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Highlights



LDC graduation strategy for Bangladesh will be implemented in inhospitable global and regional environment



Traditional and emerging challenges, emanating in the areas of economy, technology, climate change, and governance and international security, are perceived to have both high relevance and impact



Coordinated and concerted efforts will be required among a number of national actors and would also need global solutions



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An LDC Graduation Strategy to Navigate Bangladesh in Inhospitable Global and Regional Environment

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Context

The global economy is experiencing a multitude of transitions in terms of economic and geopolitical rebalancing, ongoing technological change and emerging social and political risks. These transitions are expected to have far-reaching impacts on Bangladesh's economy, which is becoming increasingly integrated with the global and regional economies. Bangladesh is expected to graduate from the least developed country (LDC) category in 2024, while maintaining access to LDC-specific international support measures until 2027. As Bangladesh braces for graduation and beyond, its strategies will need to be contextualised in this evolving global and regional order. To this end, pertinent issues such as declining availability of official development assistance (ODA), tepid global economic recovery and protectionist measures by developed countries, increasing automation and consequent labour market disruption, forfeiture of climate financing opportunities, rising terrorism and conflict, and proliferating illicit financial flows (IFFs) must be taken into cognisance.

The Pitfalls within the Global and Regional Environment

In recent decades, declining availability of ODA has emerged as a major challenge faced by LDCs. As the dependence on ODA in Bangladesh is decreasing, the significance of higher mobilisation of domestic resources is increasing. Although the volatility of ODA commitments is declining, various process lags are impeding Bangladesh from reaping the full benefits. As Bangladesh emerged as a lower middle-income country as per the World Bank classification, a decline in concessional ODA will become more apparent and may pose some challenges in the coming years with respect to debt management.

In the face of tepid global economic recovery and protectionist measures by developed countries, the biggest challenge for Bangladesh comes in the form of market access. Adverse developments in major export destinations like the United States and the United Kingdom might affect Bangladesh in the coming years. The current stance of the United States regarding international trade and the United Kingdom's prospective exit from the European Union have already emerged as glaring challenges. Moreover, Bangladesh's absence from mega-regional trade agreement negotiations may impact its future trade potential.

Cheaper automation is eroding LDCs' low labour cost advantage – thus adversely affecting trade, remittances and foreign direct investment inflow. However, technological advancements are somewhat restrained by lower wages and sluggish adoption. Adjusting for technological feasibility and adoption time lag, approximately 47 per cent of all jobs in Bangladesh are susceptible to automation. Another related phenomenon is declining share of middle-skilled employment against rises in high and low-skilled employment which might impede reaping the full benefits of Bangladesh's demographic dividend.

LDC graduation has a direct impact on climate finance since graduated countries lose their access to LDC-specific funding, particularly through the Least Developed Countries Fund. While other sources may remain available, these countries will need to compete for finance against other developing countries. This situation could impose an additional constraint given the limited institutional and human capabilities of recently graduated countries. The high level of fragmentation prevalent in the field of climate finance may exacerbate this process.

Terrorism has emerged as one of the key threats to democracy, economic development and lasting peace. Terrorism and conflict can adversely affect a country's development trajectory through increased uncertainty, slow investment and increased cost of doing business. Moreover, insecurity and geopolitical tensions can derail efforts towards regional cooperation and integration, while increased expenditure on security can aggravate fiscal vulnerabilities. For LDCs like Bangladesh, terrorist incidents might result in shifts of resources towards less productive activities or to another country entirely.

IFFs have become too common in developing and developed countries alike. Bangladesh is no exception in this regard. IFFs from the country were on an increasing trend over the 2004–13 period, totalling almost USD 9.7 billion in 2013. In every year, IFFs far exceeded ODA received by the country. The majority of IFFs were likely due to trade misinvoicing, which was responsible for about 86.4 per cent of IFFs in 2013. IFFs deny countries the opportunity to invest substantial amounts that could catalyse economic growth and usefully supplement foreign loans and aid in funding the public sector. Moreover, IFFs incentivise organised crime, corruption and rent-seeking, which can subsequently increase such flows.

These persistent and emerging global and regional challenges will have critical implications as Bangladesh prepares for the envisaged LDC graduation and smooth transition. The identified global and regional challenges are categorised under four broad clusters: economic, technological, environmental, and governance and security (Figure 1).

Figure 1: Bangladesh Facing Global and Regional Challenges

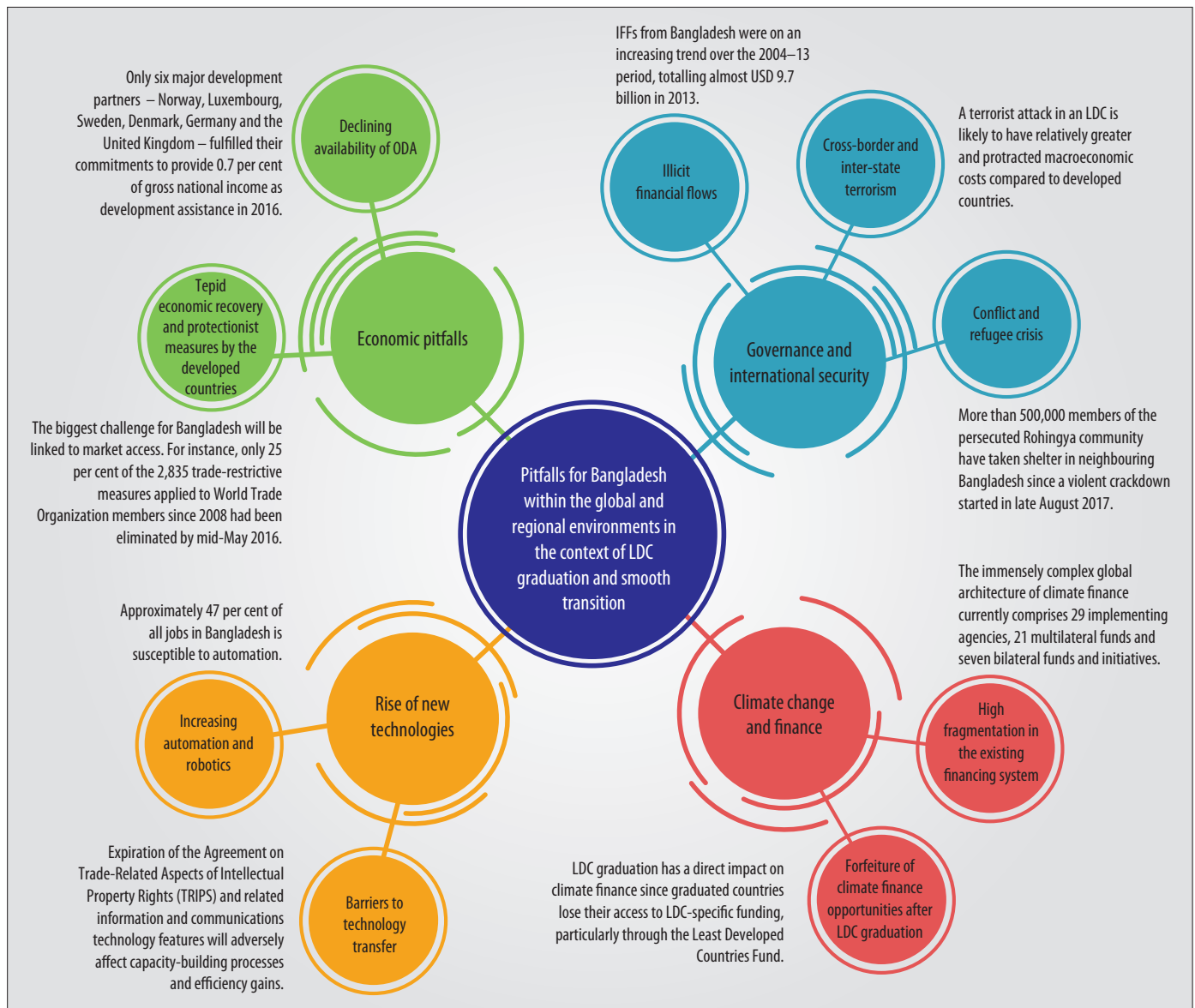
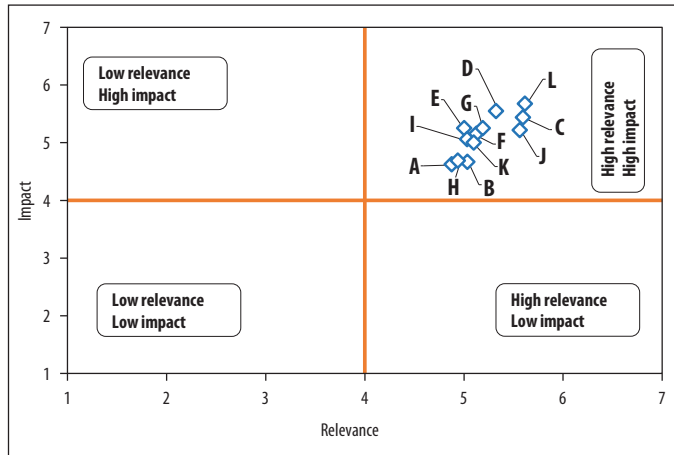


Figure 2: Results of Perception Survey on Identified Challenges



Note: (A) Declining ODA; (B) Tepid recovery of the global economy; (C) Possible protectionist trade policies by developed countries; (D) Increasing trade-restrictive measures; (E) Failure to exploit regional cooperation; (F) Declining available finance for preparation in the face of increasing climate-related natural disasters; (G) Declining available finance for ensuring agricultural production and food security through climate change adaptation; (H) Addressing conflict and the refugee crisis; (I) Tackling cross-border and inter-state terrorism; (J) Growing IFFs; (K) Rising automation and robotics; (L) Expiration of TRIPS facilities and related information and communications technology features

A survey was conducted to gauge the degree of relevance and possible impact of the aforesaid pitfalls. The sample for the survey consisted of senior officials from various government institutions as well as members of a variety of Bangladesh's development partners. The respondents were asked to rate the identified challenges on a scale of 1 to 7 (lowest to highest) on two dimensions: relevance and impact. On average, all challenges were rated 'high relevance' and 'high impact', which corroborates the notion that the identified challenges are of foremost importance in Bangladesh's context (Figure 2).

The existing institutional framework to tackle these challenges are presented in six broad categories viz. external resources, other financial flows, trade and connectivity, technology, peace and conflict, and national and international governance (Figure 3). A review of the existing national plans, policies and strategies reinforces the importance of formulating a concrete LDC graduation strategy informed by the aforesaid identified challenges. Bangladesh's Seventh Five Year Plan for the 2016–20 period anticipates and identifies various relevant critical issues, but others have emerged in recent years. These issues must be highlighted and discussed during the midterm review of the plan in 2018.

Figure 3: Existing Institutional Framework to Address Challenges Arising from the Global and Regional Environment



Policy Guidelines for an LDC Graduation Strategy for Bangladesh

The national policy towards graduation from the LDC category is only implicit in the Perspective Plan of Bangladesh for the 2010–21 period. The Seventh Five Year Plan for the 2016–20 period, which is the second phase of the Perspective Plan, does not include LDC graduation as a key milestone. Additionally, it does not outline an explicit smooth transition strategy. Against this backdrop, there is a need for a concrete LDC graduation strategy to facilitate the graduation process with momentum. The following issues need to inform Bangladesh's renewed development strategy in the context of LDC graduation:

- Gaining such momentum requires shifting towards the production of higher-value goods and services by increasing investment in the information and communications technology sector, diversifying exports and exporting higher-end products.
- In order to increase private investment in Bangladesh, the government needs to change the investment composition by focusing on infrastructure and the manufacturing sector through the establishment of special economic zones and export processing zones.
- Improving the investment environment through financial sector reforms, tax and legal reforms, better governance and business regulations that attract investors is necessary.
- Future economic growth prospects may depend on labour productivity. Adequate measures need to be taken to enhance human capital in the context of a changing demographic dividend.
- In addition to declining ODA, the quality of aid and attached terms and conditions must be considered as they may have developmental impacts on Bangladesh. Efforts towards strengthening domestic resource mobilisation must be carried out.
- Better coordination among the many relevant stakeholders has become an urgency with regard to climate finance in Bangladesh. More transparency in project cycles and robust integrated data systems are mandatory for oversight and control of corruption in this area.
- Removing non-tariff barriers will be particularly beneficial for Bangladesh, though the country's high transport costs may act as a bigger barrier than non-tariff barriers. Further, trade liberalisation needs to be strategised to support industrialisation including reforming the tariff regime to streamline effective protection levels.
- More effective communication and implementation by relevant ministries and strict monitoring are required for the government's efforts towards increasing regional connectivity and South-South cooperation.
- Bangladesh should evaluate its economic eligibility and political scope for applying to the European Union's Generalised System of Preferences plus scheme and assess opportunities for bilateral and multilateral negotiations on market access, including the Regional Comprehensive Economic Partnership and Free Trade Agreement of the Asia-Pacific.
- Remittance inflows to Bangladesh are crucial as they enable socio-economic development at both national and household levels. To ensure remittance inflows through official channels and reduce associated costs, specific planning and effective implementation are necessary.
- With regards to IFFs, more emphasis should be on trade misinvoicing through strict and effective measures by the National Board of Revenue including strengthening of the Transfer Pricing Cell. Besides, for an effective result, a more coordinated approach is required by various government institutions including Bangladesh Bank, the National Board of Revenue, the Anti-Corruption Commission and the Ministry of Home Affairs.
- Terrorism at the grassroot level must be better addressed to ensure peace and thus enhance the country's economic growth prospects.

Concluding Remarks

While preparing for LDC graduation and smooth transition, the government should emphasise not only reviewing the existing policy regime but also accelerating implementation of policies, plans, acts, strategies and initiatives. Domestically oriented efforts alone will not be enough as many of the pitfalls require coordinated global solutions. Going forward, Bangladesh must play a leading role in various global platforms pursuing LDCs' interests. Moreover, new alliances must be sought at the regional and global levels, particularly with the non-LDC lower-middle-income country group. The success of Bangladesh's journey towards LDC graduation in the inhospitable external environment will hinge on its strategic planning and capacity to implement necessary actions in a timely manner.

The policy brief is based on the following study

Khan, T.I., and Kamal, M. 2018. Pursuing a graduation strategy within the global and regional environment: What are the pitfalls for Bangladesh? In: D. Bhattacharya, ed. *Bangladesh's Graduation from the Least Developed Countries Group: Pitfalls and Promises*. London: Routledge. (Forthcoming)

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