

Bangladesh's Graduation: Challenges and Imperatives to Continued International Support Measures

Md Mustafizur Rahman

Summary

Bangladesh will graduate from the Least Developed Country (LDC) group in 2026, a watershed moment for a young country. However, this brings with it many benefits and challenges. While on the one hand, it will enhance the confidence of the country in dealing with the international financial bodies, improve its credit rating and attract higher foreign direct investment flow, on the other hand, graduation will affect certain preferential treatments in trade, subsidy to agriculture and infant industries and access to some LDC-specific funds.

Introduction

Bangladesh has recently been endorsed by the United Nations (UN) Committee for Development Policy (CDP) to graduate from the Least Developed Country (LDC) group in 2026. After five decades, a milestone has finally been achieved Bangladesh's development journey. This is indeed a watershed moment for this relatively young country. Bangladesh has reached this point by making impressive progress in the areas of socio-economic development. The timing of this achievement could not have been better as the country celebrates the golden jubilee of its independence, and the birth centenary of the father of the nation, Bangabandhu Sheikh Mujibur Rahman. It is undeniably a proud moment for all the people of Bangladesh.

LDCs and the Graduation Process

The LDCs are a group of countries which are at the bottom of the development echelon. These countries encounter various challenges, such as low per capita income, weak human development, and high vulnerability to shocks. Structural deficiencies hamper their productive capacities, which, in turn, impede economic growth and trade performances for advancing their development ambitions. There were only two dozen LDCs in 1971 when the UN first established this group. The number currently stands at 46.¹

The performances of the LDCs are reviewed every three years by the CDP, a special UN body that reports periodically to the Economic and Social Council (ECOSOC).² Countries are eligible to enter or leave the group if they meet the inclusion or graduation thresholds of certain development criteria. The criteria are the Gross National Income (GNI) per capita,

¹ "UN DESA Economic Analysis: LDCs at a Glance", <https://www.un.org/development/desa/dpad/least-developed-country-category/ldcs-at-a-glance.html>.

² "The mandate of CDP", UNOHRLLS, <http://unohrlls.org/about-ldcs/criteria-for-ldcs/>.

the Human Asset Index (HAI) and the Economic Vulnerability Index (EVI).³ A country must meet each of the three inclusion criteria during a triennial review to be included in the group. To qualify for graduation from the LDC group, a country must meet the graduation thresholds under at least two of the three criteria in two consecutive reviews.⁴ Once an LDC fulfils the graduation criteria, the CDP recommends the country for graduation to the ECOSOC. Upon consideration by the ECOSOC, the recommendation is sent to the UN General Assembly (UNGA) for its endorsement. The graduation usually becomes effective after three years of transition.

During the last 50 years, only six LDCs have been able to graduate.⁵ Another 16 LDCs are currently in the pipeline for graduation. In addition, several other countries have met at least one criterion and many of them are likely to be eligible for graduation in the next review in 2024. So, it seems graduation has picked up some momentum lately.

Bangladesh's Graduation: Recognition of Progress

Bangladesh has been in the LDC group since 1975, soon after its independence. It was not a surprise for a country coming out of a de facto colonial rule and with almost nothing in the national coffers. However, over the last 50 years, Bangladesh's economy has marked a steady growth with its benefits spreading across society. The growth has been accompanied by a significant decline in poverty, an increase in employment, greater access to health and education as well as improved basic infrastructure. Progress in the agriculture and services sectors has provided stability and resilience to the economy. From a chronic food deficit country, Bangladesh today is food self-sufficient. Moreover, the country has witnessed a rapid expansion of its industrial sector, which has enabled it to double the annual export earnings in just a few years.

Socially too, it is doing quite well. Bangladesh's social indicators, such as gender equity, women empowerment, mortality rate, life expectancy, immunisation and access to water and sanitation are remarkably better compared to many developing countries. It has achieved universal primary school enrolment and gender parity in primary and secondary schools well ahead of the Millennium Development Goals deadline. Poverty has been slashed from 48.5 per cent in 2000 to 20.5 per cent in 2019, just before the COVID-19 pandemic hit the country.⁶ Life expectancy has increased to 72.6 years.⁷ Over the years, its governments facilitated this transformation through prudent macroeconomic management, appropriate policy support and significant investments in infrastructure and human development.

³ "The criteria", UNOHRLLS, <http://unohrlls.org/about-ldcs/criteria-for-ldcs/>.

⁴ 'The Criteria for graduation', UN Department of Economic and Social Affairs, <https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-graduation.html>.

⁵ Botswana (1994), Cape Verde (2007), Maldives (2011), Equatorial Guinea (2012), Samoa (2014) and Vanuatu (2020).

⁶ 'Poverty rate comes down to 20.5pc: BBS', *Prothom Alo*, 18 December 2019, <https://en.prothomalo.com/bangladesh/Poverty-rate-co-comes-mes-down-to-20.5pc-BBS>.

⁷ 'Average life expectancy of Bangladeshis goes up to 72.6 years', *The Daily Star*, 30 June 2020, <https://www.thedailystar.net/average-life-expectancy-bangladeshis-goes-72.6-years-1922881>.

Before the deadly Coronavirus hit the country, Bangladesh had been advancing quite comfortably on all three indices to qualify for graduation. Although the pandemic disrupted the lives and livelihoods of the people, the Bangladesh economy remained on a positive track. According to the latest data, its performance is well above the minimum required levels. For example, Bangladesh's per capita GNI is now US\$1,827 (S\$2,499), far ahead of the requirement of \$1,222 (S\$1,671); the HAI score is 75.4, against the graduation threshold of 66.0; and an EVI score is only 27.0, much below the EVI graduation threshold of 32.0⁸. This is the second consecutive time the country has met all three eligibility criteria for graduating from the LDC category. It fulfilled the criteria for graduation for the first time in 2018.⁹ The CDP has accordingly recommended the graduation of Bangladesh from the LDC category.

The recommendation of the graduation of Bangladesh, along with a few other LDCs, was endorsed by the ECOSOC in June this year¹⁰ and is due to be sent to the UNGA for a final approval at its forthcoming session in September 2021. Recognising the disastrous impact of the COVID-19 pandemic, Bangladesh, together with three other LDCs in the list, has been given five years to navigate through the transition. So, the graduation of Bangladesh will now take place in 2026 instead of 2024.

Graduation: Benefits and Challenges

Graduation from the LDC group brings both challenges and opportunities to a country. On one hand, it will enhance the confidence of the country in dealing with the international financial bodies, improve its credit rating and attract higher foreign direct investment (FDI) flow.¹¹ However, on the other hand, graduation will affect certain preferential treatments in trade, subsidy to agriculture and infant industries and access to some LDC-specific funds. The situation cannot be any different for Bangladesh.

The graduation will surely improve a country's global image and enhance confidence of the international financial actors, which will give it a better credit rating and help reduce costs of international borrowing from the international financial market and attract FDI. The country may be able to take advantage of it following the exit. The psychological value of graduation is also not negligible, as the change in mindset may motivate the people to take up challenges with confidence, which otherwise would not have been possible.

While graduation will be a significant achievement for Bangladesh, it will cost the country a wide range of LDC-specific international support measures (ISMs) which have contributed to its impressive socio-economic advancement. Such support measures are not only the official development assistance and concessional loans, but also include a wide range of trade-related measures, such as preferential market access or special and differential treatment

⁸ Country Documentation for Bangladesh, prepared by UN CDP for the Expert Group Meeting of the LDCs; CDP2021/EGM1/9; p 3,4,6.

⁹ Ibid., p. 11.

¹⁰ ECOSOC resolution: E/RES/2021/11 dated 15 June 2021.

¹¹ D Bhattacharya, "Bangladesh qualifies for LDC graduation: What next?", *The Financial Express*, 11 March 2021, <https://thefinancialexpress.com.bd/views/bangladesh-qualifies-for-ldc-graduation-what-next-1615473209>.

provisions under World Trade Organization (WTO) rules. There will be other implications for the country following the exit from the LDC group.

LDC-specific International Support Measures

LDC-specific ISMs are incentives and flexibilities provided by the international community to help LDCs overcome their structural challenges and vulnerabilities in trade and development. More specifically, ISMs are offered in trade facilitation, development cooperation, technical assistance, technology transfer and participation in international organisations and events.¹² However, trade is the key area where LDCs enjoy favourable treatment, both in market access as well as in the implementation of WTO rules and disciplines.

Trade-related ISMs are mainly three types: preferential market access for goods and services; special and differential treatment under the WTO agreements; and capacity-building and technical assistance. Under preferential market access provision, most developed countries and several developing countries are granted duty-free, quota-free (DFQF) market access to the LDCs. Some countries also apply less stringent rules of origin for exports from LDCs. Moreover, under the services waiver provisions for LDCs, members of the WTO grant preferential treatment to LDC services.

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), particularly Article 66.2 provides that the developed countries should incentivise the transfer of technology to LDCs so that they can create a sound and viable technological base.¹³ By another decision of the WTO in the area of public health, LDCs are offered special exemption in patent protection and licensing requirements for pharmaceutical products till the end of 2032.¹⁴ As such, LDCs are not required to protect pharmaceutical patents during this period.

Among the other ISMs, the most notable is the Investment Support Programme for LDCs, developed by the UN Office of the High Representative for LDCs, landlocked developing countries and small island developing countries.¹⁵ This provides them legal and professional assistance for investment-related negotiations, dispute settlement and capacity-building. A small but effective ISM is the access to a dedicated Technology Bank for LDCs, which offers assistance to these countries in scientific research and innovation, as well as in facilitating access to critical technologies.¹⁶ Another mentionable ISM for the LDCs is the caps and discounts on their subscriptions to the UN and other international organisations as well as travel support to their representatives to participate in certain official meetings.

¹² *Handbook on the Least Developed Country Category*, prepared by CDP and UN DESA, Third Edition, August 2018, pp. 27-36,

¹³ TRIPS Agreement, Article 66: Least-Developed Country Members, https://www.wto.org/english/docs_e/legal_e/27-trips_08_e.htm.

¹⁴ TRIPS Council decision, 6 November 2015, IP/C/73.

¹⁵ "Investment Support Programme for Least Developed Countries", International Development Law Organization, <https://www.idlo.int/Investment-Support-Programme-LDCs>.

¹⁶ Technology Bank for Least Developed Countries, UNOHRLLS, <http://unohrlls.org/technologybank/>.

Consequences of Graduation

Like Bangladesh, several other LDCs are also in the queue to be graduated soon. However, if the ISMs are abruptly withdrawn, these countries may face serious difficulties navigating through the transitional period. The graduating LDCs will suddenly confront a new reality due to the discontinuation of many benefits they were enjoying in terms of overseas development assistance (ODA), international trade, FDI, etc. Bangladesh has been among the very few LDCs which were able to reap the most benefits from ISMs offered to this group. Consequently, it also risks losing the most if alternative arrangements cannot be made soon.

Impact on Accessing the Market for Trade in Goods and Services

Bangladesh has profited substantially from preferential tariffs and rules of origin in accessing markets for its products. Among the LDCs, it has utilised the preferential trade arrangements most effectively. The simplified rules of origin have been particularly helpful in the expansion of Bangladesh's exports, especially the development of the garments industry.¹⁷ So, the impact of the loss of preferential access is likely to be quite significant for Bangladesh. At present, the country enjoys DFQF market access for almost all items in most developed countries, including the European Union (EU), Canada, Japan, and the United States (US) and also in a number of developing countries, including India, Japan and South Korea and many others.¹⁸ The EU grants DFQF market access to LDC products under the Everything But Arms framework.¹⁹ After graduation and following the three-year grace period, Bangladesh and other graduating LDCs will no longer be eligible for LDC-specific DFQF market access and LDC-specific rules of origin.

The services sector will also be affected but not as much as the apparels since the contribution of services export is not significant to the economy of Bangladesh. Information and communications technology and business services, like transportation and travel, have been a new thrust sector for the export diversification efforts of the country.²⁰ These were showing good promise in recent times. Unfortunately, Bangladesh will no longer benefit from preferential market access under the services waiver for these fast-growing products.

TRIPS Flexibilities

Bangladesh has utilised the TRIPS flexibilities and associated waivers granted for the LDCs in promoting local businesses, entrepreneurs and producers to cater to the domestic demand of goods and services. As is the case with other LDCs, the level of intellectual property (IP) rights protection in Bangladesh is generally much lower than what is required in the TRIPS Agreement. Without the TRIPS waivers as an LDC, and a longer transition period than other WTO members to implement the provisions of the TRIPS Agreement, Bangladesh could not have made such progress.

¹⁷ The Country Documentation for Bangladesh, prepared by UN CDP for the Expert Group Meeting of the LDCs; CDP2021/EGM1/9; p. 17.

¹⁸ Ibid., pp. 18-19.

¹⁹ Ibid., pp. 15-17.

²⁰ Ibid. p. 22.

The TRIPS exemptions have been most critical in the development of the pharmaceutical industry in Bangladesh. This high-technology industry has enormous growth potential. The industry caters to 98 per cent of domestic demand.²¹ The Bangladeshi pharmaceutical products are now being exported to over 100 countries. About 20 per cent of the drugs produced in the country are generic versions of patented drugs that have particularly benefitted from the TRIPS flexibilities.²² It has ensured drugs at low cost for both domestic use and export. Upon graduation, Bangladesh will cease to enjoy any flexibilities from the TRIPS discipline, which will adversely affect accessibility and affordability of medicines in the domestic market as well as for export.

Impact of Development Cooperation and Assistance

The graduation will not only impact ODA but also access to concessional finance. ODA admissibility is determined not by the status as an LDC but as a low-income country group where most LDCs belong. Bangladesh has lost many of such benefits already as it moved up the ladder to a lower middle-income country in 2015. However, one of the major consequences of Bangladesh's graduation would be the loss of access to the dedicated LDC Fund for Climate Change²³ to address climate change-related challenges.

Another area of concern for Bangladesh is the agriculture sector. LDC graduation will affect its policy space to provide subsidy in the agriculture sector as it is doing currently. Bangladesh will need to comply with the requirements of the WTO Agriculture Agreement. After graduation, it will no longer enjoy discounts on its regular contributions to the UN and other organisations.

Handling the Transition: Daunting but Doable

Bangladesh will need to handle the transition prudently so that it can embark on its new status with energy and vigour. While on the one hand, it must continue the ongoing progress, on the other hand, it must generate enough dynamism to “graduate with a momentum” to make the graduation sustainable. The authorities must plan how they will use the next five years of transition to address the challenges that the country will confront after graduation. The foremost important undertaking would be to mitigate the negative impacts of withdrawal of ISMs as the government strive to secure a grace period of a couple of years from the international community. This is particularly critical in the context of the current COVID-19 crisis which has caused a reversal of many development gains of the past years.

Strengthening Bangladesh's productive capacity should be central to this effort. The development of capacity must be driven by economic diversification. The defining factors to this end would be domestic resource mobilisation, FDI flow and reforms of supporting

²¹ M Al Faisal, *Pharmaceuticals Industry of Bangladesh*, 3rd Edition, p. 6.

²² Ibid. p. 2.

²³ UNFCCC Least Developed Countries, <https://unfccc.int/topics/resilience/workstreams/national-adaptationprogrammes-of-action/ldc-portal>.

institutions.²⁴ This should be complemented by technological upgradation, innovation and improvement in labour productivity.

Securing ISMs for an Extended Period

Securing trade-specific ISMs for a certain period of time would be most essential for Bangladesh to ensure a sustainable transition to a developing status. In this regard, the proactive role of the Bangladesh missions in New York and in Geneva in sound coordination with line ministries and divisions will be necessary. They should work closely with the other LDCs in line for graduation as well as the greater LDC group to formulate an appropriate strategy. The upcoming Ministerial Conference of the WTO, due to be held in November 2021, and the fifth UN Conference on LDCs, to be held in January 2022, should be targetted to advance the interests and concerns of the graduating LDCs. Mobilisation of the WTO members in favour of the continuation of ISMs for graduated LDCs will be key. In addition, harnessing the support of developing countries such as the Africa Group, the ACP and other friendly members in this regard will be crucial. In fact, that is what the missions are doing at the moment. They are providing leadership in respective forums.

There are a few support measures that will continue to be available for the graduated LDCs. Bangladesh should take full advantage of these. For example, LDCs will continue to receive support from the Technology Bank for the LDCs for an additional five years after graduation.²⁵ Aid for trade under the Enhanced Integrated Framework, which is exclusively earmarked for the LDCs for institutional and capacity-building support, will also be extended for an additional five years following graduation.²⁶

Proposals on the table in WTO

Currently, a few global initiatives are underway to address the concerns of the graduating LDCs. At the WTO, the LDC group has made one specific submission for extending existing preferences to all graduating LDCs for 12 more years. The Bangladesh delegation is the focal point on this issue and has played a key role in developing the draft text.

Draft Ministerial Conference Decision on LDC Graduation

The LDC group has submitted a draft for consideration at the WTO Ministerial Conference to allow the graduated LDCs access to the support measures and special and differential treatments under all WTO rules and provisions.²⁷ The draft proposal urges for the continuation of trade related ISMs to graduated LDCs for additional 12 years following graduation. The Bangladesh mission in Geneva has played an important role in giving shape to this proposal at the WTO General Council meeting held in December 2020.

²⁴ D Bhattacharya, "LDC Graduation- Sophies Choice", *The Business Standard*, 20 January 2021, <https://www.tbsnews.net/first-anniversary/ldc-graduation-sophies-choice-188413>.

²⁵ UNGA res. A/71/363, also UN-OHRLLS, Technology Bank for LDCs, <http://unohrlls.org/technologybank/>.

²⁶ EIF supports to LDCs: <http://www.enhancedif.org/en>, <http://www.enhancedif.org/en/funding> and www.un.org/ldcportal.

²⁷ LDC Submission at the General Council, "Trade Related Challenges of the Least Developed Countries and Way Forward: A Draft for MC Decision", No. WT/GC/W/807; 17 November 2020.

It is difficult to make quick progress in trade related negotiations. The document under submission is no exception. Understandably, the adoption of the proposal will require a great deal of persuasion and lobbying. Endorsement to the proposal from the developed countries like the EU, the US, United Kingdom, Japan, Russia and Switzerland and large developing countries like China, India, Brazil and South Africa will be particularly crucial. Needless to say, the draft decision, if approved, will help Bangladesh's graduation process in a significant way. Bangladesh, along with its international development partners and fellow LDCs, has, therefore, intensified diplomatic efforts to secure positive outcome from the global processes.

Obligation of the International Community

As more and more countries qualify for graduation, the pressure is also mounting on the international community to support these LDCs for a smooth transition out of the category. There have been calls from intellectuals and global thinkers for the continuation of support measures to graduating LDCs not only to incentivise graduation but also to enable them stand on their firm footing and adapt with their new status. A letter has been issued by over 40 renowned economists and scholars urging the international community to approve the draft submission that propose the extension of the ISMs for graduating LDCs for the transitional period.²⁸ The CDP is also arguing for the adoption of some ISMs in favour of the graduating LDCs. It has developed proposals for a special monitoring mechanism for these countries and for launching of a graduation support facility.²⁹

The international community intends to see the LDCs graduate sooner than later. The entire set of ISMs is to assist LDCs overcome their structural difficulties, strengthen productive capacities and acquire a technological base to bring them at par with other developing countries. As such, the Istanbul Programme of Action for the period 2011-2021 set the goal of "enabling half the number of least developed countries to meet the criteria for graduation by 2020."³⁰ Clearly, it is the interest of the development partners to ensure that the graduation takes place and is sustainable. Moreover, the loss of key trade-related ISMs will strike a huge blow to a graduated LDC. Given that, it is not surprising that several LDCs have been reluctant to graduate during this time. So, the WTO members should go further in extending LDC-specific ISMs for the graduating LDCs so that they do not feel suddenly abandoned and victims of their successes.

Several UNGA resolutions adopted in support of graduated LDCs emphasised the smooth and sustainable graduation.³¹ It is reiterated that graduation is a milestone in the development path of an LDC and not a destination. The principle of "smooth transition" was introduced to ensure that graduation does not cause disruptions in the LDC's development journey. The UNGA calls on WTO members to phase out LDC-specific ISMs in a gradual and

²⁸ Letter to the USTR and EU Trade Commissioner, <https://www.bu.edu/gdp/2021/04/22/letter-to-the-ustr-and-eu-trade-commissioner-support-pandemic-recovery-for-least-developed-countries/>.

²⁹ D Djalita Fialho and N Kim, "Towards a resilience-building framework for monitoring countries graduating and graduated from the Least Developed Country category", CDP Background Paper No. 51, 1 June 2021.

³⁰ Report of the Fourth UN Conference on the LDCs, Istanbul, Turkey, 9-13 May 2011, doc. A/CONF.219/7, Chap. II, pp. 2, 5.

³¹ UNGA resolutions 59/209 of 20 December 2004 and 67/221 of 21 December 2012.

predictable manner following the final exit. The resolutions also invite LDCs trading partners to establish procedures to extend the special and differential treatment measures and exemptions available to LDCs for a period as appropriate. The text submitted at the WTO has been built on the spirit of the UNGA resolutions. If adopted, the draft would enhance predictability and confidence for those LDCs which are about to graduate amidst the onslaught of the pandemic. It would send a strong signal to the LDCs that the international community is not oblivious of their concerns and will stand by them even after they graduate.

Conclusion

Graduation to a higher level of development is the cherished dream of all LDCs. No country wants to remain an LDC and carry the tag for perpetuity. Bangladesh is no exception. In fact, the Bangladesh government has already been preparing the people to embrace the new status. It has disseminated the information of graduation as a landmark in the country's development process. However, it will need a continuation of economic, technical and technological support from partners at least for some time in the near future.

As the largest LDC in terms of the size of economy, Bangladesh is likely to face challenges more than the others as it embarks on a new journey. It was never expected to be easy. However, Bangladesh confronted such trials many times before. Luckily for it, the leadership of the country sailed through the rough waters successfully every time. When the US discontinued the Generalized System of Preferences facilities to its garments products several years ago, many pundits predicted that the entire sector would collapse. It did not happen. On the contrary, the sector has made such a remarkable progress that it is now second to China in exporting readymade garments in the world.³²

Bangladesh must stand on its feet eventually anyway. Sooner or later, it must comply with more stringent rules of origin, face tough competition in exports and follow a stricter IP regime. However, Bangladesh will need some policy space as it prepares itself to tackle these challenges on its own. It can hope that the international community, particularly the WTO membership, would realise this imperative and support the extension of LDC-specific ISMs to Bangladesh and to other graduated LDCs for some time, as proposed in the submission.

.....

HE Md Mustafizur Rahman is Bangladesh's Ambassador and Permanent Representative to the United Nations Offices, World Trade Organization and other international organisations in Geneva. He can be contacted at mustafizur.rahman@mofa.gov.bd. The author bears full responsibility for the facts cited and opinions expressed in this paper.

³² "Bangladesh still in second spot in global apparel trade", Refayet Ullah Mirdha, *The Daily Star*, 25 August 2020, <https://www.thedailystar.net/business/news/bangladesh-still-second-spot-global-apparel-trade-1950597>.