

IMPACT OF LDC GRADUATION OF BANGLADESH ON ITS INTERNATIONAL TRADE: AN ANALYSIS

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ABSTRACT

Bangladesh reached to the threshold level of three LDC criteria (GNI, HAI and EVI) and declared to be eligible for graduation from LDC in 2018 by UN-CDP. Bangladesh will be graduated finally in 2024 following two successive triennial reviews of CDP in the year of 2021 and 2024. After the final graduation next 3 years will be transition period (CDP website). However, graduation may have some challenges particularly in international trade which are analyzed by the author in this article. It has been observed that negative impact of LDC graduation in the global business market is a great challenge for Bangladesh. Preferential trade loss, loss of special facilities under RTA, loss of special and differential treatment related under WTO obligations, loss of trade related capacity building, withdrawal of export subsidy cash incentive and TRIPS exemptions will be a great concern for Bangladesh. To mitigate the trade losses Bangladesh should strive to product diversification, productivity enhancement, improve capacity of private sector and involvement of the private sector in graduation process, pressure of private sector versus WTO provision to withdraw cash subsidy. No assessment and insufficient data for better understanding or analyzing negative impact, less preparation to mitigate challenge of LDC graduation, role of Development Partners, proper utilization of UN support in the process of graduation and less local market access in the international market and poor FTA relation of Bangladesh are some of the challenges. However, some recommendations have also been suggested in this field through this paper.

Keywords: LDC graduation, LDC criteria, Graduation Status, Graduation Challenge, International Trade.

1. INTRODUCTION

The notion of Least Developed Countries (LDCs) first came into discussion in the later part of 1960s. However, 'in the resolution of 2768 (XXVI) on 18 November 1971', initial cluster of LDCs had been scheduled by the United Nation (UN). Generally, 'low-income countries' having 'severe structural impediments to sustainable development' are categorized as LDCs. Countries less than the 'threshold' of 'Gross National Income (GNI), Human Asset Index (HAI) and Economic Vulnerability Index (EVI)' laid by UN are identified as LDCs. The purpose of forming LDCs was to provide them 'special international support' (IPoA, 2011). On the other hand, various 'international organizations' categorize different states upon 'income, social indicators etc.' For instance, 'the World Bank classifies its member countries based on per capita income into four categories: low-income, lower-middle income, upper-middle-income and high-income economies for the better strategy in providing loans to different countries'. This categorization of the World Bank is only depending upon 'per capita income' (ERD, 18).

Now 47 countries are listed for LDCs. In 1975 Bangladesh was initially declared as LDC by the UN. Four advanced 'summits on LDCs' were conducted in 1981, 1990, 2001 and 2011 consecutively. Recent 'LDC Conference (LDC- IV)' conducted on 9 to 13 May, 2011 in Istanbul, Turkey. A high-level delegation from Bangladesh led by Hon'ble Prime Minister Sheikh Hasina participated the meeting. The meeting ended up with endorsement of 'a comprehensive action plan called Istanbul Program of Action' (IPoA, 2013). Prime purpose of the IPoA was to excel half of the LDC countries to 'the threshold of graduation by 2020'. By this time, five countries have received their status of developing countries being graduated from LDC. The countries are- Botswana (1994), Cape Verde (2007), Maldives (2011), Samoa (2011) and Equatorial Guinea (2017) (ERD, 2018). Committee for Development Policy (CDP), 'a subsidiary body of the ECOSOC', has an obligatory function of reviewing LDC countries in 'every three years' and post-graduation monitoring.

The nature of three criteria upon which LDCs are identified:

- Income criterion, based on a three-year average estimate of GNI per capita for the period 2014-2016, based on the World Bank Atlas method.
- HAI: Health Index & Education Index; based on indicators of: (a) percentage of population undernourished; (b) health: mortality rate for children aged five years or under; (c) Maternal mortality rate; (d) the gross secondary school enrolment ratio; and (e) adult literacy rate.
- EVI based on indicators of: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries; (e) share of population in low elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production’.

To be qualified for the graduation of LDC, ‘a country must reach threshold levels for graduation for at least two of the aforementioned three criteria, or its GNI per capita must exceed at least twice the threshold level” and “to be recommended for graduation, a country must be found eligible at two successive triennial reviews by the CDP’.

Graduation of Bangladesh from LDC was first announced in 2018 by CDP. Bangladesh will be able to be graduated from LDC lastly in 2024. After ‘the two successive triennial reviews by the CDP in 2021 and 2024’ Bangladesh will get another 3 years to adjust the ‘transition’ period (CDP website). Bangladesh is first LDC to ‘graduate with large population, sizable economy, exports and progress in poverty alleviation and one of the first LDCs to meet all three graduation criteria at the time of graduation’ (UNCTAD, 18). Attaining a success of becoming 'developing country' doesn't mean that Bangladesh will not face challenges. The country will be in vulnerable situation in terms of ‘international trade along with the areas of development assistance and other forms of assistance’ (Ministry of Commerce, 2019, BDF,18). After graduation, ‘Bangladesh will lose the benefits of special preference for International Trade. Contribution to International Organization will be double. Organization for Economic Cooperation and Development (OECD) countries committed portion (0.15% to 0.20%) of their GNI to LDCs (ODA), will not be provided anymore. Technical Cooperation have special program for LDC in

international arena that will also not be provided. International Travel Benefits will not be available too” (IPOA Bangladesh, 2013). As a result, Bangladesh will be ‘in a more competitive situation’ in global market. In International Trade, ‘Special and Differential Treatment, generalized system of Preference, Regional Trade Agreements and Bilateral Trade Initiatives’ lose will pose a great challenge (ERD 18, Nazneen 18). Unawareness and uncertainty of withdrawal of International Support Measures (ISMs) will lead to further challenge. Therefore, conceptualization of the effect of graduation having analytical ability and effective negotiation (Tateno, 2019) along with increasing ‘capacity of international trade for tackling post-graduation challenges are essential (Ministry of Commerce, 2019). If Bangladesh is able to maintain the current dynamics, graduation will take place in the year of 2024 with significant momentum. Graduation with momentum will enable Bangladesh to ensure that graduation remains sustainable as Bangladesh embarks on its post-2024 developmental journey. At this juncture, graduation with momentum is so critically important for Bangladesh. If this is to be ensured, Bangladesh will need to take adequate preparation so that graduation with momentum leads to sustainable graduation (Nazneen, 2018) and the country will require major breakthroughs in the development of productive capacities (ERD, 2018).

2. METHODOLOGY

Necessary data for the study has been collected from secondary sources especially from Ministry of Commerce and Economic Relations Division (ERD). Output of the workshops, seminars that were held by the UNESCAP and other organizations including ERD (Ministry of Finance) have been reviewed. In addition, research papers, books and government documents were an important source.

3. LDC GRADUATION: CONTEXT OF BANGLADESH

The following table shows that Bangladesh attained threshold of all three criteria for LDC graduation reviewed by the CDP in the last ‘triennial review held on March 12-16, 2018’.

The review was done as per the World Bank Atlas method. In 2018, GNI was set for 1230 US\$ or above and Bangladesh achieved 1272 US\$, the threshold of HAI was for 66 or above and Bangladesh achieved for HAI 72.8; EVI was set for 32 and less, and Bangladesh achieved 25. We can observe them from the following table 1:

Indicator	Threshold level 2018	CDP
GNI per capita	1230 US\$ = or >	1272 US\$
HAI	66 = or >	72.8
EVI	32= or <	25.0

Table 1: GDP calculations of Bangladesh, (CDP, 2018)

Benefits for Bangladesh of Graduating from LDC status are improve country-image, higher rating for investment by international rating agencies which may attract larger foreign direct investment and country experiences (Raihan, 2018). However, Bangladesh being a LDC is enjoying the facilities of International Trade support, less contribution to International Organization, OECD/DAC countries commitment for ODA to provide 0.15% to 0.20% of their GNI, Concessional Financing based on World bank's lower income country, technical cooperation: have special program for LDC internationally, and some travel benefits (IPoA, 2011).

As per Ministry of Commerce, Bangladesh, being an LDC, is enjoying following special facilities relating to international trade:

- (1) **Preferential market access:** Currently Bangladesh is enjoying preferential market access facilities which include:
 - a) Duty-free & quota-free (DFQF) market access facilities: Bangladesh, being a member of the World Trade Organization (WTO), is enjoying duty free market access or reduced tariff rate facilities for exporting its product to developed and developing member countries of WTO.

- b) Generalized System of Preference (GSP) facilities: The GSP allows LDCs to pay lower or no duties on export the EU and some other countries. Currently, being an LDC, Bangladesh is getting GSP facilities from 38 countries
- c) European Union - 28 countries. EU GSP scheme grants duty free access for the LDCs under EBA (Everything but Arms) Initiative.
- d) Others (10 countries) - Australia, Belarus, Canada, Liechtenstein, Japan, New Zealand, Norway, Russian Federation, Switzerland and Turkey
- e) Special market access facilities under various Regional Trade Agreements (RTAs): Bangladesh being member of SAPTA, SAFTA, APTA, TPS-OIC (Trade Preferential System among OIC member states), APTA are enjoying preferential market access to the member countries. Being, an LDC, Bangladesh is also getting benefits in terms of 'rules of origin'.
- f) Preferential market access for trade in services under DC Services Waiver.

(2) **Special and Differential Treatment (S&DT) related to WTO obligations:** In the WTO system and Agreements, various S&DTs are available for developing countries and LDCs. Currently around 140 such S&DTs are available, among which around 15 are exclusively for LDCs.

(3) **Trade-related capacity building:** An important initiative in support of the LDCs is the Enhanced Integrated Framework (EIF), the successor of the Integrated Framework (IF) created in 1997. The EIF is a multi-donor programme which supports LDCs to increase their participation in the international training system. It focuses on three main activities: (i) mainstreaming trade into national development strategies; (ii) setting up structures needed to coordinate the delivery of trade-related technical assistance; and (iii) building capacity to trade, including addressing critical supply-side constraints.

(4) **Export subsidy Cash incentive:** As an LDC, Bangladesh is allowed to provide export subsidies under the relevant WTO Agreement, and Bangladesh has been providing cash incentives to various products in order to encourage exports. Cash incentives amounting to Tk. 4,400 crore for all and 2,200 crores for RMG.

(5) **Trade-Related Aspects of Intellectual Property Rights (TRIPS) exemptions:** Under the WTO TRIPS Agreement, LDCs have been exempted from providing protection to Intellectual Protection Rights (IPRs) until 01 July 2021 in general; and until 01 January 2033 for pharmaceutical products. Bangladesh has been benefiting from the TRIPS

exemptions, particularly from the exemption relating to pharmaceutical products, which exempted LDCs from providing patent protection for medicines. Bangladesh has been able to make use of this exemption very effectively. As a result, pharmaceutical industry of Bangladesh has been able to meet around 95% of domestic requirements and also export medicine in many countries around the world. The most significant factor is that due to exemption of patent protection; price of medicines in Bangladesh is comparatively low and affordable, which has provided enormous benefits to citizens of the country (Ministry of Commerce, 2019).

Bangladesh exports Readymade Manufacturing Garment (RMG) to various countries more than 80% of their total export because of special support being LDC (Nazneen, 2018, Moazzem 2018). The following figures 1 and 2 show benefits enjoyed by the RMG export of Bangladesh in the European Union (EU) market as LDC:

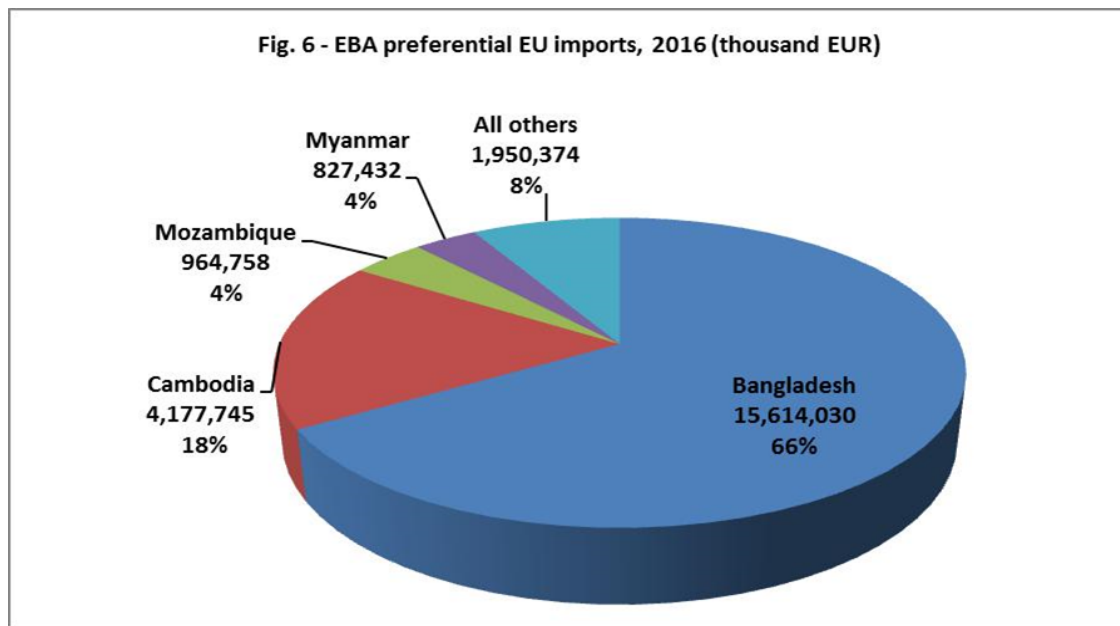


Figure 1: EBA preferential EU imports, 2016

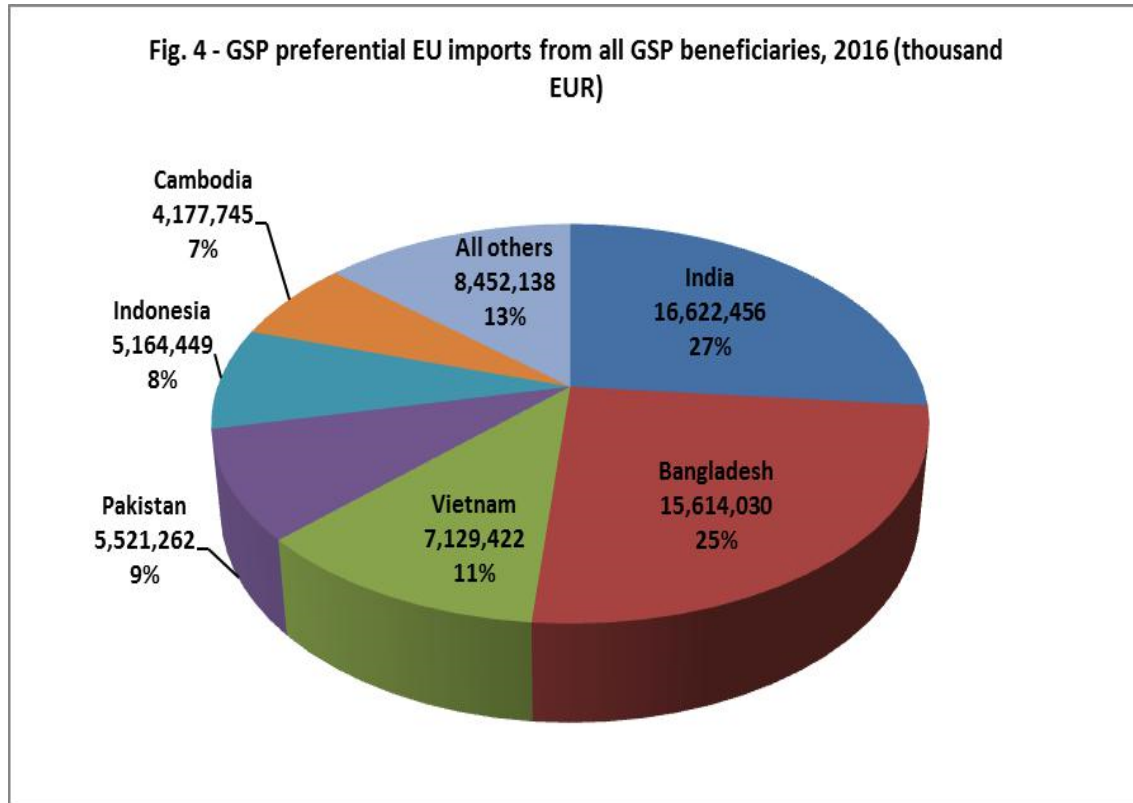


Figure 2: GSP preferential imports into the EU

A ‘vulnerability profile’ and an ‘ex-ante impact assessment’ of Bangladesh by United Nations Conference on Trade and Development (UNCTAD) and United Nations Department of Economic and Social Affairs (DESA) will be arranged respectively with duration of 2018-2020 previous to ‘the next triennial review of 2021’. The purpose of vulnerability profile is ‘giving an overall background of Bangladesh’s economic and development situation’. The ex-ante impact assessment will be done for ‘the possible implications of graduation, in particular with respect to those special support measures related to development finance, international trade and technical assistance provided to Bangladesh as an LDC’.

By the period of 2021-2024 Bangladesh will implement a ‘transition strategy’ with cooperation of ‘development partners’. Implementation of the strategy will be started immediate after the graduation having duration of 2024-2027. The purpose of the strategy

is to plan for removal of barriers due to withdrawal of ISMs so that changing scenario cannot hamper the growth process of Bangladesh (ERD, 2018).

Assistance provided to Bangladesh as a LDC will not be stopped immediate after graduation. ISMs will be systematically phased out as Trade-related ISM, Finance-related ISM, Technology-related ISM, Technical assistance, other general ISM. Some ISMs can be available for extended period of time (smooth transition measures) (Tateno, 18). Various specific time periods are set for various types of supports. Such as: 'EBA scheme will be continued three years after graduation, Enhanced Integrated Framework will be continued five years after graduation, Least Developed Countries Fund (LDCF) projects are approved and before graduation it will be funded, LDC Technology Bank facility will be available five years after graduation, Investment Support Programme will be continued five years after graduation, UN Capital Development Fund will be continued three years after graduation and two more years on a cost sharing basis, UN travel support will remain three years after graduation' (Alim, 2019). But as soon as support measures are stopped, Bangladesh will be in trouble (ministry of commerce). As for example, RMG became lead manufacturing industry in Bangladesh since 1990 and it has protection in the global market through special support. In FY 2015-16, 72% of overall export of Bangladesh came from RMG and for this reason, preferential treatment, GSP schemes and RTAs and bilateral initiatives have special significance (BDF, 2018).

SITUATION ANALYSIS

In the situation analysis and result, ERD as a focal point of LDC graduation matter and Ministry of commerce as prime actor of the Bangladesh Government in trade and commerce both locally and internationally, have their priorities to take various types of initiatives. Since, LDC graduation will have a great impact on trade and business, business personal's opinion is a great concern here along with international experts and national researchers.

The 2018 declaration is just the beginning of the graduation process, based on the final review in 2024. After 2024, Bangladesh will get another 3 years to adjust with various transition processes. Thus, the real challenges will begin after 2027 (Nazneen, 2018). In this context, through situation analysis from the different view point way of mitigation is tried to be analyzed below.

Bangladesh due to 'graduation' will be in challenge of entraining in the 'international capital market' due to 'poor sovereign credit ratings and currency risks'. Specifically, various 'business and trade' oriented regulations for decreasing 'cost of doing businesses and export diversification are necessary to mitigate the challenge. 'DFQF withdrawal' and 'special preference' will increase competitiveness in the global market by rising product's price of Bangladesh in the international market. As estimated, Bangladesh will loss 6.7% 'tariff', equivalent to \$2.7 billion because of graduation. According to UNCTAD, Bangladesh might lose 5.5% to 7.5% of preferential treatment (BDF,18). Exploration of different type of trade facilities, other than LDC such as various type of 'GSP' and skill on trade negotiation are necessary to avoid 'Most Favoured Nation (MFN) tariff rates'. 'Prudent borrowing policy focusing on blending of loans from concessional and non-concessional sources/types' should also be a matter of concern. Regional integration is needed to be explored. Less skilled 'human capital and weak governance' need to be managed efficiently. Public Private Partnership will also be a wise strategy and international support is necessary for facilitating 'trade and exports' for the interim period of graduation (ERD, 2018).

According to Ministry of Commerce, the challenges of Bangladesh regarding global trade are 'high Concentration of Market' and 'high concentration of product' which are shown by the following two charts in Figure 3 and Figure 4:

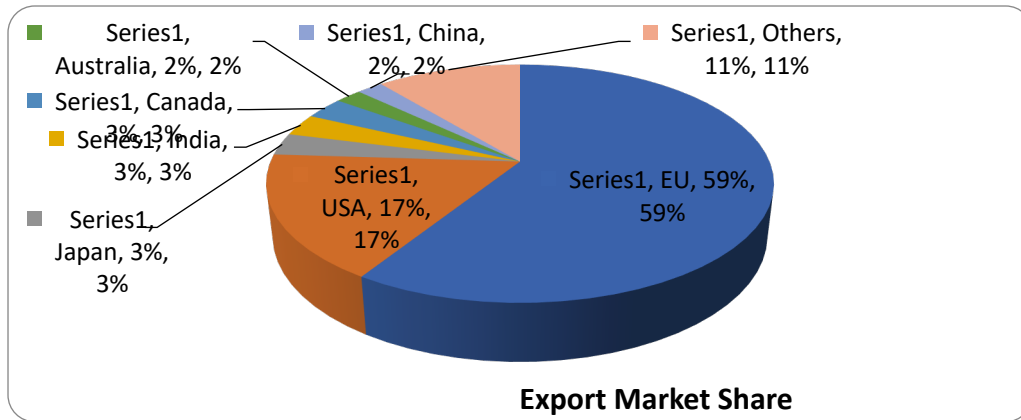


Figure 3: High Concentration of Market (Source: Ministry of Commerce)

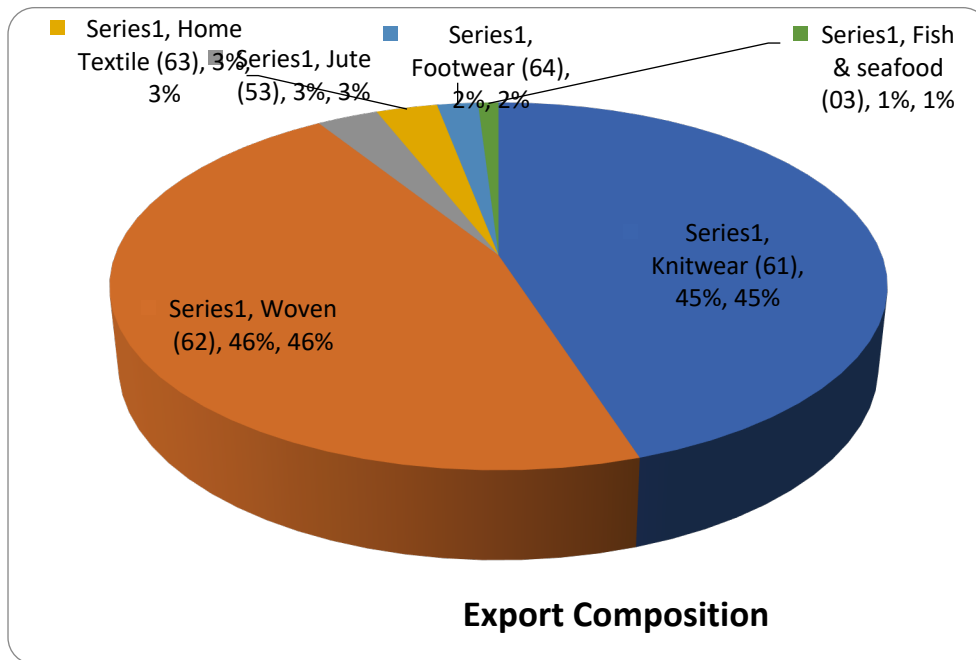


Figure 4: High Concentration of Product (Source: Ministry of Commerce)

Ministry of Commerce identified that post-graduation trade failure in Bangladesh will be loosing of ‘preferential market access, DFQF and RTAs (2024), Ineligible to enjoy preferential “Rules of Origin” (RoO), single transformation or simply 30% value addition’ that apprehend for 1.8- 2.7 billion trade deficit. The table below shows that after graduation how GSP and MFN tariff will be imposed:

EU Market					
HS Chapter	Product	Share in Export in EU (2016)	GSP Tariff	GSP+ Tariff	MFN Tariff (mostly)
61	Knitwear	53%	6.4%-9.6%	0	12%
62	Woven garments	38%	5%-9.6%	0	12%
63	Home textile	2%	1.6%-9.6%	0	12%
64	Footwear	2%	0%-11.9%	0	8% or 17%
3	Fish, crustaceans	2%	0%-18.5%	0	12-20%

Table 2: Transition to Developing country and impact on EU

More specifically, the issues are: once Doha Round is completed, tariff will be reduced under WTO, faster tariff reduction in Free Trade Agreements (FTAs) & RTAs, removal of specific duties, specially regulatory duties and supplementary duties will lead to more import and worsen Balance of Payment (BoP), stringent Rules of Origin to comply for GSP and assessment is yet to be available for withdrawal of TRIPS exemption.

Ministry of Commerce also reveals that ‘policy dilemma’ as ‘cash incentives’ are being facilitated by the country which is not aligned with WTO provision. Effect of acceleration to the developing country from LDC is not properly grasped by the ‘private sector’, and research is not available in this field. ‘Phasing out’ of ‘Cash Incentives (Tk. 4,400 crore)’ will take place after graduation. From this total amount, ‘RMG’ gets assistance of 2,200 crore and for this reason oppose of ‘the private sector vs. pressure from the WTO members’ will be a prominent issue.

Ministry of Commerce, therefore, urges for having policy initiatives to get GSP, especially to have GSP+ (6.5% import threshold+ Minimum working age, good governance, compliance), enhance productivity of the private sector to become more competitive, improve ease of doing business, IP enforcement, awareness of the private sector, quality improvement, development of port capacities, infrastructure and social compliance of worker's rights and working environment. Ministry of Commerce gives emphasis on effective negotiation with WTO Members for extension of 'TRIPS Transition Period until 2033' and ~~EU GSP for another 03 years~~. However, current EU 'GSP scheme' will expire in 2023. GSP+ negotiation and signing FTA are also necessary.

According to Ministry of Commerce, the way forward should be focus on better market access efforts for obtaining GSP+ in EU, initiate FTA/RTA negotiations with potential countries, diversifying export baskets & diversifying markets, enhancing productivities, ensure better compliance in factories, enhancing overall trade-related capacity, develop theoretical framework for LDC graduation. Graduation may increase FDI, but needs strong professionalism and conducive economic and political regime to attract FDI. Graduation should be accompanied with structural shifts towards high value-added industries, strengthening governance, mobilizing domestic resources, develop infrastructure, investment in human development and Improvement of ease of doing business (Ministry of Commerce, 2019).

The former President of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) in 'Textile Today' said, "there are some challenges, which we have to face carefully." He then added "for the graduation, Bangladesh will lose duty-free and tariff-free facility in the European countries." He further said "to overcome the challenges the government should emphasize on doing 'Free Trade Agreement', 'GSP Plus' and 'Regional Trade Agreement' with developed countries." Abul Kasem Khan, President of the Dhaka Chamber of Commerce and Industry (DCCI), in the same online

newspaper said, “We need to reform our policy, increase private investment, develop infrastructure and enhance manpower skills. He further added “as some facilities in export will be decreased, so that, we need to formulate a proper export policy and search new sector of export. “Since the production costs have gone up due to improved wages and safety improvement, manufacturers have to increase productivity through skills training and enhancement,” said Abdus Salam Murshedy,(18) President of Exporters Association of Bangladesh.

For achieving GSP+ status, a country needs to fulfill some requirements such as important requirements, among others, are fulfilling ‘vulnerability’ criteria and ratification of 27 International Conventions. For vulnerability criteria (GSP +), first, exports under the EU GSP of the seven largest products from a country must represent more than 75% of the country’s total exports under the EU GSP over a three-year period. Secondly, country's three-year average exports under the EU GSP must represent less than 6.5% of the value of the EU's total GSP imports from all GSP beneficiaries. Bangladesh does fulfill the first criteria of vulnerability as the RMG sector alone accounts for more than the stipulated threshold by the EU. But, Bangladesh currently does not fulfill the second criteria as Bangladesh’s share to total EU imports under GSP is around 9% and in case of ratification of 27 international conventions, Bangladesh ratified all the conventions except the minimum age convention of ILO (Ahmed, 2018).

Raihan (2019) mentioned that there will be a loss of preferences in the markets of European Union, Canada, Australia, Japan, India and China in 2027, reduction in export might lead to an annual reduction in total exports of Bangladesh by 11%, equivalent to around 6 billion US\$ in 2027. Many of the exemptions of WTO provisions, including the cut in tariff and subsidies will no longer be available after 2027. He further said that TRIPS exemptions, especially for pharmaceuticals sector and prospective benefits are not ‘automatic’, but the possible losses would be ‘automatic’ and Bangladesh's experience with FTA is poor and it would be a challenge, he added. However, creating new market access, obtaining GSP+, duty-free facilities to 66% of total products, negotiating FTA/RTA with potential countries, diversifying products, diversifying markets and enhancing compliance capabilities in all areas of trade are necessary. He further said that increasing labour productivity, reducing

cost of production and cost of doing business, improving trade-related infrastructure, improving trade facilitation system, enhancing overall trade-related capacity, improving IPR regime and a detailed road-map needs to be formulated for the next 6 years.

According to Senior Economic Affairs Officer, an international expert of UN-OHRLLS, Mr. Alim said that graduated countries are vulnerable to economic and climate shocks and dependent on Intellectual Property Protection. Graduation implications are possible reductions in official development assistance (ODA) from bilateral and multilateral donors, loss of Market Access preferences, Loss of LDC-specific Special and Differential Treatment in the WTO, WIPO, UNFCCC etc.

According to DESA Impact Assessment and UNCTAD Vulnerability Profile Study, by consulting stakeholders and by negotiating with development and trading partners, a Smooth Transition Strategy linked to national development plan needs to be prepared and its proper implementation is necessary (Alim, 2019). To ensure preparedness Bangladesh needs to understand implications of graduation beyond trade, trade related issues and transition periods (Ratna, 19). Government can actively engage private sector, national authorities and development partners could work together to make Sustainable Development Goal (SDG) costing a useful tool, more research is needed for synergies and economy wide impacts, available financial resource mobilization are also needed with alignment of SDG investment. A better understanding of impacts of graduation with sufficient data and analysis, good preparation, and proactive engagement with development partners are critical. Greater focus should be placed on enhancing domestic resource mobilization, strong international support and development cooperation, improve tax and other revenue collection are necessary (Tateno, 19). Efforts towards SDG implementation may facilitate graduation since several objectives of the IPoA and the SDGs have commonalities (UN-OHRLLS, 2016). support to address the challenges, information on available sources of concessional finance, including private finance, green bond financing and GDP-indexed bonds, dedicated support for the preparation of bankable projects in priority sectors, inform other actors like credit rating agencies about graduation, debt sustainability of graduated countries, capacity building for government officials and

capacity building for exporters to navigate different types of market access can be possible international support measures for graduated countries. Graduation support by UN are graduation Assessment, capacity development/policy advice, extension of the preparatory period to five years from the current three years before effective graduation (demand by LDCs), undertaking intergovernmental follow-up and monitoring of the implementation of smooth transition strategies for graduated countries, developing smooth transition strategy, undertake comprehensive appraisal of the implications of graduation and developed a nationally-owned smooth transition strategy, identify niche sectors that are sensitive and identify type of support needed to address potential loss of LDC-specific support development and trading partners and OECD to review consequences of graduation on access to development finance, and develop policy toolkit (Alim, 2019).

Ahmed (2018) said that the most crucial challenge for Bangladesh is erosion of preferential market access, adverse impacts will be most in the EU market where 95.8% of Bangladesh's exports currently enter duty-free. After Graduation, Bangladesh will not be eligible for support measures accorded to LDCs, special and differential treatment for the LDC members will no longer be available to Bangladesh (in the form of market access, technical assistance, waivers from obligations, protracted implementation period in view of implementing obligations and commitments). Ahmed (2018) further said that Bangladesh will also not be eligible for support for 'aid for trade, aid for trade facilitation and support under the enhanced integrated framework (EIF) window of the WTO'. USD 6-8 billion of total financial loss will be incurred in 2027, she added. She then figured out status of trade before and after graduation by the following table:

	LDC-specific schemes	Schemes applicable after graduation*
European Union	Everything But Arms	Standard GSP or GSP+ (after 3-year smooth transition)
United States	GSP for LDCs	Standard GSP; AGOA (for African states)
China	Preferential tariffs for LDCs	MFN for WTO members, general duty rates for non-WTO members
Japan	GSP for LDCs	Standard GSP
Canada	GSP for LDCs	Standard GSP
Republic of Korea	Preferential tariffs for LDCs	MFN
India	Preferential tariffs for LDCs	MFN
Switzerland	GSP for LDCs	Standard GSP
Russia	GSP for LDCs	Standard GSP
Turkey	Aligned with EU	Aligned with EU
Australia	GSP for LDCs	Standard GSP

* In many cases, smooth transition periods apply. Specific conditions for certain LDCs may apply.

Table 3: Impact on export after graduation from LDC to DC .

She further added that Bangladesh needs to prepare for a smooth graduation by taking into account few issues of 'Standard GSP' grants duty reductions for around 66% of all EU tariff lines to low-income or lower-middle income countries. The special incentive arrangement for Sustainable Development and Good Governance ('GSP+') grants full duty suspension for essentially the same 66% of tariff lines as Standard GSP to eligible countries vulnerable in terms of economic diversification and export volumes. In return, beneficiary countries must ratify and effectively implement 27 international conventions, as listed in the GSP Regulation, which cover human and labour rights, environmental protection and good governance. Other than Standard GSP and GSP+, countries do not lose EBA status by entering into a FTA. Negotiation matters to retain some benefits by accepting the withdrawal of GSP but asking for alternative facility in return. In the 'Ease of doing Business' index, we ranked 177th out of 190 which needs to be improved.

Moazzem (2018) researcher of CPD, told that challenges confront by other LDCs can be lessons for Bangladesh. LDC graduated cross country experience of economic indicators are shown by the following table:

Table 4 : Learning from peers: Impact of Graduation in other countries

Country	Reference year	Real GDP growth (%)	Current account (% of GDP)	FDI (% of GDP)	ODA (% of GNI)	Remittances (% of GDP)	Tax revenue (% of GDP)	Merchandise exports (% of world trade)
Botswana	Before graduation (5 yrs)	10.55	7.78	-0.66	3.67	2.01	26.15	0.0510
	After graduation (5 years)	5.05	7.93	1.32	2.06	1.16	17.21	0.0430
Cape Verde	Before graduation (5 yrs)	6.18	-8.50	6.66	15.92	13.14	21.91	0.0002
	After graduation (5 years)	3.89	-13.74	10.46	14.04	8.64	20.20	0.0003
Maldives	Before graduation (5 yrs)	9.09	-16.67	7.83	3.08	0.26	11.56	0.0020
	After graduation (4/5 yrs)	7.40	-8.14	12.14	1.70	0.12	18.47	0.0020
Samoa	Before graduation (5 yrs)	0.43	-4.70	1.73	16.44	21.05	20.68	0.0004
	After graduation (1/2 yrs)	1.53	-5.90	2.41	11.98	18.91	23.06	0.0003
Bangladesh	Average (2011–16)	6.45	0.93	1.28	1.30	9.15	8.76	0.1663

The table indicates that after graduation countries were in vulnerable situation.

Moazzem (2018) has taken RMG sector of Bangladesh as case study. He said based on Terms of Competitiveness of RMG Sector after Graduation there could be changes “in the duty structure: from zero duty to MFN tariff, in the product coverage under duty-free access: from all to limited number of products, in the conditionalities: from no conditions to conditions, in preferential access to markets: from unilateral to conditional and bilateral, Changes in compliance of labour standards: from local rules to comply with ILO conventions and Changes in terms and conditions of foreign aid: from concessional to blended/commercial loans). He further said that without undertaking concrete steps to address the changing terms, some adverse impact may result in the RMG sector. Those are:

pressure on price competitiveness due to payment of MFN tariffs on BD products by buyers, risk of reduction of export of specific apparels products to be kept outside the preference list (EU countries), reduction of export of apparels for not having preferences (non-EU countries), reduction of export from non-compliant factories (e.g. small, medium and sub-contracting factories), rise in pressure on price competitiveness with apparel manufacturing developing countries, rise in pressure on price competitiveness with apparel manufacturing non-graduated LDCs. If investment remain conditional to growth of apparels sector, overall investment may slow down, closure of non-compliant factories, risks of rise in retrenched workers and slowing down growth of employment and strong adverse linkage effect to other sectors (e.g. having small volume of export). He again stated that RMG sector needs to address challenges of competitiveness issues (Static and Dynamic) and issues of stakeholders of Entrepreneurs, Associations, Government, Brands/buyers, and Workers are also necessary to be addressed. By the following Table 5, he showed initiatives require to undertake for retaining the competitiveness of a particular export product like RMG:

Stakeholders	Technology	Products	Traditional markets	New markets	Workers	Social Compliances	New conditions
Entrepreneurs	yes	yes	no	yes	yes	yes	yes
Associations	no	no	yes	yes	yes	yes	yes
Workers	yes	no	no	no	yes	yes	yes
Government	yes	no	yes	yes	yes	yes	yes
Brands/buyers	yes	yes	yes	yes	no	yes	yes
Sourcing country	no	no	yes	yes	no	yes	yes
Development partners	yes	yes	no	no	yes	yes	yes

Table 5 : Initiatives required to keep the competitiveness of RMG

Moazzem (2018) further said Bangladesh was passing a ‘transition’ period till final announcement of graduation in 2024. This period can be divided into three parts considering the preparedness of RMG. These are:

First period (2018-2021)

Identification of issues and concerns, taking responsibilities by different stakeholders, developing awareness raising materials, raising awareness at different levels, setting up a secretariat at BGMEA/BKMEA, developing capacity building programmes by the government (technology, products, management, workers, entrepreneurship development), communication and coordination with development partners, increasing network building measures with brands and buyers of non-traditional markets, initiating market access related issues with major developed and advanced developing countries, identifying ‘natural partners’ for bilateral agreements on trade in goods, services, investment and energy and discussion on preferential terms for credit from development partners .

Second period (FY2022-FY2024)

Follow-up of activities undertaken by the stakeholders, strengthening awareness building measures, implementing development programmes at the enterprise levels, continued discussion on terms and conditions of market access after graduation, Initiate discussion of bilateral agreements with most important ‘natural partners’, follow up on preparation by the entrepreneurs, undertaking development projects targeting international labour standards, preparation for compliance with EU’s EBA Plus and discussion on debt burden.

Third period (FY2018-FY20121)

Discussions with major trade partners regarding immediate concerns on export of RMG, developing infrastructure in order to comply with EU’s EBA plus and monitoring the immediate concern after graduation.

Institutional Arrangement targeting LDC graduation might be figured out as follows:

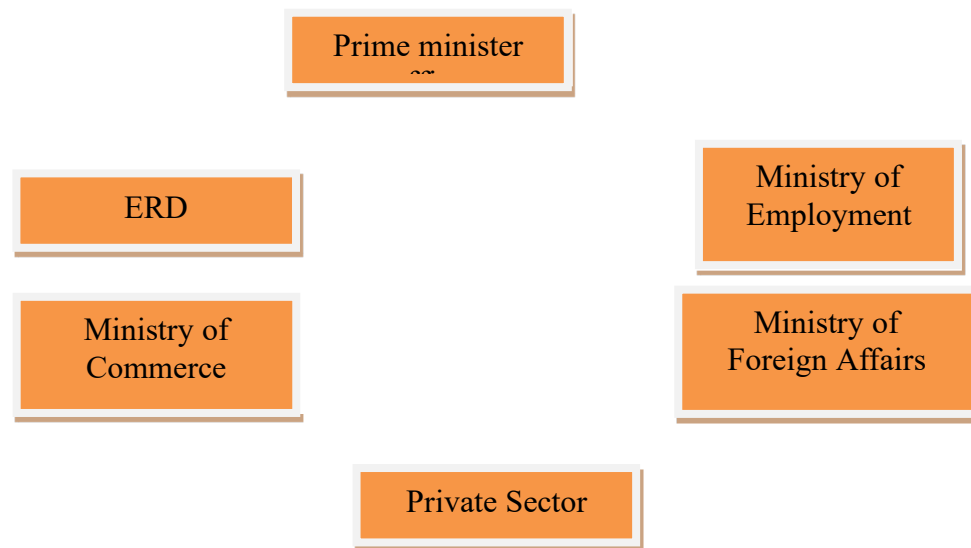


Figure: 5: Institutional Arrangement targeting LDC Graduation

He further said that by taking these types of inclusive initiative in different sector specially in RMG sector, Bangladesh will be able for handling LDC graduation challenge.

FINDINGS

According to Ministry of Commerce main challenges are: high concentration of market and product, lose of ‘preferential market access and DFQF, ineligibility to enjoy preferential ‘Rules of Origin’, loss of single transformation, tariff reduction under WTO, faster tariff reduction in FTAs & RTAs, removal of specific duties; specially regulatory duties and supplementary duties will lead to more import and worsen BOP, stringent Rules of Origin to comply for GSP and assessment is yet to be available for withdrawal of TRIPS exemption, conflict of ‘cash incentives’ and WTO provision, effect of graduation is not properly grasped by the ‘private sector’ and research is not available in this field. According to business personnel, Bangladesh will lose duty-free and tariff-free facility in the European countries. It would be tough for Bangladesh to attain GSP+ and market will be more competitive. According to international experts, challenges will be loss of preference following reduction of export and poor FTA relationship. A better

understanding of likely impacts of graduation with sufficient data and analysis, good preparation, and proactive engagement with development partners are also be a challenge. Researchers have shown that after graduation, most crucial challenge for Bangladesh is erosion of preferential market access, especially adverse impacts will be in the EU market where 95.8% of Bangladesh's exports currently enter duty-free.

According to the report published by ERD, to remove the barrier in international trade due to LDC graduation, the recommended areas to improve are: establish 'business and trade' oriented regulations for decreasing 'cost of doing businesses', export diversification, attain different type of trade facilities, explore various type of 'GSP', skill on trade negotiation to avoid 'MFN tariff rates', prudent borrowing policy, 'regional integration', manage 'low human capital and weak governance' and Public Private Partnership. According to Ministry of Commerce, policy initiatives to get GSP; specially to have GSP+, competent productivity of the private sector, IP enforcement, awareness of the private sector, ensure quality, development of port capacities and infrastructure and social compliance of worker's rights and working environment are necessary. Negotiation with WTO Members for extension of 'TRIPS Transition Period until 2033' and EU GSP for another 03 years, GSP+ negotiation and signing FTA are also essential. Way forward should be better market access for obtaining GSP+ in EU, initiate FTA/RTA negotiations with potential countries, diversifying export baskets & diversifying markets, enhancing productivities, ensure better compliance in factories, enhancing overall trade-related capacity; develop theoretical framework for LDC graduation, strong professionalism and conducive economic and political regime in attracting FDI, structural shifts towards high value added industries, strengthening governance, mobilizing domestic resources, develop infrastructure, investment in human development and Improvement of ease of doing business are also necessary. According to Business Personnel, policy reform, more private sector's investment, increase productivity, infrastructural development and skilled manpower through training are necessary. According to international experts, creating new market access, obtaining GSP+, duty-free facilities to 66% of total products, negotiating FTA/RTA with potential countries, diversifying products, diversifying markets and enhancing compliance capabilities in all areas of trade are necessary. There is further urged for

increasing labour productivity; reducing cost of production and cost of doing business; improving trade-related infrastructure; improving trade facilitation system, enhancing overall trade-related capacity; improving IPR regime and a detailed road-map needs to be formulated for the next 6 years. Supported areas should be to consult stakeholders, build awareness, negotiation with development and trading partners, prepare a Smooth Transition Strategy linked to national development plan, implement the Smooth Transition Strategy and report to the Committee for Development Policy are also necessary. Bangladesh needs to understand implications of graduation beyond trade and technical assistance needs. Actively engagement of private sector, National authorities and development partners could work together to make SDG costing a useful tool, more research and available financial resources with alignment of SDG investment needs are necessary. Enhancing domestic resource mobilization, international support and development cooperation, improve tax and other revenue collection, synchronization of the implementation of IPoA and SDG, explore available sources of concessional finance, inform other actors like credit rating agencies about graduation, capacity building for government officials and capacity building for exporters to navigate different types of market access are essential. Researchers emphasized that Bangladesh should try to get Standard GSP and GSP+, enter into a Free Trade Agreement (FTA) so that EBA is not lost. Negotiation to retain some benefits, improve ease of doing business are necessary. Sector based (for example RMG sector) comparison, analysis of before and after graduation impact following a preparation of strategic sectoral plan and proper implementation by fragmenting time periods (that could be three time period divisions during transition period of graduation) should be prioritized fixing organizational set up with better coordination of related ministries, private sector and development partners.

PUBLIC POLICY IMPLICATIONS

The challenges identified above could be resolved by taking following initiatives:

- Proper implementation of export-oriented product or sector based strategic plan with involvement of all stakeholders.
- Ensure international support in policy advise, data analysis, monitoring and evaluation

- Increase better negotiation skill for WTO, FTA and RTA and to get different type of trade benefits being developing country.
- Improve productivity and marketing with innovation, exploration and upgraded technology
- Enhance manpower skill and capacity development of government official
- Attract FDI and provide infrastructural facility
- Assessment, analysis and research

CONCLUSION

It is obvious from the situation analysis that Bangladesh will face severe challenge in international trade because of withdrawal of various international support measures in trade due to LDC graduation. UN will provide various assistance of advice in policy decision, vulnerability analysis, technical cooperation, etc. so that Bangladesh can overcome the challenge in the transition period and after graduation. Bangladesh needs full utilization of UN support for overcoming its vulnerability. Besides, Private sectors need to increase capacity and capability of their export products so that without international support measures, export baskets of Bangladesh are not in vulnerable position. Government needs to take special export product based initiatives as example of RMG sector is given by Dr. Moazzem in the situation analysis and Results chapter to retain export earnings of RMG sector. Bangladesh will prepare a transition strategy in cooperation with its development partners. For this effort inter ministerial close coordination in planning, implementation, frequent monitoring and evaluation are necessary. Ministry of Commerce needs to take export product based initiative of holistic approach so that Bangladesh can mitigate the vulnerability after graduation.

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