

LDC

Graduation and Beyond

A white line graph with an upward-pointing arrow, set against a dark background with faint grid lines.A stylized world map with a glowing, particle-like texture, primarily in shades of purple and blue. The map is centered on the Atlantic Ocean, with North and South America visible on the left and Europe and Africa on the right.

50th
edition
COMMEMORATIVE ISSUE

Nepal Economic Forum (NEF) is a not-for-profit organization aiming to be Nepal's premier private sector-led economic policy and research institution. We are an impact-driven economic and development think tank that seeks to redefine Nepal's development discourse by analyzing, facilitating and disseminating contemporary issues on society and the economy.

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The Nefport 50 edition will focus on what LDC graduation will mean for Nepal, providing a macroeconomic overview of the progress made thus far and the potential impact it will have on the economy. The publication also probe into lessons learned from other graduating LDCs and propose newer thinking that extends beyond graduation, to include matters of inclusive and green growth.

This issue of nefport takes into account news updates from May 16, 2022 to August 15, 2022.

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The special section of the Nefport 50 has been conceptualized and curated by Shraddha Gautam, Advisory Board Member at Nepal Economic Forum. The report has been edited by Sakshee Singh, Consultant at Nepal Economic Forum.

The background features a dark blue field with several overlapping geometric shapes in a slightly lighter shade of blue and a vibrant purple. These shapes include a large, tilted rectangle, a circle, and various smaller rectangles and triangles, creating a layered, abstract composition.

Special Section

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Views from the Region



By Mustafizur Rahman

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Bangladesh has been among the very few LDCs which was able to take significant advantage of the international support measures (ISMs) that have been put in place to favour the LDCs.

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Bangladesh's Upcoming LDC Graduation: Coping with Anticipated Challenges

Context and Backdrop

With the adoption of the UN General Assembly resolution of 24 November 2021, Bangladesh, along with Nepal and Lao People's Democratic Republic, has been set on track to graduate from the LDCs in 2026. Another LDC in South Asia, Bhutan, is scheduled to graduate even earlier, in 2023. For Bangladesh, without a doubt, graduation is an important milestone in its post-independence development journey; after five decades as an LDC, it will be leaving the group and embarking on a new lap of a journey in the third decade of the 21st century. Among the 16 LDCs which are slated for graduation, Bangladesh is the only one that has been eligible in terms of all three graduation criteria. This reflects the impressive success of the Bangladesh economy in fulfilling the various socio-economic indicators captured in the three LDC graduation criteria. Bangladesh has been among the very few LDCs which was able to take significant advantage of the International Support Measures (ISMs) that have been put in place to favour the LDCs. Consequently, addressing the losses of these ISMs emerging from graduation is also relatively more challenging for Bangladesh. The task before the country is to build on its formidable strengths to be able to move towards sustainable graduation.

The Challenges of Graduation

There are several considerations that all graduating LDCs ought to take into cognizance. It needs to be recognized that the graduation criteria do not capture many of the underlying structural weaknesses afflicting the LDCs – weak industrial base, low skill endowment, low productivity of capital and labour, low penetration of digital economy, and 4IR along with many others. As is the case, Bangladesh and the other graduating LDCs are to make this transition under the long shadow of the pandemic which has exacerbated the already existing vulnerabilities. It is important to note, that the graduation criteria are fixed as average numbers which conceal a large degree of inequalities across the various indicators of graduation. The challenge here is two-fold – to make graduation both sustainable and inclusive. It will also be pertinent to recall here that the thresholds for two of the three graduation criteria – Human Assets Index (HAI) and Environmental Vulnerability Index (EVI) – were fixed at 66 and above and 32 and below, respectively, in 2012. Indeed, this is a major reason why so many LDCs have become eligible to graduate in one go (previously the thresholds for these two indices were moving numbers).

As may be noted, there are 189 special and differential treatment (S&DT) provisions in the 16 Key WTO agreements for developing countries and LDCs, 25 of these are LDC-specific. The benefits accruing from the LDC-specific S&DT provisions will no longer be available to an LDC once it graduates from the group.

The challenges facing Bangladesh given the upcoming LDC graduation are manifold. The loss of ISMs will have implications for Bangladesh concerning both the domestic policy space and the global policy space. – in areas of compliance requirements as regards various WTO Agreements and disciplines (more stringent), policy flexibility (less policy space

requiring reforms), market access (significant preference erosion), and dealings with international partners (less based on non-reciprocity and more based on reciprocity).

For Bangladesh, the loss of ISMs will be most acutely felt in the form of loss of preferential market access for its products under the various GSP schemes notified to the WTO. As is well-known, more than four-fifths of Bangladesh's export earnings come from readymade garments (RMG). Given that the most favoured nation (MFN) tariffs tend to be high on textiles and garments (e.g., MFN tariffs on garments items are about 12.0% in the EU), loss of preferential market access will have a significant impact on the export competitiveness of Bangladesh's RMG products. According to estimates carried out by the WTO Secretariat, of the likely reduction in exports because of the loss of preferential market access, for all graduating LDCs, the share of Bangladesh's potential export loss alone could account for about 90%.

Bangladesh has been able to take prominent advantage of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for pharmaceuticals – the country has a strong pharmaceutical industry. It has benefitted from flexibilities enjoyed by LDCs regarding subsidies, and trade and tariff policies. It has also reaped benefits from the financial support and aid for trade earmarked for the LDCs. These LDC-specific ISMs will no longer be available upon graduation.

For Bangladesh, an additional challenge is associated with its middle-income graduation – the country has made the transition from low income to lower middle-income country status, according to the World Bank criteria, in 2015. This will entail the rising cost of borrowing underpinned by a shift from predominantly concessional loans to mostly non-concessional borrowings.

As was noted, the dice have been cast, and now is the time to take the necessary preparations to enable Bangladesh to graduate out of the LDC group with momentum and make graduation sustainable.

Addressing the Challenges of LDC Graduation

As far as Bangladesh is concerned, there is a growing recognition that LDC graduation whilst opening new opportunities will also entail formidable challenges for the country.

Bangladesh is expecting that its credit rating will improve due to graduation, which will help the country's position when the country proposed to raise funds from

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Bangladesh will need to make adequate preparations to access the potential of emerging opportunities in the global market, more particularly, in the markets of neighbourhood regions.

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international financial markets. The country is also hoping that the new image and branding, as a non-LDC developing country will help attract more FDI to the country.

The Government of Bangladesh (GoB) has taken many steps in anticipation of graduation. The 8th Five-Year Plan (2021–2025) has been designed to cater to the needs of smooth graduation and graduation with momentum. A high-level committee has been set up under the aegis of the Prime Minister's Office to devise appropriate strategies to meet the demands of a sustainable LDC graduation. Seven sub-committees have been set up under this aegis along with major stakeholders. These have been tasked to put forward recommendations. However, the key challenge here is to be able to take concrete steps to realize the plans, policies, and strategies.

Bangladesh will need to make adequate preparations to access the potential of emerging opportunities in the global market, more particularly, in the markets of neighbourhood regions. Traditionally, Bangladesh's trade relations, particularly exports, have been primarily focused on North American and the EU markets. Regional markets of South Asia, East Asia, and ASEAN account for only about 12% of the country's export. The development of value chains and production networks with countries in the region will be crucial going forward, both for product diversification and market diversification. For this to happen, Bangladesh will need to put in place logistics and trade facilitation measures, establish a single window at the border, ensure harmonization and standardization of customs systems, procedures, and interoperability of systems and sign mutual recognition agreements. The technology embeddedness of its exports will need to be raised.

Indeed, Bangladesh will need to make a crucial transition from preferential market access-driven competitiveness to skills and productivity-driven competitiveness. For this, triangulation of investment, transport, and trade connectivity will be the key.

Bangladesh will have to bear the brunt of the rising cost of borrowings, arising from the middle-income transition at a time when the country will have to go for increasing amounts of debt to meet the demands of investing in public infrastructure and sustainable graduation. Middle-income graduation will call for more effective use of foreign funds and appropriate selection of projects, by ensuring good value for money, so that the rates of return on investment remain high.

It may be recalled that a proposal was floated at the WTO by the LDCs for a transition period which would have allowed the LDCs to enjoy the LDC-specific ISMs following their graduation, for a specific period. This was proposed as a support measure toward sustainable graduation. Indeed, the LDCs have been calling for a new set of ISMs in support of the graduating LDCs. However, regrettably, this proposal failed to get the necessary traction at the recently held 12th WTO Ministerial Conference (June 2022) in Geneva. Nonetheless, graduating LDCs will need to pursue this agenda in all earnest. Bangladesh, as a leading LDC, must be proactively engaged in this effort, particularly in the run-up to the WTO-MC13 which is to be held in about two years. As may be recalled, the EU has indicated that it will extend the LDC-specific GSP scheme (the everything but arms initiative - EBA) for an additional 3 years beyond the graduation timeline. Graduating LDCs should explore whether other developed and developing countries are agreeable to supporting the graduating LDCs through this type of extension of timelines for preferential market access schemes.

There is a heightened need to strengthen domestic institutional capacities to deal with the stringent compliance requirements following graduation in labour, gender, environment, human rights, and governance-related areas. Such demands are set to rise when Bangladesh graduates from a non-LDC developing country.

Bangladesh will need to strengthen its negotiating capacities since as part of its graduation strategy it will need to start discussions to sign free trade agreements (FTAs) and comprehensive economic partnership agreements (CEPAs) with neighbouring countries and regional groupings. Negotiations will require evidence-based, rigorous research to identify the offensive and defensive interests of Bangladesh and prepare the offer lists and request lists for preferential treatment. Capacity building in relevant areas will be critically important – since, as is said, in such discussions countries do not get what they deserve but what they negotiate.

Concluding Remarks

Bangladesh's LDC graduation is widely seen in the country as a recognition of its impressive achievements over the years in terms of key socio-economic indicators. In going forward, the country will have to undertake the necessary homework to prepare for sustainable graduation. Three identities will need to inform Bangladesh's actions and initiatives in this backdrop – (i) as an LDC, by making the best use of the ISMs that will continue to be available till the graduation timeline; (ii) as a graduating LDC, by pursuing the cause of a time-bound new set of ISMs for countries which are slated for graduation; and (iii) as a future (non-LDC) developing country, by undertaking the necessary preparations because of the journey that lie ahead following graduation out of the group of LDCs.

