

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

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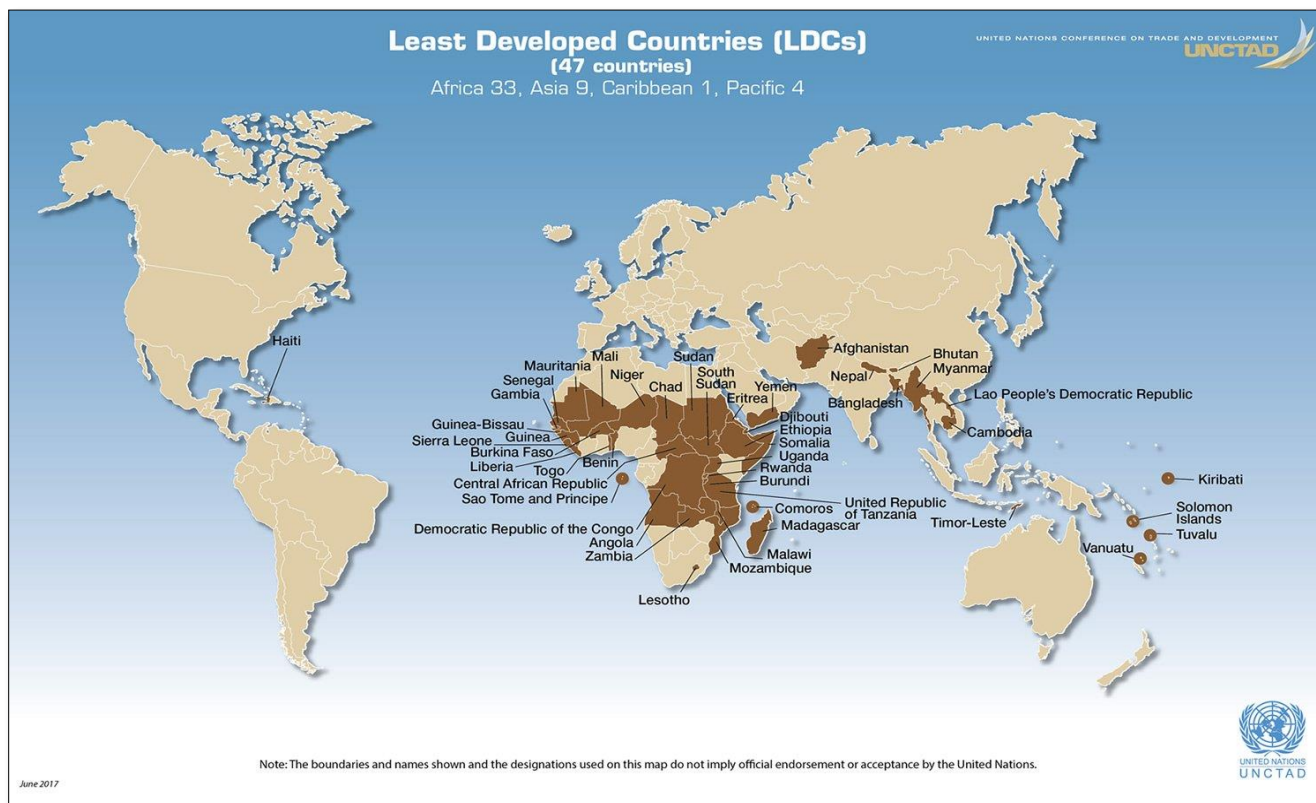
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1. LDCs at a glance



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

Source: UNCTAD (2017)

	Population	GDP	Trade	FDI
LDCs (Share of World in 2015)	12.97%	1.11%	0.94%	2.17%
Bangladesh (Share of LDCs in 2015)	16.83%	19.34%	17.66%	6.15%

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
- ❑ **Haq, K. and Kirdar, U (1987), Haq, M. (1995), and Sen, A. (1992)** focused on Human development
- ❑ 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 year 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.)

Issue	Least Developed Countries Category	Income-classification
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
9. Population cap	Population cannot exceed 75 million (since 1991)	No limit

5. Comparative perspectives :Peers

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

Indicators	GDP growth (%)		ODA (% of GNI)		FDI (% of GDP)		Remittances (% of GDP)	
	Average (2005–09)	Average (2010–15)	Average (2005–09)	Average (2010–14)	Average (2006–10)	Average (2011–15)	Average (2006–10)	Average (2011–15)
Bangladesh	6.05	6.27	1.68	1.32	0.93	1	9.05	9.15
Bhutan	9.38	5.19	9.5	8.36	3.8	1.44	0.34	0.78
Nepal	4.6	4.27	5.77	4.51	0.16	0.36	19.89	27.52
Graduating oil exporting African LDCs	12.12	1.54	0.56	0.24	4.69	1.94	0.04	0.01
Graduating SIDS	4.52	2.41	24.21	25.41	9.57	3.41	6.55	6.15

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

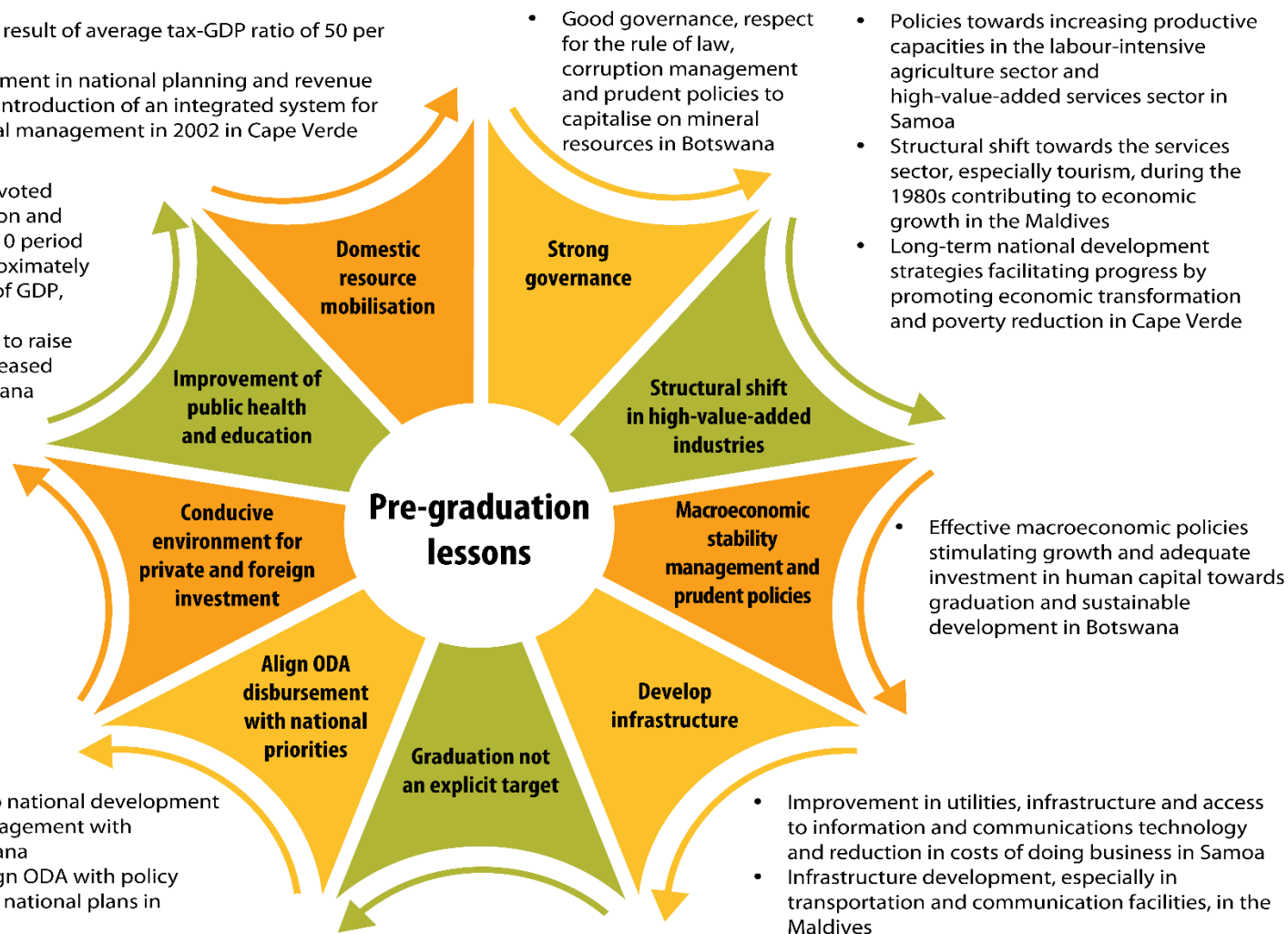
Country	Reference years	Real GDP growth (%)	Current account (% of GDP)	FDI (% of GDP)	ODA (% of GNI)	Remittances (% of GDP)	Tax revenue (% of GDP)	Merchandise exports (% of world trade)
Botswana	Before Graduation	10.55	7.78	-0.66	3.67	2.01	26.15	0.0510
	After Graduation	5.05	7.93	1.32	2.06	1.16	17.21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

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

Some post-graduation trends

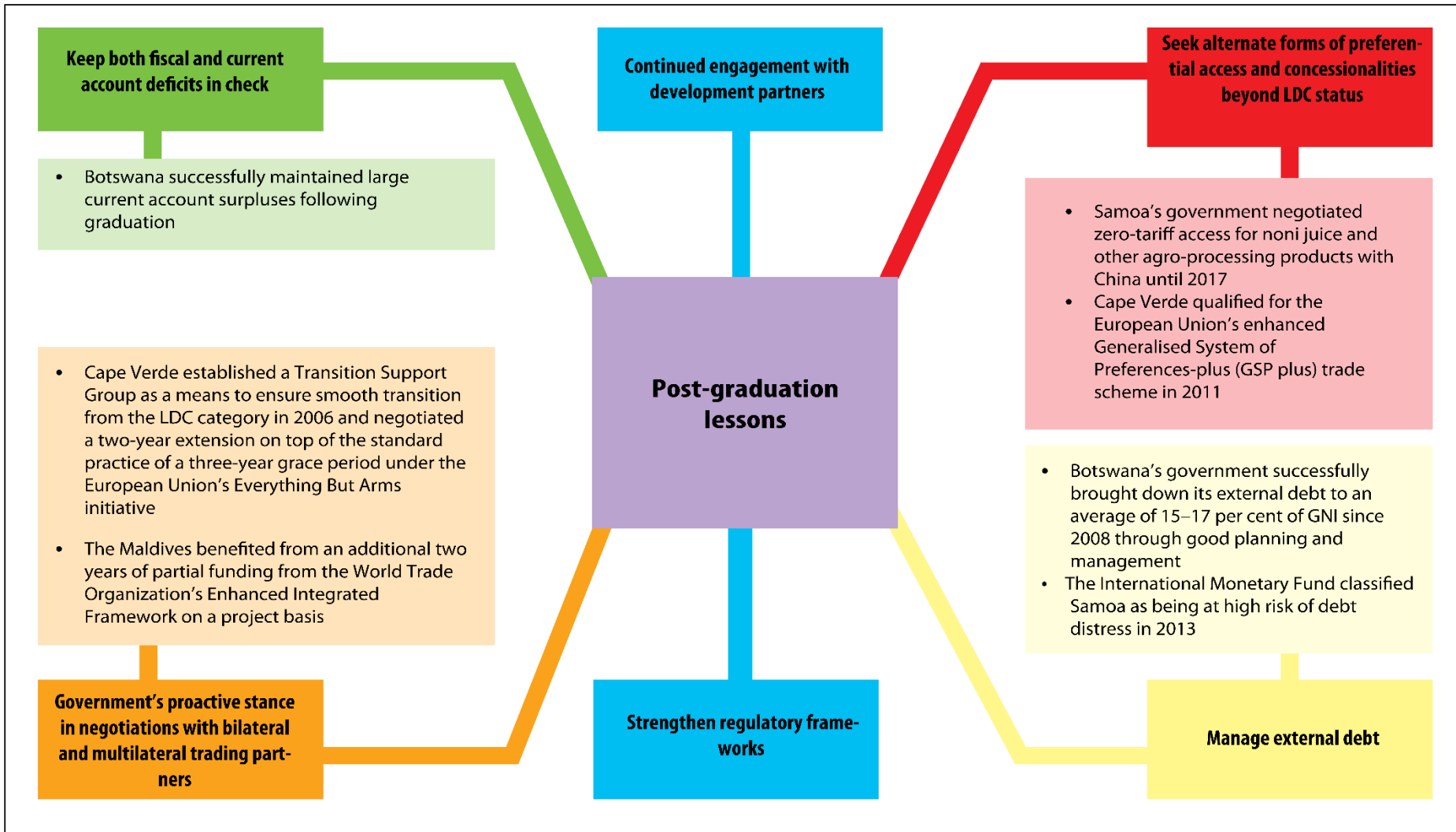
- ❑ **Definitely decreasing**: GDP growth (%), ODA (% of GNI) and Remittances (% of GDP)
- ❑ Mixed change in : Current account (% of GDP), Tax revenue (% of GDP) and merchandise exports (% of world trade)
- ❑ **Definitely increasing** : FDI (% of GDP)

6. Lessons from graduation experience



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

6. Lessons from graduation experience (contd.)



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

7. Major takeaways

- There is no explicit theoretical framework for LDC graduation. Its 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.

7. Major takeaways

- 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*.



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