Public Dialogue on
Bangladesh’s Graduation from the LDC Group
*Pitfalls and Promises*

Session One: Graduation Paradigm: Concepts and Comparisons

The LDC Paradigm, Graduation and Bangladesh
*Concepts, Comparison and Policy*

Presented by
*Dr Debapriya Bhattacharya*
Distinguished Fellow, Centre for Policy Dialogue (CPD)

10 March 2018: Dhaka
1. LDCs at a glance
2. The unique case of Bangladesh's graduation
3. An eclectic approach to the theoretical construct
4. Sorting out a confusion
5. Comparative perspectives
6. Lessons from graduation experience
7. Major takeaways

For citation
1. LDCs at a glance

- 25 LDCs in 1971
- 47 LDCs in 2018
- 17 landlocked
- 9 small islands
- 33 African, 9 Asian
- 4 Pacific, 1 Caribbean
- 13% of world population
- 31% of world poor (2015)

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>GDP</th>
<th>Trade</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs (Share of World in 2015)</td>
<td>12.97%</td>
<td>1.11%</td>
<td>0.94%</td>
<td>2.17%</td>
</tr>
<tr>
<td>Bangladesh (Share of LDCs in 2015)</td>
<td>16.83%</td>
<td>19.34%</td>
<td>17.66%</td>
<td>6.15%</td>
</tr>
</tbody>
</table>

Source: Calculated using data from UNCTAD (n.d.)

1. The unique case of Bangladesh's graduation

*Bangladesh’s graduation is expected to be a landmark success in contemporary development experience*

→ Gearing up for double transition
  - Low-income to lower-middle-income country in 2015 and LDC graduation in 2024

→ Small size of economy and population of former LDC graduates
  - Botswana (graduated in 1994) landlocked developing country
  - Cape Verde (2007), the Maldives (2011), Samoa (2014) small island developing states
  - Equatorial Guinea (2017) – small oil exporting developing country

→ One of the first large developing countries to graduate
  - Large population, sizable economy, exports and progress in poverty alleviation

→ One of the first LDCs to meet all three graduation criteria at the time of graduation
  - The income criterion of gross national income (GNI) per capita
  - The Human Assets Index (HAI)
  - The Economic Vulnerability Index (EVI)
2. An eclectic approach to the theoretical construct

- “Underdevelopment traps” embodying LDCs could be attributed to their colonial legacies. Strong association between colonial legacies and post colonial development (Bartocchi and Canova, 2002, Acemoglu, Johnson and Robinson, 2001; Price, 2003)

- “Big push” is needed to avoid underdevelopment traps (Rosenstein-Rodan, 1943)

- Rostow’s (1960) Stages of Growth theory: focused more on needs of the war-torn West

- Lewis (1954) and Kuznets (1955, 1973) contributed to structuralist views more relevant to LDCs

- Robinson (1971) emphasized on capital investment while Barro (1994) on human capital


- The quality of economic growth is important (McMillan et al., 2016). Economic transformation as a continuous process of “positive structural change” and increasing sectoral productivity.

- Stiglitz (2016) corroborated the idea that markets by themselves do not realise structural transformation that is necessary for successful development and endorsed governments playing a dominant role in creating enabling environments and minimising negative externalities.

2. An eclectic approach to the theoretical construct (contd.)

- **Implications for LDCs**
  - *Graduation with momentum* and *smooth transition* for most LDCs would entail leaving behind their colonial and post-colonial production structures and embarking on new development paths based on economic diversification and structural transformation.
  - *Positive structural transformation* and *inclusive growth* in LDCs can be gained through productivity growth, export diversification, reduction of productivity gaps across sectors, labour transition to more productive sectors and productivity-enhancing capacity development.
  - In *creating an enabling environment* for capital investment, infrastructure development, economic diversification and use of available LDC-specific external assistance, the role of government is critical with respect to adopting effective industrial policies and facilitating domestic policy reforms.

3. Sorting out a confusion

- **Two widespread confusions!**

  i. **Bangladesh will attain middle-income status by 2021**
     - it already achieved the status of lower middle income in 2015

  ii. **Bangladesh will leave the LDC group by 2021**
     - the target is technically impossible given the lag of six years between meeting the criteria for the first time in 2018 and effectively graduating in 2024

- The two classifications are largely **different in technicalities** as well as underlying **strengths** and **weaknesses**

- The **dual transition** will have **varying policy implications** for inclusive and sustainable growth of the economy

- A **nuanced understanding** of the transitions is imperative among the stakeholders for realisations of the **strategic outcomes**
### 3. Sorting out a confusion (contd.)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Least Developed Countries Category</th>
<th>Income-classification</th>
</tr>
</thead>
</table>
| **1. Authority for classification and categories** | Authority: UN  
Classification: Single category (LDC) | Authority: World Bank  
Classification: Four categories including two tiers of the middle-income (lower middle and upper middle) category |
| **2. Purpose** | To provide eligible countries with LDC-specific special support measures from the international community | To make lending decisions |
| **3. Identification criteria** | GNI per capita, HAI and EVI | GNI per capita |
| **4. Inclusion and graduation thresholds** | Income threshold is calculated using the World Bank’s Atlas method, considers the three-year average and is updated at each triennial CDP review; the thresholds for the indicators that make up the HAI and EVI are fixed at the 2012 level | Threshold is calculated using the World Bank’s Atlas method, considers only the previous year and is updated every year; single threshold to be met at any point in time |
| **5. Graduation pathways** | Meet thresholds for two out of three criteria, or GNI per capita is twice the graduation threshold level, for two consecutive years | Meet the income threshold for that year |
| **6. Endorsement** | Recommendations by the CDP regarding inclusion and graduation are endorsed by the UN Economic and Social Council and UN General Assembly | No endorsement process; based on a statistical exercise |
| **7. Decision regarding inclusion and graduation** | Once recommended for inclusion, a country decides whether or not to accept LDC status; once recommended for graduation, a country has no choice but to graduate | A country must accept whatever classification it is assigned |
| **8. Process of exit** | Long; at least six years from meeting the graduation criteria for the first time | Short; immediately after the classification is assigned |

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5. Comparative perspectives: Peers

Table: Trends in GDP growth, ODA, FDI and remittances in co-graduating countries

<table>
<thead>
<tr>
<th>Indicators</th>
<th>GDP growth (%)</th>
<th>ODA (% of GNI)</th>
<th>FDI (% of GDP)</th>
<th>Remittances (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>6.05</td>
<td>6.27</td>
<td>1.68</td>
<td>1.32</td>
</tr>
<tr>
<td>Bhutan</td>
<td>9.38</td>
<td>5.19</td>
<td>9.5</td>
<td>8.36</td>
</tr>
<tr>
<td>Nepal</td>
<td>4.6</td>
<td>4.27</td>
<td>5.77</td>
<td>4.51</td>
</tr>
<tr>
<td>Graduating oil exporting</td>
<td>12.12</td>
<td>1.54</td>
<td>0.56</td>
<td>0.24</td>
</tr>
<tr>
<td>African LDCs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduating SIDS</td>
<td>4.52</td>
<td>2.41</td>
<td>24.21</td>
<td>25.41</td>
</tr>
</tbody>
</table>

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

- **Distinguishing features of BD**
  - Strong and improved GDP growth, declining dependence on ODA, increasing but low FDI.
  - Manufacturing sector stronger in Bangladesh than other graduating countries both in terms of share of total value added and share of employment over both 2005-09 and 2010-14 periods.
  - Second least productive labour force among graduating LDCs and projected improvements at much slower rate than most others (ILO, n.d.).
  - Poor diversification of exports with concentration index of 0.40 compared to Bhutan’s 0.36 and Nepal’s 0.14 (UNCTAD, n.d.).
5. Comparative perspectives (contd.) : Predecessors

Table: Changes (approximately 5 years before and after graduation) in key indicators of former LDCs and comparison with Bangladesh

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

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

Some post-graduation trends

- **Definitely decreasing**: GDP growth (%), ODA (% of GNI) and Remittances (% of GDP)
- **Mixed change in**: Current account (% of GDP), Tax revenue (% of GDP) and merchandise exports (% of world trade)
- **Definitely increasing**: FDI (% of GDP)
6. Lessons from graduation experience

- Budget surplus as a result of average tax-GDP ratio of 50 per cent in Botswana
- Significant improvement in national planning and revenue collection with the introduction of an integrated system for budget and financial management in 2002 in Cape Verde

- The Cape Verde government devoted substantial resources to education and health care during the 1980–2010 period amounting to, on average, approximately 16.7 per cent and 10.1 per cent of GDP, respectively
- Increased budgetary allocations to raise education standards, which increased school enrolment rates in Botswana

- In the Maldives, incentives (e.g., low taxes and rents) successful in attracting foreign and private sector actors
- Effective industrial policies adopted by government inducing private sector-oriented development of the mining sector in Botswana

- Effectively channelling ODA into national development priorities through proactive engagement with development partners in Botswana
- Requirement from donors to align ODA with policy interventions already existing in national plans in Samoa

- Good governance, respect for the rule of law, corruption management and prudent policies to capitalise on mineral resources in Botswana
- Policies towards increasing productive capacities in the labour-intensive agriculture sector and high-value-added services sector in Samoa
- Structural shift towards the services sector, especially tourism, during the 1980s contributing to economic growth in the Maldives
- Long-term national development strategies facilitating progress by promoting economic transformation and poverty reduction in Cape Verde

Source: Based on UNCTAD (2016), CDP (2012-2016) and other literature

6. Lessons from graduation experience (contd.)

Keep both fiscal and current account deficits in check

- Botswana successfully maintained large current account surpluses following graduation

Cape Verde established a Transition Support Group as a means to ensure smooth transition from the LDC category in 2006 and negotiated a two-year extension on top of the standard practice of a three-year grace period under the European Union’s Everything But Arms initiative

- The Maldives benefited from an additional two years of partial funding from the World Trade Organization’s Enhanced Integrated Framework on a project basis

Government’s proactive stance in negotiations with bilateral and multilateral trading partners

Continued engagement with development partners

- Samoa’s government negotiated zero-tariff access for noni juice and other agro-processing products with China until 2017
- Cape Verde qualified for the European Union’s enhanced Generalised System of Preferences-plus (GSP plus) trade scheme in 2011

- Botswana’s government successfully brought down its external debt to an average of 15–17 per cent of GNI since 2008 through good planning and management
- The International Monetary Fund classified Samoa as being at high risk of debt distress in 2013

Seek alternate forms of preferential access and concessionalities beyond LDC status

Strengthen regulatory frameworks

Manage external debt

Source: Based on UNCTAD (2016), CDP (2012-2016) and other literature

7. Major takeaways

- There is no explicit theoretical framework for LDC graduation. It’s an eclectic mix of schools of development thoughts. Bangladesh will have to evolve its own.

- Graduation of LDCs should not be mixed up with becoming a middle income country. LDC graduation will deal with smooth transition and making the process irreversible, where as, middle income countries will deal with the upcoming middle income trap.

- Bangladesh is found to be weaker in attracting FDI, labour productivity and export diversification compared to co-graduating countries, although it has a strong manufacturing sector and robust economic growth.

- Past graduates have exhibited slowing economic growth, falling shares of ODA and remittances following graduation. However, FDI increased invariably.

- Important lessons for the run up to graduation include structural shifts towards high value added industries, strengthening governance, mobilising domestic resources, develop infrastructure and investment in human development.

- Important lessons for post graduation include being proactive in negotiations with trading partners, continued engagement with development partners, managing external debts, current and fiscal balances, and seeking alternate sources of concessional finance.

Graduation from the LDC category is the **beginning of another journey**, the success of which is predicated on the quality of the transition process.

A **strategic outlook** in this regard is essential when designing policy and institutional interventions.

**Creative, coherent and contextualised** national policy making must address formidable **global challenges**, specifically those identified in the **2030 Agenda for Sustainable Development** that promises to **leave no one behind**.
THANK YOU

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