

31 January 2023

Graduating from the LDC Group: Challenges Facing Bangladesh

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A significant number of LDCs will be graduating in the near term future. On graduation these countries will face formidable challenges as they will lose the benefits accruing from LDC-specific international support measures. Bangladesh is the first major LDC which is slated for graduation, to take place in November 2026. This article examines the various graduation challenges facing Bangladesh, and articulates some of the strategies that the country needs to pursue in order to graduate with momentum and make graduation sustainable.

Un nombre important de PMA seront gradués dans un futur proche. Lors de leur sortie, ces pays seront confrontés à des défis importants, car ils perdront les avantages acquis grâce aux mesures de soutien international spécifiques aux PMA. Le Bangladesh est le premier grand PMA dont la graduation est prévue en novembre 2026. Cet article examine les différents défis de la graduation auxquels le Bangladesh est confronté, et présente certaines des stratégies que le pays doit mettre en œuvre afin d'obtenir une graduation dynamique et durable.

Un número significativo de PMA se graduarán en un futuro próximo. Al graduarse, estos países se enfrenarán a importantes desafíos, ya que perderán los beneficios obtenidos de las medidas de ayuda específica internacional para los PMA. Bangladesh es el principal PMA cuya graduación está prevista para noviembre de 2026. En este artículo se examinan los diversos desafíos a los que se enfrenta Bangladesh y se exponen algunas de las estrategias que el país debe seguir para garantizar una graduación fluida y sostenible.

The Backdrop

Five decades after having been included in the group of Least Developed Countries (LDCs), in December, 1975, Bangladesh will be graduating out of the group in 2026. With the adoption of the United Nations (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 LDC status in 2026 (United Nations, 2021). Another LDC in South Asia, Bhutan, is scheduled to graduate even earlier, in 2023. Indeed, in terms of size of population and economy, Bangladesh is the first major country to graduate since the group was identified as a separate subgroup among the developing countries, in 1971. To compare, the six LDCs which have graduated till now have a combined population of about 5.5 million, while Bangladesh's population alone is more than 165.0 million! (Rahman, 2022c).

Among the 16 LDCs which are currently slated for graduation, Bangladesh has the distinction of gaining eligibility in terms of all the three graduation criteria. This reflects the impressive success of Bangladesh's economy in attaining the thresholds for the various socio-economic indicators captured in the three LDC graduation criteria. It is also true that Bangladesh has been among the very few LDCs which have been able to take significant advantage of the *international support measures* (ISMs) that have been put in place to favour the LDCs (Rahman and Bari, 2018). Consequently, the potential adverse implications are much greater for Bangladesh than for other graduating countries, and addressing the implications of the loss of ISMs originating from graduation are also comparatively more challenging for Bangladesh. The task before the country is to build on its past achievements and make appropriate use of the formidable strengths of the economy for moving towards sustainable LDC graduation.

Anticipated Challenges of Graduation

There are several considerations which the graduating LDCs, as also the development partners, ought to take into cognisance. It needs to be recognised that the graduation criteria do not capture many of the underlying weaknesses afflicting the LDCs – embedded structural weaknesses, weak industrial base, low skills-endowment, low productivity of capital and labour, slow penetration of the digital economy and weak capacities to take advantage of the Fourth Industrial Revolution (4IR), to name only a few.

In this connection, it is important to note that the graduation criteria are set as average numbers which conceal a large degree of inequalities across the various indicators. Also, as is the case, Bangladesh and the other graduating LDCs are to make the transition under the protracted shadow of the COVID-19 pandemic which has exacerbated and accentuated the already existing vulnerabilities facing these countries. The pandemic had adverse job market implications, a large number of people had fallen under the poverty line, and income and consumption inequality have increased (Rahman and others, 2021). Post-COVID recovery was seriously affected by the Ukraine-Russia war-induced global price hike, imported inflation and the consequent erosion of purchasing power, specially of the marginalised groups. All these had adverse implications for the economies of graduating LDCs and the well-being of their people, particularly from among the marginalised communities. These adverse developments will no doubt undermine the cause of smooth graduation and graduation with momentum. The challenge, thus, is two-fold – to make graduation both sustainable and inclusive.

It is 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. Previously, the two indices were moving numbers. It will not be unjustified to argue that this is a major reason why so many LDCs have become eligible to graduate at one go.

As may be noted, there are 189 special and differential treatment (S&DT) provisions in the 16 key World Trade Organization (WTO) agreements which are geared to provide preferential treatment to the developing countries and the LDCs. Of these, 25 provisions are LDC-specific, the benefits of which these countries enjoy in the form of preferential market access, flexibility in commitments, waivers from obligations, extended periods for implementation of Agreement-specific disciplines and aid for trade, among others. The benefits accruing from these provisions will no longer be available to an LDC once the country graduates from the group.

The challenges that Bangladesh will face in view of the upcoming LDC graduation are manifold. The loss of ISMs will have implications for Bangladesh concerning both the *domestic space and the global space*. There will be more stringent requirements in areas of compliance with various WTO Agreements and related disciplines. These will call for undertaking reforms in trade-related areas, adjustments in investment policies and incentives in place, strengthening of intellectual property rights and changes in a number of other policies including phasing out of some export subsidies. Dealings with international partners will need to be conducted more on the basis of *reciprocity* as against primarily *non-reciprocity* (Rahman, 2022b).

About 70% of Bangladesh's exports enjoy preferential, mostly duty-free, quota-free (DF-QF) market access. As a matter of fact, barring ready-made garments export to the United States, all exports of Bangladesh enjoy DF-QF market access. Bangladesh has also been able to take significant advantage of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for pharmaceutical products which the LDCs benefit from. To a large extent, thanks to this waiver, Bangladesh was able to build a strong pharmaceutical industry that caters to about 98% of the domestic demand and has helped to keep prices of essential medicines low. Bangladesh exported

about US\$ 168.0 million worth of pharmaceutical products in FY2021-22; a major part of this was destined for other LDCs and low-income countries which benefitted from low-priced drugs (Export Promotion Bureau, n.d.). Bangladesh has also taken advantage of the flexibilities enjoyed as an LDC in areas of subsidy provision and pursuance of trade and tariff policies. It has also reaped the benefits from aid for trade earmarked for the LDCs. These LDC-specific ISMs will no longer be available to Bangladesh on graduation.

For Bangladesh, the loss of ISMs will be most acutely felt in the form of loss of preferential market access enjoyed under the various Generalized System of Preferences (GSP) schemes notified to the WTO. More than four-fifths of Bangladesh's export earnings come from ready-made garments (RMG). Given that the most favoured nation (MFN) tariffs tend to be high on textiles and garments (e.g., MFN tariffs on apparels items are about 12.0% in the European Union (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 originating from the loss of preferential market access for all graduating LDCs, the share of Bangladesh's potential export loss alone would be equivalent to about 90% of the total. A study shows that the price of insulin in Bangladesh could rise by as high as 12 times when the pharmaceutical sector of Bangladesh will be required to comply with the TRIPS patent regime on graduation (Islam and others, 2022). Many low-income people suffering from diabetes will not be able to afford such high-priced insulin.

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 entails that the cost of borrowings has been on the rise, with grant element being eliminated and the share of concessional loans in the loan portfolio on the decline. A number of other graduating LDCs face challenges of the dual graduation similar to Bangladesh.

However, the dice has been cast, and if there is no extension of the LDC-specific ISMs, Bangladesh, as also other graduating LDCs, will need to get ready to face the challenges of graduation and take adequate preparation in view of life after graduation, to make graduation sustainable and irreversible.

Addressing the Challenges of LDC Graduation

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

Bangladesh is expecting that its international credit rating will improve thanks to the graduation; this will be helpful in raising funds under favourable terms from the global financial markets. The country is also hoping that the new image and branding, as a non-LDC developing country, will help attract more foreign investment to the country.

The Government of Bangladesh (GoB) has taken a number of steps in anticipation of the graduation. The 8th Five-Year Plan (2021-2025) has been designed to cater to the needs of smooth graduation and graduation with momentum (General Economics Division, 2020). 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 sustainable LDC graduation. Seven sub-committees have been set up under its aegis with participation of major concerned stakeholders. These committees have been tasked to put forward concrete recommendations. However, the key challenge here is to be able to take concrete steps to implement the actions, plans and policies recommended by these and other relevant bodies.

Export diversification will need to be given high priority in Bangladesh's graduation strategy in view of both product and market concentration. Bangladesh will need to take adequate preparations to access the emerging opportunities in the global market, more particularly, in the markets of the neighbourhood regions. Many of Bangladesh's

competitors such as Vietnam are pursuing regional and cross-regional integration policy most aggressively, by signing Free Trade Agreements (FTAs) and Comprehensive Economic Partnership Agreements (CEPAs). This will give them an added competitive advantage thanks to preferential market access at a time when Bangladesh itself will be losing preferential treatment. Closer economic cooperation and regional trading arrangements involving Bangladesh and its neighbouring countries will be of high importance in this backdrop.

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 the Association of South East Asian Nations (ASEAN) currently account for only about 12% of Bangladesh's global export (Rahman, 2022a). In this connection, development of regional *value chains and production networks* will be crucial in going forward. A mutually reinforcing *triangulation of investment, transport, and trade connectivities* will be the key to taking advantage of the opportunities of the regional markets. Bangladesh will need to make a crucial *transition from preferential market access-driven competitiveness to skills and productivity-driven competitiveness*. There is an urgent need to put in place logistics and trade facilitation measures to reap the benefits of closer regional cooperation through establishment of single window at the border, harmonisation and standardisation of customs systems and procedures and by ensuring interoperability of customs clearance procedures. To deal with delays at the border because of testing, certification and sanitary and phyto-sanitary related matters, mutual recognition agreements will need to be signed. And for this, national standardisation and testing capacities must be significantly enhanced. Technology embeddedness of Bangladesh's exports, which is rather low at present, will need to be raised to diversify exports, enhance productivity and raise competitiveness.

Bangladesh will have to bear the brunt of the rising cost of international borrowings arising from the *middle-income transition* at a time when the country will need to go for increasing amounts of foreign loans to meet the growing demands of investing in physical and social infrastructure needed for 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 here that a proposal was floated at the WTO on behalf of the group of LDCs for a *transition period* which would have allowed the LDCs to enjoy LDC-specific ISMs following their graduation, for a specified period of time (World Trade Organization, 2020). This was proposed as an initiative in support of transition to the new trade regime and sustainable graduation of the LDCs. For example, extension of TRIPS flexibilities for LDCs is required so that the pharmaceutical sector has the space to consolidate its gains, grow further and prepare for the post-LDC TRIPS-compliant regime. As is known, enforcement of TRIPS will entail rigorous demands in areas of patentability and there are serious concerns as regards granting of 'evergreening patents' that may block legitimate competition by local producers. Extension will allow the LDCs to make necessary investments in strengthening backward linkage capacities and develop the needed human resources. Otherwise, access to low-priced medicine will be seriously undermined with consequent negative impacts on health and well-being of particularly low income people of these countries. Indeed, the LDCs have also been calling for a new set of ISMs in support of the graduating LDCs. However, regrettably, the proposal submitted by the LDCs failed to get the necessary traction at the recently held 12th WTO Ministerial Conference (June 2022) in Geneva. The Revision 1 of the resubmitted proposal of the LDCs has watered down the earlier ambitions significantly. For example, no timeline was specified and this has been left subject to discussions in the appropriate platform of the WTO (World Trade Organization,

2022). 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 during the run-up to the 13th WTO Ministerial Conference which is to be held in about two years. As may be recalled, the EU has already offered to extend its 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 support through this type of initiative. Various platforms in the WTO, including the Group of 77 (G-77), Group of 90 (G-90) and others, must be taken advantage of to pursue the cause of promoting the case for supporting the graduating LDCs; efforts must be there to build coalitions of WTO Members in support of the graduating LDCs.

There is a heightened need to strengthen domestic institutional capacities to deal with the stringent compliance requirements following graduation, in labour, gender, environment, intellectual property rights, human rights, governance and other relevant areas. Demands in these areas are set to rise when Bangladesh graduates to a non-LDC developing country, not to speak of their importance on their own merit.

Bangladesh will need to strengthen its negotiating capacities since as part of its graduation strategy it will need to start discussions to sign *FTAs and 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 get not what they deserve but what they negotiate*.

Concluding Remarks

As the UN resolution rightly articulates – graduation is not a destination, but a milestone in the development journey of the LDCs. Both domestic homework and global support will be required if graduating LDCs are to be successful in moving towards graduation with momentum and if their graduation is to be sustainable.

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 need to put in place concrete measures to address the attendant challenges of LDC 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 which the country will continue to enjoy till the graduation timeline of November 2026; (ii) as a graduating LDC, by pursuing the proposal for a time-bound extension of the LDC-specific S&D provisions in the WTO and by actively supporting the demand for a new set of ISMs for countries slated for graduation; and (iii) as a future (non-LDC) developing country, by taking an active interest in the mandated discussions in the WTO (e.g. Agreement on Fisheries, Agreement on Agriculture, WTO reforms, e-Commerce) and plurilaterals (e.g. trade-related investment measures, Micro, Small and Medium-sized Enterprises (MSMEs) and others), but most of all by undertaking the necessary homework in anticipation of the journey ahead following graduation out of the group of LDCs in 2026.

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