ISAS Brief

No. 575 – 23 May 2018

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
http://southasiandiaspora.org

Graduating from the List of Least Developed Countries: What It Means for Bangladesh?[1]

Md Mustafizur Rahman[2]

The recent declaration by the United Nations that Bangladesh is eligible to graduate out of Least Developed Countries (LDC) group is a watershed moment in the nation's history. When Bangladesh achieved independence in 1971, many doubted the future of the country. It was dubbed as an economic basket case by some. From that situation, the country has made great strides – a complete economic turnaround. Today, Bangladesh is the 32nd largest economy in the world, with a gross domestic product of US$220 billion (S$295.5 billion), export volume of US$35 billion (S$47 billion) and a foreign currency reserve of over US$33 billion (S$44.3 billion), which is the second highest in South Asia. It is now a politically stable, economically sound and socially thriving country.

Although the transformation of Bangladesh took place over the past two decades, it accelerated in the last 10 years under the leadership of Prime Minister Sheikh Hasina. During this period, the country's economy has marked a steady growth with its benefits spreading

---

[1] This paper is an adaptation of the address delivered at the panel discussion organised by the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS), and the Bangladesh High Commission in Singapore on 15 May 2018.

[2] HE Md Mustafizur Rahman is High Commissioner of Bangladesh to Singapore. He can be contacted at mission.singapore@mofa.gov.bd. The author bears full responsibility for the facts cited and opinions expressed in this paper.

across society. This growth has been accompanied by a significant decline in poverty, increase in employment as well as greater access to education and health services. This transformation has been facilitated by the success of the garment industry and the sustained inflow of remittances.

Progress in Bangladesh's social indicators in recent years have also been very impressive. In terms of gender equity, women empowerment, mortality rate, life expectancy, immunisation and access to water and sanitation, among other areas, it is fared better, compared to many of its South Asian neighbours. For instance, Bangladesh achieved its targets of universal primary school enrolment, and gender parity in primary and secondary schools well ahead of the Millennium Development Goals deadline. The country's national poverty rate has dropped from 57 per cent to 22 per cent in less than two decades. Life expectancy has now increased to 72 years. Further, Bangladesh's micro-credit programmes have helped rural women become economically empowered. Politically also, Bangladeshi women are increasingly visible – it is possibly the only country today where women simultaneously hold high public positions of Prime Minister, Speaker, Leader of the Opposition and the Deputy Leader of the Parliament.

Economically, Bangladesh reached the World Bank's benchmark of a lower middle-income country status in 2015, having previously been hampered from doing so by its low per capita income. It has now fulfilled all three criteria – gross national income per capita, human assets index and economic vulnerability index – for graduation from the LDC group.

Now the question is, what does graduating from the LDC group mean for Bangladesh? If one looks at history, the five countries that have graduated from the LDC category since 1971 – Botswana, Cape Verde, the Maldives, Samoa and Equatorial Guinea – are characterised as small countries. Bangladesh is the first big LDC, in fact, the largest LDC in terms of population and size of economy, to shed its LDC status. Even though this is a remarkable achievement for Bangladesh, if the experience of earlier graduates is a guide, the LDC graduation presents both opportunities and challenges.

The foremost among these opportunities presented is a stronger brand value. It is expected that a 'developing Bangladesh' status will attract the confidence of investors and creditors, potentially drawing more investment into the country. The enhanced status will also allow Bangladesh greater access to multilateral as well as public and private funds and credits with more favourable terms. This, in turn, will generate a greater momentum in increasing its productive capacities, product diversification and production of higher valued goods and services. The LDC graduation may also help Bangladesh negotiate for and engage in free trade agreements, regional trade agreements or preferential trade agreements with the major trading partners, which are expected to boost trade and exports.

On the other hand, graduating from the LDC status presents significant challenges as well. There are four challenges.

First, the biggest challenge is the phasing out of the special and differential treatment that Bangladesh receives as an LDC. This will entail the loss of preferential market access under the LDC-specific schemes affecting its export competitiveness, industrial production and jobs. There are about 136 LDC-specific international support measures across the spectrum of trade, finance, technology transfer and technical assistance. Unless it is negotiated with relevant partners, most of these measures would eventually be phased out. According to estimates, the abolition of LDC preferential treatment of the duty free and quota free access could result in a possible annual export loss of US$2.7 billion (S$3.6 billion), amounting to about 8.5 per cent of Bangladesh's exports.

Second, due to its elevated economic status, Bangladesh would see a shift from The International Development Association-type of concessional foreign aid to the International Bank for Reconstruction and Development-type of non-concessional finance with a higher interest rate and stringent conditions. Accessing alternative types of concessional finance would become increasingly difficult for Bangladesh.

Third, the graduation would also cause an erosion of facilities and relaxations in relation to intellectual property rights as well as other obligations in trade matters under the World Trade Organization.

Last, but not least, Bangladesh is passing through a tumultuous period in history with conservatism, protectionism, extremism, refugee crises and confrontations of many other kinds on the rise. Under these circumstances, sustaining the momentum of social and economic development for smooth a graduation would be challenging for the country.

The government, thus, has a huge responsibility to map out a clear strategy to address these challenges and mitigate the consequences of graduation. Fortunately for Bangladesh, its graduation from the LDC status will only take effect in 2024 and there will be a grace period of another three years for Bangladesh to enjoy the LDC-specific benefits. In total, it has approximately 10 more years to prepare for the new journey.

For a smooth transition, Bangladesh should focus on the following:
First of all, its overall capability in running the state economy needs to be further improved. Bangladesh must transform its human resource into capital through education and skills development as it must also generate employment opportunities for the youth through industrialisation and increasing manpower exports. Bangladesh should do more to attract foreign direct investment, in part by embracing the Fourth Industrial Revolution in this age of artificial intelligence and robotics.

Secondly, the country has to improve its export competitiveness and diversify its products, explore new markets to compensate the loss from preferential erosion and the end of various international support measures. It is pertinent that Bangladesh diversifies its exports beyond garments, with pharmaceutical and info-communication technology being two promising sectors that can boost its exports and decrease its reliance on garments exports.

Bangladesh is delighted to not have to bear the stigma of being an LDC country any longer. It is aware that the successful graduation from this group is an important step towards realising the national aspiration of becoming a middle-income country by 2021 and, perhaps, an advanced economy by 2041.

. . . . .