

Dialogue on
Moving out from the LDC group:
Strategies for graduation with momentum

Bangladesh Transitioning to Developing Country
Strategies for graduation with momentum

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Outline

- ❖ *Context of Discussion*
- ❖ *Implications of LDC Graduation for the Bangladesh Economy*
- ❖ *Strategies Towards Graduation with Momentum*

Context of Discussion

- ❑ A time line, 2026, has been fixed for Bangladesh's graduation from the group of LDCs to a non-LDC developing country. The journey of four and half decades (Bangladesh was included in LDC group in 1975) will come to an end in 2026, after five decades
- ❑ Bangladesh's LDC graduation in this year of the 50 years' of our independence is both a reflection of our country's success in terms of key socio-economic indicators of development, as also international recognition of this success
- ❑ Graduation from LDC to non-LDC developing country will open up new opportunities:
 - ▶ Global branding and image
 - ▶ Perception about capacities and risks
 - ▶ Credit rating (sovereign bond, private Sector raising capital in foreign markets)
 - ▶ Attracting investment by taking advantage of new branding and positive perception

LDC Eligibility Scenario and Projected Values of GNI Per Capita, HAI and EVI

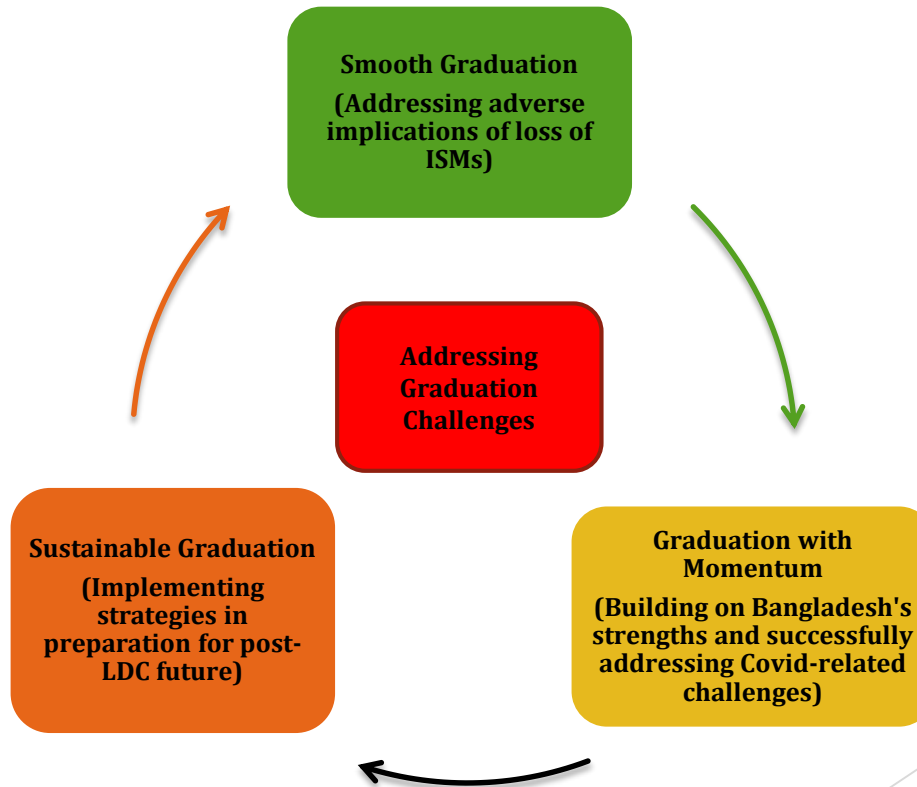
Indicators	2018		2021		2024	
	Threshold	Actual values	Threshold	Projected values	Threshold	Projected values
GNI per capita (\$)	1,230	1,274	1,245-1,270	1,730-1,780	1,345-1375	2,260-2,500
HAI	66 or above	73.2	66 or above	79.2	66 or above	86.3
EVI	32 or below	26.2	32 or below	24.8	32 or below	24.7

- ❑ Bangladesh was moving towards 2024 with increasing comfort zones as CPD projections indicated
- ❑ Although the ongoing pandemic has left its mark on the economy, the positive results of two successive reviews by the CDP in 2018 and 2021, and the projections for near-term future indicate that Bangladesh will be able to graduate in 2026 with significant comfort zone as far as the LDC graduation thresholds are concerned

- However, there are also many challenges associated with graduation
 - ▶ Bangladesh will need to graduate with momentum so that graduation is sustainable
 - ▶ Thresholds for HAI and EVI indicators were fixed in 2012 at 66 and above and 32 and below
 - ▶ Graduation criteria (HAI and EVI and associated sub-indices) do not include many key elements of competitiveness which will be needed for sustainable graduation
 - ▶ For example, it includes literacy rate and school enrolment but do not include (structural impediments) human resource quality, skills composition of labour force
- LDC graduation criteria refer to average numbers, but Bangladesh should aspire to be not just a ‘developing country’ but a ‘developing country with high economic growth, social inclusiveness and environmental sustainability’ in light of the SDGs and the Vision 2041.
- Graduation with momentum for transition to developing country status will call for a whole society and whole of country approach involving government, business and entrepreneurs, non-state actors and effective institutions and good governance

Preparing for Graduation With Momentum

- ❑ Make best use of the next 5 years towards:
 - ▶ Smooth Graduation
 - ▶ Graduation with Momentum
 - ▶ Sustainable Graduation



Implications and Strategies

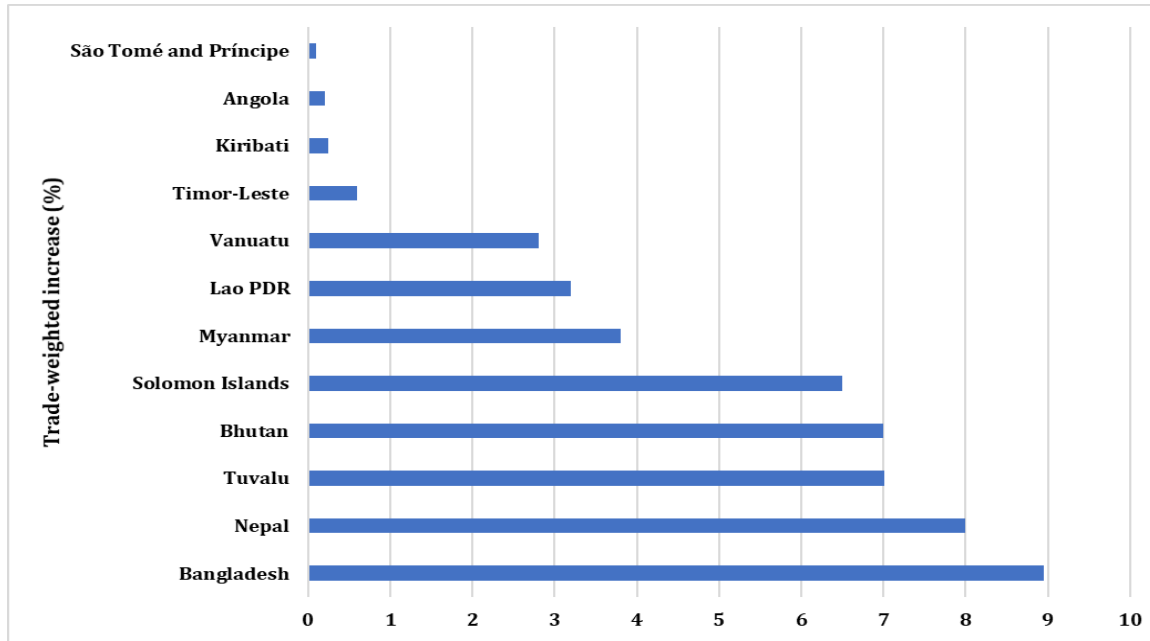
- ❑ Impacts of LDC Graduation will be felt in four areas:
 - ▶ Market Access
 - ▶ Dealings with trade partners
 - ▶ Policy freedom
 - ▶ Compliance Enforcement
- } Regional and Global Space
- } Domestic Space
- ❑ Four transitions will be called for in view of the above
 - ▶ Transition from preferential market access-driven competitive strengths to productivity and skills-driven competitive strengths
 - ▶ Transition from non-reciprocity to reciprocity in dealings with external partners
 - ▶ Transition from flexibility-driven policy space to obligation-driven policy space
 - ▶ Transition from lax compliance enforcement to more stringent enforcement of compliance requirements

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Preferential Market Access	Bangladesh enjoys DF-QF market access in most developed countries including EU, Canada, Japan, US (excepting apparels) as also a number of developing countries including India, Japan, South Korea and many others.	Bangladesh will no longer be eligible for DF-QF market access beyond 2026 (in EU till 2029). Bangladesh will be eligible for preferential access under GSP schemes applicable for the Developing Countries.

- The impact of loss of preferential access will be significant for Bangladesh
 - ▶ Over these years Bangladesh has been able to make a crucial transition from a predominantly aid receiving country to a trading nation
 - ▶ Bangladesh was among very few LDCs which has been able to reap most benefits originating from preferential market access offered by developed countries. Consequently, it has the most to lose
 - ▶ 70 per cent of Bangladesh's global exports are covered by preferential access, one of the highest in the world

❑ Tariffs facing Bangladesh export will rise significantly

Figure: Projections about impact of LDC graduation on tariffs



Source: Extracted from WTO-IDB database, (n.d.).

- ❑ Among the 12 candidate graduating LDCs Bangladesh is going to face the highest rise in tariffs
- ❑ However, for Nepal and Bhutan, for example, since they have bilateral FTAs with India, their key trading partner, effective tariff rise will be much lower

Table: Impact of loss of preferences and tariff changes

Graduating LDCs	Initial export (billion US\$)	Change in export (billion US\$)	Change in export (in per cent)	Effective tariff change (per cent)
Bangladesh	37.63	- 5.37	-14.3	573.0
12 Graduating LDCs	94.52	-6.02	-6.4	258.0
Bangladesh as % of total for all 12 LDCs	39.8 %	89.2%	More than double	More than double

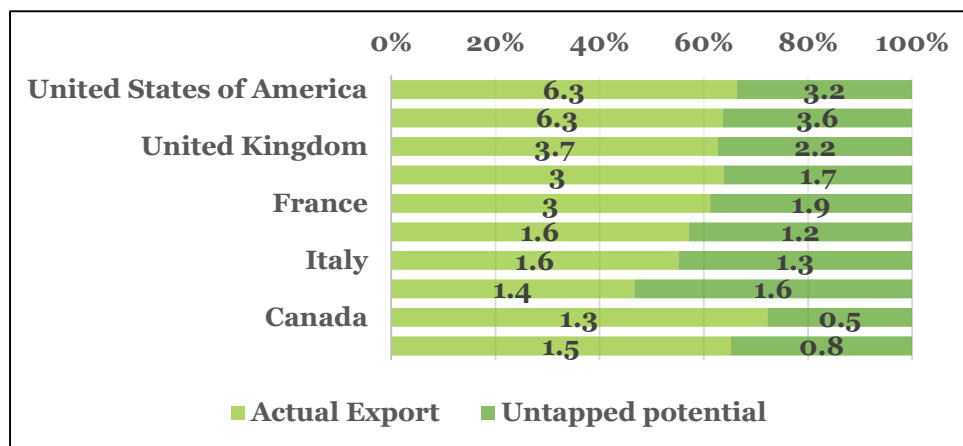
Source: Based on WTO (2020)

- ❑ According to WTO Secretariat estimates, almost 90.0 per cent of all export losses of 12 graduating LDCs will be on account of Bangladesh
- ❑ Bangladesh's export loss will be equivalent to about 14.3 per cent of the country's global export
- ❑ Aggressive plurilateral and mega-regional agreements will have important implications for Bangladesh's competitiveness
- ❑ For example, on graduation there could be a situation where Vietnam, a key competitor, in apparels, enjoys duty-free access to markets of Canada (CPTPP), EU (Vietnam-EU BFTA) and China, Japan and Australia (RCEP) when Bangladesh's exports have to enter these markets duty-paid. The difference in price terms could be as high as 20-25 per cent since average tariffs on apparels is in the range of 10-15 per cent

Strategies:

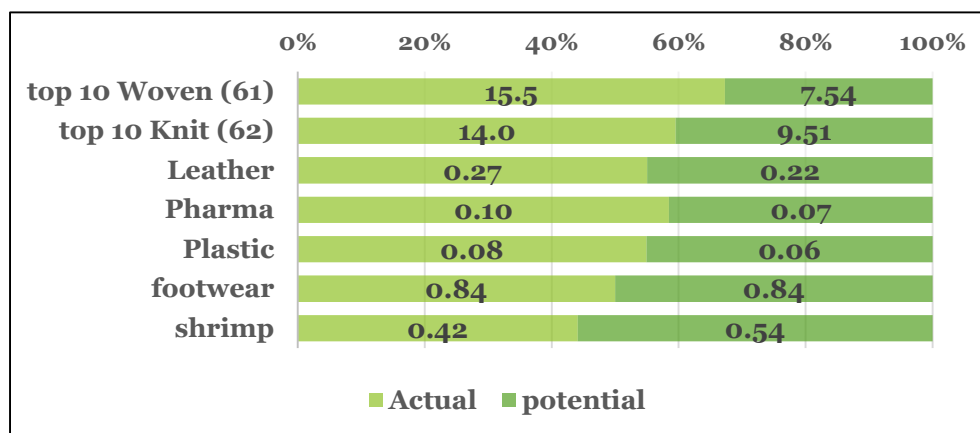
- ❑ Raise price-competitiveness through reduction in costs of production
 - ▶ Duties paid by importers are only a part of the price structure. Cost structure includes 3 elements: within enterprises (labour cost, productivity, management quality etc.); without enterprises (financial costs, transport cost, logistics); macroeconomic policy and macroeconomic management-induced costs (exchange rate; business environment; regulatory elements). Targeted steps will be needed to reduce these cost elements to compensate for the additional costs due to duties imposed
 - ▶ Export and market diversification by translating comparative advantage into competitive advantages through upgradation of process and products and improvements in labour and capital productivity. A *Technology Upgradation Fund* may be created to support entrepreneurs
 - ▶ Attract FDI through triangulation of investment, transport logistics and trade connectivities, through development of regional value chains and production networks and transforming *transport corridors into economic corridors*
 - ▶ Promote product and market diversification through WTO-compatible policy support
 - ▶ Aggressively pursue CEPA type of negotiations with partners that matter
 - ▶ At the same time negotiate with trading partners particularly with (Canada, Japan, China, India) for extended preferential market access similar to the EU, both bilaterally and as a member of graduating LDC group

Figure: Export Potentials of Bangladesh by Country (in Billion USD)



Source: CPD (2021).

Figure: Export Potentials of Bangladesh by Products (in Billion USD)



Source: CPD (2021).

- ▶ Actualisation of export potentials will hinge on Bangladesh remaining competitive following transition to developing country status

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Agreement on Agriculture (AoA)	LDCs are not required to undertake tariff reductions, but only bind tariffs in the WTO. With respect to Export Competition agreed at MC10, LDCs and NFIDCs can provide certain subsidies and are allowed to monetise international food aid. They are permitted lower frequency of notification. LDCs are required to notify every two years as regards domestic support.	Bangladesh has bound its agricultural tariffs in the WTO. This will remain unchanged. Bangladesh's agri-export subsidies will not be allowable. Bangladesh will need to notify more frequently.

❑ ***Strategies to pursue:***

- ▶ Bangladesh will be able to continue enjoying flexibilities if it is listed as a net food-importing country (NFIDC). The issue needs to be actively pursued
- ▶ Bangladesh's aggregate measure of domestic support (AMS) is well within WTO allowed limits. But export credit subsidies will not be allowed
- ▶ Regular notifications about policy changes will have to be made to the WTO
- ▶ Adjust subsidy and incentive policies in agriculture to ensure compliance with the AoA

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Trade Related Intellectual Property Rights (TRIPS)	TRIPS Article 66.1 allows LDCs flexibilities in implementing TRIPS provision till July 2021 (latest extension). TRIPS and Public Health decision allows the LDCs flexibility in areas of patents and licensing requirements (effective till end-2032)	Bangladesh has made good use of TRIPS flexibilities. 98 per cent of domestic market is set by our local producers. 20 per cent of Pharma industry's drugs are generic versions of patented drugs. Import restrictions and price regulations are also in place. IP legislations and patent laws of Bangladesh will need to be changed. Bangladesh will not be able to enjoy benefits of TRIPS and Public Health decision following graduation although this will be in force till end- 2032. The adverse impacts will be felt on both export-oriented pharma and domestic market oriented sectors. For example, according to some studies the insulin prices could rise by as high as 8 times.

❑ ***Strategies to pursue:***

- ▶ Bangladesh will need to reform its patent laws and license granting procedures to make these WTO compatible
- ▶ The API park must be put into full gear to develop the backward linkage industry in pharmaceuticals in order for the sector to remain competitive in domestic as also global markets
- ▶ Actively pursue negotiations in TRIPS Council for extension of TRIPS flexibility for graduated LDCs till 2032

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Trade Related Investment Measures (TRIMS)	TRIMS does not allow local content requirement or value/ volume ceiling on import content as per cent of exports. However, LDCs are granted exemption till December 2020.	LDCs are no more eligible for TRIMS flexibilities after 2020. No notification has been made to the WTO, but certain sectors (e.g. API) do have local content requirements. This will no longer be allowable.

❑ ***Strategies to pursue:***

- ▶ Local content requirement for foreign investors will not be allowed. In certain sectors for FDI this is currently a requirement (e.g. Pharmaceuticals). EPZ/BEZA will need to ensure compliance
- ▶ Bangladesh's Industrial Policy, Export Policy and the National API and Laboratory Reagents Manufacturing and Export Policy will need to be made WTO-compliant. Many incentives provided to priority sectors will need to be made WTO-compliant

Implications of Graduation in View of Selected WTO Agreements

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Subsidies and Countervailing Measures (SCM)	Flexibility concerning subsidies contingent on local content requirement for export provided to LDCs has expired. However, pursuant to Article 27.2 and Annex VII (a) LDCs are exempt from prohibition of export subsidies for non-agricultural products	Bangladesh provides subsidies for a large number of items in the form of cash schemes (e.g. for new products and new markets in case of RMG). Bangladesh does have incentives and subsidies in place contingent on local content requirement for export (e.g. API). With regard to export credit subsidies in case of export of non-agricultural products, the exemptions will no longer be available on graduation.

❑ *Strategies to pursue:*

- ▶ Bangladesh should try to get into the list of Annex VII (b) countries whose per capita GNI (in 1990 terms) is less than 1000 US\$
- ▶ Gradually adjust subsidies to ensure compliance. Design alternative support measures to bring down cost of doing business. For example, strategically manage exchange rate

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Trade Facilitation	LDCs are allowed to self determine the process of implementing TFA (categories A, B and C). They have also been granted extra time for notification. Longer grace period for dispute settlement which provides flexibility in enforcing commitments as regards B and C.	The LDC-specific timeline for notification as regards definite dates of implementation of category C commitment will expire in August 2022. Thus, Bangladesh will need to comply with notification requirement even before graduation. On graduation, Bangladesh will lose the flexibilities as regards dispute settlement and extension of time for B and C category commitment.

❑ ***Strategies to pursue:***

- ▶ Bangladesh will need to implement Trade Facilitation commitments in the WTO as applicable to developing countries. If this is not done, it may face cases in the WTO-DSB
- ▶ Customs modernisation and digitisation, harmonisation with international standards will need to be completed before LDC graduation timeline of 2026

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Trade in Services	Under the WTO GATS, LDCs are allowed to liberalise at slow pace. LDCs are to be given special priority in accessing sectors and modes of supply of export interest to the LDCs. In the context of LDC services waiver, members are to provide preferential treatment to services and service suppliers of LDCs with regard to market access. The waiver is currently valid till end of 2030.	24 WTO members have provided waiver notification that cover a wide range of areas and all four modes of services. However, these are yet to be realised. Bangladesh's graduation (in 2026) will take place earlier than the timeline of waiver (2030).

□ **Strategies to pursue:**

- ▶ Bangladesh will cease to benefit from current benefits under GATS as an LDC and also any benefit to be agreed upon later through operationalisation of the *services waiver*
- ▶ Bangladesh has opened only a few sectors in services (e.g. five star hotels; IT sector; foreign banks). On graduation more sectors will need to be opened up for foreign investment. Bangladesh will need to prepare its offer list in view of GATS
- ▶ Bangladesh has particular interest in mode 4. However, there could be more competition from LDCs, mostly from Africa, which will enjoy preferential market access if GATS waiver is operationalised. The need for skills upgradation will become more urgent

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Sanitary and Phytosanitary (SPS) Agreement	SPS Agreement provides for technical and capacity building support to both LDCs and developing countries. However, LDCs are to get preference as regards support from Standards and Trade Development Facility (STDF) and are required to have a lower level of co-financing (10 per cent).	Impact of graduation is anticipated to be limited. However, Bangladesh is likely to receive lower priority in getting support from STDF once it graduates.

❑ ***Strategies to pursue:***

- ▶ Co-financing requirement of Bangladesh will rise from 10 per cent to 20 per cent
- ▶ More of own resources will need to be allocated to ensure compliance with requirements of SPS Agreement which will be needed to get into global markets for agricultural items and livestock and poultry products

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Climate Fund	There is a dedicated fund for LDCs for climate related support	Support from LDCF will no more be available.

□ ***Strategies to pursue:***

- ▶ Bangladesh will continue to have access to Special Climate Fund (SCCF) and Green Climate Fund (GCF) as these are open to all vulnerable developing countries. These funds should be accessed in a more proactive manner

Provision	LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
Enhanced Integrated Framework (EIF)	Aid for trade under the EIF is exclusively earmarked for the LDCs for institutional and capacity building support.	Graduated LDCs have been granted an additional window of five years. However, current phase of EIF programme will run till 2022 (with implementation till 2024). This limits potential use of EIF by Bangladesh on graduation.

❑ ***Strategies to pursue:***

- ▶ To ensure continuation of support, Bangladesh (and other graduating LDCs) should actively support initiatives at MC12 for additional support to the EIF which then could also be availed of by Bangladesh as a graduated LDC for five years (beyond 2026)

❑ Aid and aid conditionalities

LDC Flexibilities Enjoyed by Bangladesh	Implications for Bangladesh's LDC Graduation
In general aid conditionalities are not associated with LDC status	Aid conditionalities are associated with income status, not LDC status. Bangladesh's middle income graduation (from LIC to LMIC, in 2015) entails more stringent conditionalities in receiving aid (higher interest rate; lower maturity rate; lower grace period).

❑ *Strategies to pursue:*

- ▶ Bangladesh will soon graduate from a 'blend country' to 'non-blend' (exclusively WB-IBRD) country which will result in more stringent aid conditionalities at a time when it will require more foreign resources to prepare for LDC graduation
- ▶ New sources such as AIIB and NDB (to which Bangladesh has been invited), issuance of sovereign bonds, should be more actively explored
- ▶ A renewed effort will be needed to ensure best use of aid money to avoid debt distress
- ▶ Move towards (partial) convertibility of BDT may become a necessity

Initiatives in Going Forward towards Graduation with Momentum

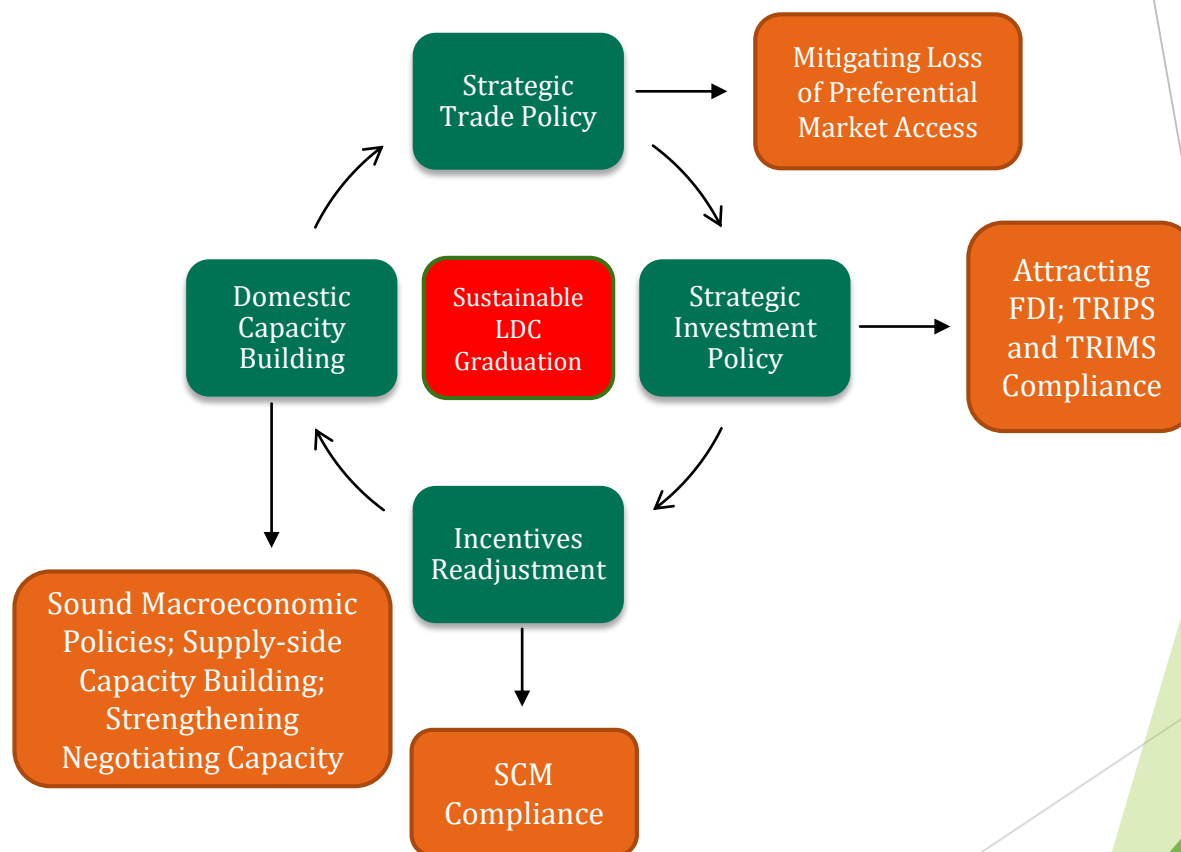


Table: Support for Graduated LDCs in Various Trade-related Areas

Programme	Area of support and the provider	Extension period after graduation
EU's Everything but Arms scheme (EBA)	Trade related LDC-specific market access support by the European Union	3 years
Enhanced Integrated Framework (EIF)	Trade related capacity building multi-donor support managed by United Nations Office for Project Services (UNOPS)	5 years
UN Capital Development Fund (UNCDF)	Finance related support for the LDCs	3 years + 2 years on an equal cost sharing basis
Least Developed Countries Fund (LDCF)	Climate fund operated by Global Environment Facility (GEF)	Projects approved before graduation would be funded
UN Technology Bank for LDCs	ICT and knowledge sharing platform	5 years
International Development Law Organization (IDLO) pro-bono legal support	On-demand legal and professional assistance to LDC governments	5 years
UN travel support for GA sessions	Travel support fund extended by UN agencies	3 years

Source: UNOHRLS, (n.d.).

- Bangladesh should try to make best use of the additional time at its disposal, following LDC graduation in 2026, provided to graduated LDCs

S&D Treatment for Developing Countries

- ❑ Take advantage of various flexibilities in the WTO as applicable for developing countries
- ❑ Various WTO Agreements have S & D treatment provisions for developing countries. Bangladesh should take note of those while designing post-graduation policies
 - ▶ GSP programmes are non-reciprocal. There is also GSTP (Generalised System of Trade Preferences) which have some degree of reciprocity
 - ▶ Take advantage of GSP schemes for developing countries
 - ▶ However, these are less generous, with more stringent terms for rules of origin (for example, in EU, 15 per cent lower duties, not duty-free; two-stage RoO for apparels)
 - ▶ EU-GSP Plus (current EU-GSP schemes are being revised at present; new EU-GSP scheme will be operationalised in 2023). The ceiling for eligibility needs to be changed to allow Bangladesh to access the facility as a developing country. Need to be actively involved in the discussions in Brussels

Upcoming MC12: Prepare Strategically

- ❑ Calibrate stance in view of three identities:
 - ▶ As an LDC
 - ▶ As a graduating LDC
 - ▶ As a future, graduated, developing country
- ❑ Upcoming MC12: Mobilise members for a package international support measures for graduated LDCs
 - ▶ WTO MC12 will be held in the week of November 29, 2021 in Geneva (instead of the earlier scheduled meeting in June 2021 in Nur Sultan, Kazakhstan)
 - ▶ Bangladesh should take lead in view of the proposal floated in the WTO for extension of ISMs for graduated LDCs (for twelve years)
 - ▶ In view of TRIPS, support the proposal in the WTO for current flexibilities offered under LDC waiver, till 2032, to continue for graduated LDCs
 - ▶ In the context of Fisheries Agreement, and new disciplines in e-commerce, MSMEs, investment measures and others, keep the interests as a future developing country in the purview
 - ▶ Argue for inclusion of dedicated support measures for graduated LDCs in the MC12 outcome document

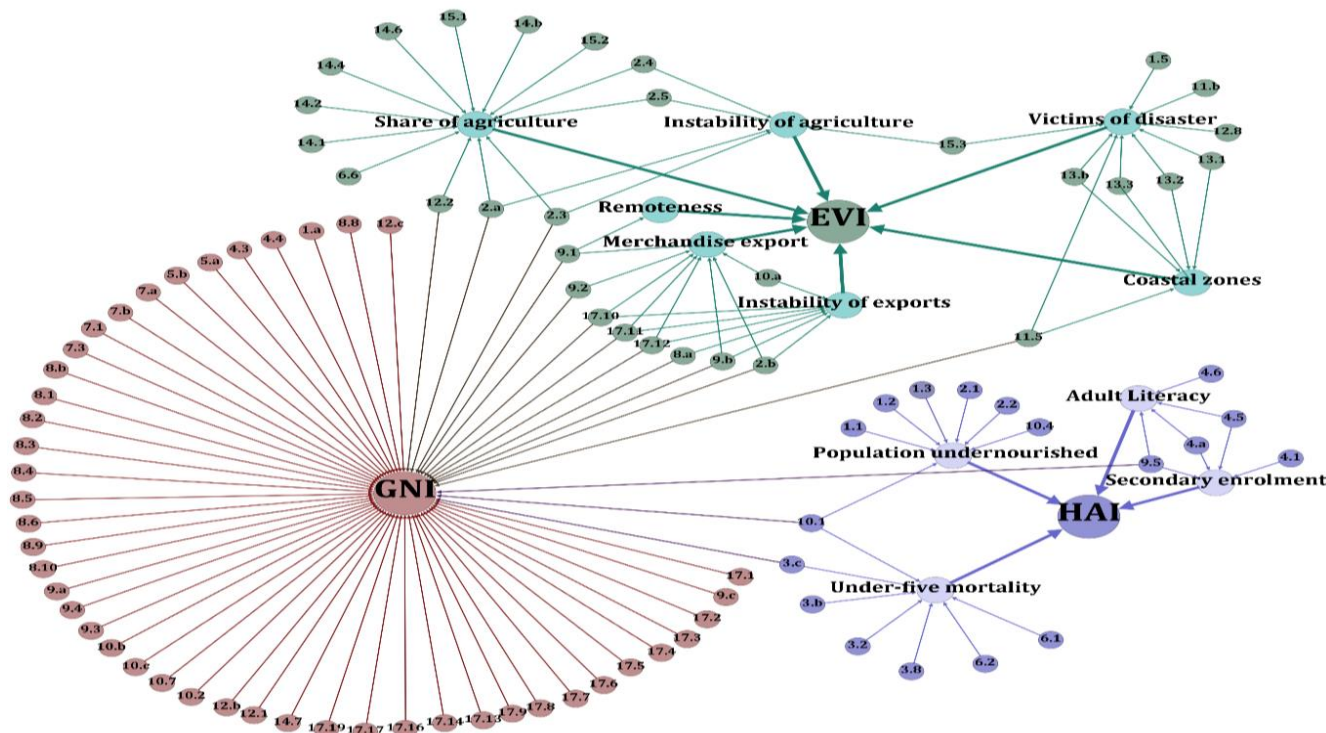
Build Negotiating Capacity

- ❑ *In trade negotiations countries get not what they deserve but what they negotiate*
- ❑ Capacity to carry out tough negotiations to go for CEPA type of Agreement based on:
 - ▶ Reciprocity: Providing access to our own market
 - ▶ Preparedness to deal with complex issues: tariff and trade liberalisation; opening of sectors for foreign investment; labour compliance; environment compliance
- ❑ Bangladesh can go for negotiations bilaterally, or as a groups (SAFTA; BIMSTEC) with single country or with group of countries
- ❑ India and China, ASEAN and RCEP are possible regional countries and groupings with most potential benefits, but also most challenging
- ❑ Key strategy: Attracting investment to build value-chains and production networks to take advantage of preferential market access
- ❑ Approach of negotiation: Argue for Two-track liberalisation (similar to the ones for the CMLV in the ASEAN)
- ❑ Develop legal capacities to deal with cases in the WTO-DSB
- ❑ Needed → A Negotiation Cell (Like the WTO Cell in the Ministry of Commerce) to be equipped with adequate human-analytical-technical resources and capacities

Leverage SDG implementation for Dual Graduation

- Attainment of SDGs goals and targets will help Bangladesh to graduate with momentum to a developing country: a developing country which is economically advanced, socially inclusive and environmentally sustainable, in view of the SDGs and in light of the aspirations articulated in Vision 2041

Network of LDC graduation criteria and SDG targets: The Synergies to be drawn



Source: Khatun *et al.* (Bhattacharya eds. 2018).

- The ongoing 8FYP (FY2021-FY2025) overlaps with the period in the run up to graduation (2021-2026), second phase of SDG implementation and first five year period of the Vision document (Perspective Plan: 2021-2041)
- More consultations will be required with informed participation of representatives of various sectors to prepare the road map towards 2026

Thank You