Independent Review of

iRBD

Bangladesh's Development

Pathways to Bangladesh's Graduation from the LDC Group

Prospects, Challenges and Sustainable Graduation Strategy

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CENTRE FOR POLICY DIALOGUE

Background Papers

In view of the need for designing appropriate strategies in anticipation of Bangladesh's graduation from the group of LDCs, CPD has prepared five research studies which focus on a number of key areas relating to Bangladesh's smooth graduation:

- Bangladesh's graduation strategy from LDC group: a comparative perspective
- Role of structural economic transformation and diversification in Bangladesh for smooth transition from LDC group
- Bangladesh pursues 2030 agenda: will it facilitate smooth graduation from the LDC group?
- Pursuing graduation strategy within the global and regional environment: what are the pitfalls for Bangladesh?
- *Pathways to Bangladesh's graduation from LDC group: prospects, challenges and sustainable graduation strategy*

Outline

Section I: Introductory Remarks - Some Stylised Facts

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Origin of the Category

Least Developed Countries (LDCs) are defined as low-income countries which are constrained by severe structural impediments

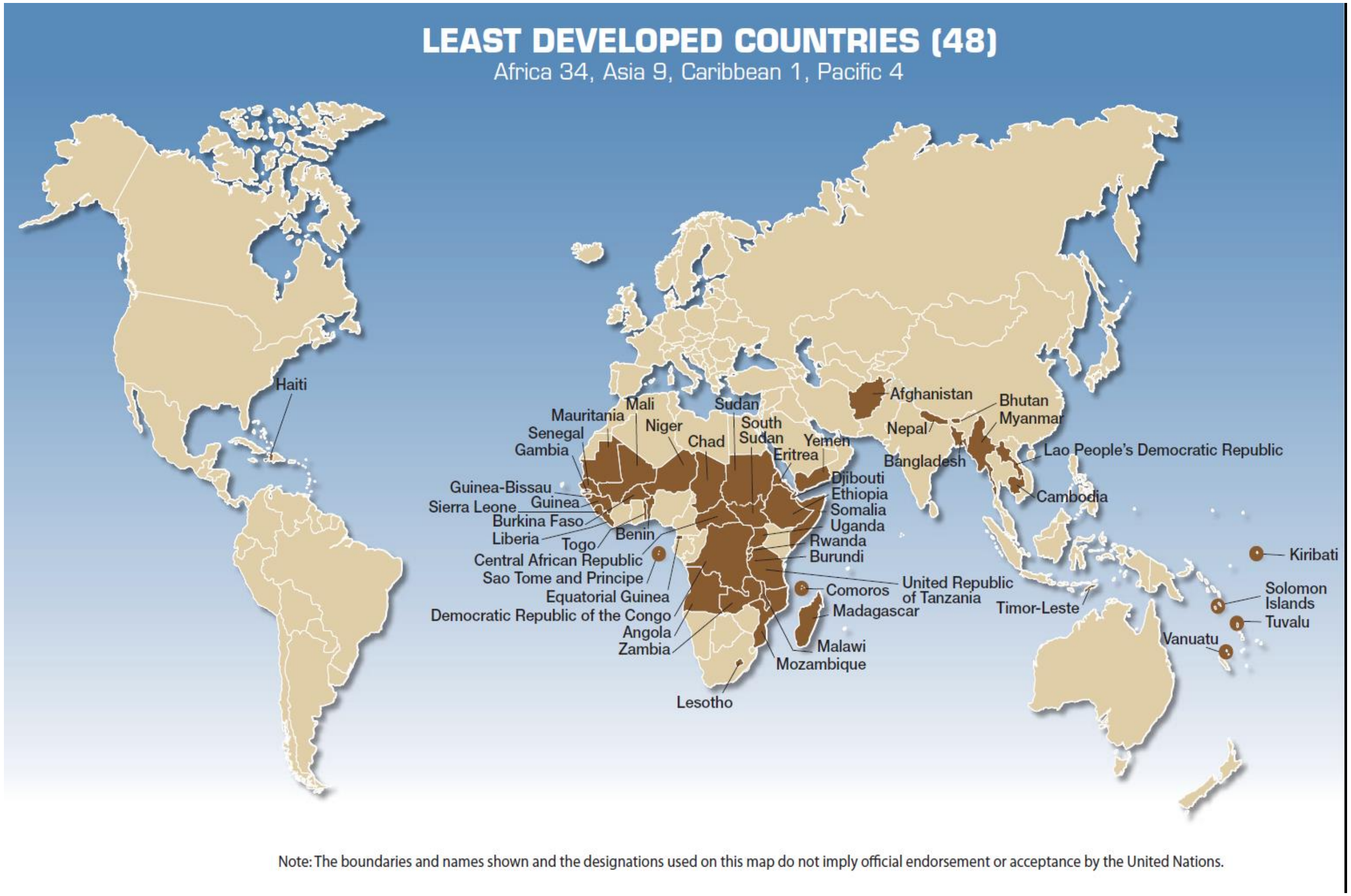
Concept

- The sub-strata of LDCs among developing countries was formally recognised by the UN General Assembly (UNGA) in 1971
- The objective was to attract special international support for the most vulnerable and disadvantaged UN members
- To begin with, 25 member countries were recognised as LDCs

Key Features

- Adversely affected by low level of socio-economic development characterised by weak human and institutional capacities, low and uneven distribution of income and scarcity of domestic financial resources
- Trapped by a vicious cycle of low productivity and low investment
- Suffered from governance problems, political instability, internal and external conflicts

Section I: Introductory Remarks - Some Stylised Facts



Current Composition

- 25 LDCs in 1971
- 48 LDCs in 2017
- 17 land locked
  9 small islands
- 34 African
  9 Asian
  4 Pacific
  1 Caribbean
- 12% of world population
- 31% of world poor

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Section I: Introductory Remarks - Some Stylised Facts

- The Committee for Development Policy (CDP), a subsidiary body of the United Nations Economic and Social Council (ECOSOC), is responsible for reviewing the status of LDCs and for monitoring their progress following graduation from the category. CDP recommends to ECOSOC which countries are to be included, and which are to be graduated from the LDC category
- ECOSOC has to endorse the recommendations
- The United Nations General Assembly (UNGA) needs to confirm
- Since 1991, recommendations are being made on the basis of triennial reviews
- The triennial review is based on specific criteria and application procedures
- The criteria are developed and refined periodically by the CDP
- The criteria and procedures are endorsed by ECOSOC and the UNGA

Section II: Criteria for Identifying LDCs: Inclusion and Graduation

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Income
(in USD)

GNI per capita (GNI)

Calculated according to Atlas Method– three years average (e.g. in 2015 review average figure of 2011-2013 was considered)

Human Assets Index (HAI)

(original indicator values converted into indices ranging from 0 to 100)

Percentage of population undernourished	1/4
Mortality rate for children aged five years or under	1/4
Gross secondary enrolment ratio	1/4
Adult literacy rate	1/4

Economic Vulnerability Index (EVI)

(original indicator values converted into indices ranging from 0 to 100)

Exposure Index — 1/2

i. Population (Size) – 1/4
ii. Remoteness (Location) – 1/4
iii. Merchandise Export Concentration (Economic Structure) - 1/16
iv. Share of Agriculture, Forestry and Fishery (Economic Structure) - 1/16
v. Share of Population in Low Elevated Costal Zone (Environment) - 1/8

Shock Index — 1/2

vi. Instability of Exports (Trade Shock)- ¼
vii. Victims of Natural Disasters (Natural Shock)- 1/8
viii. Instability of Agricultural Production (Natural Shock)- 1/8

- **Income Criterion**

The Income Criterion is measured by the gross national income (GNI) per capita. It is calculated from national accounts data and provides information on the income status of a country and uses the World Bank Atlas Method

- In calculating GNI in U.S. dollars, The World Bank uses the *Atlas* conversion factor instead of simple exchange rates. The purpose of this is to reduce the impact of exchange rate fluctuations in cross-country comparison of national incomes
- The *Atlas* conversion factor for any year is the average of a country's exchange rate for that year and its exchange rates for the two preceding years, adjusted for the difference between the rate of inflation in the country and international inflation; the objective of the adjustment is to reduce impact of any change to the exchange rate caused by inflation.
- The following table shows differences in results in Bangladesh's GNI per capita due to the two different calculation methods

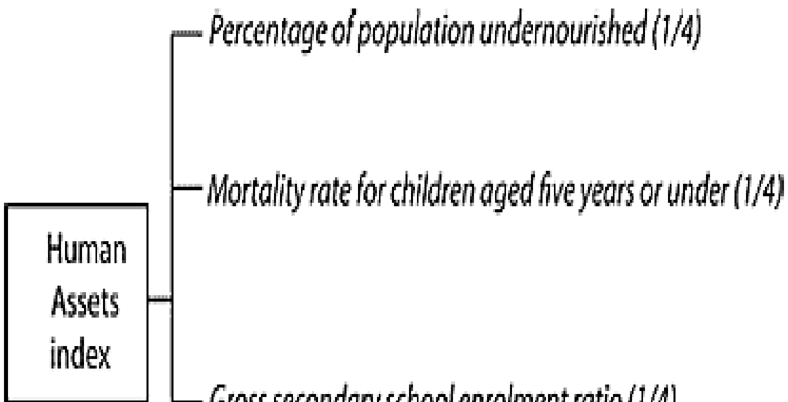
Method	2010	2011	2012	2013	2014	2015
WB Atlas	780	870	950	1010	1080	1190
WB current US$	822	905	932	1031	1159	1290

Section II: Criteria for Identifying LDCs: Inclusion and Graduation

- **Human Asset Index (HAI)**

The HAI is a measure of the level of human capital. It includes four indicators, two as regards health and nutrition and two relating to education

- The original data for each variable are converted into index numbers using a max-min procedure
- At the the 2012 triennial review, the inclusion threshold corresponded to the third quartile in the distribution of HAI values of a reference group, which included all LDCs and other low-income countries. The graduation threshold was set at 10% higher
- In 2014, the CDP decided to permanently fix the thresholds at their 2012 levels, with adjustments being made for changes in data sources and indicators
- In 2018 review, an additional indicator – maternal mortality ratio – will be included in HAI



Numbers in parenthesis indicate the weight in the overall HAI.

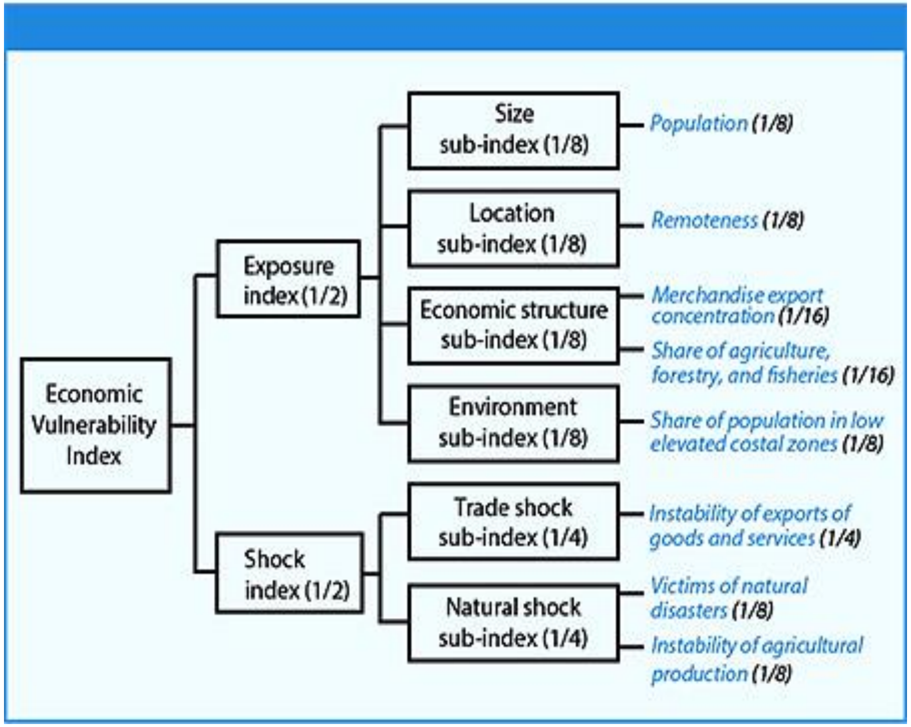
- **Economic Vulnerability Index**

The Economic Vulnerability Index (EVI) measures the structural vulnerability of countries to exogenous economic and environmental shocks. The EVI includes eight indicators which are grouped into various sub-indices

- The numbers in parentheses show the weight of each component in the overall EVI
- Original data for each variable are converted into index numbers using a max-min procedure
- At the 2012 triennial review, the inclusion threshold corresponded to the first quartile in the distribution of EVI values of a reference group. The graduation threshold was fixed at 10% lower. In 2014, the CDP decided to permanently fix the thresholds at their 2012 levels, with adjustments being made for changes in data sources and indicators

Composition of the Economic Vulnerability Index (EVI)

Numbers in parenthesis indicate the weight in the overall EVI.



Section II: Criteria for Identifying LDCs: Inclusion and Graduation

- **Inclusion Procedures**
  - ✓ Country meets the inclusion thresholds for all three criteria
  - ✓ No automatic recommendation, country circumstances to be taken into account
  - ✓ Inclusion is effective immediately after General Assembly takes note of recommendation
  - ✓ Countries have the right to accept or reject the LDC status after inclusion is recommended, or withdraw from it once it has been included e.g. even after meeting the inclusion criteria, Zimbabwe refused to take the LDC status
  - ✓ Bangladesh was included in the LDC group in 1975
- **Inclusion Thresholds (for 2015 review)**

  A country will be considered for inclusion as an LDC when:
  - ➢ GNI per Capita: A moving goal post! For 2015 it was fixed at **$1,035** and below
  - ➢ HAI: 60 and below (fixed at 2012 levels)
  - ➢ EVI: 36 and above (fixed at 2012 levels)

Section II: Criteria for Identifying LDCs: Inclusion and Graduation

- Graduation Procedures

  1. When an LDC passes the thresholds in terms of any two of the three criteria

     - ❖ GNI and HAI; or GNI and EVI; or HAI and EVI

Or, 2. Income (GNI per capita) is greater than two-times the income graduation threshold

- Graduation Thresholds (for 2015 review)
  - ➢ GNI per Capita : A moving goal post!

  For 2015 review it was $1,242 and above ($2,484 and above for 'Income only' graduation). Average of three previous years' GNI per capita is taken e.g. 2015 review considered average of 2011-2013. 2018 will consider average of 2014-2016.
  - ➢ HAI: 66 and above , EVI: 32 and below (fixed at 2012 levels)
- However:

✓ Not mechanical: impact assessment, vulnerability profile, country views taken into account

✓ Country needs to be eligible in two consecutive reviews before any recommendation is made

✓ Graduation becomes effective after a transition period (normally three years). Allows the LDC to prepare for graduation

✓ After graduation, partners are not to withdraw LDC support abruptly

Overview of LDC Graduation since 1971

- *Only 4 countries have so far "graduated" and 3 have been recommended for graduation*
- *Graduated from LDC Group*

Country (Year)	Criteria
Botswana (1994)	economic and other considerations
Cape Verde (2007)	GNI per capita + HAI
Maldives (2011)	GNI per capita + HAI
Samoa (2014)	GNI per capita + HAI

- *LDCs recommended for graduation*

LDCs recommended for Graduation (Expected Year)	Criteria
Equatorial Guinea (2017)	Income only
Vanuatu (2020)	GNI+HAI
Angola (2021)	Income only

Section II: Criteria for Identifying LDCs: Inclusion and Graduation

Met criteria in CDP review (2015)but not yet recommended/ endorsed

- Kiribati
- Tuvalu

Met criteria for the first time in 2015; could be recommended by 2020

- Bhutan
- Nepal
- Sao tome and Principe
- Solomon Islands
- Timor Leste

- In 2012, CDP recommended **Tuvalu** (Income and HAI) for graduation, but it was not endorsed by the ECOSOC. CDP in its 2015 review noted the state of high vulnerability afflicting the country as reflected in its economic vulnerability index score and evidenced by the impact of the recent cyclone
- **Kiribati** (Income and HAI) was found eligible for the second consecutive time in 2015, but was not recommended for graduation as it is the most vulnerable country in the world according to the EVI index. Although its income level was above graduation threshold, the EVI was significantly lower than that of other highly vulnerable countries recommended for graduation. The country was to remain under review
- **Bhutan, São Tomé and Príncipe** and **Solomon Islands** met both the GNI and the human assets index criteria; **Timor-Leste** met the "income only" criterion and **Nepal** met both the structural indices (HAI and EVI)
- Next CDP review to take place in 2018

Section III: Conceptual Difference between LDC and Middle Income Country (MIC) Category

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Issues	LDC	MIC
Classification authority	UN Classification Single category	World Bank Classification (Two classes under middle income- *lower middle & upper middle)*
Purpose	To attract special support measures from international community; preferential treatment; WTO etc.	Make lending decisions; benefits provided in terms of lower interest rates; debt relief etc.
Basis for Taxonomy	3 criteria- 12 different structural indicators and an indicator for income.	Income in Atlas method (LMIC: $1,026-$4,035; UMIC: $4,036-$12,475)
Inclusion and graduation thresholds	Income threshold uses WB atlas method and is average of 3 years and is updated every year; HAI and EVI are indices fixed at 2012 level 2 of 3 threshold needs to be met to graduate	Uses WB Atlas method; Considers only 1 year; updated every year; Differs from LDC income threshold. One threshold to be met
Income only option	Graduates when GNI per capita is double the income threshold	No such option
Cap on Population	Additional criteria added in 1991; Population must be less than 75 million	No cap
Process of exit	A prolonged one. Minimum six years from meeting the criteria	Short period. Changes every year
Decision regarding inclusion and graduation	Once recommended for inclusion, countries decide whether to accept the LDC status or not. Once recommended for graduation, countries have no choice but to graduate	Countries are bound to accept whatever classification is assigned to them

Section IV: The Need for a Graduation Strategy – Objectives, and Remit of the Study

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Time line	LDC graduation procedure
The 2018 CDP triennial review	CDP will find Bangladesh eligible for graduation, DESA to notify its initial findings
Between next two CDP triennial reviews (2018-2021)	UNCTAD to prepare a vulnerability profile, DESA to prepare an ex-ante assessment report and Bangladesh may or may not provide comment on these drafts
At the time of 2021 CDP triennial review	DESA to confirm Bangladesh's eligibility for LDC graduation for the second time and recommend to ECOSOC. ECOSOC likely to endorse and UN General Assembly will take note of the CDP recommendations
Between two CDP triennial reviews (2021-2024)	Bangladesh to set up a consultative mechanism and prepare a transition strategy with the help of all responsible stakeholders. It is expected that to facilitate the process UNDP and UN system will provide targeted support. Besides, CDP will continue to monitor and report annually to ECOSOC
2024 CDP triennial review	Graduation becomes effective and Bangladesh graduates permanently out of the LDC group
Transition period of smooth graduation (2024-2027)	Bangladesh is expected to prepare, implement and monitor the transition strategy. In the process, it is hoped that Bangladesh will receive support from development and trading partners in implementing transition strategy
Completion of Smooth graduation (2027)	Bangladesh graduates out of the preferential market access regime

Source: Authors' compilation following CDP's graduation framework

Independent Review of Bangladesh's Development

Section IV: The Need for a Graduation Strategy – Objectives, and Remit of the Study

- UNCTAD (2016) has projected that Bangladesh is likely to graduate from the group of LDCs by 2024
- The rationale for the current exercise is that there are both formidable challenges which will originate from Bangladesh's LDC graduation, and also opportunities which could emerge thanks to graduation
- CDP in 1991 had determined that countries with a population exceeding 75 million shall not be considered for inclusion in the list of LDCs. In view of this, if Bangladesh is able to sustain the graduation thresholds for the next two triennial reviews (in 2021 and 2024), and moves out of the LDC group, her graduation will be irreversible
- It is to be noted that, Bangladesh's LDC graduation will be taking place in the backdrop of an earlier graduation, in 2015, from low income to lower middle income country (LMIC) status (as per WB atlas method)
- Bangladesh will, however, continue to benefit from ongoing preferential treatment as an LDC for an additional three years i.e. till 2027
- Challenges will need to be addressed, and opportunities harnessed, consequent to Bangladesh's LDC graduation. Therefore, the need of preparing a smooth graduation strategy can not be overemphasised
- Bangladesh has the next 10 years to prepare for sustainable graduation beyond the year 2027. In the meantime Bangladesh should make the most out of the LDC-specific preferences and prepare for life after LDC
- Consequently, a forward-looking smooth graduation strategy is called for to ensure sustainable graduation with momentum

Section IV: The Need for a Graduation Strategy – Objectives, and Remit of the Study

Overarching Objective of the Study

- Overarching objective of the study is to articulate some of the key elements of the proposed smooth transition strategy for Bangladesh by reviewing the strengths of Bangladesh's track record, by identifying key challenges to be addressed during the interregnum, and by proposing measures to ensure graduation with momentum

Research Focus

- To service the study objectives, three sets of issues are addressed:
  - ➢ Examine Bangladesh's track record to assess prospects of smooth LDC transition
  - ➢ Anticipate Challenges and opportunities that will inform the graduation pathways
  - ➢ Articulate Possible strategies towards Bangladesh's graduation with momentum

Section V: Bangladesh's Graduation Possibilities

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Table A: Bangladesh's graduation prospects: projections in view of 2018 CDP review

Criteria	2015		2018	
	Threshold	Actual value	Predicted threshold	Predicted value for Bangladesh
GNI per capita ($)	1242	926	1175-1200	1194-1198
HAI	66	63.8	66	70.9
EVI	32	25.1	32	24.7

Source: Authors' projections. *Note: Methodology and assumptions are detailed out in the paper*

- According to authors' projection, the ongoing global economic slowdown could lead to a fall in LDC graduation threshold as per GNI per capita when the 2018 CDP review will take place
- Bangladesh's track record concerning growth in GNI, as per the projections presented in Table A, indicates that Bangladesh is likely to graduate in terms of this criteria, along with the other two in terms of which her graduation is almost certain
- Even if Bangladesh marginally falls short in meeting the GNI per capita threshold criteria in 2018, it is almost certain that by the time of the 2021 CDP review Bangladesh will cross this (third) threshold as well
- This will mean that, as distinct from majority of the other graduating and graduated LDCs, Bangladesh's LDC graduation will be more broad-based (fulfilling all three criteria) and hence a more balanced one
- In this connection, it is important to note that, Bangladesh's population, GDP and export are respectively 17.2 per cent, 17.5 per cent and 12.4 per cent of all the 48 LDCs combined . Hence, her graduation and graduation pathway will likely attract a lot of attention

Section VI: Prospects and Challenges of Bangladesh's Sustainable Graduation

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- As Bangladesh moves towards 2018 as a candidate-LDC for graduation, issues of sustainable graduation will likely, and justifiably so, gain increasing attention. There are several reasons for this:
  - ***Firstly,*** Bangladesh will need to continue the momentum so that it distances itself (improves) further from the thresholds which will give it a comfort zone from any likely setback
  - ***Secondly,*** the experience of a number of graduated LDCs shows that, inspite of having crossed the thresholds once, vulnerabilities continue to persist and these then could lead to deferment of the final graduation
  - ***Thirdly,*** the interregnum years between graduation consideration and final graduation (2018-2027) provides a breathing space to Bangladesh to take the needed preparation for the final graduation
  - Designing a well-crafted graduation strategy thus has become critically important task for Bangladesh in moving forward

Section VI: Prospects and Challenges of Bangladesh's Sustainable Graduation

- *However, Bangladesh's Graduation will be Taking Place at a Time of Considerable Uncertainties in the Global Arena*
  - A recent press release on trade data and outlook forecasted that global merchandise trade volume is expected to grow at only 1.7 per cent in 2016, accompanied by real GDP growth of 2.2 per cent at market exchange rates. This would be the slowest pace of trade and output growth since the financial crisis at 2007-08 (WTO, 2016)
  - The situation in the run up to 2018, and beyond, could worsen in the face of restrictive trade practices by developed countries, Brexit and their impacts on trade with Europe, the increasing presence of mega-regional trading blocs and the weakening of the WTO as the global multilateral institution governing trade rules
  - While the adverse impacts of economic and financial crises of 2007–2008 was rather limited for the Bangladesh economy, similar crises are likely to have a greater impact in future as Bangladesh's economy continues to be increasingly integrated with the global economy
  - Migration crisis and slowdown of remittance inflow may also have adverse impact on Bangladesh's growth performance
  - Global slowdown could have detrimental impact on Bangladesh's exports – Bangladesh's export growth over first eight months of FY2017 (July-February) was only 3.2 per cent as against the annual target of 8.0 per cent; remittance growth was (-)17.1% over the corresponding period

Table B: Predicted values of GNI per capita, HAI and EVI by years of CDP's triennial reviews

Indicators	2015		2018		2021		2024	
	Threshold	Actual values	Threshold	Predicted values	Threshold	Predicted Values	Threshold	Predicted values
GNI per capita	1242	926	1175-1200	1194	1320-1340	1663-1780	1345-1375	2259-2505
HAI	66 and above	63.8	66 and above	70.9	66 and above	75.4	66 and above	80.2
EVI	32 and below	25.1	32 and below	24.7	32 and below	24.8	32 and below	24.7

Source: Authors' projections. *Note: HAI and EVI thresholds are fixed permanently for LDC graduation*

- Trend analysis indicates that Bangladesh's performance as regards under-nourishment could remain a concern if appropriate measures are not strengthened. Even if this is factored into the equation, the overall HAI score is projected to be 75.4 and 80.2 respectively at the time of the 2021 and 2024 CDP triennial reviews. These are well above the graduation threshold score of 66

- However, a caveat is called for here. Whilst in terms of many of the related HAI and EVI sub-indicators Bangladesh has made commendable progress, trend analysis may not necessarily generate good predictors. HAI and EVI average scores conceal vulnerabilities in terms of specific sub-indicators

Section VI: Prospects and Challenges of Bangladesh's Sustainable Graduation

- Projections in this study were made on past values when Bangladesh did make good progress compared to the correspondingly low reference points of the past. Going forward, building on past performance could become more difficult, as hard to reach areas and communities get to be targeted. To achieve further progress in terms of social development indicators, the solutions are likely to be more capital intensive than the many low-cost solutions of the past and current
- While Bangladesh has demonstrated significant success in disaster management, natural disasters remain an uncertain variable in any equation involving the future likely trends
- Bangladesh continues to remain a highly challenged country in terms of climate vulnerabilities

Section VI: Prospects and Challenges of Bangladesh's Sustainable Graduation

- Mitigating the challenges of climate change should remain high on policy agenda of Bangladesh over the next period as graduation from the LDC group will likely adversely affect Bangladesh's possibility of receiving preferential climate financing from such global sources as infrastructural development fund, climate change adaptation funds and technology related green climate fund (GCF)
- On the other hand, improvements in standards of living through higher GNI per capita will hopefully better equip people in addressing natural disasters
- The parameters of GNI per capita, HAI and EVI are correlated and strengthening of Bangladesh's capacities in the various areas, and the resultant resilience, will hopefully enable the country to prepare for graduation from a position of strength

Section VII: Costs and Credits of Bangladesh's LDC Graduation

Terms of ODA

- Bangladesh's dependence on ODA has gradually declined over time – compared to early 1990s when the ratio of ODA to export of goods and services was 1:1, currently it stands at 1:16. However, in the period of 2012-2015 (in real value terms), Bangladesh's share of ODA 7 per cent of the total ODA received by the LDCs as a group
- In recent years, a larger share in ODA has come in the form of loan. Thus, Bangladesh is already getting tuned to non-grant loans
- Concessional loans are expected to further decline as Bangladesh transit from IDA-only form of WB loan to blended loan to International Bank for Reconstruction and Development (IBRD) type loan only status
- Bangladesh is now eligible for blended financing as per capita income criteria. In FY17 the blend operation threshold was up to USD 1,945. If the current GNI per capita growth rates sustain, by the time Bangladesh will finally graduate (2024), she may as well cross the threshold of blend category

Section VII: Costs and Credits of Bangladesh's LDC Graduation

- As a graduated LDC, Bangladesh will need to adjust to the new realities where it will perhaps gain IBRD status for loan purposes. In the process, borrowing costs will significantly rise as Bangladesh will start to receive increasingly more ODA on shorter maturity terms and at higher lending rates. Consequently, Bangladesh will also have to incur higher debt service liabilities in future
- However, the transition from IDA-only to blend to IBRD-only status and Bangladesh's economic strength as a non-LDC, should be seen from the perspective of country's improved creditworthiness and credit ratings
- Raising of loans, either by public sector (issuing of sovereign bonds) or private sector (commercial loans), will be possible at relatively lower interest rate, in view of better credit standing of the country

PMR (2017): Pathways to Bangladesh's LDC Graduation: Prospects, Challenges and Sustainable Graduation Strategy

Terms of Market Access

- Currently, Bangladesh enjoys preferential market access, to varying degrees and extent, in markets of more than 40 countries
- Unless Bangladesh manages to renegotiate, through bilateral agreements or as part of regional trade arrangements (of BFTAs and CEPA type), she will have to face MFN tariff rates in exporting to those markets beyond 2027
- Estimates carried out for the present study shows that (using a gravity type regression model), at the prevailing MFN rates, taking cognisance of markets and products, on average, Bangladesh's exports will face an additional 6.7 per cent tariff once it graduates from the LDC status
- This could result in an estimated export loss to the tune of USD 2.7 billion in the currently preference-offering countries (the reference export value taken was USD 21.3 billion for FY2015) e.g. equivalent to about 8 per cent of her global exports in that year
- This result is found to be fairly consistent with UNCTAD estimates which indicates that Bangladesh export may fall by 5.5 to 7.5 per cent as a result of loss of preferential access

Section VII: Costs and Credits of Bangladesh's LDC Graduation

- Analysis of tariff rates, market share and preferences carried out by the authors' show that, at the current MFN rates, on average, Bangladesh's export will face 8.7 per cent and 3.9 per cent tariff rise respectively in the EU and selected non-EU destinations once she graduates from the LDC group
- The preference erosion (in major exporting countries) will thus have implications for export competitiveness, and export earnings and consequently, GDP, employment and poverty
- Once finally graduated, Bangladesh will no more be eligible for support measures e.g. DF-QF market access negotiated in the WTO, trade-related EIF funds, Special and Differential Treatment (SDT) provisions for the LDCs in the WTO, potential support from the proposed 'Technological Bank'
- Bangladesh will also not be eligible for science, technology and innovation (SDI) related concessional finance for the LDCs

PMR (2017): Pathways to Bangladesh's LDC Graduation: Prospects, Challenges and Sustainable Graduation Strategy

Section VII: Costs and Credits of Bangladesh's LDC Graduation

- Intellectual property rights (IPR) regimes will be more stringently applied – this will be particularly relevant for Bangladesh's promising pharmaceutical sector which has been receiving special treatment under the DDR (2001) decision on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Public Health
- Once graduated from preferential market access eligibility, Bangladesh will not benefit from any progress in the *services waiver* (under WTO-GATS Mode 4) negotiations which is geared to provide preferential access to service exports from the LDCs
- Budget caps for LDC contribution to regular budgets of UN, ILO, UNIDO, IPU, WMO etc. as well as access to special travel funds, free tickets to UN and WTO meetings will also no longer be applicable for Bangladesh

Beyond 2027, Bangladesh will no longer be eligible for the global aid, trade and other international support measures (ISMs) in place for the LDCs

Section VIII: Strategies for Bangladesh's Sustainable Graduation

Reporting Requirements as a Motivation for Designing a Graduation Strategy

- Bangladesh should take the opportunity of preparing response and comments (although this is optional) on UNCTAD's vulnerability assessment and on UNDESA's ex-ante impact assessment report which can get the ball rolling in preparing the envisaged graduation strategy
- The consultative mechanism which is expected to follow between two CDP triennial reviews (2021-2024) could be a good opportunity to seek global support to help Bangladesh implement various components of the strategy
- Reporting to CDP and ECOSOC should also be seen from the perspective to mobilising global support
- In the next five year plan (8FYP) issues related to Bangladesh's smooth graduation from the LDC group will demand particular attention

Structural Transformation of the Economy: A Graduation from Factor-driven to Technology and Productivity Driven Economy

- Technology upgradation, skills endowment, productivity enhancement and higher competitive strength – in all these areas Bangladesh will need to put high priority in policymaking and policy implementation
- To improve productivity scenarios across all sectors institution, incentives, fiscal and monetary policy, targeted allocation and appropriate utilization of resources, and high quality of implementation will need to be geared
- More emphasis will need to be put on drivers of structural transformation in the economy in view of attaining the goals of the 2030 Sustainable Development Agendas

Strengthening Market Access

To improve export competitiveness beyond the region of LDC specific trade preferences, Bangladesh need to deploy renewed efforts towards:

- Product and market diversification (e.g. intra RMG diversification by putting emphasis on quality and value-added, fashion and design driven up-market market segments etc.)
- Taking advantage of the increasing South-South trade opportunities, particularly in the regional markets of India and China, through targeted product diversification and by attracting FDI targeted to these markets
- Time has come for Bangladesh to apply mind to selectively venture into bilateral-regional trade/investment agreements keeping in the purview the development of supply and value chains
- Need to explore how she can take the advantage of non-LDC specific preferential arrangements such as the various GSP schemes for the developing countries

Section VIII: Strategies for Bangladesh's Sustainable Graduation

- In the context of the EU, which is Bangladesh's major export destination, Bangladesh will need to explore opportunities of accessing the GSP+ window
- It is likely that Bangladesh will meet all the economic conditions for applying for GSP plus market access
- As regards non-economic condition (for GSP plus eligibility), among the 27 international conventions on human rights, labor rights and environmental issues Bangladesh has already ratified or acceded to all but the convention concerning Minimum Age for Admission to Employment
- However, simple ratification will not do; what will matter is enforcement of all the conventions to the satisfaction of the EU
- With a forward-looking perspective, Bangladesh will need to give heightened attention to issues of enforcing all the ILO conventions at the enterprise and sectoral levels

Getting Ready for the Emerging Global Trade and Business Scenario

- The shift from multilateral trading discipline under the WTO towards a system dominated by mega-regionals of the type of Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Transatlantic Trade and Investment Partnership (TTIP) will create additional challenges for Bangladesh in terms of market access
- Bangladesh may face significant preference erosion in the face of increasing dominance of number of cross-regional FTAs of the types of India-ASEAN FTA, India-EU FTA, Canada-EU FTA and similar trading arrangements
- In this backdrop Bangladeshi products will have to enter markets of many of these RTA-members by paying MFN tariffs; in contrast RTA member countries will enjoy duty-free market access in their respective partner country markets
- Bangladesh will be required to pursue a highly proactive trade policy, including the option of negotiating membership in various mega-trading blocs and RTAs of Comprehensive Economic Partnership Agreement (CEPA) type. This will call for adequate preparations and significant enhancement of negotiating power
- Following Brexit, a Commonwealth-wide GSP scheme is being contemplated. Bangladesh should remain engaged in this process

Taking Advantage of Regional and sub-Regional Cooperation

- More attention to deepening cooperation at regional (Southern and South Asian) and sub-regional levels through multi-modal, seamless connectivity will be required
- Investments in trade facilitation, establishing single window, electronic data interface facilities, harmonisation of standards and certification and designing standard operating protocols will be required if initiatives such as BCIM-EC and BBIN-MVA are to be operationalised
- Cooperation with countries of the Bay of Bengal region will be another area which will demand particular attention in view of exploring potential opportunities of the *Blue Economy*
- The opportunities emanating from Japan's interest, in view of the *BIG-B initiative* ought to receive priority attention

Getting Ready for the New Aid Regime

- Bangladesh's LDC graduation will be accompanied by two additional graduation – graduation from IDA and the Asian Development Fund. In view of that, Bangladesh also needs to get ready for the new aid environment
- In this backdrop, Bangladesh will need to address a number of issues – rising cost of assistance, increasing external debt-burden, accessing new opportunities of finance including from AIIB, BRICS Bank, raising capital through issuing of sovereign bonds in the international market
- Meanwhile, maximum utilisation of aid in the pipeline should be given priority, as the terms were likely to change with graduation
- Bangladesh will need to get ready to gradually go for capital account convertibility, and in view of this, exchange rate management and ensuring good governance in the financial sector will need heightened attention. The concerned reforms should not be deferred any more
- Fiscal-Monetary-Institutional reforms ought to be undertaken with due urgency

Learning from the Graduated LDCs, Lessons for Bangladesh

All the four already graduated LDCs are small and highly vulnerable economies. Whilst they did pass the graduation thresholds, their economies had continued to remain susceptible to many of the past vulnerabilities. Bangladesh should take three important lessons from their graduation process:

- Take adequate preparation to reduce vulnerabilities, towards diversification of the economy
- Explore windows of opportunity, through smart negotiations, for preferential treatment through proactive engagement with international organisations (WTO; EU, at bilateral and regional levels)
- Negotiate access to soft loans from multilateral agencies (World Bank, ADB, regional financial entities)

Section IX: Concluding Remarks

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- Bangladesh is well-positioned for graduation from the LDC group. However, a number important transitions inform Bangladesh's graduation process – LDC-graduation will commence in the backdrop of her recent graduation from LIC to LMIC; in terms of market access she will transit from LDC-specific preferential treatment to MFN-based market participation; in the context of aid she will transit from highly concessional to blended finance
- Additionally, Bangladesh's graduation journey will also be taking place at a time of a fast-changing global scenario and in the era of the SDGs where there will be need for triangulation of economic, social and environmental aspects of development
- If Bangladesh's graduation is to be sustainable it has to be with momentum. Hence the need for adequate preparedness before final graduation
- Addressing issues of poverty, inequality, structural transformation of the economy, creating of good jobs, strengthening of supply side capacities, diversification of export product and export market, graduation from factor-driven to productivity-driven production practices, accessing the opportunities of digital economy, IT-enabled service economy and the new knowledge ecosystems, and realizing potential advantages of strengthened regional and global integration of the Bangladesh economy – all these will call for conscious policy choices and greater implementation capacities on the part of Bangladesh
- Since once graduated there is no going back for Bangladesh (on account of the population threshold), it is particularly important that she embarks upon her graduation journey with adequate preparation and a well thought out strategy. Time to get on with this task that call for urgent attention of policymakers

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Thank You