CENTRE FOR POLICY DIALOGUE

Promotes inclusive policymaking

POLICY BRIEF

2018 (4)

Highlights

Bangladesh has met all the three LDC graduation criteria at the time of the 2018 review by the CDP which distinguishes its graduation from all the other candidate LDC graduates.

Bangladesh would face additional tariffs of about 6.7 per cent in absence of LDC preferential treatment, resulting in a possible export loss of USD 2.7 billion.

Bangladesh needs to design an appropriate strategy towards sustainable graduation in view of preference erosion, high cost of finance, and loss of special and differential treatment for the LDCs.

cpd.org.bd
cpd.org.bd
cpdbd
CPDBangladesh

House - 6/2 (7th & 8th floors)
Block - F, Kazi Nazrul Islam Road
Lalmatia Housing Estate
Dhaka - 1207, Bangladesh
Telephone: (+88 02) 58152779, 9141703, 9141734, 9143326, 9126402
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd

Strategy towards Bangladesh's Sustainable LDC Graduation

Mustafizur Rahman and ***Estiaque Bari***

The design of an appropriate strategy towards Bangladesh's sustainable graduation from the least developed country (LDC) category has gained high policy relevance. Bangladesh has become eligible for graduation in March 2018 at the triennial review of the Committee for Development Policy (CDP), a subsidiary advisory body of the United Nations Economic and Social Council (UN ECOSOC) (UN DESA 2018a). Graduation thresholds for at least two of the three graduation criteria – Gross National Income (GNI) per capita, the Human Assets Index (HAI) and the Economic Vulnerability Index (EVI) – must be reached for eligibility. An LDC could also be eligible for graduation according to the income-only criteria. Here, the graduation threshold is twice the GNI per capita threshold (UN DESA 2018b). Bangladesh has been able to satisfy all the three criteria (Table 1). Indeed, this distinguishes Bangladesh from all the earlier graduates and the current candidate LDCs.

Table 1: Bangladesh's Projected Progress towards LDC Graduation

Indicator	Gross National Income per capita			Human Assets Index			Economic Vulnerability Index		
	2018	2021	2024	2018	2021	2024	2018	2021	2024
Graduation threshold	1,230	1,245-1,270	1,345-1,375	66 or above			32 or below		
Bangladesh's scenario	1,274	1,730-1,780	2,260-2,500	73.2	79.2	86.3	25.2	24.8	24.7

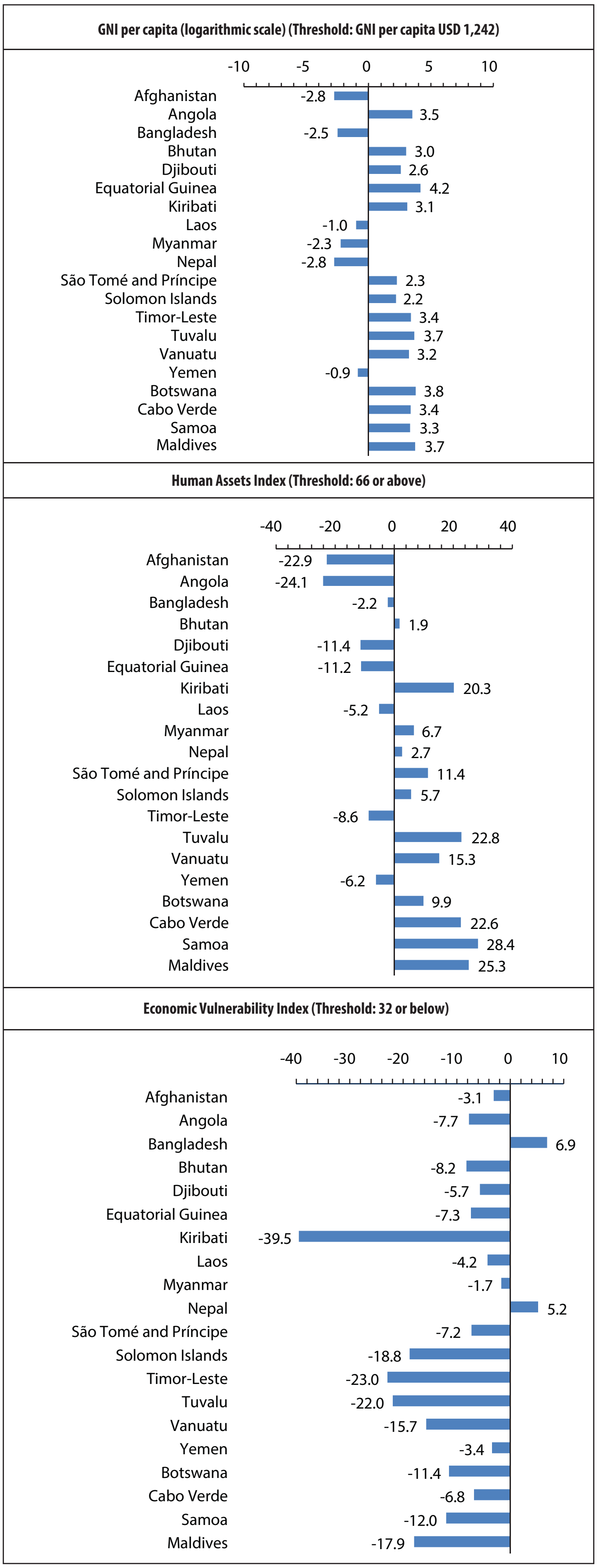
Source: Latest figures for 2018 and authors' estimations for 2021 and 2024 based on the World Bank and UN DESA methodology.

Bangladesh's graduation prospects differ from those of the earlier graduates and the current candidate LDCs. This is revealed by relevant indicators concerning the 20 countries (five LDC graduates and 15 candidate LDCs which are expected to graduate by 2024) which were reviewed by the CDP in 2015. Dispersion between the threshold and actual score on EVI for most countries, especially small island countries, was found to be significantly high (Figure 1).

It is to be conceded that, a high GNI per capita with relatively low HAI and EVI or a relatively low GNI per capita with high HAI and EVI could put under question the long-run sustainability of LDC graduation of a country. Therefore, for an LDC, the relative advantage of a more balanced pathway to graduation, with a good track record in terms of all the three criteria, cannot be overemphasised.

From this perspective, Bangladesh, with the likelihood of crossing all the three graduation thresholds, maintaining a significant comfort zone, is on a firm footing. This scenario demonstrates the strength of Bangladesh's economy as the country prepares to graduate in 2024 following two successive triennial reviews. Against this backdrop, the government of Bangladesh should consider designing a strategy towards sustainable LDC graduation. This policy brief elaborates upon Bangladesh's unique characteristics and the distinctive context for its journey towards graduation, examines the implications of graduation for Bangladesh's economy, and identifies core elements of a strategy that will enable the country to graduate with momentum.

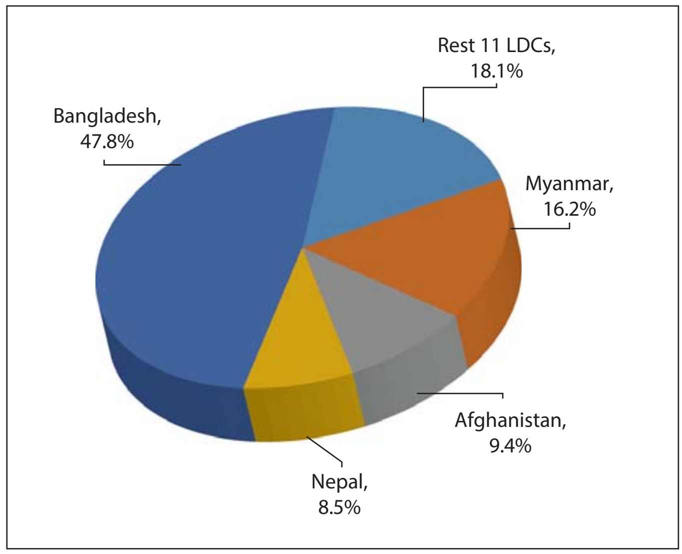
Figure 1: Dispersion from Graduation Criteria by Indicator in Reference to 2015 CDP Review



Characteristics and Context

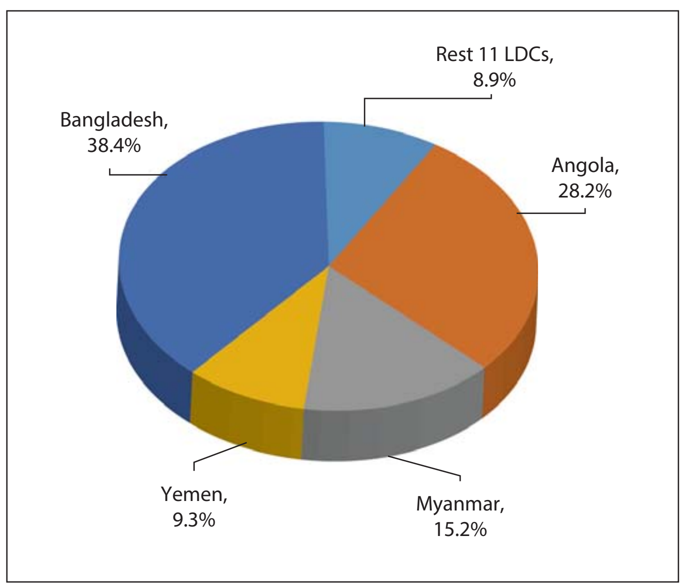
By 2024, 15 LDCs are expected to become eligible for graduation and Bangladesh will be observed closely for a number of reasons (UNCTAD 2016). First, its graduation would be irreversible due to its population size (a relatively recent United Nations criterion stipulates that LDCs cannot have a population of more than 75 million). Second, graduation would have greater implications for Bangladesh's relatively more globally integrated economy compared to most other prospective graduates. Third, Bangladesh stands out among LDCs because of the size of its population (more than 17.3 per cent) and economy (18.3 per cent). If the 15 prospective graduates are considered, the respective shares would be 47.8 per cent and 38.4 per cent (Figures 2 and 3).

Figure 2: Population (as % of 15 Prospective Graduates)



Source: Authors' calculations based on the World Development Indicator (WDI) database, 2017.

Figure 3: Gross Domestic Product (as % of 15 Prospective Graduates)



Source: Authors' calculations based on the WDI database, 2017.

Fourth, its journey towards graduation is taking place at a time of increasing global uncertainty arising from protectionist threats, stagnation in WTO negotiations, and shifts in global financing modalities. Fifth, Bangladesh's graduation would take place at a time when the current highly concessional aid will be gradually substituted by blended and relatively high-cost finance. Lastly, Bangladesh's graduation, like that of other prospective graduates, would occur during the period of the Sustainable Development Goals (SDGs). This would require Bangladesh to be more sensitive to environmental concerns in pursuing its development aspirations.

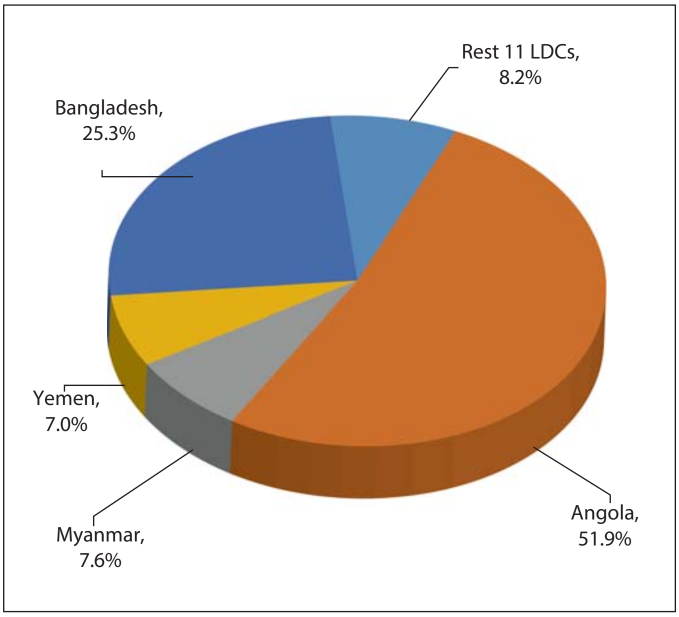
Given these characteristics and context, identifying the implications of graduation and designing an appropriate strategy towards sustainable graduation are of critical importance for Bangladesh.

Implications of Graduation

The Support Measures Portal (SMP) for LDCs (www.un.org/ldcportal/tag/cdp/) maintained by the CDP lists 136 LDC-specific international support measures (ISMs) across the spectrum of trade and market access, development finance, technology transfer and technical assistance. Unless renegotiated separately with relevant partners, these measures would be phased out over the three years following Bangladesh's graduation (i.e. by 2027). Three implications for the country's economy stand out.

First, Bangladesh, which accounts for more than one-fourth of total exports from the 15 prospective graduates (Figure 4), would experience significant erosion of preferences. Estimates by the authors indicate that Bangladesh would face additional tariffs of about 6.7 per cent in the absence of LDC preferential treatment, resulting in a possible export loss of USD 2.7 billion in view of potential earnings (equivalent to 8.7 per cent of Bangladesh's exports in FY2014-15). The impacts would be most adverse in the case of European Union (EU), where 97.8 per cent of Bangladesh's exports currently enter on a duty-free basis. In this market, preference erosion would mean additional tariffs of 8.7 per cent for Bangladesh's goods. For Canada, the corresponding figure would be 7.3 per cent. In the case of apparels, Bangladesh's key export to the EU for which most favoured nation (MFN) tariffs are about 12 per cent, loss of preferences would significantly reduce the country's competitiveness. Preference erosion would have adverse implications for export earnings, industrial production and jobs unless compensatory measures are put in place.

Figure 4: Export Share (as % of 15 Prospective Graduates)



Source: Authors' calculations based on the WDI database, 2017.

Second, the implications of LDC graduation for Bangladesh's access to concessional finance are worth noting. This is important because Bangladesh's graduation will parallel its lower-middle income journey. While the overall importance of official development assistance (ODA) (USD 3.5 billion in FY2016-17, about 1.5 per cent of the gross domestic product (GDP)) in Bangladesh's economy has decreased over the years (Bangladesh Bank 2018), it continues to play a significant role in many important sectors, such as health, education and infrastructure. In recent years, Bangladesh has received 7 per cent of total ODA (the average for 2012–15) for LDCs (OECD 2016). Bangladesh would see a shift from International Development Association type of concessional foreign aid to blended and, subsequently, International Bank for Reconstruction and Development (IBRD) type non-concessional finance (with a higher interest rate and more stringent terms and conditionalities). Third, the country would no longer be eligible for support measures for LDCs from the World Trade Organization (WTO). Currently, Bangladesh enjoys a wide range of support in the form of market access, technical assistance and waivers from obligations (e.g. as in the cases of services and intellectual property rights), protracted implementation periods for obligations and commitments (e.g. the Trade Facilitation Agreement), Aid for Trade initiative and other forms of special and differential treatment (S&DT).

Strategies for Sustainable Graduation

As the UNCTAD (2016) rightly observes, graduation is the first milestone in the marathon of development, not a winning post of a race to leave the LDC category. Bangladesh's eligibility for graduation is indicative of the country's robust record in terms of key macroeconomic and sectoral performance indicators. Crossing the graduation thresholds demostrates resilience and the underlying strengths of its economy. However, the graduation criteria are limited to selected indicators, albeit important ones. Graduation with momentum requires a dedicated approach to facilitating structural transformation of the economy in the era of the SDGs. In view of the above, what follows are core elements of a strategy towards Bangladesh's sustainable LDC graduation.

Reporting Requirements as Motivation

As Bangladesh has now become eligible for graduation,-- between 2018 and 2024, the UNCTAD and UN DESA will prepare a vulnerability profile and undertake an ex-ante assessment to identify areas that call for close attention from the perspective of a smooth transition. Bangladesh should take advantage of these, which will help to identify vulnerabilities and weaknesses and prepare a sustainable LDC graduation strategy. The consultative mechanism that would follow LDC graduation should be a good opportunity to seek global support for helping Bangladesh implement various components of the strategy. Reporting to the CDP and UN ECOSOC should also be seen from the perspective of mobilising global support.

Structural Transformation

Supply-side diversification and a shift from a factor-driven to productivity-driven economy continue to be challenging for Bangladesh. The country needs to prioritise policies on technology upgradation, skills endowment, productivity enhancement and increased economic competitiveness. Institutions, incentives and resource allocations need to be geared to a structural transformation of the economy. In the era of the SDGs, which involve triangulating economic development, social inclusiveness and environmental sustainability, Bangladesh's transition needs to be tuned to the related concerns. If the country graduates under a business-as-usual scenario, it will be susceptible to vulnerabilities. Thus, more emphasis needs to be put on drivers of structural transformation of the economy and maintaining the sustainability of development.

Strengthening Market Access

Bangladesh needs to renew efforts towards the supply-side capacity building, increasing export competitiveness and ensuring product and market diversification to compensate for preference erosion and phasing out of ISMs. These efforts include adequate investment, trade policies for strengthening global integration, trade facilitation measures and the attraction of significant foreign direct investment (FDI). These would help Bangladesh in strengthening its market access and raising competitiveness in the global market. During the run-up to the LDC graduation, Bangladesh would need to do its best to take maximum advantage of the preferences it is currently enjoying.

Getting Ready for the Emerging Global Trading Scenario

Bangladesh must pursue strategic trade and industrial policies that will enable it to take advantage of emerging domestic and global opportunities. Proactive partnerships in the context of regional and sub-regional initiatives, such as the Bangladesh-China-India- Myanmar (BCIM) Economic Corridor and Bangladesh-India-Nepal Motor Vehicles Agreement, are needed (Bhutan is expected to join in near future).

Getting Ready for the New Aid Environment

Bangladesh will need to address a number of challenges in view of the newly emerging aid regime– the rising costs of finance, the associated increase in external debt, the negotiation of access to new financing opportunities including at the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB), and raising capital through issuing sovereign bonds in the international market. Negotiating bilaterally with development partners for assistance on favourable terms even after graduation will remain a possibility that ought to be explored.

Learning from Experiences of Graduated LDCs

Bangladesh can draw useful lessons from the experiences of countries that graduated from the LDC category. It will need to adequately prepare to reduce specific vulnerabilities, undertake targeted initiatives towards structural transformation of the economy, explore windows of opportunity for the continuation of some forms of preferential treatment by proactively engaging with international organisations (e.g. WTO), multilateral institutions (e.g. the World Bank, the Asian Development Bank (ADB) and regional financial entities) and development partners [e.g. Generalised System of Preferences (GSP) plus market access in the EU], and calibrate policies in view of emerging challenges (e.g. United Kingdom's prospective exit from the EU).

References

UN DESA. (2018a). *Committee for Development Policy: CDP Plenary* [online]. New York: United Nations Department of Economic and Social Affairs (UN DESA). Available from: https://www.un.org/development/desa/dpad/our-work/committee-for-development-policy.html

UN DESA. (2018b). *Graduation from the LDC Category* [online]. New York: United Nations Department of Economic and Social Affairs (UN DESA). Available from: https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-graduation.html

UNCTAD. (2016). *The Path to Graduation and Beyond: Making the Most of the Process*. The Least Developed Countries Report 2016. New York and Geneva: United Nations Conference on Trade and Development (UNCTAD). Available from: http://unctad.org/en/PublicationsLibrary/ldc2016_en.pdf

World Bank. (2017). *World Development Indicators* [dataset]. Available from: http://data.worldbank.org/data-catalog/world-development-indicators [Accessed: 16 March 2017].

Bangladesh Bank. (2018). *Major Economic Indicators: Monthly Update* [online]. Available from: https://www.bb.org.bd/pub/monthly/selectedecooind/magecoindaug2017.pdf [Accessed: 18 January 2017].

OECD. (2016). *Creditor Reporting System (CRS)* [dataset]. Paris: Organisation for Economic Co-operation and Development (OECD). Available from: https://stats.oecd.org/Index.aspx?DataSetCode=CRS1 [Accessed: 11 February 2017].

The policy brief is based on the following study

Rahman, M. and Bari, E., 2018. Pathways to Bangladesh's sustainable LDC graduation: Prospects, challenges and strategies. *In*: D. Bhattacharya, ed. *Bangladesh's Graduation from the Least Developed Countries Group: Pitfalls and Promises*. London: Routledge. (Forthcoming)

Authors

Professor Mustafizur Rahman is a Distinguished Fellow at the Centre for Policy Dialogue (CPD), Dhaka, Bangladesh. He can be reached at: mustafiz@cpd.org.bd

Mr Estiaque Bari is a Senior Research Associate at the Centre for Policy Dialogue (CPD), Dhaka, Bangladesh. He can be reached at: estiaque@cpd.org.bd

Executive Editor*: Anisatul Fatema Yousuf*, Director, Dialogue & Communication, Centre for Policy Dialogue (CPD), Dhaka, Bangladesh

Series Editor: *Dr Fahmida Khatun*, Executive Director, Centre for Policy Dialogue (CPD), Dhaka, Bangladesh

March 2018