

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

Session Two: Pathways to Graduation and Beyond

Preparing for Life beyond LDC
Pathways towards Sustainable Graduation

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Paper Title

Pathways to Bangladesh's Graduation from LDC Group
Prospects, Challenges and Sustainable Graduation Strategy

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Section I: The Need for a Graduation Strategy for Bangladesh

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Section I: The Need for a Graduation Strategy for Bangladesh

Section I: The Need for a Graduation Strategy for Bangladesh

- Committee for Development Policy (CDP) to consider Bangladesh's LDC graduation: Meeting on 12-16 March 2018
- Two triennial reviews in **2021 and 2024**: Bangladesh expected to **finally graduate out** of the LDC group in **2024**
- An **irreversible** journey: **No new inclusion in LDC group** for countries with **more than 75 million population**
- **Double graduation** for Bangladesh: LDC graduation process to run in **parallel with low to lower-middle income (LMIC) graduation**
- Need for appropriate LDC graduation strategy:
 - **Smooth** graduation
 - Graduation with **momentum**
 - **Sustainable** graduation



Section II: Transitioning from Smooth Graduation to Graduation with Momentum

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Table A: Projected values of GNI per capita, HAI & EVI: CDP's triennial review timelines

Indicators	2018		2021		2024	
	Threshold	Projected values	Threshold	Projected values	Threshold	Projected values
GNI per capita (\$)	1,230	1,197	1,244-1,270	1,728–1,780	1345-1375	2,259-2,505
HAI	66 or above	70.9	66 or above	75.4	66 or above	80.2
EVI	32 or below	24.7	32 or below	24.8	32 or below	24.7

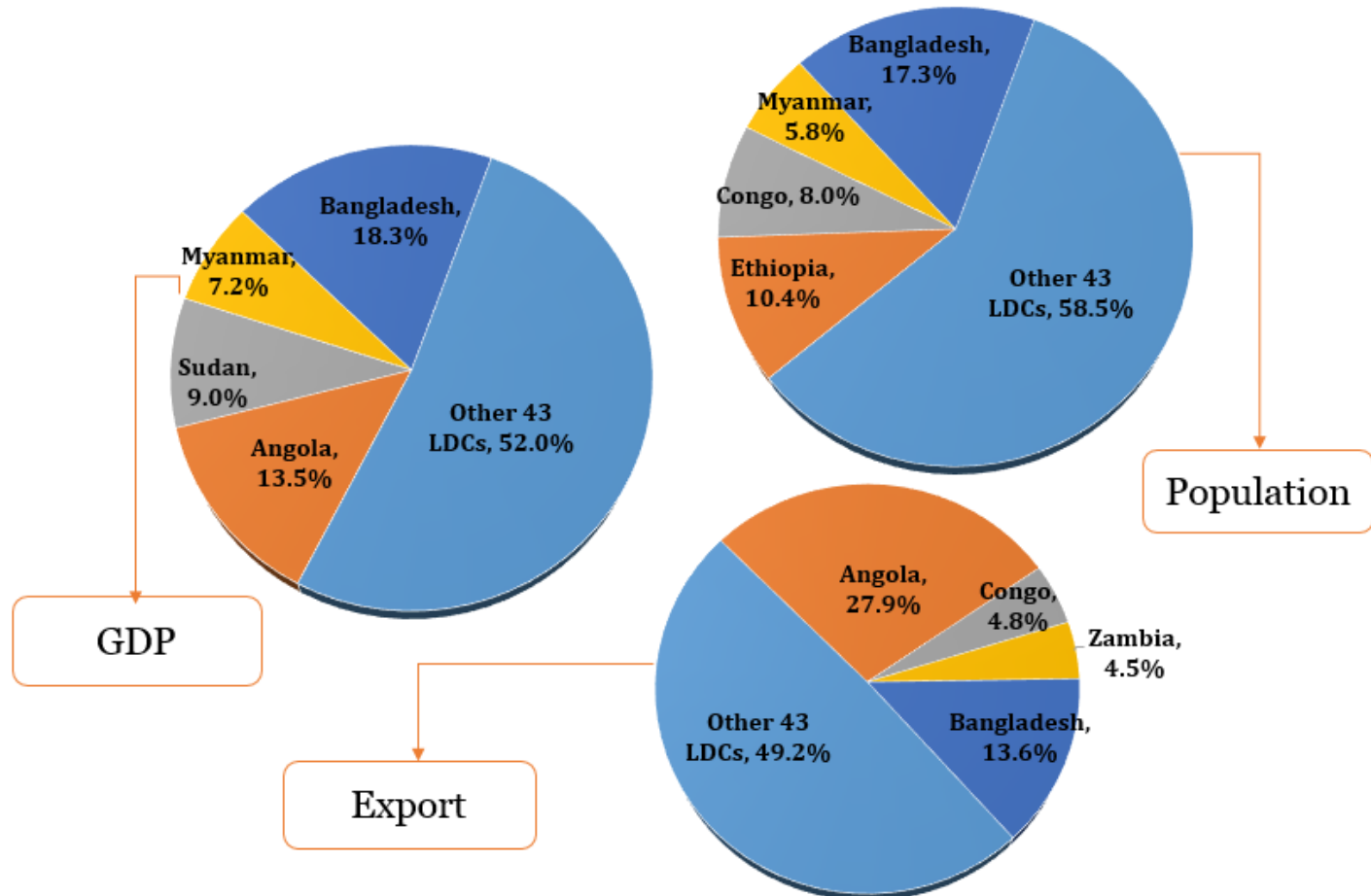
Source: Authors' projections. *Note: Methodology and assumptions are detailed out in the paper*

- Bangladesh is likely to meet **two of the three graduation criteria in 2018**. In terms of income criteria, **very close** to the threshold
- High possibility: By CDP review **in 2021 Bangladesh will cross the threshold of income criteria**
- Compared to other 15-candidate LDC graduates, **Bangladesh's graduation** is expected to be a **more broad-based and a relatively balanced one**

Section II: Transitioning from Smooth Graduation to Graduation with Momentum

Bangladesh's graduation journey will be on global radar screen

- A key player in terms of *share in population, GDP and exports* of all 47 LDCs
- About half of the manufacturing exports from LDCs originate from *Bangladesh*



Section II: Transitioning from Smooth Graduation to Graduation with Momentum

- Current growth momentum needs to be maintained **to distance** further from the thresholds
- Experience of some graduated LDCs: Persistence of **vulnerabilities**, **deferment** of graduation, that **undermine** graduation with momentum
- LDG graduation **conceals structural weaknesses** which would make **sustainable graduation a more challenging**
- The interregnum years between graduation consideration and final graduation (2018 and 2024) provide a breathing **space for preparing for sustainable graduation**

*Designing **a well-crafted graduation strategy** for Bangladesh is thus critically important in moving forward*

Section II: Transitioning from Smooth Graduation to Graduation with Momentum

Table B: LDC graduation procedure to be followed

Timeline	LDC graduation procedure
<p>The 2018 CDP review in March</p>	<p>CDP recommendations expected to find Bangladesh eligible for graduation from the LDC category for the first time. UN Department of Economic and Social Affairs (DESA) to notify its initial findings to Bangladesh</p> <p>Bangladesh is likely to take this result positively as a recognition of its impressive track record in terms of the indicators under the three graduation criteria</p>
<p>Between next two CDP reviews (2018–21)</p>	<p>UNCTAD to prepare a vulnerability profile and hand over the report to Bangladesh</p> <p>UN DESA to prepare an ex-ante impact assessment and report to Bangladesh</p> <p>Bangladesh expected to provide comments on the UNCTAD profile and UN DESA assessment (optional)</p>
<p>The 2021 CDP review</p>	<p>UN DESA to confirm Bangladesh’s eligibility for graduation from the LDC category for the second time and submit the CDP recommendations to UN ECOSOC, taking into account fulfilment of graduation criteria and other information (country statements, UN DESA assessment, UNCTAD profile)</p> <p>UN ECOSOC likely to endorse the CDP recommendations</p> <p>UN General Assembly to take note of the CDP recommendations</p>

Section II: Transitioning from Smooth Graduation to Graduation with Momentum

Timeline	LDC graduation procedure
<p>Between next two CDP reviews (2021–24)</p>	<p>Bangladesh to set up a consultative mechanism and prepare a transition strategy. It is to report to CDP on the preparation of the strategy (optional)</p> <p>UNDP expected to facilitate the consultative group and provide support upon request. UN system expected to provide targeted assistance and capacity building support upon Bangladesh’s request</p> <p>Development and trading partners expected to participate in the consultative mechanism with Bangladesh’s policymakers</p> <p>CDP to continue monitoring Bangladesh’s development progress during the interim period and report annually to UN ECOSOC</p>
<p>The 2024 CDP review</p>	<p>Graduation becomes effective and Bangladesh finally graduates out of LDC group</p>
<p>Following graduation</p>	<p>Bangladesh expected to implement and monitor the transition strategy. Bangladesh to submit to CDP progress reports on the implementation of the strategy on an annual basis for the first 3 years after graduation and at the two subsequent triennial reviews (optional)</p> <p>Bangladesh to receive support from development and trading partners in implementing the transition strategy. However, the onus will mainly be on Bangladesh to mobilise resources towards sustainable transition</p> <p>CDP to monitor Bangladesh’s socio-economic progress. Bangladesh to report to UN ECOSOC annually for the first three years after graduation and at the two subsequent triennial reviews</p>



Section III: Prospects and Challenges of Sustainable Graduation

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- Bangladesh's graduation will be taking place at a time of **considerable uncertainties** in the global arena and **disquieting emerging global** scenario
 - Global recovery after **prolonged recession** and **slow** recovery
 - **Disquieting global developments**: Protectionist stance of some key players, US-EU trade war, fate of WTO MC 11, Brexit etc.
 - **Demand side risks**: Slowdown in **export** and **remittance** growth
- Whilst the **average scores speak of Bangladesh's strengths**, some of the underlying sub-indicators will merit **special attention and targeted action**: e.g. **under-nutrition (in HAI)** and **export concentration (in EVI)**
- A new sub-indicator of HAI added in 2017: Maternal Mortality Ratio
- **Projections in this study** were made on **past values** when Bangladesh was able to make **good progress compared to the correspondingly low reference points of the past**

Section III: Prospects and Challenges of Sustainable Graduation

- Going forward, building on past performance could become **more challenging for Bangladesh** as **hard to access areas and difficult to reach communities** get to be targeted
- **Progress** in social development indicators: solutions likely to be more **capital intensive compared to many present day low-cost solutions**
- In spite of demonstrated **success** in disaster management, **natural disasters** remain **an uncertain variable** in any equation involving likely future trends
 - Graduation may adversely affect Bangladesh's possibility of receiving **preferential climate financing**: infrastructure development fund, climate change adaptation funds and technology related **green climate fund (GCF)**
- The parameters of GNI per capita, HAI and EVI are **correlated** and strengthened capacities needed in all areas for sustainable graduation



Section IV: Costs and Credits of LDC Graduation

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Terms of ODA

- **Transition** from **grants to loan** relating to ODA
- **Transition from IDA-only loan** (USD 1,165 GNI per capita) **to blended finance**; and **IBRD type loan only status** (more than USD 1,905 GNI per capita)
- Borrowing costs to rise and conditionalities to harden: **higher** lending rates; **shorter** maturity terms; more **stringent** conditionalities
- However, such transition should be seen from the **perspective of improved creditworthiness**
- More emphasis needed:
 - Negotiating loans **on better terms**
 - **Diversify** loan portfolio, new sources of finance, blended finance
 - Greater **domestic resource generation**
 - Arrest **illicit financial flows**

Section IV: Costs and Credits of LDC Graduation

Terms of Market Access

- Preferential market access enjoyed by Bangladesh, to varying degrees and extent, in more than 40 countries
- Unless Bangladesh manages to renegotiate, through bilateral agreements or as part of regional trade arrangements (of BFTAs and CEPA type), it will face MFN tariff rates following LDC graduation or reduced preferential margins under standard GSP scheme in EU market
- Estimates carried out for the present study shows (using a gravity type regression model) that, at the prevailing MFN rates, on average, Bangladesh's exports will face an additional 6.7% tariff once it graduates from the LDC status. Corresponding figures for EU, non-EU and Canada are: 8.7%, 3.9% and 7.3% respectively
 - Estimated export loss to the tune of USD 2.7 billion - equivalent to about 8.7% of its global exports in FY2015. Results consistent with UNCTAD estimates of export decline between 5.5% to 7.5%

Section IV: Costs and Credits of LDC Graduation

- Preference erosion will likely have adverse implications for export competitiveness, and export earnings and consequently, for GDP, balance of payments, employment and poverty alleviation
- Bangladesh will also no longer be eligible for preferential market access as an LDC in various RTAs (e.g. Bangladesh gets DF-QF facility from India under SAFTA)
- Once finally graduated, Bangladesh will no more be eligible for support measures in the WTO for LDCs e.g. DF-QF market access negotiated in the WTO, trade-related EIF funds, Special and Differential Treatment (S&DT) provisions for the LDCs, potential support from the proposed ‘Technological Bank’ and decadal Programme of Actions for the LDCs
- Bangladesh will also not be eligible for science, technology and innovation (SDI) related concessional finance for the LDCs

Section IV: Costs and Credits of 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
- Bangladesh will not benefit from any progress in the *services waiver* negotiations which is geared to provide preferential access for 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 no longer be applicable for Bangladesh



Section V: Strategies for Sustainable Graduation

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Reporting Requirements as Motivation for Designing a Graduation Strategy

- Bangladesh should make use of the opportunity to prepare response and comments (although optional) on **UNCTAD's vulnerability assessment** and **UNDESA's ex-ante impact assessment report**
- This could help in **designing and implementing** 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 be seen from the **perspective of mobilising global support towards Bangladesh's post-LDC journey**
- **In preparing the next national five year plan (8FYP)** issues related to Bangladesh's smooth graduation from the LDC group should demand special attention

Section V: Strategies for Sustainable Graduation

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

- LDC graduation criteria do not address many dimensions of development: **Technological upgradation; preparedness for the new economy; full employment; inclusiveness of growth; social mobility**
- WEF Report: Four categories of countries by hierarchy– Leading, High Potential, Legacy, Nascent
 - Bangladesh has been put in ‘**Nascent**’ Group
- Technology upgradation, skills endowment, productivity enhancement and higher competitive strength – in all these areas Bangladesh will need to give high priority by appropriate policymaking and high quality implementation

Section V: Strategies for Sustainable Graduation

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

- To improve **productivity scenarios**, improvements will need to be made in strengthening institutions, raising efficacy of incentives, raising quality of fiscal and monetary management, better targeting and allocative efficiency, proper utilisation of resources, and raising quality of implementation of development activities
- Sustainable LDC graduation **should parallel Bangladesh's transition from LMIC to UMIC**
- 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**

Section V: Strategies for Sustainable Graduation

Strengthening Market Access

To improve upon export competitiveness based on the region of LDC specific trade preferences, Bangladesh needs to make 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.)
- Take 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
- Selectively venture into **bilateral-regional trade/investment agreements** keeping in purview the development of production networks and value chains
- Explore how Bangladesh can take advantage of **non-LDC specific preferential arrangements** such as the **various GSP schemes for developing countries**

Section V: Strategies for Sustainable Graduation

Strengthening Market Access

- In the context of the EU, Bangladesh will need to explore opportunities of accessing the **GSP+ window**

GSP+ Eligibility

- 1st criteria: **Be a LIC or LMIC** (Bangladesh is likely to **remain an LMIC in 2024**)
- 2nd Criteria: To become eligible for EU's GSP plus scheme **a country's 7 largest sectors (GSP-covered product sections) must be worth at least 75%** in value of their total GSP-covered exports to the EU. Bangladesh's exports to the EU are highly concentrated in apparels, **which account nearly about 90%**
- 3rd Criteria: A country's GSP-eligible exports to the EU must represent less **than 6.5% of the value** of the EU's total imports from all GSP beneficiary countries
 - Bangladesh's export to **EU was 9% of EU's import from all GSP beneficiary countries** in 2016 (respective values were **EUR 16.4 billion and EUR 182.3 billion**)
 - Need to closely monitor **post-Brexit reforms and changes**

Section V: Strategies for Sustainable Graduation

Strengthening Market Access

- 4th criteria: Ratify and implement 27 core international conventions (Bangladesh has ratified all but convention concerning **Minimum Age for Admission to Employment**)
- Eligibility for GSP+ (eligible for 66% of tariff line): **All four conditions** need to be satisfied
- Eligibility for Standard GSP (eligible for 66% of tariff line): **1st and 4th criteria need** to be satisfied

Section V: Strategies for Sustainable Graduation

Strengthening Market Access

- Preference erosion: Cross regional FTAs of the types of India-ASEAN FTA, India-EU FTA, Canada-EU FTA as also RCEP, CPTPP
- Needed: A highly proactive trade policy, including exploring 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, engagement with UK. A commonwealth-wide GSP scheme is being contemplated. Bangladesh should remain engaged in the process
- Dual role in WTO: As an LDC, and as a prospective graduated LDC – engagement in built-in agenda, new issues; S&DT for developing members
- Undertake bilateral negotiations with the objective of continuing preferential access for a certain period following graduation

Section V: Strategies for Sustainable Graduation

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
- Investments in trade facilitation, establishment of single window, electronic data interface facilities, harmonisation of standards and certification and design of standard operating protocols will be required if initiatives such as **BCIM-EC and BIN-MVA** (Bhutan expected to join later) are to be operationalised
- Cooperation with countries of the **Bay of Bengal region:**
 - Potential opportunities of the *Blue Economy*
 - Japan's interest in view of the *BIG-B initiative*

Section V: Strategies for Sustainable Graduation

Getting Ready for the New Aid Regime

- Accessing new opportunities of finance including from AIIB, New Development Bank; raising capital through issuing of sovereign bonds in the international market
- Maximum utilisation of aid in the pipeline should be given priority, as the terms to change with graduation
- Bangladesh will need to get ready to gradually go for **capital account convertibility**
- **Fiscal-Monetary-Institutional reforms** ought to be undertaken with due urgency
- Ensuring good governance in the financial sector will need heightened attention
 - Concerned reforms should not be deferred any more

Section V: Strategies for Sustainable Graduation

Learning from Graduated LDCs, Lessons for Bangladesh

- All the five 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 and structural transformation**
 - 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, AIIB, NDB, ADB, regional financial entities)



Section VI: Concluding Remarks

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- **Welcome initiative:** Government of Bangladesh has set up a **Task Force** to monitor the **'Road Map'** for LDC graduation
 - **Needed:** Further elaboration of the **'Road Map'** strategic pathways towards sustainable graduation
 - Embed the sustainable graduation strategies **in 8th FYP and Vision 2041 document**
- The sustainable LDC graduation strategy and the strategy to implement the SDGs should be mutually reinforcing



Thank You