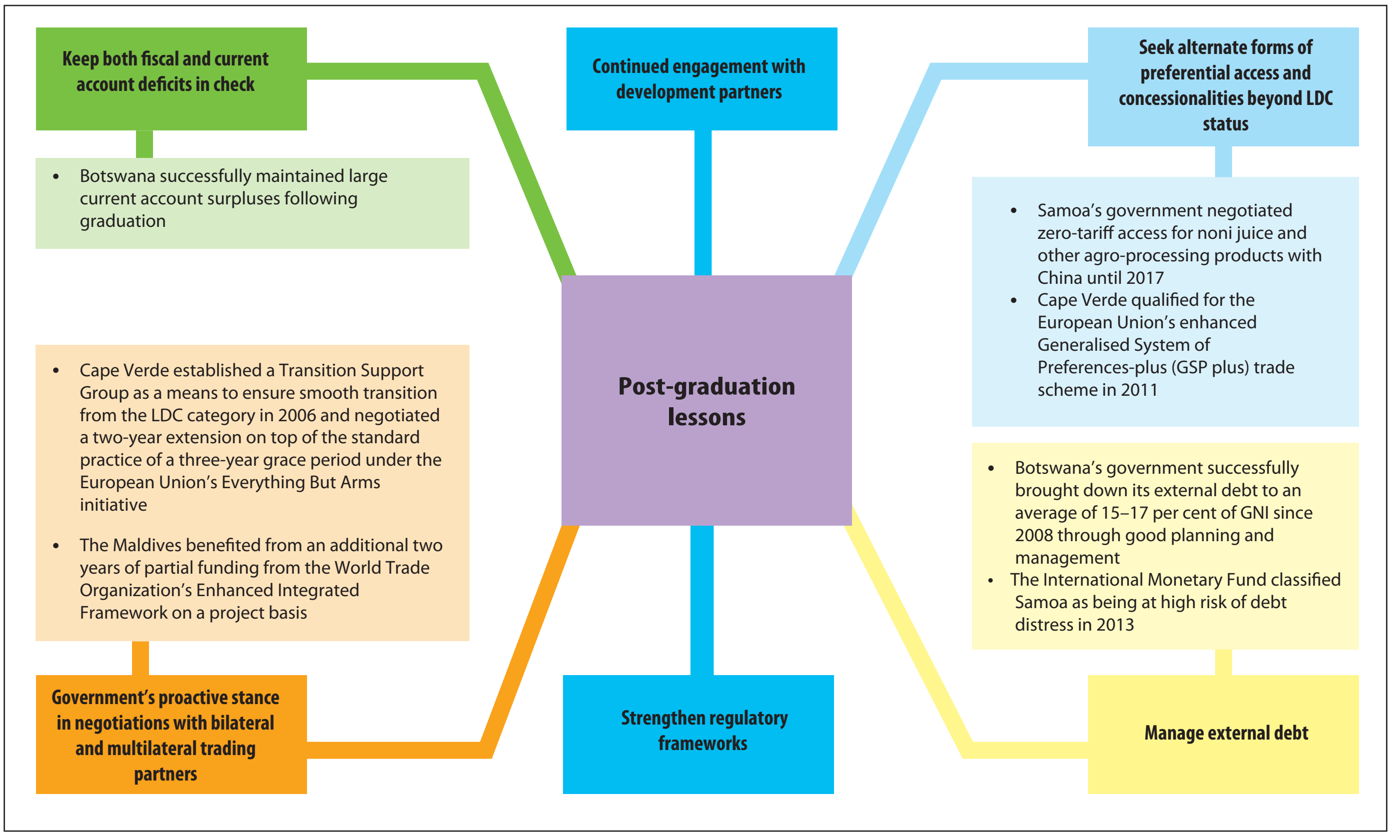
What do We do with these Lessons?

From the graduation experiences of former LDCs and comparison of Bangladesh with other LDCs, a few issues can be highlighted. During the run-up to graduation, Bangladesh's smooth transition will depend, in varying degrees, on its ability to take measures to address concerns regarding strong governance and mobilising domestic resources, encouraging private and foreign direct investment, diversifying exports and markets, and proactive and timely discussions with trade and development partners to collaborate on smooth transition strategies. Any action plan developed in this regard would need to approach the matter of LDC graduation from the following policy perspectives:

- Balance the need for an explicit strategy to pursue graduation with the need to focus on structural transformation.
- Assess the sufficiency of Bangladesh's current policy landscape (e.g. the Seventh Five Year Plan) against the need for a special perspective plan.
- Link the Sustainable Development Goals in Bangladesh's context to LDC graduation and smooth transition.

Bangladesh's imminent graduation from the LDC category will set an instructive development experience. But to sustain the graduation momentum, a strategic path drawing from comparative perspectives and striving towards inclusive and sustainable growth is compulsory.

Figure 2: Post-graduation Lessons from Graduated Countries



Source: Based on information from different CDP documents and UNCTAD (2016).

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