NAVIGATING UNCHARTED WATERS: POST-LDC GRADUATION CHALLENGES FOR BANGLADESH

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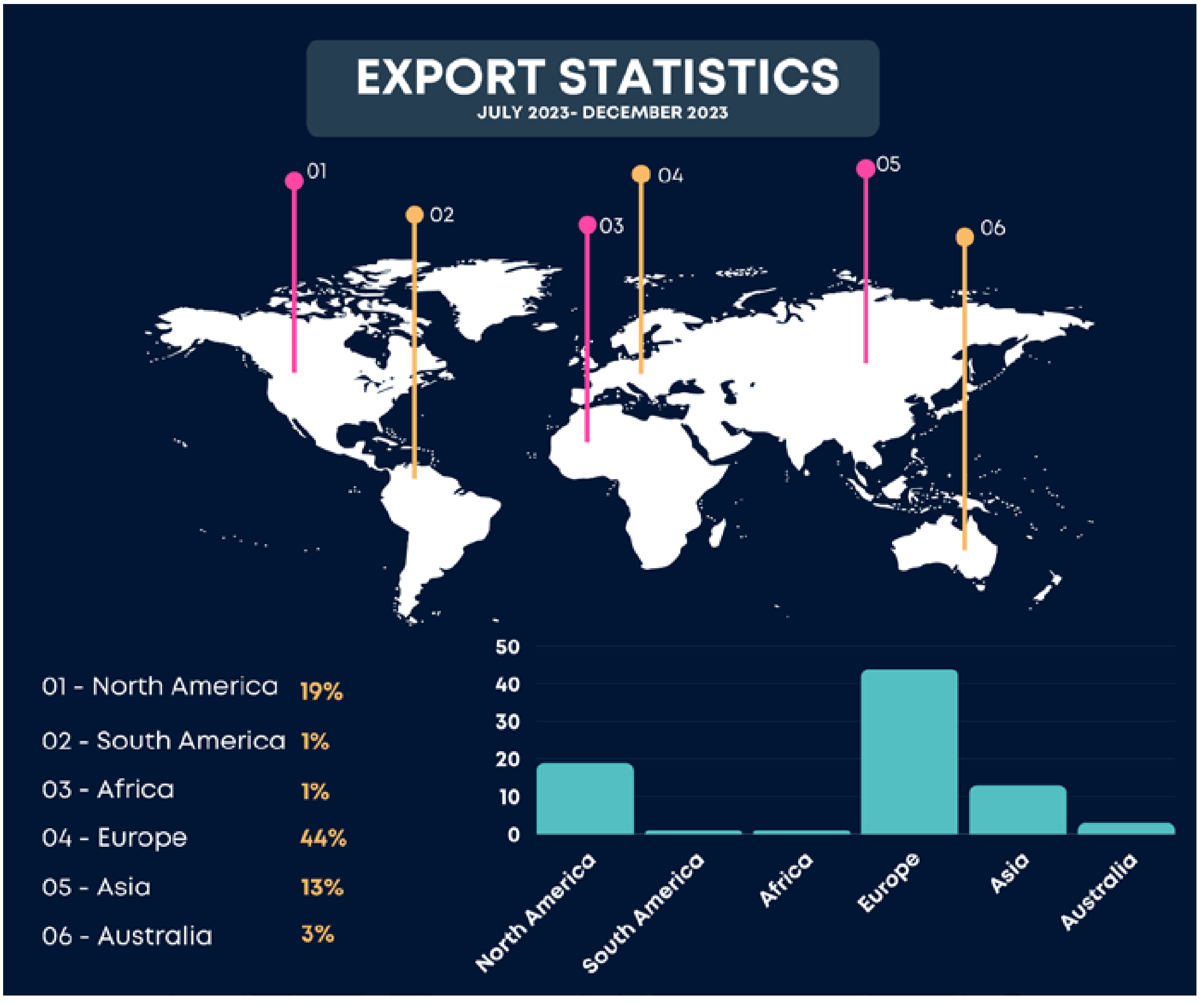
The graduation of Bangladesh from the Least Developed Country (LDC) category is undoubtedly a significant milestone, marking its progress towards economic stability and development over recent decades. However, this transition presents a unique set of challenges and opportunities that will shape the country's future trajectory. This article examines these aspects to provide a comprehensive overview of the post-LDC landscape for Bangladesh.

Overview

Bangladesh's impending graduation from the LDC status is scheduled for 2026. This transition, while a notable achievement, introduces a new phase in the nation's development journey. It begs for a thorough understanding of the resultant challenges and opportunities. In a significant milestone that marks the economic progress of Bangladesh, the country was officially recognized as a Lower Middle-Income Country (LMIC) by the World Bank in July 2015. This transition from a Lower-Income Country (LIC) to a Lower Middle-Income Country (LMIC) signifies not only the nation's robust economic growth but also the improvement in living standards for its population.

The World Bank's classification is based on Gross National Income (GNI) per capita, and for Bangladesh to attain this status, it surpassed the threshold income range (GNI per capita[1] $1,086 - $4,255) defined for LMIC. Meanwhile, the United Nations' LDC category, established in 1971, includes countries with the lowest indicators of socioeconomic development.

LDC status provides specific trade benefits, including duty-free and quota-free market access, and developmental aid. As Bangladesh prepares to graduate from this category, it stands to lose these preferential treatments, which have significantly contributed to its economic growth (United Nations Committee for Development Policy, 2018).



Source: Export promotion bureau

Post-Graduation Challenges

Loss of preferential market access:

Bangladesh must surmount a succession of challenges in order to realise the potential advantages that may result from graduation. A number of export-market preferences and privileges would be waived upon graduation, particularly on the Canadian and European markets. Bangladesh's cumulative export revenue could potentially decline by 8-10

[1] www.worldbank.org/en/country/mic/overview

percent annually as a result of the elimination of Duty-Free Quota-Free (DFQF) access to the European market. This decline is estimated to be worth approximately USD 2.5 billion, as reported by Export Promotion Bureau[2]. Despite Bangladesh's departure from the LDC category in 2026, the European Union and the United Kingdom have reached a mutual agreement to extend preferential treatment for a period of 3 years subsequent to graduation.

Waning ODA (Official Development Assistance):

During the fiscal years 1971-1972, Bangladesh obtained official development assistance from development partners in the form of 90.5% grants and a mere 9.5% loans, as per findings by LightCastle Partners[3]. Foreign grants and soft loans were crucial in supporting infrastructure development and various other endeavours in Bangladesh. Official Development Assistance (ODA) continues to be a substantial funding source for numerous megaprojects in Bangladesh.Development partners are adapting their financing strategies according to the trajectory of regional economic progress. The loan amount is increasing daily while the grant amount decreases. Immediately following graduation, Bangladesh will no longer be eligible for grant assistance; all expenses will have to be covered by domestic resources or repaid with interest on foreign loans. Consequently, it could potentially yield an additional detrimental consequence for the developmental trajectory of Bangladesh.

Constraint access to vertical Funds:

Difficulties have arisen regarding access to vertical funds such as the Global Alliance for Vaccines and Immunisation as a result of the transition from a LIC to a LMIC. The potential consequence of graduating from the LDC status is the loss of the LDC Fund for Climate Change, an issue that Bangladesh regards as extremely concerning, as per the report[4] prepared by UN Committee for Development Policy's 24th Plenary Session.

Limited subsidization of domestic industries:

After LDC graduation, Bangladesh's subsidy activities in agriculture would have to be more transparent and limited. The same applies to fiscally incentivizing yet-to-grow and already-established industries. As a result, the country would have to gradually phase out the existing export subsidies, as indicated by a paper published from National University of Singapore[5].

InJanuary 2024, the Bangladesh government's decision to completely cut export subsidies for five of the HS Headings included products (HS 6105, HS 6107, HS 6109, HS 6110, HS 6203)of the readymade garment (RMG) sector and exclusion of Australia, Japan and India from emerging market category sparked a notable conflict of interest, underscoring the complex interplay between national policy objectives and the vital interests of the country's pivotal export industry. As the World Trade Organisation (WTO) reclassifies financial incentives as export subsidies, during the post-LDC period, the export sector could encounter difficulties if the financial assistance is abruptly and entirely withdrawn upon graduation. As a result, according to Bangladesh Bank, the government decided to phase out direct financial assistance beginning January 1 of this year. The reactionhowever, from industry leaders and workers highlighted a deep-seated concern over the potential for increased production costs, reduced competitiveness on the global stage, and the risk of significant job losses. The government afterwards revised the previous decision by reinstating subsidies for those five specific export products, albeit with less cash incentive than before and classified Australia, Japan and India as part of the emerging market segment two weeks after the previous announcement[6]. This withdrawal reflects the delicate balance the authorities must maintain between fiscal responsibility and supporting the economic sectors that are the backbone of the country's economy.

Mandatory compliance of Trade-Related Aspects of Intellectual Property Rights (TRIPS):

Bangladesh, being a participant of the World Trade Organisation (WTO), is obligated to disclose pharmaceutical patents for a minimum duration of twenty years. Following its initial classification as an LDC, the nation was granted an extension until 2033 in order to adhere to the TRIPS agreement, but only as long as it stays LDC. Nevertheless, Bangladesh's compliance deadline was advanced to 2029 in anticipation of its reclassification as a

[2] http://www.epb.gov.bd/site/page/7bd7d4d7-cdba-4da3-8b10-f40da01e49b6/Market-Access-Facilities
[3] https://www.lightcastlebd.com/insights/2021/06/evolution-of-development-assistance-to-bangladesh-part-1-1970-2000/
[4] www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2022-8-2-Monitoring.pdf
[5] https://www.isas.nus.edu.sg/papers/bangladesh-ldc-graduation-and-impact-on-export-subsidies/
[6] www.thedailystar.net/business/economy/news/bangladesh-revises-plans-cut-export-aid-3542306

developing country in 2026, as per a report[7] of The Business Standard.

Following LDC graduation, Bangladesh will also be required to adhere to the substantive provisions of the TRIPS. Furthermore, the nation will be deprived of exclusive technology transfer programmes and will be obligated to fully adhere to the stipulations regarding the utilisation of special Compulsory Licencing in order to export pharmaceuticals. The burden of the increased registration fees associated with international intellectual property systems, such as the Patent Cooperation Treaty, falls on post-LDC Bangladesh.

Probable Way-Outs

Facing the post-Least Developed Country (LDC) challenges requires a comprehensive strategy from Bangladesh to navigate the complex landscape of international trade, economic development, and sustainability. As Bangladesh graduates from its LDC status, it will encounter several challenges, including the loss of preferential market access, increased competition, and the need for economic diversification. Here is a detailed point-wise report on how Bangladesh can address these post-LDC challenges effectively,

Extending GSP to GSP+:

The Generalised System of Preferences (GSP) is a trade initiative designed to stimulate economic expansion in developing countries through the provision of duty-free access preferences for a wide variety of goods originating from designated beneficiary countries. The GSP+ designation, which is an enhanced iteration of the GSP, grants nations that adhere to stringent international standards incritical domains like environmental preservation and human rights additional economic advantages.

Point to be noted that, initially the European Union (EU) initiated the Generalised System of Preferences (GSP) in 1971, but the United States of America implemented the GSP statute in 1976. Since 1971, when the European Union initiated the GSP facilities it has become the main destination for Bangladesh’s exports. The USA no longer offers the GSP advantages.

[7] www.tbsnews.net/thoughts/affordable-medicines-bangladesh-post-trips-regime-680282

A multitude of nations spanning continents, including Asia, Africa, and Latin America, benefit from these (GSP+) initiatives, notably Pakistan and Sri Lanka in South Asia. Bangladesh, which is expected to exit the Least Developed Country (LDC) classification by 2026, faces substantial challenges with the termination of GSP advantages, specifically concerning its flourishing export sector.

GSP+ Requirements

In total, the nation must satisfy two 'vulnerability' criteria, as per European Union[8]:

- **The import-share criterion:** The country's product imports by the EU must be relatively insignificant. Its three-year average import share has to be below 6.5%. Currently, Bangladesh's corresponding figure stands at a staggering 26%.

- **The diversification criterion:** The nation's European Union exports are primarily comprised of a limited number of products. It is mandatory for these goods to occupy the seven greatest sections of the GSP product list and constitute 75% of the nation's exports tothe European Union. Currently, Bangladesh's export economy's 84% is taken up by RMG sector alone, so it is more probable that the country may receive GSP+ facilities to diversify the product portfolio.

In order to satisfy the sustainable development criterion, the nation must unequivocally ratify 27 conventions pertaining to human rights, good governance, and sustainable development. These are the convention categorized in 4 segments-

HUMAN RIGHTS

- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social and Cultural Rights
- International Convention on the Elimination of All Forms of Racial Discrimination
- Convention on the Elimination of All Forms of Discrimination Against Women
- Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment
- Convention on the Rights of the Child
- Convention on the Prevention and Punishment of the Crime of Genocide

LABOR RIGHTS

- Minimum Age for Admission to Employment (ILO Convention No. 138)
- Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor (ILO Convention No. 182)
- Abolition of Forced Labor Convention (ILO Convention No. 105)
- Forced Compulsory Labor Convention (ILO Convention No. 29)
- Equal Remuneration of Men and Women Workers for Work of Equal Value Convention (ILO Convention No. 100)
- Discrimination (Employment and Occupation) Convention (ILO Convention No. 111)
- Freedom of Association and Protection of the Right to Organise Convention (ILO Convention No. 87)
- Right to Organize and Collective Bargaining Convention (ILO Convention No. 98)

ENVIRONMENTAL PROTECTION

- Montreal Protocol on Substances that Deplete the Ozone Layer
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- Stockholm Convention on Persistent Organic Pollutants
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

[8] trade.ec.europa.eu/access-to-markets/en/content/generalised-scheme-preferences-plus-gsp

- Convention on Biological Diversity
- Cartagena Protocol on Biosafety to the Convention on Biological Diversity
- Kyoto Protocol to the United Nations Framework Convention on Climate Change

GOOD GOVERNANCE

- United Nations Convention against Corruption
- International Convention on the Suppression and Punishment of the Crime of Apartheid (added in 2014)
- UN Single Convention on Narcotic Drugs (1961) (added in 2014)
- UN Convention on Psychotropic Substances (1971) (added in 2014)
- UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (added in 2014)

Enhancing Trade Competitiveness

As Bangladesh prepares for its graduation from the Least Developed Country (LDC) status, a pivotal shift is on the horizon. The country, long buoyed by preferential market access in global trade, especially for its cornerstone readymade garment sector, is now facing the imperative of transitioning towards a new model of competitiveness. This model is predicated not on the advantages of preferential access but on the robust foundations of skills enhancement and productivity growth.

Needfor Skill Enhancement

The cornerstone of this new paradigm is a profound emphasis on skill development. For decades, the competitive advantage of Bangladesh has been largely labor-cost driven, supported by preferential trade agreements that allowed its exports to enter key markets at lower tariffs. As these advantages begin to wane with the LDC graduation, the country must pivot towards creating a highly skilled workforce capable of adding significant value to its products and services.

Investing in education and vocational training, particularly in areas aligned with the global market demand such as digital technologies, advanced manufacturing processes, and green technologies, becomes critical. The objective is to cultivate a talent pool that is not only adept at meeting the current market needs but is also prepared to innovate and adapt to future trends.

Productivity as the New Competitive Edge

Source: Textile Today

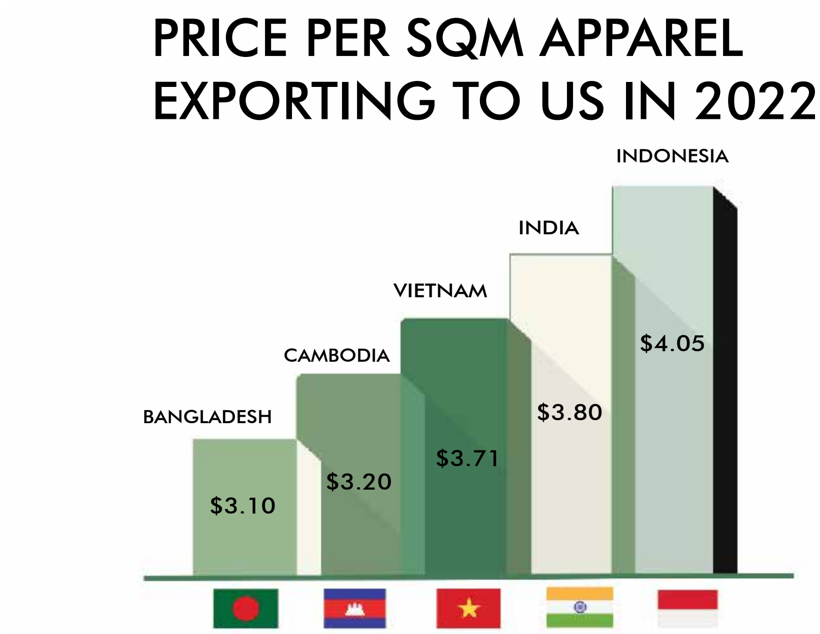
Alongside skill enhancement, boosting productivity across sectors is essential to this transition. For Bangladesh, this means not only upgrading technological capabilities within industries but also improving management practices, enhancing the quality of infrastructure, and ensuring a stable and conducive business environment.

The adoption of modern technologies plays a key role in this context. Automation, artificial intelligence, and digital platforms can drive significant productivity gains, reducing costs, and improving quality. This technological leap can transform sectors beyond garments, including agriculture, IT services, and manufacturing, making them more competitive on the global stage.

Imperative for Bilateral Engagements

Countries like Vietnam have recognized the immense value in bolstering their economic ties through **Free Trade**

Agreements (FTA) and **Comprehensive Economic Partnership Agreements (CEPA)**. By integrating more deeply into the global economic system, Vietnam is positioning itself as a pivotal player in international trade, benefiting from the flow of goods, services, and capital. For Bangladesh, the imperative is clear. To effectively face the post-LDC challenges, the country must adopt a more strategic approach towards global economic integration. This involves actively pursuing association with key trading partners and regions. Such agreements can offer Bangladesh several advantages.



Source: gsphub.eu ; policy.trade.ec.europa.eu

Market Access

Enhanced access to global markets is crucial for Bangladesh to diversify its export portfolio beyond garments and textiles. FTAs and CEPAs can help reduce tariff barriers and increase the competitiveness of Bangladeshi products in international markets.

Investment Inflows

By securing more favorable terms through these agreements, Bangladesh can attract foreign direct investments (FDI) into sectors critical for its long-term economic development, such as technology, green energy, and infrastructure.

Technology and Skills Transfer:

Engaging in economic partnerships can facilitate the transfer of technology and skills from abroad to Bangladesh, which is vital for upgrading the country's industrial base and workforce competencies.

Domestic Reforms:

The process of negotiating and implementing Free Trade Agreements and similar often necessitates domestic regulatory reforms, which can improve the business environment, enhance governance, and promote competitiveness.

Leveraging Regional Growth Dynamics

South Asia, East Asia, and ASEAN represent some of the world's fastest-growing economies, with burgeoning middle classes and increasing demands for diverse products and services. These regions offer vast, relatively untapped markets for Bangladeshi products, from garments to pharmaceuticals, agricultural goods, and IT services. Furthermore, geographical proximity reduces logistical costs and delivery times, enhancing the competitiveness of Bangladeshi exports. To capitalize on these opportunities, Bangladesh must adopt a multifaceted approach.

Investing in Connectivity:

Enhancing physical and digital connectivity with neighboring countries is essential for tapping into regional value chains. Infrastructure developments in transport and logistics, coupled with digital trade facilitation measures, can significantly lower trade costs.

Market-Specific Strategies:

Understanding the unique demands and regulatory landscapes of each regional market is crucial. Tailored strategies that cater to the specific preferences and requirements of different markets can improve the penetration and acceptance of Bangladeshi products.

Promoting Brand Bangladesh:

Building a strong, positive image of Bangladeshi products and industries in these new markets is vital. Initiatives to ensure quality, sustainability, and innovation can help establish Bangladesh as a reliable trading partner.

Leveraging Diaspora Networks:

The Bangladeshi diaspora in these regions can play a pivotal role in opening market doors, facilitating business connections, and promoting trade and investment.

Advocacy for Supportive International Support Measures (ISMs)

LDCs have been advocating for a new set of International Support Measures (ISMs) tailored to the needs of graduating countries. These ISMs could include technical assistance, capacity-building initiatives, and transitional arrangements that acknowledge the unique challenges faced by LDCs in complying with international IP (Intellectual Property) standards.There is a strong argument for seeking extensions that would allow LDCs time to make the necessary investments in strengthening their backward linkage capacities and developing the required human resources. Such extensions would provide a critical buffer period for LDCs to enhance their local production capabilities, ensuring that the transition to full TRIPS compliance does not abruptly disrupt access to affordable medicines.

Moreover, the development of human resources in IP management, patent law, and related fields will be crucial for navigating the complexities of TRIPS compliance. Investing in education and training for these sectors can equip Bangladesh with the expertise needed to negotiate patent landscapes effectively, safeguarding against the monopolistic practices that evergreening patents represent. For Bangladesh, leveraging international dialogue and collaboration to secure such supportive measures will be essential. Engaging in multilateral forums and bilateral discussions to articulate the specific needs and challenges associated with TRIPS compliance can help ensure that the country's transition does not come at the expense of public health and economic resilience.

Conclusion

Bangladesh's graduation from LDC status is a testament to its remarkable economic progress. However, this achievement marks the beginning of a new chapter, one that requires a strategic reorientation towards building a competitive economy powered by skills, productivity, and innovation. By embracing this transition, Bangladesh can not only face the challenges of LDC graduation but also seize the opportunities to establish itself as a vibrant and resilient economy in the global arena. The journey ahead is challenging, yet with concerted efforts from the government, industry, and civil society, Bangladesh is well-positioned to navigate the path towards sustainable growth and development.

The writer of this article is a member of the AmCham in Bangladesh. He is also the Chairman of the Envoy Legacy & Sheltech Group and former Presidents of the Metropolitan Chamber of Commerce & Industry, Dhaka (MCCI) and Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

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