

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

Session Three: Graduating in a Brave New World

**Pursuing a Graduation Strategy within the
Global and Regional Environment**
What are the Pitfalls for Bangladesh?

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1 Introduction

2 The Pitfalls within the Global and Regional Environment

2.1 Economic Pitfalls

2.2 Rise of New Technologies

2.3 Climate Change and Finance

2.4 Governance and International Security Challenges

3 Addressing the Challenges: Existing National Efforts

4 Policy Guidelines for a LDC Graduation Strategy in Bangladesh

5 Concluding Remarks

- ❑ This presentation is based on the book chapter titled “**Pursuing a Graduation Strategy within the Global and Regional Environment: What are the Pitfalls for Bangladesh?**”
- ❑ The aforesaid study is the sixth chapter from the forthcoming book titled “**Bangladesh’s Graduation from the Least Developed Countries Group: Pitfalls and Promises**”, edited by Dr Debapriya Bhattacharya
- ❑ The research team for this particular study includes:
 - *Towfiqul Islam Khan*, Research Fellow, CPD
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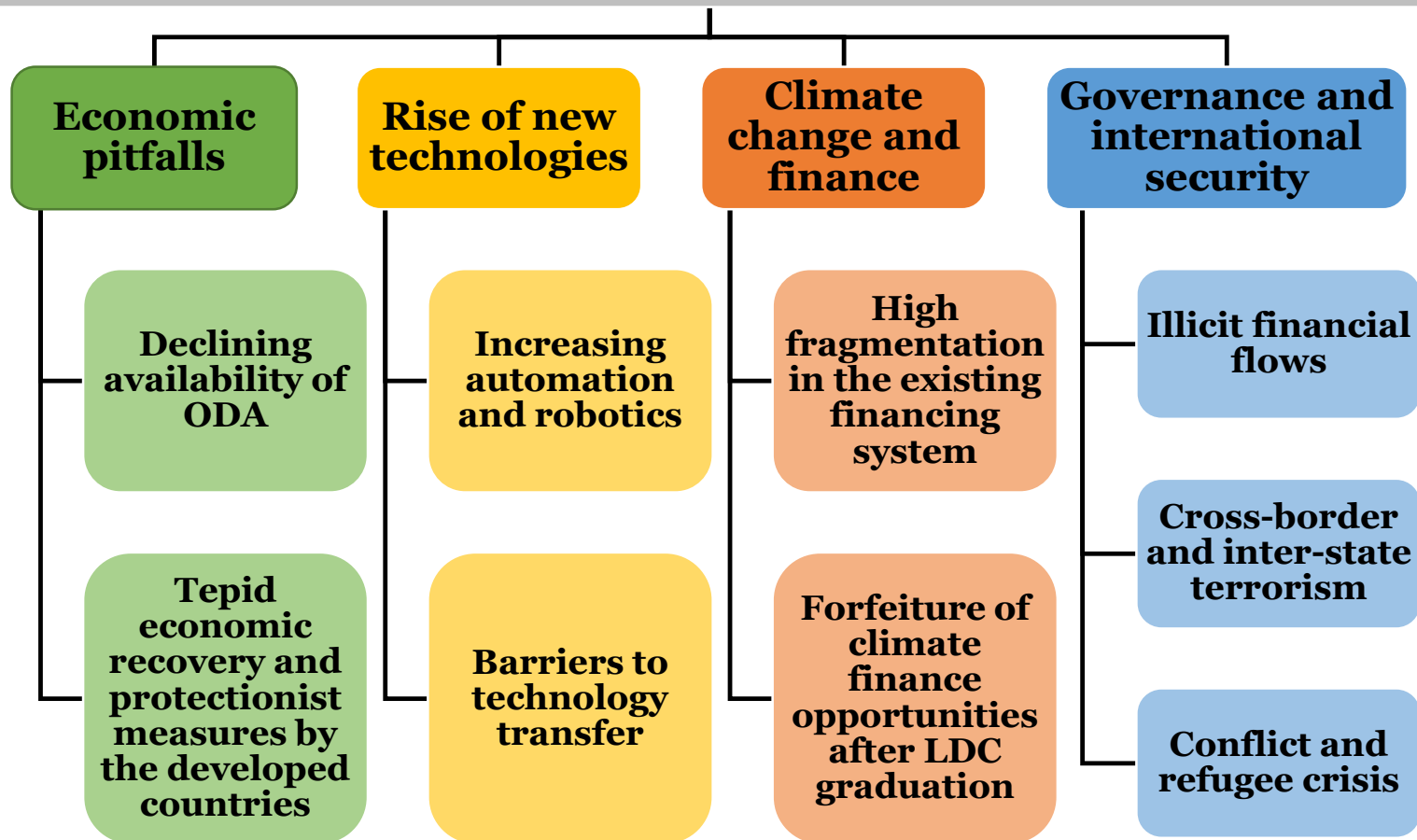
- ❑ The global economy is undergoing multiple transitions in terms of economic and geopolitical rebalancing, ongoing technological change and emerging social and political risks
- ❑ The economy of Bangladesh is becoming increasingly integrated with the global and regional economies
 - So, the aforesaid transitions are expected to have far-reaching impacts
- ❑ Bangladesh is anticipated 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 LDC graduation and beyond, its strategies will need to be contextualised in the evolving global and regional order

- In the aforementioned context, answers to the following four questions are of utmost significance:
 - What will be the key global and regional challenges for Bangladesh during the period of smooth transition after LDC graduation and are there any interrelations among them?
 - What impacts could these challenges have on Bangladesh's graduation and smooth transition?
 - With Bangladesh's graduation and ensuing transition in mind, are there any gaps regarding these challenges in the existing policy regime?
 - What more could be done to address the gaps in the policy regime?

The Pitfalls within the Global and Regional Environment

Overview of global and regional challenges facing Bangladesh

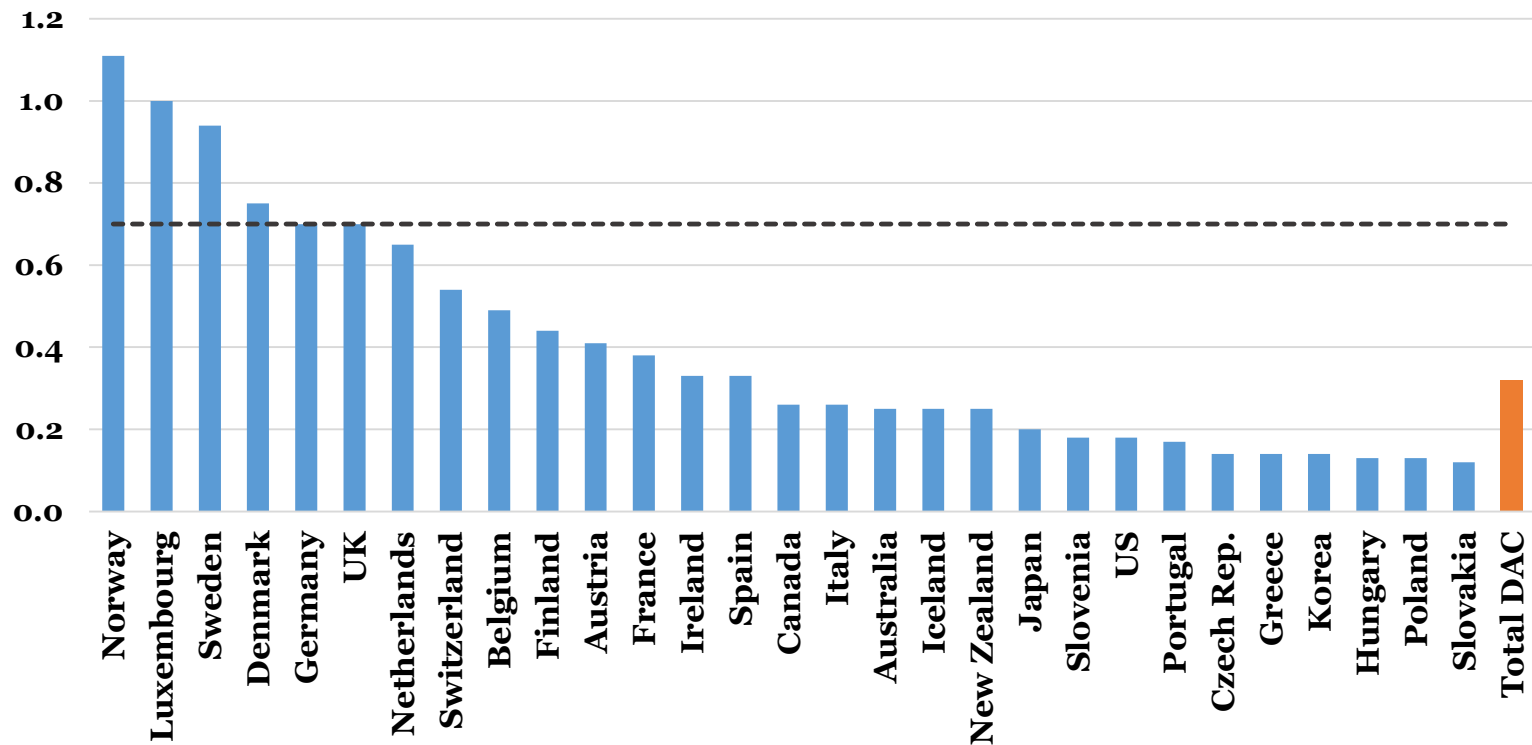
Pitfalls for Bangladesh in the global and regional environments in the context of LDC graduation and smooth transition



Declining availability of ODA

- ❑ Only six major development partners – Norway, Luxembourg, Sweden, Denmark, Germany and the UK – fulfilled their commitments to provide 0.7% of GNI as development assistance in 2016

Net ODA disbursement as per cent of GNI by DAC donors in 2016



- ❑ As the dependence on ODA in Bangladesh is declining, the significance of higher domestic resource mobilisation is increasing
- ❑ Though the volatility of ODA commitments is decreasing, various process inadequacies are hindering Bangladesh from taking the full advantage
 - These include: prolonged time gap between donors making commitments and ministries using disbursements; absorptive capacity of the implementing bodies, cumbersome administrative procedures and practices of donor agencies
- ❑ The gradual decline of concessional ODA in the backdrop of Bangladesh attaining the LMIC status might pose some challenges in the coming year with respect to debt management

Tepid economic recovery and protectionist measures by the developed countries

- ❑ The biggest challenge for Bangladesh comes in the form of market access
 - For instance, only 25 per cent of the 2,835 trade-restrictive measures applied to WTO members since 2008 had been eliminated by mid-May 2016
- ❑ Adverse developments in major export destinations like the US and UK might affect Bangladesh in the coming years
 - The current stance of the US regarding international trade and the UK's prospective exit from the EU have already emerged as glaring challenges
 - Also, the long term adverse impacts of Brexit will depend on the outcome of UK's negotiation with EU
- ❑ Bangladesh's absence from mega-regional trade agreement negotiations may impact its future trade potential

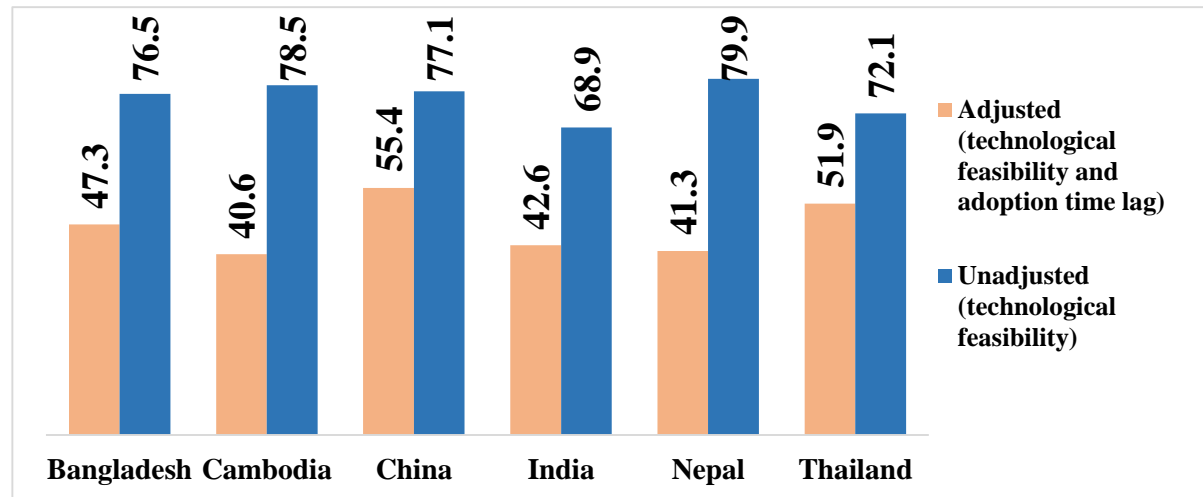
Rise of New Technologies

Increasing automation and robotics

- ❑ As automation is becoming cheaper, LDCs are losing their low labour cost advantage
 - This is adversely affecting trade, remittances and FDI into such countries
- ❑ However, the pace of technological advancement is restrained by two key factors:
 - Large volume of jobs with lower wage
 - Sluggish pace of technology adoption
 - *Will not help attainment of SDGs*

- ❑ Adjusting for technological feasibility and adoption time lag, approximately 47% of all jobs in Bangladesh are susceptible to automation

Estimated shares of jobs that are susceptible to automation, latest year (%)



Rise of New Technologies

- ❑ Another pertinent phenomenon related to technological advancement is the decline in the share of middle-skilled jobs with rises in shares of low- and high-skilled jobs
 - This might impede Bangladesh from reaping the full benefits of its demographic dividend

Barriers to technology transfer

- ❑ The major sources of cross-border technology transfer are the flows of trade and FDI from developed to developing countries
 - Given the draw of automation, many developed country firms are repatriating their production processes from LDCs
- ❑ With the loss of trade and FDI, along with the expiration of the Agreement on TRIPS and related ICT features, the transfer of technology to LDCs is at a minimum
- ❑ FDI inflow has not been promising, unlike China etc.
 - This adversely affects capacity building processes and efficiency gains in LDCs

Climate Change and Finance

Forfeiture of climate finance opportunities

- ❑ 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 (LDCF)
 - The graduated countries may need to compete against other developing countries for the remaining available financing sources
 - This situation could impose an additional constraint given the limited institutional and human capabilities of recently graduated LDCs
- ❑ The multi-donor Bangladesh Climate Change Resilience Fund does not appear to be too encouraging with very low level of funding
 - Other sources such as the Climate Investment Funds, Green Climate Fund and Global Environment Facility, are also relatively insignificant
- ❑ Climate finance opportunities presented by domestic and bilateral sources should thus be pursued
 - Lack of coordination between funding entities working in Bangladesh may hinder the efficient utilisation of the available opportunities

Climate Change and Finance

High fragmentation in the existing financing system

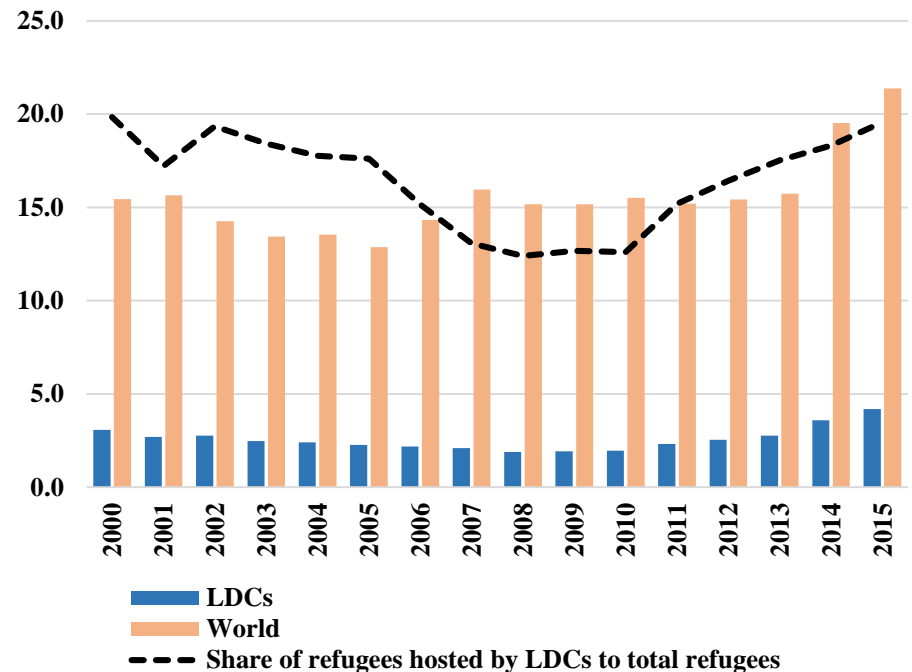
- ❑ The high level of fragmentation prevalent in the field of climate finance has made accessing funds extremely challenging
 - The immensely complex global architecture of climate finance currently comprises 29 implementing agencies, 21 multilateral funds and seven bilateral funds and initiatives
- ❑ Better coordination among the many relevant stakeholders in Bangladesh has become an exigency as regards climate finance
- ❑ More transparency in project cycles and robust integrated data systems are mandatory for oversight and control of corruption in the field

Governance and International Security

❑ Conflict and refugee crisis

- ❑ The number of refugees originating from LDCs has been increasing steadily since 2008 and noticeably accelerated in 2014–15
 - May indicate that there are growing socio-economic concerns in LDCs
- ❑ The share of refugees hosted by LDCs to total refugees has been increasing since 2010
 - This has put immense pressure on these LDCs' economies
- ❑ The recent influx of Rohingya community from Myanmar has created an unprecedented scenario in Bangladesh
 - If this crisis protracts, Bangladesh is likely to face a number of challenges in the areas of socio-economic, environmental, political and peace and security

Trends in refugees regarding asylum (in millions)



Governance and International Security

Cross-border and inter-state terrorism

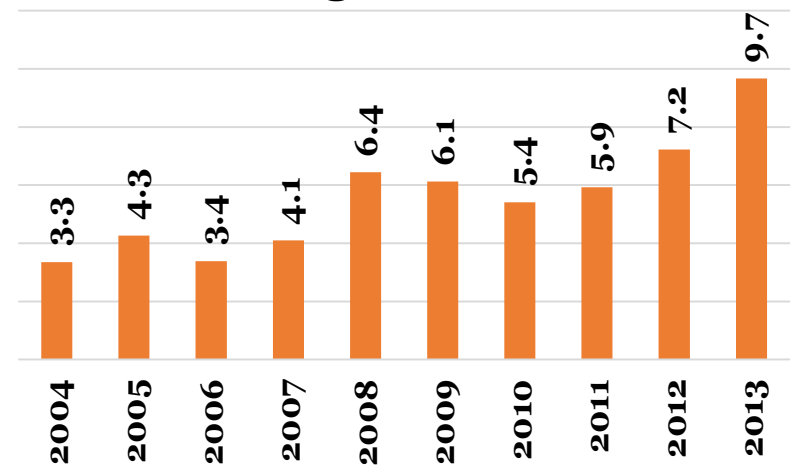
- ❑ In terms of deaths from terrorist activities, 2015 was the second deadliest year since 2000
 - The number of deaths from terrorist activities increased almost nine-fold since 2000
- ❑ Terrorism and conflict can adversely affect a country's development trajectory through increased uncertainty, slow investment and increased cost of doing business
- ❑ Insecurity and geopolitical tensions can derail efforts towards regional cooperation and integration
- ❑ Increased expenditure on security can aggravate fiscal vulnerabilities
- ❑ Terrorist incidents in LDCs might result in shifts of resources towards less productive activities or to another country entirely
 - Sophisticated resources devoted to counter-terrorism might not always be available in such countries
- ❑ A terrorist attack in a LDC is likely to have relatively greater and protracted macroeconomic costs compared to developed countries

Governance and International Security

Illicit Financial Flows (IFF)

- ❑ IFFs from Bangladesh were on a rising trend over the 2004–13 period, totaling 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 86.4% of IFFs in 2013
- ❑ IFFs and other types of capital flight – on a substantial and persistent scale may diminish a developing country’s growth potential to a greater extent than any recorded outflows
- ❑ IFFs from Bangladesh were about 3.6 times the size of the GoB’s education budget and 8.2 times the size of its health budget in 2013
 - If 25% – the highest income tax rate in Bangladesh - of these outflows could be retained as tax revenue, the health budget could be tripled or the education budget could be doubled

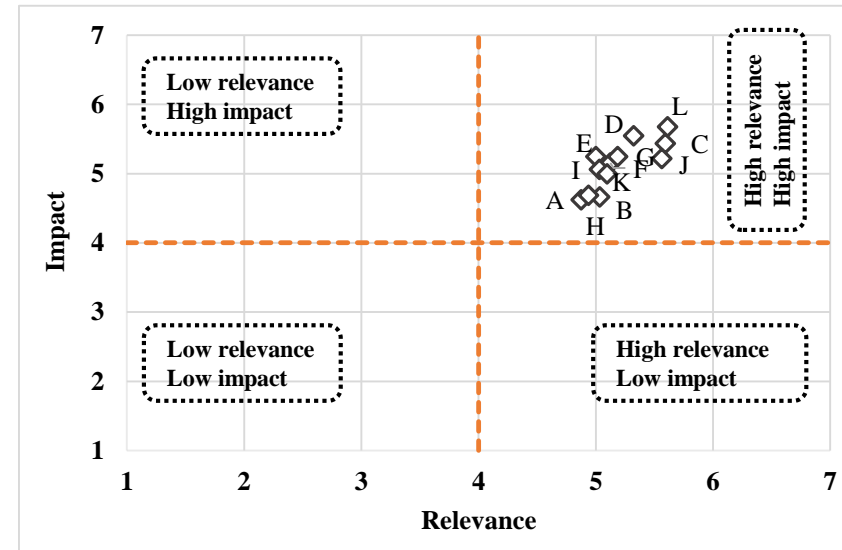
IFFs from Bangladesh (USD billions)



Addressing the Challenges: Existing National Efforts

Results from perception survey

- A perception survey was conducted to estimate the degree of relevance and possible impact of the earlier discussed pitfalls
 - The survey sample included: senior officials from various government bodies; members of a variety of Bangladesh's development partners
 - The respondents rated the identified challenges on a scale of 1 to 7 (lowest to highest) on two dimensions: relevance and impact
 - A total of 32 responses were received
- All of the identified challenges should be taken into policy cognisance given their high relevance and high impact

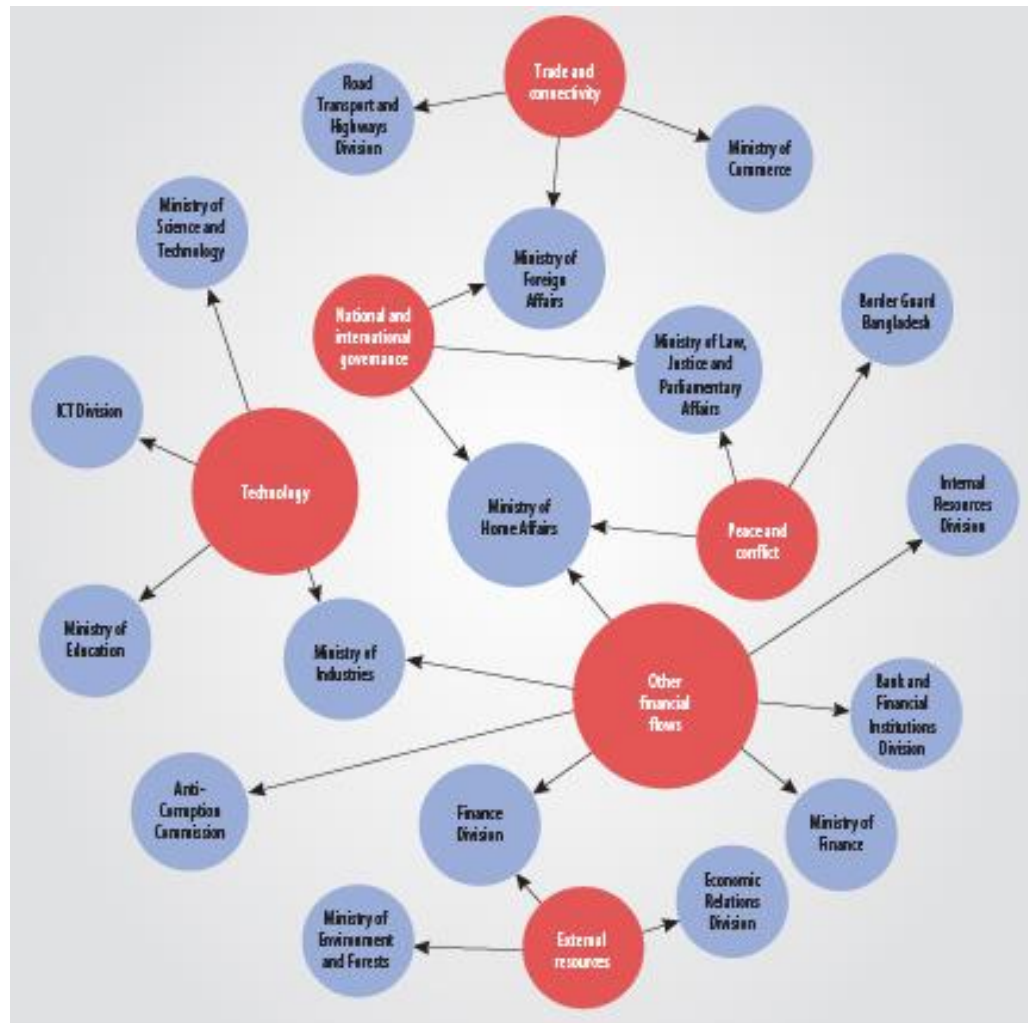


Note: (A) Declining ODA; (B) Tepid recovery of the global economy; (C) Possible protectionist trade policies by developed countries; (D) Increasing trade-restrictive measures; (E) Failure to take advantage of regional cooperation; (F) Declining available finance for preparation in the face of increasing 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 ICT features resulting in barriers to technology transfer

Addressing the Challenges: Existing National Efforts

Existing institutional framework to address challenges arising from the global and regional environment

- ❑ Based on their implications for Bangladesh's graduation and smooth transition, and their relevance to national policies, the identified pitfalls were grouped into six clusters
 - Each cluster comprises a number of challenges
 - The mapping relates relevant government bodies to the challenges
- ❑ The interlinkages prevailing in the framework calls for coordinated and concerted efforts from the actors



Policy Guidelines for a LDC Graduation Strategy

- ❑ The national policy towards LDC graduation is only implicit in the Perspective Plan of Bangladesh
- ❑ The 7FYP does not include LDC graduation as a key milestone
 - Additionally, it does not outline an explicit smooth transition strategy
- ❑ Against this backdrop, there is need for a concrete LDC graduation strategy to facilitate the graduation process with momentum

The following issues must be deliberated to this end:

- ❑ Gaining graduation with momentum requires **shifting towards the production of higher-value goods and services** by increasing investment in the ICT sector, diversifying exports and exporting higher-end products
- ❑ To increase private investment, the GoB needs to **change the investment composition by focusing on infrastructure and the manufacturing sector** through the establishment of SEZs and EPZs
- ❑ **Improving the investment environment** through financial sector reforms, tax and legal reforms, better governance and business regulations that attract investors is necessary

Policy Guidelines for a LDC Graduation Strategy

- ❑ 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 pursued
- ❑ **Better coordination** among the many relevant stakeholders has become an urgency with regards 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. 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 is required for the government's efforts towards increasing regional connectivity and South-South cooperation

Policy Guidelines for a LDC Graduation Strategy

- ❑ Bangladesh should evaluate its economic eligibility and political scope for applying to the EU's GSP+ scheme and assess opportunities for bilateral and multilateral negotiations on market access such as the RCEP and Free Trade Agreement of the Asia-Pacific
- ❑ To ensure remittance inflows through official channels and reduce associated costs, specific planning and effective implementation is necessary
- ❑ With regards to IFFs, more emphasis should be on trade misinvoicing through strict and effective measures by the NBR including strengthening of the Transfer Pricing Cell. Besides, 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 grassroots 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 subsequent transition, the GoB should underscore 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. Hence, **Bangladesh must play a leading role in various global platforms** pursuing LDCs' interests
- ❑ **New alliances must be sought at the regional and global levels**, particularly with the non-LDC LMIC 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**



THANK YOU

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