GRADUATION FROM THE LEAST DEVELOPED COUNTRY CATEGORY: A CASE STUDY OF BANGLADESH

by

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Abstract

The impending graduation of Bangladesh from the category of least developed countries (LDCs) by 2026 presents a significant shift in its international standing. As an LDC, Bangladesh has benefited from exclusive trading rights and favorable conditions under World Trade Organization (WTO) agreements, as well as dedicated support from development partners in terms of financial aid and technical assistance. However, the cessation of LDC status brings forth notable challenges as these privileges are withdrawn. This thesis aims to uncover the key issues stemming from this transition, examining the repercussions through two main lenses: (i) the potential loss of trade preferences impacting export revenue, and (ii) the adverse effects on accessing developmental financing. These two aspects are seen as the foremost avenues through which Bangladesh could be affected by its graduation from LDC status. To comprehensively analyze the possible outcomes, this thesis delves into pertinent sections of international trade agreements and development funds, providing a comprehensive overview of the landscape that Bangladesh and similar countries undergoing graduation may encounter.

Abbreviations Used

AAAA	Addis Ababa Action Agenda
ACWL	Advisory Center on WTO Law
AfT	Aid for trade
ASEAN	Association of Southeast Asian Nations
BOP	Balance of payments
CPD (UN)	Committee for Development Planning (UN)
DFI	Development finance institution
DFQF	Duty-free and quota-free
EBA	Everything but arms
ECOSOC (UN)	Economic and Social Council (UN)
EIF	Enhanced Integrated Framework
EVI	Economic vulnerability index
FDI	Foreign direct investment
FTA	Free trade agreement
GATS	General Agreement on Trade in Services
GAVI	Global Alliance for Vaccines and Immunizations
GCF	Green Climate Fund
GEF	Global Environment Facility
GSP	Generalised system of preferences
HAI	Human assets index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association (World Bank)
IFI	International financial institutions
IPOA	Istanbul Programme of Action
ISM	International support measure
JICA	Japan International Cooperation Agency
LDCs	Least developed countries
LDCF	LDC Fund
LIC	Lower income country

LMIC	Low and middle-income countries
MC	Ministerial Council
MFN	Most favoured nation
NGO	Non-governmental organisation
ODA	Official development assistance
OOF	Other official flows
PDR	People's Democratic Republic
RDB	Regional development banks
RoO	Rules of origin
RTA	Regional trading arrangements
S&D	Special and differential
S&DT	Special and differential treatment
SAFTA	South Asian Free Trade Area
SCCF	Special Climate Change Fund
SCM	Subsidies and Countervailing Measures
SIDS	Small island developing states
SPS	Sanitary and phytosanitary
STDF	Standards and Trade Development Facility
TA	Technical assistance
TFA	Trade Facilitation Agreement
TRIMS	Trade-related investment measures
TRIPS	Trade-Related Aspects of Intellectual Property
UNDESA	United Nations Department of Economic and Social Affairs
UNCTAD	United Nations Conference on Trade and Development

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Chapter 1: Introduction

The category of the least developed countries (LDCs) was established in 1971 as a special group of developing countries characterized by a low level of income and structural impediments to growth and requiring special measures for dealing with those problems by the United Nations. Since the establishment of the LDC category, support measures have been developed for these countries in the context of international agreements and organizations as well as by individual countries, educational institutions and others with a view to assisting LDCs in overcoming their challenges. Transitioning out of the LDC category can be a complex path with important implications that need to be fully analyzed. Challenges arise as the country stands to lose LDC-specific benefits and favorable arrangements.

The Committee for Development Planning, the predecessor of the Committee for Development Policy (CDP), was a key actor in the establishment of the LDC category. Since then, Committee for Development Policy has been responsible for identifying which countries should belong to the LDC category. For this purpose, it has developed a rigorous methodology. The Committee for Development Policy is mandated by the General Assembly and United Nations Economic and Social Council (ECOSOC) to review the LDC category every three years and make recommendations on inclusion and graduation of eligible countries. The Committee for Development Policy (CDP) determines threshold levels on each of the three criteria to identify the countries to be added to or graduated from the category. The thresholds for graduation are higher than those for inclusion. Countries in this category are identified as low-income countries confronting severe structural impediments to sustainable development. The LDC criteria therefore relate to levels of Gross national income (GNI) per capita, Human Assets Index (HAI) and Economic and Environmental Vulnerability Index (EVI) to external shocks (details in chapter 1).

Only five countries have graduated from the LDC group thus far (Botswana, Cape Verde, the Maldives, Samoa, and Equatorial Guinea). However, at least seven LDCs are anticipated to leave the group in the upcoming years: Bhutan (2023), Angola (2024), São Tomé and Príncipe (2024), Solomon Islands (2024), Bangladesh (2026), Lao PDR (2026), Nepal (2026) (UN, n.d). Only three countries (Botswana, 1994; Cabo Verde, 2007; the Maldives, 2011) were able to graduate between 1971 and 2011. So far, four countries graduated from the LDC category between 2007 and 2017, and five more are scheduled to graduate between 2020 and 2024 (Elliott, n.d).

Comprehensive programmes of action for LDCs were adopted at four successive United Nations Conferences on the Least Developed Countries, the most recent being the Programme of Action for the Least Developed Countries for the Decade 2011-2020. Given the modest progress achieved in the forty years prior, The Istanbul Programme of Action (IPoA) for LDCs was established in 2011 with the goal of supporting half of the countries in the LDC category to satisfy graduation standards by 2020 (United Nations 2011).

Based on its low levels of per capita income, human capital, and economic fragility, Bangladesh is currently one of 47 countries now classified as LDCs. It has been almost 50 years since Bangladesh first became a member of the Least Developed Countries (LDC) cohort in December 1975. In a historical move, on the eve of its 50th year of victory, 24th November 2021 the United Nations General Assembly (UNGA) adopted a resolution to graduate Bangladesh, the Lao People's Democratic Republic and Nepal from the Least Developed Country (LDC) group[1] (UN, 2021). It is expected that Bangladesh will come out of the LDC group by 2026, provided its continuous performance as per the LDC graduation criteria. Bangladesh has demonstrated significant progress in terms of some of the most important socio-economic development indicators by passing all three graduation criteria. Bangladesh's future as a sustainable LDC graduate will now depend on its ability to seize new global possibilities against the backdrop of a rapidly changing and dynamic global -economic landscape and to deal with the new challenges brought on by graduation.

Along with holding United Nation's LDC status, these countries are also included in The World Bank and the International Monetary Fund's (IMF) designated and categorised countries into four groups for their operational loan activities: low-income, lower middle-income, higher middle-income, and high-income countries (World Bank, 2022). In accordance with the evolution of their GNI per capita in comparison to specified lower and upper standards, countries are assigned to one of the four groups listed above. Every year, the World Bank and IMF review and revise the list of countries in each group. The same holds true for a different category that

[1] Six countries have graduated from the LDC category till date. They are- Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014), Equatorial Guinea (2017), Vanuatu (2020).

the World Bank normally uses to classify nations that qualify for International Development Association (IDA) funding.

Graduation from the LDCs category is different from graduation processes outside the United Nations, such as from the International Development Association (IDA) at the World Bank, or the graduation from the list of Official Development Assistance (ODA) recipient countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). In the UN context, countries have the ability to influence the process and several refinements have been introduced over time to the LDC criteria and the graduation procedures. The LDC category is a structural category that was "not designed to reflect present policy and its assessment" (Guillaumont, 2009b, p. 17), and its members are stable, only altering in the event of a new entry or leave. The LDC category is composed of a heterogeneous group of countries, some of which are richer than others. Twelve LDCs, mostly small-island developing states and oil-exporting LDCs, are ranked as lower middle-income countries, while 34 LDCs are ranked by the World Bank as low-income countries.

The development route an LDC takes to meet the graduation requirements has significant ramifications for the challenges it will encounter after graduating, as well as the tools it will have at its disposal to deal with those difficulties. The factors that propel LDCs to graduate also have an influence on how well they succeed after graduation. According to United Nations Conference on Trade and Development (UNCTAD, 2010), a country's development process continues indefinitely after graduation, and the strength of that country's future growth is directly related to the foundations it was able to lay at graduation. Thus, the method of graduating is just as significant as the time of graduation.

Despite overall enthusiasm about graduation from LDC status, countries will continue to confront many of the same challenges they did before graduation, although with fewer supports from the multilateral system. Following graduation, their economies will still be plagued by the same flaws and obstacles that characterized them before graduation, such as underdeveloped productive capacity, a shortage of thriving businesses and infrastructure, a lack of advanced technology skills, and fragile institutions. To manufacture and distribute increasingly more complex goods and services in a cost-effective and competitive way, countries require various resources, infrastructure, technical capabilities, institutions, and knowledge systems. The path to sustainable growth after graduation is likely to be difficult and packed with obstacles if any or all of these critical components of productive skills are not cultivated before graduation (UNCTAD, 2021).

But compared to previous graduates, Bangladesh will be the country with the largest population and economy to graduate from the LDC category, which may generate important lessons for other large LDCs. Bangladesh may even be among the first nations in the group to graduate after meeting all three requirements.

Research Question

This thesis aims to answer the following questions: What challenges do developing countries face in the process of graduation from the LDC category? How do these challenges reveal themselves in Bangladesh? How is Bangladesh responding to these challenges?

Purpose and Importance of Proposed Research

Bangladesh will be the largest country to graduate from the LDC category in terms of population, size of the economy, and export volume. The nation has made significant progress in reducing poverty and other socio-economic outcomes. Bangladesh is expected to meet the Human Assets Index (HAI), Economic Vulnerability Index (EVI), and Gross National Income (GNI) per capita graduation requirements by the time of graduation, making it one of the first LDCs to do so. Bangladesh's consistent performance in terms of EVI and the HAI recorded in the Committee for Development Policy's (CDP) 2018 assessment has been crucial to enhance graduation chances. For other nations scheduled to graduate from the LDC category, the analysis and findings in this thesis about Bangladesh's experience may be instructive.

For Bangladesh, this upward development growth pattern could appear to be paradoxical. While sustaining significant progress in terms of health, education, gender equality, and economic growth, the country has continuously scored poorly on key measures of the quality of governance (ESID 2017). Despite the graduation criteria's lack of a governance component, Bangladesh's accomplishment is atypical, which makes more intriguing. The country's capacity to implement positive structural change, which entails developing productive capacities, strengthening the capacity of relevant institutions, and addressing challenges arising from the evolving regional and global environment, will be a major factor in determining whether the anticipated graduation will be smooth and sustainable, among other things.

Other LDCs may find interest in Bangladesh's specific development experience. The current study also offers important cross-country comparisons that help draw out the lessons learnt from nations that have already graduated and those that are on the graduation path.

Methodology and Limitations

The chapter uses a methodological approach that comprises studying a range of academic literature, comparative country studies, trend analysis, and analytical policy-oriented viewpoints to carry out both narrative elucidation and empirical analyses. In order to assess the current level of knowledge on Bangladesh's development model and political economy through the lens of LDC graduation, identify important current concerns, and conduct cross-country comparisons, a country-oriented analytical method that draws on historical views is adopted.

Various publications from the international organizational sources - UN The Committee for Development Planning (CDP), UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, United Nations Economic and Social Council (UN ECOSOC), World Bank, United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF) provided the majority of the data for empirical research.

One significant limitation of this current body of research primarily draws from multilateral organizations, reflecting their dominant perspectives. However, this focus has resulted in a notable gap in the representation of viewpoints from governments, labor unions, and social movements. To address this limitation, the next phase of research will endeavor to amplify the voices of these underrepresented stakeholders. By delving into government reports, labor union publications, and the publications of social movement organizations, a more comprehensive understanding of the subject matter will be achieved.

Personal Interest in the Topic

As a citizen of Bangladesh and a development professional by trade, I have experienced first-hand the debates about the challenges of graduation from the Least Developed Countries category. Losing international support measures after crossing the LDC threshold would impact the personal and professional lives of many Bangladeshis as it means that the country might fall back on its progress in terms of its economic growth, human development, and overall well-being. After working in rural areas of Bangladesh for two years with two International NGOs I had the opportunity to witness first-hand how the development sector was evolving due to diminishing international support. A study by Citizen's Platform for SDGs (2022) showed that in Bangladesh the disbursement of Official Development Assistance (ODA), among Bangladeshi civil society organizations (CSOs) declined by 11.30 percent between 2015-2020 (Correspondent, 2022). Since I had become intricately familiar with the aid recipient part of the ecosystem, I began to wonder how the donor community is supporting Bangladesh's LDC graduation to ensure that it is smooth. This research will help me answer some of my inner curiosity regarding the actual outcome of the graduation and aid structure policy.

Central Argument

Bangladesh is scheduled to formally leave the category of least developed countries (LDCs) by 2026. As an LDC, Bangladesh has benefited from several international support measures (ISMs) that are often not available to other developing countries. These include exclusive trading rights and more agreeable restrictions or flexibilities provided by various World Trade Organisation (WTO) accords. Bangladesh has also benefited from the development partners' special consideration and commitment to supporting LDCs through financial and technical help. LDC graduation thus poses significant challenges for Bangladesh (and other countries scheduled to graduate), which must prepare for the withdrawal of special supports from the WTO and the withdrawal of Official Development Assistance**.**

This thesis attempts to identify major issues arising from the changed circumstances associated with LDC graduation. The graduation issues have been examined in light of two main potential consequences: (i) preference loss in international trade, which might have an impact on export revenue; and (ii) a negative impact on the chances for finance for development. The thesis contends that these are the primary ways which the nation is likely to be impacted by LDC graduation. In order to analyze potential ramifications, this thesis analyses the relevant sections in international trade agreements and development funds.

Organization of the Thesis

Following this introduction, the rest of the study is organised into four chapters. Chapter one provides an analysis of the academic and grey literature on LDC graduation and its challenges.

Chapter two offers the historic background of Bangladesh, in its almost 50 years as an LDC as well as a comparative perspective with other countries that are expected to graduate or have graduated.

Chapter three provides an analysis of the two major challenges Bangladesh will face post-graduation: loss of preferential trade access and loss of Official Development Assistance.

Chapter four highlights' policies needed to reduce the challenges from losing the International Support Measures (ISM) for Bangladesh's economy.

The thesis concludes by reflecting on answers to the core research questions posed in the introduction.

Chapter 2: Literature review

In this chapter I will introduce the concepts of Least Developed Countries (LDCs) and LDC graduation in more depth. The objective is to explain what LDC status and LDC graduation mean from a practical perspective in terms of supports from the UN system, World Trade Organization (WTO), and Development Assistance Committee (DAC) donors. I will also provide a brief contextual background that reviews the challenges that LDCs face as they graduate.

The Least Developed Country Category

The least developed country (LDC) category comprises the most disadvantaged of the developing countries. As of 2021, 46 countries were included in the category, with 16 at some stage of the graduation process (see figure 2.1). LDCs comprise approximately 14 per cent of the world's population, but account for less than 1.3 per cent of global gross domestic product (GDP) and for approximately 1 per cent of global trade (UNCTADstat database 2021).

The LDC category was established by the General Assembly in 1971, in its resolution 2768 (XXVI), as a result of the acknowledgement by the international community that special support measures were needed to assist the least developed among the developing countries (CDP Secretariat, 2021).

The United Nations defines LDCs as countries that have low levels of income and face severe structural impediments to sustainable development. The countries categorized as LDCs are identified based on specific criteria and procedures (see inclusion and graduation criteria below).

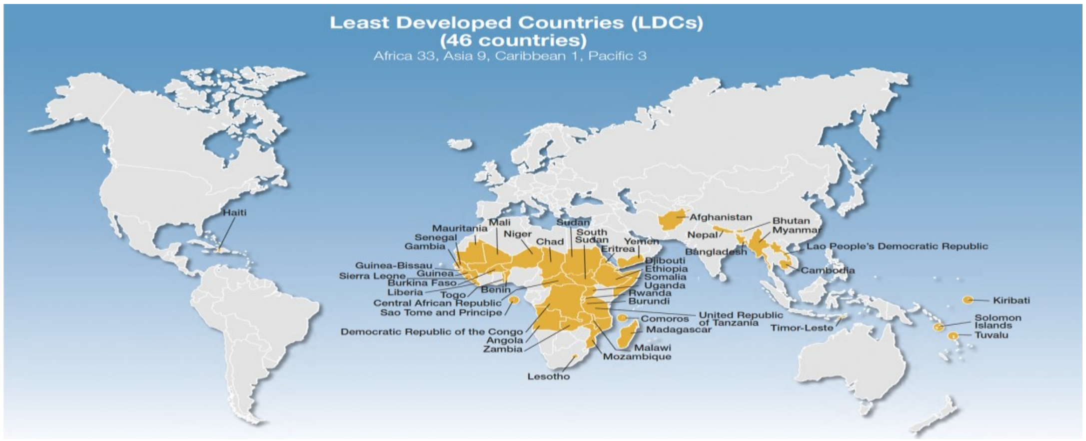

Figure 2.1 Map of least developed countries in 2021

Source: United Nations Conference on Trade and Development (UNCTAD 2021).

Decisions on inclusion in and graduation from the list of LDCs are made by the UN General Assembly, based on recommendations by the Committee for Development Policy (CDP), endorsed by the Economic and Social Council (ECOSOC). The Committee analyses the list of LDCs every three years during what are called triennial reviews of the least developed country category (hereafter referred to as triennial reviews), to identify any countries that may qualify for inclusion in or graduation from the LDC category (CDP, 2021).

Key Concepts

In order to situate the LDC graduation process in a framework, relevant concepts need to be clarified.

International Support Measures (ISM) for the Least Developed Countries

Countries belonging to the least developed country (LDC) category have access to support measures beyond those available for other developing countries. These measures can be grouped into three main areas: international trade; development assistance (ODA); and support for participation in international forums.

Trade-related support measures

Trade-related international support measures aim at supporting the integration of LDCs into the global economy while recognizing that LDCs may require additional support to compete in global export markets. They are framed by commitments set out in World Trade Organization (WTO) ministerial declarations and decisions as well as by internationally commitments such as the 2030 Agenda for Sustainable Development and the successive programmes of action for LDCs. The main categories of trade-related support measures for LDCs according to (United Nations, n.d.) are:

a) Preferential market access for goods.
b) Preferential treatment for services and service suppliers.
c) Special treatment regarding obligations and flexibilities under WTO rules.
d) Special treatment regarding obligations and flexibilities under regional trade agreements.
e) Trade-related technical assistance and capacity-building.

Development Cooperation funds

LDCs are eligible for official development assistance (ODA) and other forms of development cooperation provided by bilateral donors and multilateral institutions. Most development cooperation is not contingent on a country being an LDC. However, the policies of some donors and institutions give priority or more concessional terms to LDCs and there exist a number of mechanisms dedicated exclusively to LDCs (United Nations, n.d.)

The definition of official development assistance (ODA) used by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) is "government aid designed to promote the economic development and welfare of developing countries" (OECD, n.d.). Official development assistance (ODA) includes grants, "soft" loans and the provision of technical assistance, and can be provided bilaterally, from donor to recipient, or channeled through multilateral organizations such as the United Nations or the World Bank. LDCs received 24 per cent of total ODA disbursed by DAC countries in 2018-2019 (OECD, n.d). ODA represents an important—in some cases critical—component of external financing in LDCs. Official development assistance (ODA) made up 61% of financial flows to least developed countries (LDCs) in 2018-19, five times more than in other developing countries (OECD, 2022). All developing countries are eligible for ODA until they exceed the high-income threshold determined by the World Bank for three consecutive years, , but special quantitative and qualitative commitments have been made by providers of ODA in regard to LDCs.

Support for Participation in International Forums

Several multilateral and regional development organizations, including the United Nations system, dedicate a significant share of their resources to LDCs. In 2019, 49 per cent of net disbursements of ODA by multilateral organizations went to LDCs (OECD, n.d.). However, most multilateral organizations do not rely exclusively on LDC status as a criterion for the allocation of resources and some do not consider LDC status at all.

Eligibility for concessional financing[2] to developing countries by regional and multilateral financial institutions is generally not based on whether or not a country is an LDC, but on other factors such as GNI per capita and creditworthiness. For example, concessionary financing from the International Development Association (IDA) of the World Bank is granted to all countries below a certain threshold of per capita income ($1,185 in fiscal year 2021) (World Bank, n.d.). Similarly, the International Monetary Fund (IMF) does not consider LDC status in determining the terms of it's assistance to countries but uses per capita income and other criteria.

Graduation

Long before rules for LDC graduation were implemented in 1991, the idea of leaving the LDC category and forgoing special treatment had been proposed (United Nations 1991). Frank (1979) advocated the gradual elimination of International Support Measures (ISM) for "economically advanced" LDCs that may stand to benefit from orienting their domestic trade policies with the generally applicable rules of the international trading system. Such economic advancement, characterised by a certain level of self-sufficiency, would entail an LDC embarking on a development path that goes beyond graduation.

Exiting the LDC group would ideally mean that a country has escaped the structural disadvantages that first qualified it for categorization as an LDC and indicate that it no longer needs ISMs. When the idea of LDCs was studied, International Support Measures (ISM) were seen as essential to close the widening gap between the least

[2] Concessional loans, or soft loans, have more generous terms than market loans. These generally include below-market interest rates, grace periods in which the loan recipient is not required to make debt payments for several years or a combination of low interest rates/grace periods.

developed and relatively more developed nations. For all the developing countries to fully benefit from the support available to them, the developed countries need to take further steps (Alonso et al. 2014). International Support Measures (ISM) are intended to assist LDCs to grow economically through success in globally competitive markets and to improve indicators of social development.

To embark on a road towards sustainable development, an LDC must overcome significant development obstacles and systemic human and economic vulnerabilities (UNCTAD 2016**).** The agreed-upon criteria for graduation therefore require that nations not only attain a specific income per capita but also achieve specified indicators of human development and resilience external and internal shocks.

Inclusion and Graduation Criteria

Since the genesis of the category, the classification of LDCs has been managed by the Committee for Development Policy (CDP), a subsidiary advisory body of the UN's Economic and Social Council (UN ECOSOC). Every three years, the CDP evaluates the performance of LDCs before recommending admission or graduation to the UN ECOSOC. It establishes the standards by which nations are chosen for graduation and added to the list of LDCs. The CDP has also revised and refined the criteria on a number of occasions based on various circumstances (CDP and UN DESA 2015).

According to the CDP (CDP and UNDESA 2015), LDCs are low-income nations with severe structural disadvantages, including “high vulnerability to economic and environmental shocks” and “low levels of human assets.” Gross national income

(GNI)[3] per capita, Human Assets Index (HAI)[4], and Economic and Environmental Vulnerability Index (EVI)[5] were the parameters utilized to make choices on inclusion and graduation at the 2018 CDP review. The income criteria use the Atlas approach of the World Bank to analyze GNI per capita three-year averages. The structural indices HAI and EVI both include a number of indicators described in figure 2.2.

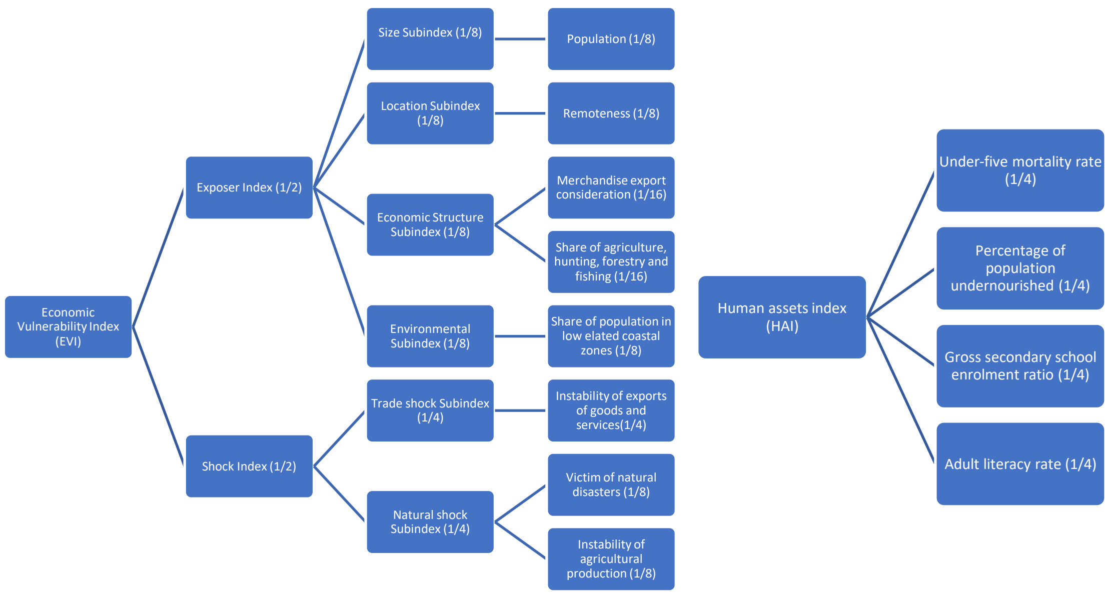

Figure 2.1 LDC Identification Criteria

Source: CPD, 2021

Table 2.1 lists the updated inclusion and graduation levels for each category in accordance with the 2021 CDP review in a scale of 0-100.

[3] GNI per capita provides information on the income status and the overall level of resources available to a country (UN, n.d).
[4] The HAI is a measure of level of human capital (Ibid).
[5] The EVI is a measure of structural vulnerability to economic and environmental shocks (Ibid).

Criteria	Inclusion threshold	Graduation threshold
Gross national income (GNI) per capita	US$1,018 or below	US$1,222 or above
Human assets index (HAI)	Points 60 or below 66	Points 66 or above
Economic and environmental vulnerability index (EVI)	Points 36 or above	Points 32 or below

Table 2.1 Inclusion and graduation thresholds in the 2021 triennial review

Source: CPD, 2021

All three inclusion levels must be satisfied, with a population cap of 75 million (since 1991), in order to be included among the LDCs. A country must satisfy any two of the three criteria (e.g., GNI per capita and HAI, GNI per capita and EVI, or HAI and EVI) at two consecutive triennial assessments to graduate from the LDC category. LDCs with a GNI per capita that is more than double the threshold level for graduation may, in exceptional circumstances, qualify for graduation without achieving the thresholds for HAI and EVI. The term "income-only criterion" refers to this. For example, Equatorial Guinea and Angola both graduated based solely on income-only criterion.

Smooth Transition

The UN mandated practice of gradually phasing out International Support Measures (ISM) rather than removing them abruptly is intended to make the graduation process smooth. The international community is aware that former LDCs will require some kind of ongoing assistance to adjust to losing ISMs and becoming non-LDC developing countries. In most cases, countries do not lose all benefits immediately upon graduation. Most benefits are phased out over a number of years, as suggested by several UNGA resolutions (e.g. Resolutions 46/2006 (1991), 59/209 (2005) and 67/221 (2013) (United Nations 2005)). The transition period does not have a specified length and can vary depending on country circumstances, negotiations by governments and types of ISMs. However, the period for reporting and monitoring activities by the CDP to track development progress of former LDCs is limited to a maximum of nine years (CDP and UNDESA 2015).

The resolutions of the United Nation General Assembly (UNGA) state that graduation should not interfere with or obstruct the efforts and achievements in development that have caused countries to graduate in the first place. According to Resolution 67/221, initiatives for a seamless transition must be developed with input from all interested parties and under national leadership. Ideally, a transition plan should comprise a wide range of precise, well-coordinated actions that are predictable and based on national goals. As soon as a country is likely to fulfil the graduation requirements for the first time, the process of designing a strategy is supposed to begin (United Nations 2015).

Vulnerability and Resilience

Vulnerability to external economic shocks can be a major challenge for smooth transitions. Since the structural barriers to their growth render them more susceptible to external economic and environmental shocks, LDCs appear to be "caught in a trap" (Guillaumont 2011). It is clear that specific policy interventions are required given the vulnerability and associated instabilities, which in turn constitute significant structural disadvantages. The Economic and environmental vulnerability index (EVI) indicator is a critical criterion for LDC identification because it represents an LDC's vulnerability to and frequency of being impacted by events that are, to a considerable degree, outside its control.

Since high vulnerability indicates major structural impediments to sustainable development, as a key component the Economic and Environmental Vulnerability Index (EVI) puts emphasis on enduring causes (Guillaumont 2011). Most former LDCs, even after reasonable periods of time since their graduations, have still score poorly on the EVI, notwithstanding their continued growth in terms of GNI and progress in Human Asset Index (HAI). A LDC's chances of a smooth transition might be enhanced by increased economic diversity and its ability to resist natural shocks. Less emphasis was put on a country's ability to be 'resilient' with its weak policy decisions when the EVI criterion was first included in the LDC graduation criteria in 1999. Instead, more emphasis was put on 'structural' variables like a country's ability to handle the magnitude and exposure to external shock related to environment and economy. A nation may continue to be vulnerable to external shocks even after achieving the EVI criteria levels, depending on additional indicators of climate change or socioeconomic and political fragility (Guillaumont et al. 2015). Resilience is thus important in the context of graduation, due to its potential to provide a smooth transition and sustainability after graduation; particularly by reducing the effects of structural vulnerabilities of the country.

Graduation Process and Timeline

Early in the LDC category's existence, it was realised how crucial it was to avoid the potential negative effects of graduation, such as losing access to international support measures. The General Assembly proposed that, in order to diversify funding sources, a country's long-term national sustainable development plans and development financing strategies should take into account that country's preparations for sustainable graduation and its smooth transition after graduation. It has urged trading and development partners to keep LDC-specific support measures in place for a sufficient amount of time or to phase them out gradually. It has also urged them to offer targeted assistance during the graduation and transition process. In order to encourage graduation, the General Assembly has also given the United Nations development system specific responsibilities.

This section, which is based on the guidance note for a seamless transition plan created by United Nations Department of Economic and Social Affairs (UN DESA) in its capacity as the secretariat of the Committee for Development Policy, relates tasks that nations preparing for graduation must complete to the procedure shown in figure 2.3. The advice paper is a direct response to requests from various nations for a model to use when creating a national plan for a seamless transition. It is not meant to be a complete plan, merely a guide. It directs the nation to take notice of the graduation process phases and timeframe, as well as the points at which the nation is urged to begin the process of developing a national smooth transition strategy (STS). The national strategy of a country will primarily depend on the stage it has attained in terms of its development context, objectives, and graduation process.

Two main principles guide the STS process:

1. Country-led, country-owned and using existing country systems to the extent possible.

2. International community support is country-demand driven, timely and of high quality.

The STS process involving nine key steps is shown below.

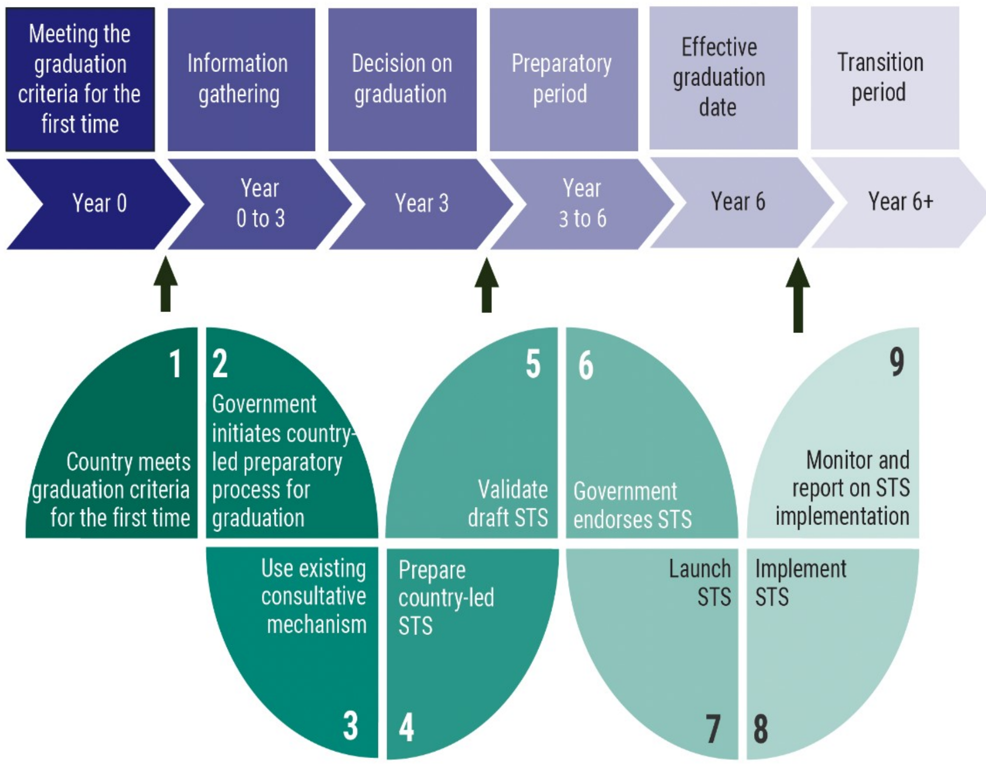

Figure 2.2 Graduation process and timeline, and process for preparing a smooth transition strategy.

Source: United Nations Conference on Trade and Development (UNCTAD 2021)

Challenges Faced by LDCs.

Since the United Nations (UN) created the least developed nation (LDC) category in 1971 (United Nations 1971), there has been a noticeable shift in worldwide attitudes towards leaving the LDC group. A palpable 'fear' of and 'resistance' to graduation among LDCs was evident when the provision for graduation was introduced in 1991 (Drabo and Guillaumont 2016). Most LDCs saw graduation as the end of special international support measures (ISMs), rather than as a milestone in their development paths. More recently, a more proactive approach seems to have emerged and LDCs appear to become more receptive to the idea of graduating. The Istanbul Programme of Action (IPoA) comprised a multitude of development goals and targets, including the most ambitious and seminal goal of "enabling half the number of least developed countries to meet the criteria for graduation by 2020" (IpoA, 2011, p.6). Given the number of LDCs at the time, achieving this goal would have meant that 24 LDCs would have needed to meet the graduation criteria by 2020.

Given the modest progress achieved in the forty years prior to the Istanbul conference, the emphasis placed on graduation as a priority aim was both essential and appropriate. Between 1971 and 2020 just six nations were able to graduate: Botswana in 1994, Cabo Verde in 2007, the Maldives in 2011, Samoa in 2014, Equatorial Guinea in 2017, and Vanuatu in 2020. Equatorial Guinea delayed graduating for many years despite achieving the income-only requirements from early 2000, despite the fact that as an oil-rich nation it made little use of ISMs.

While reviewing the progress towards implementation of The Istanbul Programme of Action (IPoA), it was revealed that the target for graduation was not achieved. However, the number of LDCs that have met the graduation criteria for the first time has increased significantly and more countries are incorporating graduation strategies into their development plans since the creation of LDC category. For instance, the triennial assessment in 2018 reported that three countries (Bangladesh, Lao PDR, and Myanmar) had first-time graduation criterion compliance, while the

CDP's triennial review in February 2021 showed that they had second-time compliance. Along with Nepal, which had already qualified for the second time, the CDP suggested removing Bangladesh and Lao PDR from the LDC category. In 2018, Timor-Leste also fulfilled the graduation requirements for the second time, although it was still not recommended for graduation, a decision that was made again in 2021.

The other three nations are on track to exit the LDC category. Due to the seriousness of the global health and economic crises brought on by the COVID-19 pandemic, the CDP has recommended that the preparatory period for graduation for this group of countries be increased from the standard three years to five years. Therefore, Bangladesh, Lao PDR, and Nepal, the three graduating nations, will possibly graduate from the LDC category in 2026.

Additionally, the CDP has already proposed the graduation of six more nations, who are expected to exit the LDC category between 2021 and 2024. These include Angola (2024), Sao Tome and Principe (2024), Tuvalu (2021), Kiribati (2021), Bhutan (2023), and the Solomon Islands (2024). However, because of the catastrophic effects of Covid-19, Kiribati, Tuvalu, and Angola have also asked for a delay in their graduation. One day before Angola was supposed to graduate, the UNGA decided to postpone it for three years. Finally, the CDP recognised five LDCs—Cambodia, Comoros, Djibouti, Senegal, and Zambia—that for the first time satisfied the graduation requirements during the triennial assessment in February 2021 and may be able to graduate within the next decade.

The LDC group's prognosis is finally improving after nearly five decades of underwhelming performance marked by a total of 46 entries on the UN list of LDCs and only six graduations (CDP and UN DESA 2015). Since the Istanbul Conference in May 2011, there has been significant progress towards fulfilling the graduation requirements, which implies that efforts to advance the graduation agenda have paid off and that current trends are positive. This should serve as motivation for other LDCs, particularly those in Africa, which are currently far behind in achieving their economic and social development to meet the graduation requirements. 32 of the 39 LDCs that still exist by the time the CDP meets for its subsequent triennial assessment in 2024 will be African countries.

However, as there are more LDCs who are qualified to graduate, a new and alarming tendency has evolved. Graduating countries like Bangladesh are growing more concerned that the loss of International Support Measures (ISM) after graduation may derail their course for growth. Some graduating LDCs are becoming more anxious due to this ambiguity such as Timor-Leste and Myanmar, who have met the graduation criteria twice or more, but have been deferred by the CDP. It has occasionally caused delays in the graduation schedule. The ability of graduating nations to maintain access to ISMs for a transition period is primarily dependent on their ability to negotiate with development partners at both the bilateral and multilateral levels in the absence of a systematic strategy to a smooth transition. The following issues have been identified by UNCTAD (2021) as a result of these uncertainties: (i) the timing for developing a smooth transition strategy; (ii) the distinctions between the preparatory and smooth transition periods; (iii) the range of the policies and issues to be covered in the strategy; and (iv) the timeline for the strategy's implementation. The number of graduating countries has increased, particularly those that have effectively used ISMs to achieve growth and meet the requirements for graduation but concerns about post-graduation development challenges have also been voiced by earlier graduating countries.

In light of the structural weaknesses of their economies, LDCs are given a variety of ISMs with varying breadth and efficacy (Figure 2.4). This mostly relates to preferential market access offered by nearly all industrialized and many developing nations under their different Generalized System of Preferences (GSP)[6] systems, frequently in the form of duty-free, quota-free (DFQF)[7] access (UNCTAD 2023). Other relevant ISMs granted under the WTO discipline include flexibility in commitment (e.g., as part of the Trade Facilitation Agreement), enforcement of compliance requirements (e.g., in the case of providing subsidies, notification of policy changes, etc.), longer transition periods for implementing obligations (e.g., in the case of Trade-Related Aspects of Intellectual Property Rights (TRIPS[8]), which permits production of medicines without resorting to patents and licenses, effective until the end of 2032), and technological advancements.

[6] GSP promotes economic development by eliminating duties on thousands of products when imported from one of 119 designated beneficiary countries and territories.
[7] Most developed countries grant either full or nearly full duty-free, quota-free (DFQF) market access to LDCs, and an increasing number of developing countries have extended DFQF market access to a significant number of products from LDCs.
[8] The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is the most comprehensive multilateral agreement on intellectual property (IP).

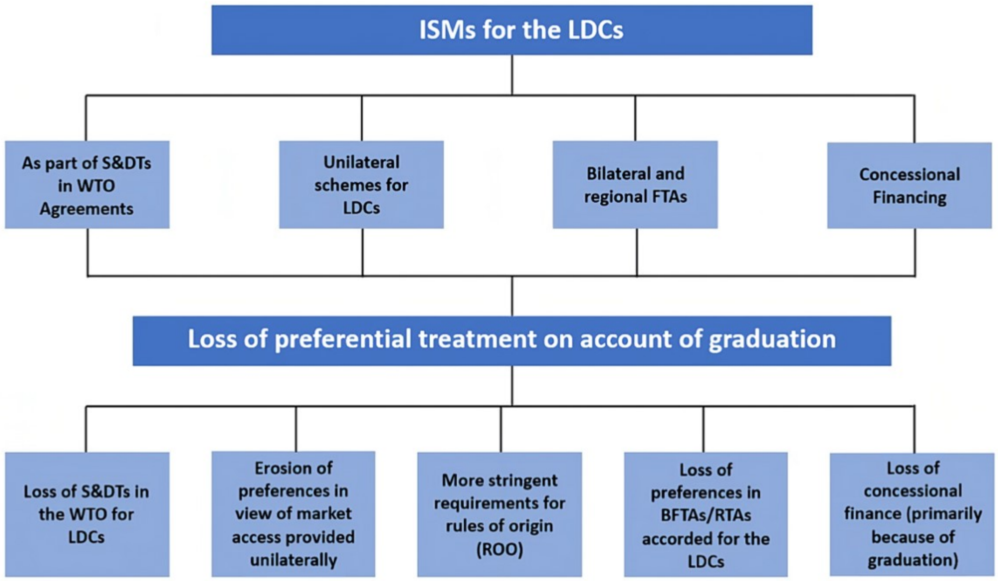

Figure 2.3 Graduation and loss of International Support Measure

Source: UNCTAD Secretariat.

The phasing out of ISMs at graduation must be carefully studied to reduce any associated negative effects, notwithstanding the fact that their effectiveness is inconsistent meaning not all countries can utilize them similarly and partially dependent on institutional capacities of organizations such as World Trade Organization (WTO), The SAARC Preferential Trading Arrangement (SAPTA) etc. Rahman and Bari (2018) argue that the loss of ISMs will have an impact on both the domestic and international financial markets, with the greatest impact expected in four areas (Figure 2.5): (a) domestic policymaking and policy flexibility; (b) obligations under various WTO Agreements, compliance, and enforcement; (c) terms of market access; and (d) degree of reciprocity in dealing with partners. The loss of ISMs will cause a major loss of competitive advantage, a reduction in domestic policy options, and severe effects on interactions with regional and international partners.

Figure 2.4 Impact of LDC graduation on policy space

Source: Rahman and Bari (2018).

According to WTO (2020), starting with preferential market access, the impact of LDC graduation on a particular economy will depend on: (a) most-favorable nation (MFN) tariffs in partner countries; (b) the extent to which preferential access is actually used; (c) alternative trading arrangements that grant preferential access even after LDC graduation; and (d) the pattern of specialization and significance of the export sector.

Hence, identifying the areas such as trade and development financing, where the impacts of graduation will be felt most acutely and charting a strategic way forward to ensure sustainable graduation have emerged as critically important tasks.

Trade Related Challenges

The most crucial LDC-specific support tools at the disposal of development partners are trade-related ISMs. These tools help LDCs join the multilateral trading system, attract investors, participate in global markets, and compete with other advanced developing nations. Trade-related incentives for LDCs include: (i) duty-free and quota-free access (DFQF) to markets for products and services; (ii) exemptions from several WTO regulations; and (iii) trade-related technical assistance and capacity-building (WTO, 2020). Despite the fact that many LDCs have benefitted from trade-related ISMs, only a small number of LDCs have fully tapped into these support mechanisms, increasing their ability to pass graduation requirements as a consequence. For example, a recent WTO-EIF[9] study on the utilization of trade preferences by graduating countries found that only one of the 12 countries scheduled for graduation in the coming 5-7 years – Bangladesh – had utilized the preferential market access privileges and the WTO waiver granted to LDCs effectively to achieve the three criteria for graduation (WTO-EIF, 2020). The WTO study means that LDCs could use preferential market access an opportunity to help them improve the productivity and competitiveness of export sectors so that they can eventually compete in global markets without ISMs.

The primary reason for the low utilization of trade-related support measures by LDCs is the limited development of their productive capacities, which also restricts their abilities to foster structural transformation and catch-up with Other Developing Countries (ODC) (UNCTAD, 2010). This suggests that the majority of LDCs are already graduating before they have the opportunity to grow their economies, develop their labour forces, and build the technological and industrial

[9] The Enhanced Integrated Framework for Trade-Related Assistance for the Least Developed Countries is a global development program with the objective of supporting least developed countries to better integrate into the global trading system and to make trade a driver for development.

capacity required for graduated countries to compete in the global market on an equal basis with other developing countries (ODCs).

After graduation and any related transition periods, countries are no longer qualified for the preferential market access arrangements peculiar to LDCs. Countries that have left the LDC status will often start benefiting from ordinary Generalized System of Preferences (GSP)[10] programmes in developed country markets. LDC-specific rules of origin no longer apply. In developing country markets, graduated countries may continue to have preferential market access only if they are members of regional or bilateral trade agreements but no longer have access to non-reciprocal preferential market access schemes (CDP, & UNDESA, 2021).

Even nations that are graduating based solely on income and that have not heavily resorted to trade-related support measures specific to LDCs, like Angola and Equatorial Guinea, have expressed concerns about the process, claiming they are losing trade-related preferences and privileges before having the chance to use them effectively. Other graduating nations worry that if they are not permitted to continue receiving LDC-specific special assistance measures after graduation, they may revert to the LDC category.

In order to prevent the loss of LDC-specific ISMs after leaving the LDC category from impeding a graduating country's growth, it is necessary to implement a "smooth transition strategy" as a time-bound and short-term post-graduation intervention. Although the concept of a "smooth transition" has been discussed ever

[10]GSP is the largest and oldest U.S. trade preference program that provides nonreciprocal, duty-free treatment enabling many of the world's developing countries to spur diversity and economic growth through trade.

since the LDC category was created in 1971, effective smooth transition arrangements were called for in a number of intergovernmental decisions, including the UNGA resolution 67/221 of 2012, made following the Istanbul Conference in May 2011. The post-graduation transition process, however, is still incredibly vague and uncertain.

Even though there are no automatic seamless transition rules, some graduating countries have been able to preserve preferential treatment from other nations beyond the date of graduation (UN, 2023). The General Assembly, in its resolution 67/221, invited trading partners that had not established procedures for extending or phasing out preferential market access, such as duty-free and quota-free treatment, to clarify their position with regard to the extension of the least developed country-specific preferences, the number of years of the extension and the details concerning the gradual phasing out of the measures. In 2020, the LDC Group at the WTO filed an initial proposal for a ministerial decision that would provide a seamless transition procedure for graduating LDCs within the WTO system (WTO, 2020).

Table 2.2 Smooth transition provisions in selected least developed country-specific market access arrangements.

Markets	**Smooth transition clauses**
European Union and Turkey	Smooth transition period of 3 years after the entering into force of a delegated act adopted by the Commission after the date of graduation.
Australia, Canada, China, India,	No formal smooth transition provision. Some graduates have been able to maintain the GSP for

New Zealand, Norway, Republic of Korea, Switzerland, United States	LDCs for a period past the date of graduation.
Chile, Eurasian Economic Union, Japan, Thailand	No formal smooth transition provision and no record of flexibility in extending eligibility beyond graduation.

Source: Based on information contained in the LDC Portal.

In this connection, The United Nations Department of Economic and Social Affair's (UN DESA) preparation of a Template and Guidance Note on how to prepare a 'smooth transition strategy' is commendable and a step in the right direction and helps to clarify some of the confusion surrounding the strategy (UN DESA, 2020). The "template" is only a procedure that graduating nations should adhere to as they create a seamless transition strategy; it is not a "blueprint" for such a strategy. The goals of a seamless transition plan, as well as the policies and strategic trajectories that graduating nations should take in the post-graduation development period, still require further work.

Development Cooperation Related Challenges

LDCs require foreign finance to support their growth since internal resource mobilization (taxation capacity) are not sufficient to support social and economic development.

Development Aid

Official development assistance (ODA) is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries. The DAC adopted ODA as the "gold standard" of foreign aid in 1969 and it remains the main source of financing for development aid; whereas non-ODA, also known as private development assistance, refers to financial or in-kind aid provided by non-governmental organizations (NGOs), philanthropic foundations, private corporations, religious institutions, and individuals which plays a significant role in supporting development efforts. ODA data is collected, verified and made publicly available by the OECD (OECD, n.d.).

Aid may be sent bilaterally, from donor to recipient, or through a multilateral organisation for development, like the World Bank or the United Nations. Grants, "soft" loans, and the provision of technical support are all examples of aid. A long-standing United Nations target is that developed countries should devote 0.7% of their gross national income (GNI) to ODA (OECD, 2016). According to estimates from the intergovernmental Organisation for Economic Co-operation and Development, or OECD in 2022 aid from some of the world's largest (DAC) donor governments rose to $204 billion. Figure 2.6 demonstrates the major streams through which ODA is transferred to the recipient countries, the top three streams being bilateral development projects, programs and technical cooperation, multilateral ODA and humanitarian aid. We also see the upward trend and increase of in-donor refugee costs due to growing unrest around the world.

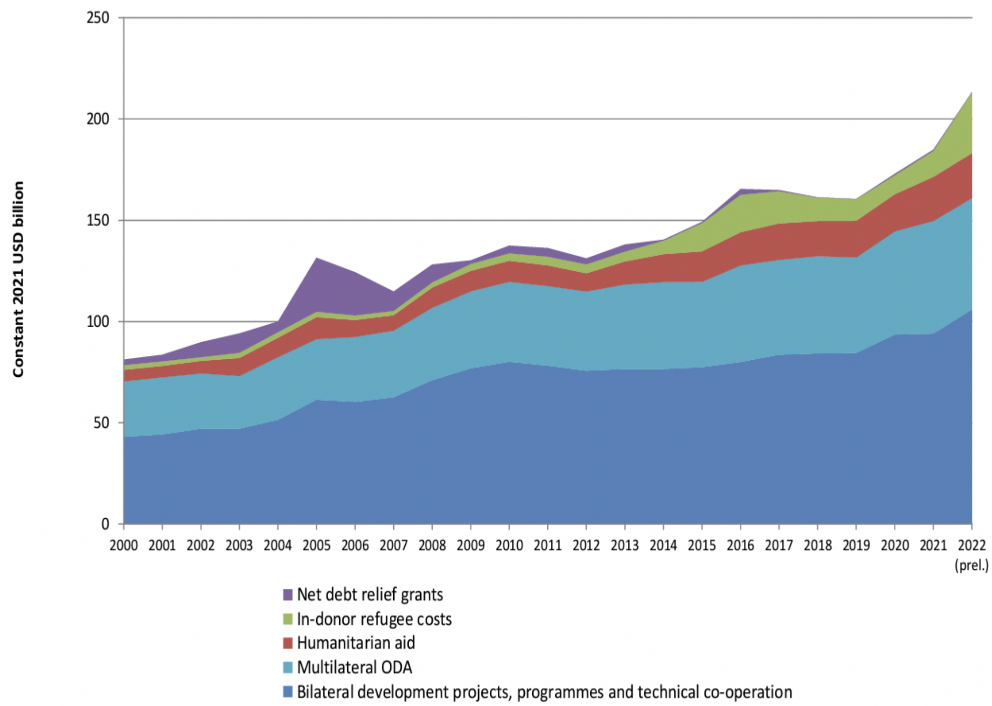

Figure 2.5 Components of DAC member countries net official development assistance (Data for 2022 are preliminary).

Source: OECD, 12 April 2023

The OECD (2022) says the amount (Fig 2.6) is a sign of how aid is reaching record levels and rising alongside spiralling global crises. But a closer look at the numbers paints a different picture.

LDCs are facing heightened challenges in achieving their development goals (Figure 2.4). After 2008, total resource flows to LDCs have increased slowly with higher volatility during and after the COVID-19 pandemic, the group saw the highest values ever recorded in 2020. Regardless of a significant decline since, total resource disbursements were still higher in 2021 than before the COVID-19 pandemic: US$64.4 billion for LDCs. More recent preliminary data (figure 2.7) shows that net bilateral aid flows from DAC countries to the group of least developed countries were USD 32 billion and dropped by 0.7% in real terms compared to 2021 (OECD 2023).

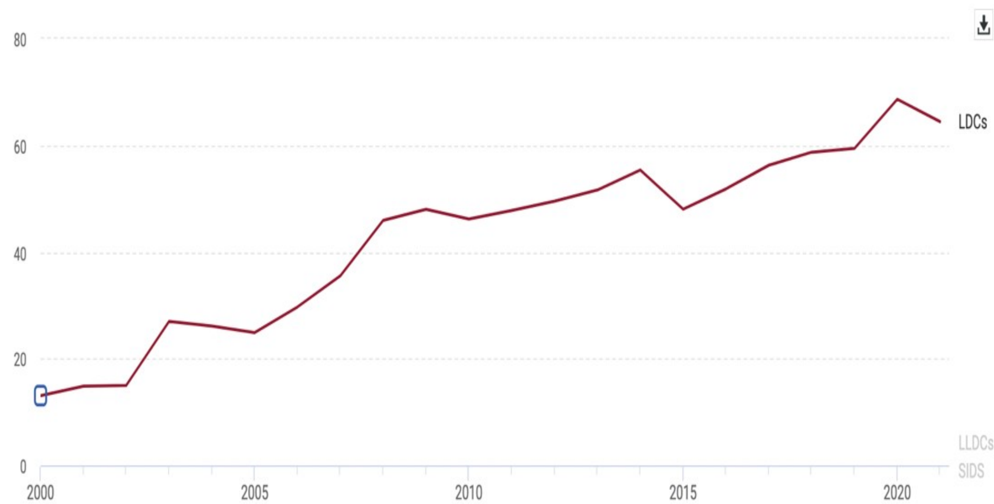

Figure 2.6 Sharp decline in total resource flows after the COVID-19 pandemic for LDCs the flows remain stagnant (Billions of current US$)

Source: UNCTAD calculations based on data from OECD(2023a) and United Nations (2023)

Over the last decade ODA to LDCs has grown at a similar rate to other developing countries. However, the growth rate of ODA to LDCs has been less than half the growth rate of ODA that is not specifically allocated to any particular country (often called "unallocated ODA" or "multilateral ODA") (OECD n.d.). Therefore, while aid to LDCs has been increasing at a similar pace to aid given to other developing countries, the overall increase in aid that is not targeted to specific countries has been much higher than the increase in aid to LDCs. This indicates a potential shift in focus towards broader, multilateral initiatives rather than individual country-specific aid programs.

Disbursements to LDCs, however, have been more volatile than those to other countries over the period. Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) donors responded to the pandemic by increasing total ODA by 3.5% in 2020, effectively ending a 4-year period of stagnation (OECD, n.d.). ODA to LDCs, however, increased by half this rate – 1.8%. The upshot is that ODA has not responded to shifting distributions of poverty. By 2025 57% of the world's people living in extreme poverty is estimated to live in LDCs, up from 31% in 2010 and 50% in 2020. This is not in line with proportions of ODA to LDCs, which have actually fallen over the period from 32% in 2010 to 29% in 2019. Only five donors meet the UN target for ODA to LDCs (Luxemburg, Sweden, Norway, Germany, Denmark, Netherland); if all had met it in 2019 an additional US$35 billion to US$60 billion would have been mobilised.

According to Development Initiatives (2021), in 2020 total ODA grew by 3.5%, while ODA in the form of loans and equity grew by 28%. The proportion of ODA loans to LDCs in 2020 will not be confirmed until early 2022. However, between 2010 and 2019 bilateral ODA loans to LDCs grew five-fold, while grants fell by 9%. ODA to critical sectors to develop human capital and poverty alleviation – health, education, social services, agriculture, digitalisation, and water, sanitation and hygiene – has remained a relatively small proportion of total ODA to LDCs: less than half. In health and education, countries with the lowest government resources receive less ODA per capita in poverty than other countries, and LDCs make up most of these. Around three quarters of LDCs received below the developing country median of education ODA (US$36) and health ODA (US$40) per capita in poverty in 2019, the latest year for which sectoral ODA data is available.

Development Financing

All developing countries encounter difficulties with development financing, but LDCs are particularly challenged. For LDCs, where income levels are low, domestic savings are low, and domestic resource mobilisation is frequently inefficient, financing investments using domestic resources is a challenge. According to OECD (n.d), tax revenues account for a much smaller share of GDP in LDCs than they do in lower- to middle-income countries (19.2%) and upper-middle-income countries (21.7%), despite being on average the largest source of funding for sustainable development in developing countries. The amount of external funding that LDCs rely on—including development money, remittances, foreign direct investment (FDI), private investment, and other investment—represents a greater percentage of their GDP than does internal financing.

For LDCs, development finance is a crucial source of funding. Figure 2.8 below, which focuses on official development finance patterns, demonstrates that total development financing to LDCs has been increasing since 2015, with bilateral development financing significantly outpacing multilateral. The majority of official development financing in LDCs comes from official development aid (ODA), which is given on favourable terms[11]. According to preliminary statistics for 2019,

[11] ODA mostly includes grant payments and, to a lesser extent, concessional loans (with a grant element of at least 25%), with the primary objective to promote economic development and welfare in recipient countries.

net bilateral ODA payments to LDCs grew 2.6% in real terms on a cash flow basis (OECD, 2020). However, ODA from DAC donors to LDCs in 2018 only represented 0.09% of donor nations' gross national income (GNI), much below their 0.15-0.20% ODA-to-GNI commitment[12].

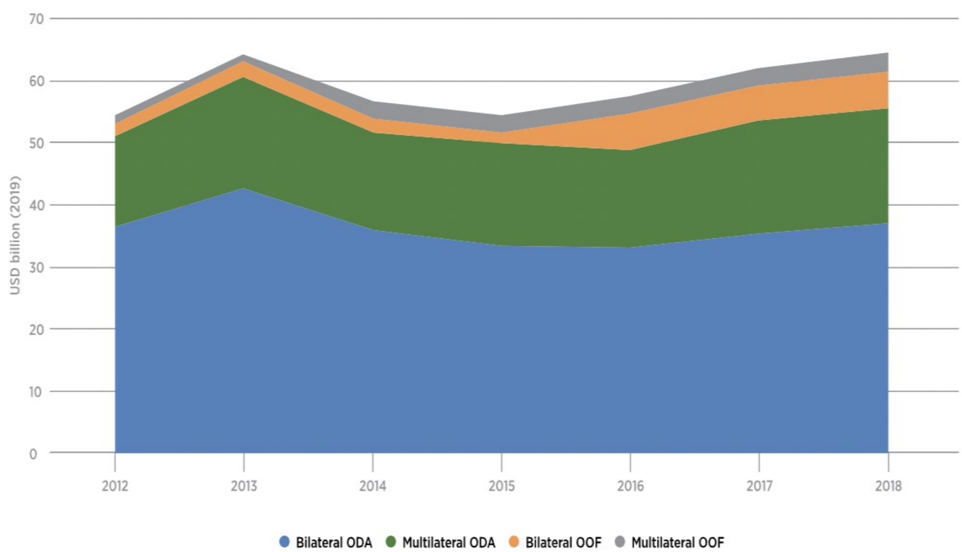

Figure 2.7 Official development finance to LDCs

Note: ODA: official development assistance; OOF: other official flows

Source: (OECD, 2020), *Global Outlook on Financing for Sustainable Development*, https://dx.doi.org/10.1787/e3c30a9a-en.

Graduation entails a country's ineligibility for grants from development funds as well as assistance non the form of low-interest loans with protracted payback terms. As a result, borrowing becomes more expensive since non-concessional loans have stricter requirements, fewer favourable terms, and shorter payback terms (Analytic wing, 2023).

[12] LDCs have exclusive access to international support measures, including for development co-operation. Donors made a long-standing commitment to provide the equivalent of 0.15% to 0.20% of their GNI in the form of ODA to LDCs, reiterated in the Addis Ababa Action Agenda and included in SDG target 17.2 (more information is at https://www.un.org/ldcportal/commitments-regarding-oda-to-ldcs).

The OECD has called on development finance providers to increase efforts to maintain ODA budgets and keep external financing flowing, including private investment and remittances, especially in LDCs (OECD, 2020). In April 2020, DAC members issued a statement, committing to "strive to protect ODA budgets" (OECD DAC, 2020b).

Therefore, the 'fear of the unknown' in terms of policy and market access opportunities is putting graduating countries' confidence to the test as they exit the LDC category. In fact, the ambiguity has led to concern and a reluctance to graduate even among nations that have already complied with the requirements. As a result of this new tendency, there is now a greater need for post-graduation transitional arrangements and a plan to make the process as painless, predictable, and easy as possible.

Chapter 3: Bangladesh’s journey to LDC graduation

Introduction

Graduation from the LDC category would be an important indicator of Bangladesh's development journey. For the first time, it satisfied all three requirements for graduation at the 2018 triennial assessment of LDCs by the UN Committee for Development Policy (CDP), thus Bangladesh's graduation is anticipated to be a significant achievement in modern development. The nation is expected to achieve the graduation criterion for the second time in 2021 and graduate as early as 2026, barring significant unanticipated setbacks.

However, graduation is simply the "first milestone" on an LDC's development route; it is most definitely not the "winning post," as the United Nations Conference on Trade and Development (UNCTAD 2016) correctly noted. The nation would confront difficulties in the post-graduation phase that might be made worse by diminishing capabilities and a less favourable macroeconomic condition related to decreased international support measures (ISMs). Bangladesh's economy, which is becoming more connected with the regional and global economies, will be significantly impacted by these shifts. Bangladesh's strategy will need to be adjusted in light of the emerging global order as it is ready to graduate from the LDC category and beyond.

This chapter on Bangladesh will include a short history of Bangladesh’s experience as an LDC to set the background for analysis of the graduation process and its comparison with co-graduating countries.

History of Bangladesh's experience as an LDC

Bangladesh has been in the LDC group since 1975, soon after its independence in 1971 (Islam, 2003). It was expected for a nation emerging from de facto colonial domination and with practically limited resources available to it. During that time, poverty, massive famine and the post-war devastations led an official in Henry Kissinger's State Department to label Bangladesh as an 'international basket case' (Sachs, 2005). Faaland and Parkinson (2003) referred to Bangladesh as a 'test case for development.'

After an extended discussion among CDP members, Bangladesh was finally admitted in the LDC category (Islam, 2004). Bangladesh, which had 78 million people in 1975, was by far the biggest member. Its population size and size of the market were seen to have greater development potential than other LDCs, opening up prospects for scale economies and labour division. As a result, it was first believed that Bangladesh's membership in the category was inconsistent with that of the other members (Islam, 2004). The economic and social condition of post-war Bangladesh was such by the middle of the 1970s that the nation not only satisfied all entrance requirements but also faced such severe extra restrictions that the CDP could only warmly recommend Bangladesh to become an LDC.

Despite being plagued by massive corruption[13], Bangladesh's economy has seen consistent expansion over the past 50 years, with benefits reaching all sectors of society. According to World Bank (2018), the growth has been accompanied by a

[13] Bangladesh ranked 147th among the 180 countries in Transparency International's 2022 Corruption Perceptions Index.

significant decline in poverty from 44.2 percent in 1991 to 13.8 percent in 2016/17. Greater access to health care is reflected in a 40 percent reduction in maternal mortality, from 320 deaths per 100,000 live births in 2000 to 194 deaths in 2010. Childbirth has been lowered to 2.3 children per woman in 2014, from around 3.3 children per woman during the 1990s. Enrollment in primary schools increased from 80 percent in 2000 to above 90 percent in 2015, and at secondary school level increased from 45 percent in 2000 to around 62 percent in 2015 (World Bank, 2018). Having one of the fastest rates of agriculture productivity growth in the world since 1995 (2.7 percent per year, second only to China) and services sectors has provided stability and resilience to the economy (World Bank, 2018). From a chronic food deficit country, Bangladesh today is food self-sufficient. Moreover, since the 1990s, Bangladesh's economy, measured by the gross domestic product (GDP), has grown on average at an annual rate of 5.6 percent, with the comparable growth rate for the last 10 years at a more buoyant 6.3 percent. This means that the US$35 billion per year economy of the mid-1990s has grown to US$250 billion per year in 2022. Over the same timeframe, per capita GDP increased more than five-fold rise from US$320 to US$1,610. Dependence on foreign aid declined from 8 percent of GDP in the 1980s to just about 2 percent today (Rahman, 2023).

Bangladesh's social indicators, such as gender equity, women empowerment, immunisation and access to water and sanitation are also improving. (ILO, 2011). It had achieved the Millennium Development Goals of universal primary school enrolment and gender parity in primary and secondary schools well ahead of the deadline which is promising for Sustainable Development Goals (SDG) too. Life expectancy has increased to 72.6 years (Report, 2020). Over the years, its governments facilitated this transformation through prudent macroeconomic management, appropriate policy support and significant investments in infrastructure and human development.

Before the deadly Coronavirus hit the country in 2020, 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. According to table 3.1, 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 75.3, against the graduation threshold of 66.0; and an EVI score is only 27.2, much below the EVI graduation threshold of 32.0. The country fulfilled the criteria for graduation for the first time in 2018. 2021 was the second consecutive time the country had met all three eligibility criteria for graduating from the LDC category (CPD 2021). The CDP has accordingly recommended the graduation of Bangladesh from the LDC category.

Table 3.1 Data from the 2021 triennial review

Indicators	Threshold for 2021	CDP’s Calculation for Bangladesh for 2021
GNI Per capita	$1,222 or above	$1,827
HAI	66.0 or above	75.3
EVI	32.0 or bellow	27.2

Source: UNDESA, 2021

The recommendation of the graduation of Bangladesh, along with Laos PDR and Nepal, was endorsed by the ECOSOC in June, 2021 and was sent to the UNGA for a final approval 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 (CPD, 2021).

Table 3.2 outlines the chronological order for Bangladesh from the first time it was eligible through to LDC graduation.

Table 3.2 LDC graduation procedure to be followed-

The 2018 CDP review in March	• CDP found Bangladesh eligible for graduation from the LDC category for the first time. Following that, United Nations Department of Economic and Social Affairs (UN DESA) to notify its initial findings to Bangladesh.
Between next two CDP reviews (2018–21)	• United Nations Conference on Trade and Development (UNCTAD) prepared a vulnerability profile and handed over the report to Bangladesh. • UN DESA prepared an ex-ante impact assessment and handed over the findings to Bangladesh. • Bangladesh expected to provide comments on the UNCTAD
The 2021 CDP review	• UN DESA confirmed Bangladesh's eligibility for graduation from the LDC category for the second time and submitted the CDP recommendations to UN ECOSOC, taking into account fulfilment of graduation criteria and other information (country statements, UN DESA's assessment, UNCTAD report on vulnerability profile, impact of COVID-19). • UN ECOSOC endorsed the CDP recommendations. • United Nations General Assembly (UNGA) took note of the CDP recommendations.

Between subsequent two CDP reviews (2021–26)	• Bangladesh to set up a consultative mechanism and prepare a transition strategy. Bangladesh to report to CDP on the preparation of the strategy (optional). • United Nations Development Programme (UNDP) expected to facilitate the consultative group and provide support upon request. UN system expected to provide targeted assistance and capacity building support upon Bangladesh's request. • Development and trading partners expected to participate in the consultative mechanism with Bangladesh's policymakers. • CDP to continue monitoring Bangladesh's development progress during the interim period and report annually to UN ECOSOC.
The 2026 CDP review Following Graduation (2026–30)[14]	• Graduation becomes effective, and Bangladesh graduates permanently out of the LDC category. • Bangladesh expected to implement and monitor the transition strategy. Bangladesh to volunteer to submit to CDP progress reports on the implementation of the strategy on an annual basis for the first three years after graduation and at the two subsequent triennial reviews. • Bangladesh to receive support from development and trading partners in implementing the transition strategy. However, the onus will mainly be on Bangladesh to mobilize resources towards smooth transition. • CDP to monitor Bangladesh's socio-economic progress. Bangladesh to report to UN ECOSOC annually for the first three years after graduation and at the two subsequent triennial reviews.

Source: author's compilation following the CDP's graduation framework, UN DESA (2017).

Comparison of Bangladesh with co-graduating countries

It might be instructive to compare Bangladesh's performance on key economic indices with those of nations that graduated or are anticipated to graduate between

[14] There is no fixed period for a smooth transition given the phasing out of ISMs. A smooth transition will depend on negotiation by the concerned LDC with providers of LDC-specific support.

2015 and 2026. The results of Bangladesh and the other co-graduating nations on the graduation criteria for the 2021 CDP review are compared in Table 2.3. Bangladesh appears to have the most evenly distributed accomplishments across all three categories, followed by Myanmar.

The real GDP[15] of Bangladesh had been increasing positively pre-covid, averaged 5.88 percent from 1994 until 2022. The nation's average GDP growth rate increased between the years 2005–10 and 2011–16, making it the only one of its graduating peers to do so (see Table 3.3). It reached an all-time high of 8.15 percent in 2019 and a record low of 3.51 percent in 2020. However, it has been steadily increasing post-COVID-19, 7.25 in 2022 (Trading Economics, 2022).

Compared to Small Island Developing States (SIDS) and other Asian countries, Bangladesh's dependency on ODA has been relatively modest, even though it is one of the LDCs with the highest ODA receivers due to its vulnerability. According to the Organisation for Economic Co-operation and Development (n.d.) in 2021, Bangladesh ranked second in the top ten recipients of gross ODA with the latest value from 2021 being 5041.02 million US dollars (see figure 3.1). Net ODA received (% of GNI[16]) in Bangladesh was reported at 1.1505 % in 2021, according to the World Bank collection of development indicators (OECD, n.d.).

[15] Gross Domestic Product (GDP) is used to calculate the total value of the goods and services produced within a country's borders (MasterClass, 2022)

[16] GNI per capita is gross national income divided by midyear population (World Bank, n.d.). Economists and investors are more concerned with GDP than with GNP because it provides a more accurate picture of a nation's total economic activity regardless of country-of-origin, and thus offers a better indicator of an economy's overall health (MasterClass, 2022).

Table 3.3 Performance of graduating LDCS

Graduating LDC	Graduation criteria (threshold)			
	Income only graduation threshold: GNI per capita ($2460=100)	Income graduation threshold: GNI per capita ($1230=100)	Economic vulnerability index graduation threshold: 32 or below (32=100)	Human assets index graduation threshold: 66 or above (66=100)
Bangladesh	67	133	85	114
Bhutan	120	239	81	115
Lao PDR	92	184	83	109
Myanmar	51	102	80	109
Nepal	37	74	79	109

Source: UNCTAD secretariat calculations based on data from CDP for the 2021 Triennial Review.

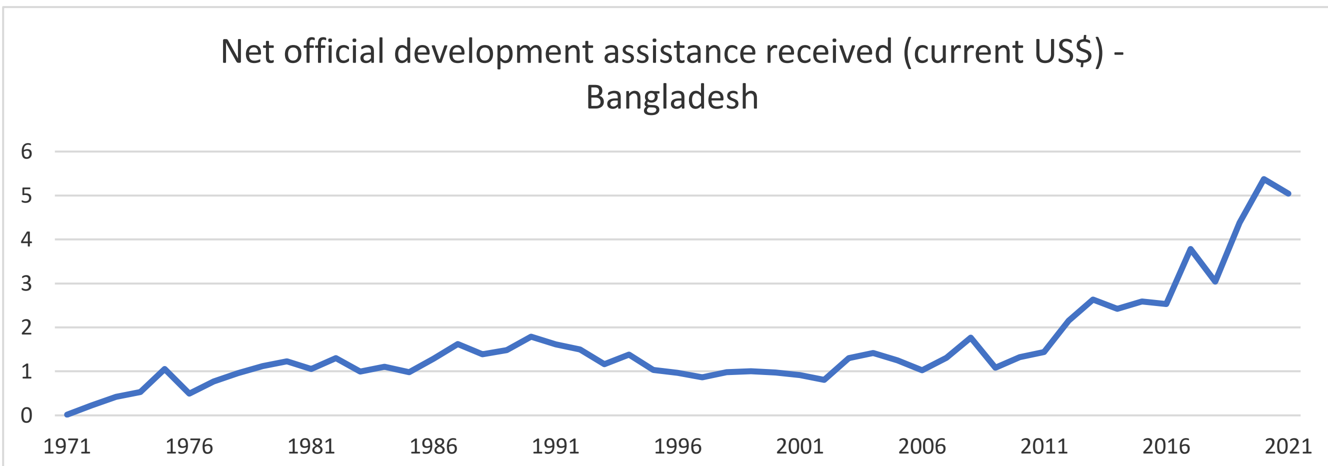

Figure 3.1 Net official development assistance received (current US$) – Bangladesh

Source: *World Bank*.

Bangladesh has also regularly been among the top beneficiaries of remittances in terms of volume, despite a considerable decline in 2015. The average value of remittances as percent of GDP for Bangladesh from 1976 to 2021 is 4.59 percent with a minimum of 0.19 percent in 1976 and a maximum of 10.59 percent in 2012 (World Bank, n.d.). The latest value from 2021 is 5.33 percent. For comparison, the world average in 2021 based on 171 countries is 5.66 percent. The country does better than its fellow graduating nations in almost all categories but falls short of Nepal in terms of remittances' contribution to GDP.

In addition, Bangladesh has made relatively little progress in Gross domestic product (GDP) on average and only receives a little amount of FDI (see Table 3.4). Generating local taxes is another area where the country does poorly. In the whole world, let alone among LDCs, its tax-to-GDP ratio is one of the lowest. Bangladesh's average tax income as a percentage of its GDP between 2004 and 2014 was 8%; compared to Bhutan, Lao PDR, Nepal, respectively, theirs was 11%, 13% and 14% (World Bank 2017). Bangladesh's average external resource gap has widened over time, with gross fixed capital production[17] rising more quickly than the country's average gross domestic saving. (World Bank 2017)

In LDCs, the balance of payments[18] (BOP) is frequently viewed as an impediment to development (UNCTAD 2016, Thirlwall 1979). Only Bangladesh and Nepal, with average current account surpluses of 1% and 4% of GDP, respectively,

[17] Gross fixed capital formation (GFCF), also called "investment", is defined as the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals.

[18] The Balance of Payment (BOP) is a statistical statement that summarizes transactions between residents and non-residents during a period. It consists of goods and services account, primary income account, secondary income account, capital account, and financial account (IMF, n.d).

between 2011 and 2016 (see table 3.4), are graduating Asian LDCs. According to UNCTAD, Bhutan's deficits represent around 26% of GDP. In this situation, even Bangladesh's little surplus may be a positive sign of sustainability when it leaves the LDC category.

A look at trends in sectoral shares of total value added and employment in graduating LDCs indicates that the manufacturing sector has been more dominant in Bangladesh and Myanmar than other co-graduating Countries (Trading Economics 2022). Bangladesh had the highest estimated average share of employment in the manufacturing sector in the period 2011–16. The shares of both manufacturing and services in total value added increased in Bangladesh over time, albeit marginally. Thus, Bangladesh is estimated to have one of the least productive labour forces among the 5 graduating LDCs since manufacturing job's added value is minimal (ILO 2017).

Bangladesh lags behind all of its Asian counterparts, especially Nepal, in terms of export diversification. Bangladesh has had an estimated average export concentration index[19] of 0.41 between 2011 and 2016 compared to Nepal's average index of 0.14 for the same period (UNCTAD n.d.). Diversification is essential to protect against shocks. For Bangladesh, diversifying exports is a matter of concern in view of the loss of preferential market access that will follow graduation from

[19] This index measures, for each product, the degree of export market concentration by country of origin. It tells us if a large share of commodity exports is accounted for by a small number of countries or, on the contrary, if exports are well distributed among many countries. The index ranges from 0 to 1 with higher values indicating more market concentration (UNCTAD, 2018).

the LDC category. Bangladesh is the second largest garment exporter in the world after China and is heavily reliant on European and American orders. (Antara, 2022)

Table 3.4 Trends in GDP growth, ODA, remittances and FDI of graduating LDCs.

Graduating LDC	GDP growth (%)		ODA (% of GNI)		Remittance (% of GDP)		FDI (% of GDP)	
	Average (2005-10)	Average (11-16)	Average (2005-10)	Average (11-16)	Average (2006-10)	Average (11-15)	Average (2005-10)	Average (11-16)
Bangladesh	6.05	6.45	1.59	1.30	9.05	9.15	0.99	1.28
Bhutan	9.17	5.91	9.47	6.83	0.34	0.78	2.34	1.09
Lao PDR	7.92	7.64	9.22	3.79	0.37	0.66	4.61	5.49
Myanmar	11.60	7.00	1.09	2.51	0.35	0.89	2.47	4.25
Nepal	4.29	3.68	5.67	4.69	19.89	27.52	0.14	0.38

Sources: Calculations based on data from UNCTAD (2017) and World Bank (2017).

The dynamics of Bangladesh's external sector performance, as is evidenced by Table 3.5, shows that over the years Bangladesh has been able to make a crucial transition into a trading economy.

Table 3.5 Evolution of the global exposure of Bangladesh's economy

Indicators	FY1973	FY1981	FY1991	FY2001	FY2011	FY2019	FY2020	FY2021
GDP (in billion USD)	8.1	20.3	31.0	54.0	128.6	300.0	323.1	355.0
GDP growth (in percentage over the preceding year)	3.3	7.2	3.5	5.1	6.5	8.2	3.5	6.9
Per capita GNI per annum (in nominal USD)	120.0	260.0	320.0	427.9	927.9	1909.0	2024.0	2227.0
Export earnings (in billion USD)	0.4	0.7	1.7	6.5	22.9	39.6	33.7	38.8
Remittance earnings (in billion USD)	0.0	0.4	0.8	1.9	11.7	16.4	18.2	24.8
Import (in billion USD)	0.8	1.9	3.5	9.3	33.7	55.0	54.8	65.6
Trade to GDP ratio	14.8	12.9	16.8	29.3	44.0	31.5	27.4	29.4
Export earnings (as a percentage of import payments)	50.0	37.4	49.5	69.3	68.1	72.0	61.5	59.1
Export and Remittance earnings (as a percentage of import payments)	50.0	57.3	70.6	90.3	102.7	101.2	94.7	96.9

External debt servicing (as a percentage of export and remittance earnings)	13.7	7.8	23.6	10.7	5.3	2.9	3.3	3.0

Source: UNCTAD Secretariat calculations based on data from Ministry of Finance (MoF, 2020), Bangladesh Economic Review (BER); Export Promotion Bureau (EPB, n.d.), Bangladesh Bank (BB, n.d.); and Bangladesh Bureau of Statistics (2020).

Although the analysis above depicts that Bangladesh is positively situated among its peers across major economic indicators like growth, remittances, current account balances, gross fixed capital formation and prominence of the manufacturing sector, there are certain areas that need attention. According to UNCTAD (2020), "even though Bangladesh is approaching LDC graduation on the back of sustained progress and with strong political will, there is no time for complacency." The country needs to attract more FDI and mobilise more domestic resources in view of its increasing external resource gap. Bangladesh's Readymade garments (RMG) industry, a major beneficiary of LDC-specific international support, comprises approximately 84.21% of the country's total exports and 20% of the GDP (Antara, 2020). To be able to have a smooth transition towards a sustainable graduation ensued by positive structural transformation, exports need to be more diversified, and productivity of the labour force needs to be significantly improved.

According to Honorable Prime Minister of Bangladesh Sheikh Hasina (2023), Bangladesh's graduation from LDC is the result of government's efforts in the last

14 years while they have been in power consecutively. Addressing parliament in her address, Hasina said that the people need to keep Awami League in power so that Bangladesh to level up from LDC and become a developing country by 2026. Since the people voted the Awami League to power time and again, the government has been able to serve the country and bring it on track of development, she said. She also mentioned hadn't there been the Covid-19 and Russia-Ukraine war, Bangladesh could have gone far on its development journey. "Do not get upset seeing problems," she said, adding that it is normal that problems come from time to time.

However, addressing a media briefing at the party offices, the opposition leader of Bangladesh National Party Rizvi (2018) claimed that public servants are being forced to take part in the Awami League events “in the name of development”. He described the government’s claims of development and a developing nation status as a ‘gimmick’ ahead of the elections.

The key concepts pertaining to LDC graduation illustrate the reality that LDCs can be trapped by a set of structural factors. Reflecting on the experiences of co-graduating countries and lessons learnt give some insight to what is to face Bangladesh. Some countries may remain beyond graduation from LDC category due to not meeting the needed structural changes within the country.

Chapter 4: Impact of Bangladesh's LDC Graduation

In the chapter one trade and development cooperation related challenges were highlighted as the main struggles for countries graduating from LDC status. in this chapter, I will explain the Trade and development cooperation related challenges that Bangladesh faces as it transitions out of LDC status and how is Bangladesh managing those challenges.

It is important to understand the impact associated with LDC status in order to design an appropriate graduation strategy for Bangladesh. The Support Measures Portal for LDCs, established and maintained by the Secretariat of the CDP, lists 136 LDC-specific International Support Measures (ISM) across the fields of development finance, trade, technology and technical assistance (UNCTAD 2016). The usage of these ISMs, however, varies greatly based on the individual needs of each LDC, the ability to export, the ability to use and manage existing resources, and the real level of support provided by development partners. As previously stated, Bangladesh is anticipated to leave the LDC category in 2026 and will no longer be eligible for LDC-specific ISMs following the completion of the three-year transition period in 2030.

Bangladesh has been eligible for LDC-specific ISMs for more than four decades. Although it has not been able to take advantage of all the ISMs, it is one of only a few LDCs that has reaped benefits from many of them (Cortez et al. 2014). Bangladesh's successful utilisation of preferential market access for LDCs is a case in point. The country has also been able to make good use of concessional finance and the WTO's Aid for Trade and technical assistance. However, Bangladesh has not been able to take full advantage of the Doha Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Public Health that offered preferential treatment for production and export of pharmaceuticals by LDCs (Cortez et al. 2014). The loss of ISM eligibility would have a lot of effects on the Bangladeshi economy overall and numerous particular sectors. As a result of Bangladesh graduating from the LDC category and the subsequent change of policy, it'd face some positive as well as negative impacts on its reputation as a success story and the amount of Foreign Direct Investment (FDI) entering the country. These effects are expected to be reflected in credit ratings and the subsequent ability to get commercial loans at profitable interest rates. In order to develop a graduation strategy, it is necessary to recognise consequences in this situation.

Trade related challenges

Bangladesh is a unique case in the sense that no other former LDCs had a relatively well-developed private sector with a large share of manufacturing in total exports. Unlike other LDCs, Bangladesh has been able to utilize the existing trade preferences in commercially meaningful manner. While the combined share of 48 LDCs in global merchandised exports is 0.98 per cent, Bangladesh alone accounts for 0.20 per cent (Razzaque, 2020). Therefore, the exposure to preference erosion is likely to be far greater for Bangladesh.

Bangladesh has primarily benefited from unilateral trade preferences offered by some developed and developing countries, despite the World Trade Organization

(WTO)-led multilateral trading system providing a variety of favorable conditions and flexible terms to promote LDC participation in global trade. Under their various Generalized System of Preference (GSP) plans, the majority of these countries offer either full or partial duty-free and quota-free (DFQF) market access for goods coming from LDCs. Additionally, it is common practice to grant market access benefits to LDC exporters while subjecting them to laxer rules of origin (RoO). Bangladesh's exports would no longer be eligible for LDC-specific tariff benefits after it graduated from the LDC category. Over forty countries presently provide the country with preferential market access, albeit to varied degrees and extents.

Bangladesh would have to pay Most Favored Nation (MFN) tariffs[20] for exports after 2027 unless it is able to renegotiate access through bilateral free trade agreements (FTAs) or as part of regional trade agreements (RTAs). Estimates carried out by a study by Rahman and Bari (2018) suggest that at prevailing MFN rates, taking into account markets and products, Bangladesh’s exports would face an additional 6.7 per cent tariff on average once it graduates. The study indicates that a 1 per cent increase in the LDC-specific tariff rate would lead to a decrease in Bangladesh’s exports of 1.9 per cent in the selected 40 countries. United Nations Conference on Trade and Development (UNCTAD) estimates that indicate Bangladesh’s exports may fall by 5.5–7.5 per cent due to loss of preferential access (UNCTAD 2016). Estimates of UNCTAD also indicate that the potential effects on

[20] Most-Favoured-Nation tariff rates are the preferred rate of duties that countries promise to impose on imports from other members of the World Trade Organization (WTO), unless the country is part of a preferential trade agreement (in which case they may be charged the same or lower duties).

the LDCs from losing LDC-specific preferential access to Group of Twenty[21] countries were equivalent to a reduction of 3 to 4 per cent of their earnings from merchandise exports. If extrapolated for all 48 LDCs (including Equatorial Guinea), this reduction would amount to a loss of more than US$4.2 billion per year (UNCTAD 2016). However, these effects may decrease over time given the extent that Most Favored Nation (MFN) tariffs are brought down and also when LDCs become part of various Regional trading arrangements (RTAs), which would reduce LDCs' preference margins in the markets concerned and thus lead to a reduction in the costs of losing preferential market access upon graduation (UNCTAD 2016).

About 70% of Bangladesh's exports enjoy preferential, mostly duty-free, quota-free (DF-QF) market access. For Bangladesh, since the Generalized System of Preferences (GSP)[22] scheme of the US does not cover apparels, mainly other markets are of concern from the vantage point of preference erosion (Ahmed 2009). At present, according to Rahman and Bari's (2018) estimates, the share of goods that receive preferential treatment in the EU is 97.8 per cent. The share of goods receiving such treatment in selected non-EU countries in which Bangladesh gets partial or full tariff preference is 80.6 per cent. According to Rahman and Bari's (2018) analysis of tariff rates, market share and preferences shows that at current Most Favored Nation (MFN) rates, Bangladesh's exports would face an 8.7 per cent tariff increase on average in the EU three years after graduation from the LDC

[21] The G20 or Group of 20 is an intergovernmental forum comprising 19 countries and the European Union (EU).
[22] GSP is a preferential tariff system which offers exemption of tariffs to developing countries to export to the US from the more general rules of the WTO. Similarly, GSP is a scheme whereby the EU members offer partial or full removal of tariffs on two-thirds of products originating from developing countries. GSP plus is an enhanced preference scheme that provides full removal of tariffs on essentially the same product categories.

category. Similarly for selected non-EU countries, the tariff increase would be 3.9 per cent.

It is clear that in both the EU and selected non-EU countries, Bangladesh's export basket contains high shares of products that receive LDC-specific preferential treatment and, thus, export preference erosion is anticipated to be significant, particularly in the EU. Estimates also suggest that for some non-EU countries such as Canada, where the average preference margin is 7.3 per cent, tariff preference erosion would likely also be high. Preference erosion would likely negatively affect Bangladesh's exports and, consequently, GDP growth and other socio-economic indicators such as poverty alleviation, industrialization and employment generation. A recent study estimated that the withdrawal of GSP plus concession by the EU led to a fall in both Sri Lanka's GDP by 0.58 per cent and employment by 1.09 per cent (Bandara and Naranpanawa 2015).

As per the 2005 Hong Kong Ministerial Decision of the WTO, LDCs have been promised duty-free quota-free treatment for all exports originating from all LDCs by all developed countries and developing countries in a position to do so (if unable, then for at least 97 per cent of tariff lines). The WTO's dedicated window, the Enhanced Integrated Framework, also provides trade-related financial and technical support to LDCs. Also, they have been promised support for implementing commitments under the WTO's Trade Facilitation Agreement. The special and differential treatment (S&DT) provisions in the WTO provide various types of support to LDC members of the WTO. While many of the initiatives are shrouded under the grab of 'best endeavor' clauses[23] and financial support has not been forthcoming as promised, these could be important supportive measures if they were realized.

As is known, intellectual property rights regulations are not strictly enforced in the case of the LDCs. For example, the WTO's Doha Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Public Health allows LDCs waivers in terms of patenting and licensing requirements. Bangladesh has been enjoying this waiver since 2001, the year the declaration was adopted. It has provided Bangladesh with significant advantage for pharmaceutical products. To a large extent, thanks to this waiver, Bangladesh was able to build a strong pharmaceutical industry that caters to about 98% of the domestic demand and has helped to keep prices of essential medicines low (Rahman, 2023). Bangladesh exported about US$ 168.0 million worth of pharmaceutical products in FY2021-22; a major part of this was destined for other LDCs and low-income countries which benefitted from low-priced drugs (Export Promotion Bureau, n.d.).

Bangladesh will not be able to enjoy this benefit once it becomes ineligible for the ISMs, although the eligibility period has recently been extended for the LDCs until December 2032[24]. Once graduated from the preferential market access regime, Bangladesh would no longer be able to benefit from any progress made in the

[23] 'Best endeavours' is a commonly known term in commercial contracts, which places the obligation upon the party given such an undertaking to use all possible efforts necessary to fulfil the commitment.
[24] The eligibility period was first extended until December 2015 in Doha in 2001 and then for another 17 years until December 2032 in Nairobi at the WTO's Tenth Ministerial Conference in 2015.

context of the WTO decision on Services Waiver for the LDCs that is geared to provide preferential access to service exports from the LDCs.

The impact of the absence of LDC-specific favors in regional trade arrangements is something that needs to be taken into account in addition to the typical developed nation markets with Duty-Free Quota-Free (DFQF) or the General Preferential Tariff (GSP) facilities. The South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA), the two most significant regional initiatives, both have advantageous provisions that have benefited Bangladesh as an LDC. For LDCs, SAFTA and APTA both have less strict norms of origin. For LDCs, SAFTA provides leniency sensitive lists (items not eligible for tariff concessions). Although APTA offers LDC members a very advanced list of advantageous products (things eligible for tariff reduction). Bangladesh will have to give up these preferences after the LDC.

Very recently, India has become one of the top 10 export destinations for Bangladesh. In FY19, Bangladesh's exports to India exceeded the $1 billion mark for the first time to reach $1.25 billion (BBS, 2019). As it stands, India's negative list for SAFTA LDCs contains only 25 products. For all other products, including textiles and clothing, Bangladesh enjoys tariff-free market access. However, LDC graduation means Bangladesh will be subject to a sensitive list of 614 products that India maintains with other non-LDC SAFTA members (Razzaque, 2020). For the remaining products, The South Asian Free Trade Area (SAFTA) tariffs for non-LDCs will be applicable to Bangladesh's exports. The rules of origin will also become more stringent. Bangladeshi manufacturers have just started benefitting from LDC-specific tariff preferences in India and the graduation will bring to an end to this preferential market access.

ODA challenges

Trends in aid in flow

In the cases of all five graduated countries (Botswana, Cape Verde, the Maldives, Samoa and Equatorial Guinea), Official Development Assistance (ODA) had played an important role in their economies. Given these countries' small populations, per capita ODA was relatively high, and a large share of concessional finance was in the form of grants (Bari and Rahman, 2016).

In contrast, Bangladesh's dependence on ODA has gradually declined over time – compared to the early 1990s when the ratio of ODA to exports of goods and services was 1:1, the ratio became 1:16 in 2015 (World Bank 2017). ODA as a percentage of GDP has decreased from 8 per cent to less than 2 per cent over the same period. Per capita ODA in Bangladesh currently stands at US$30 (average ODA received in the period of FY2011–FY2021). A large part of the ODA received is in the form of loans.

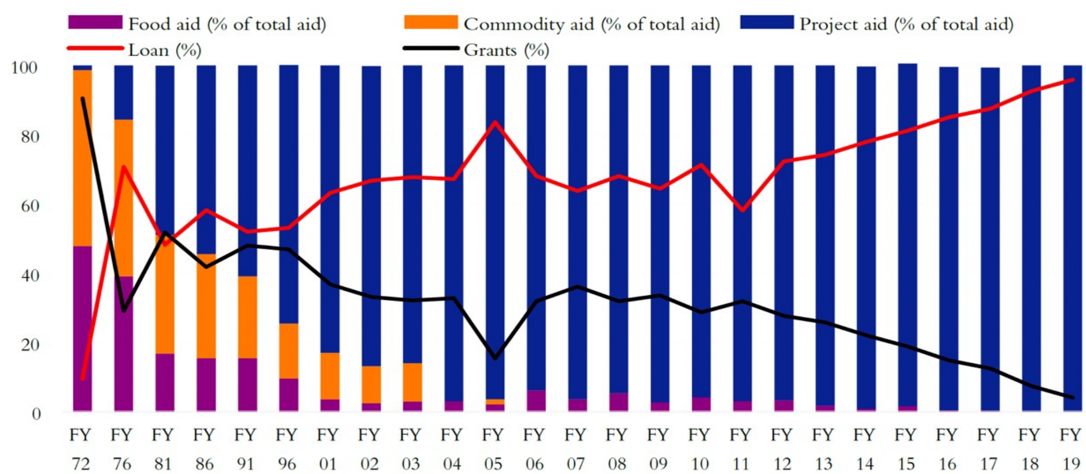

Figure 4.1 Aid composition (as % of annual aid inflow)

Source: Analysis based on Bangladesh Bank and ERD data.

The Istanbul Programme of Action (IPoA) for LDCs had set a target of 0.15–0.20 per cent of donor GNI to be provided as aid to LDCs (United Nations 2011). This percentage range would be equivalent to US$67 to 89 billion (in 2014 value) (United Nations 2017). Though many donor countries are yet to meet this target, some have – the share of aid to LDCs reached 0.10 per cent of GNI in 2013 but fell back to 0.09 per cent in 2014 and 2015 (OECD.Stat 2016). For Bangladesh, ODA constitutes about one-third of Annual Development Programme financing and remains important for social sectors and infrastructure. In recent years, compared to the other LDCs, the share of grants declined for Bangladesh. An increasingly larger share of ODA came in the form of loans. In FY 2020-21, the total disbursement of foreign assistance amounts to USD 7212.13 million. Of these, the grant and the loan percentages are 5.98% and 94.02% respectively (ERD, 2020).

Bangladesh received the equivalent of approximately US$5.3 billion in ODA in 2021, which was 14.5 per cent of its central government's expense; compared to 2004 when it was almost half of the central government's expense (Figure 4.2).

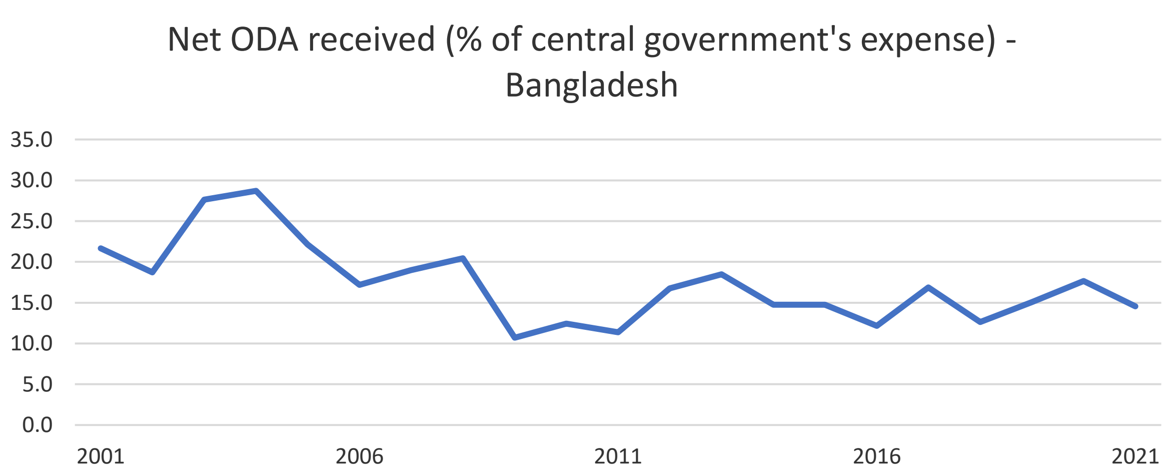

Figure 4.2 Net ODA received - Bangladesh

Source: World Bank (n.d.)

Concessional Aid Flow

As a graduated LDC, Bangladesh would need to adjust to new realities where it is eligible for blended[25] and The International Bank for Reconstruction and Development (IBRD) financial assistance only. In the process, borrowing costs may rise significantly as Bangladesh is forced to adjust to ODA with shorter repayment periods and at higher interest rates. In addition, Bangladesh would incur higher debt service payments. While its debt service record is good one of the best and debt service payments as a percentage of foreign exchange earnings remain very low costs would rise.

Concessional loans are expected to decline further as Bangladesh transitions from International Development Association (IDA)[26] – only to blended and, then blended to International Bank for Reconstruction and Development (IBRD) assistance only. At present, Bangladesh receives 40 per cent of its concessional loans in the form of IDA loans, the 'soft window' of the World Bank that has a very low interest rate of 0.75 per cent, long repayment period of 20–30 years and grace period of five to ten years (World Bank, n.d). According to the World Bank Atlas method, Bangladesh's GNI per capita of US$1,330 (in 2016) means that the country surpassed the International Development Association (IDA)-only operational threshold of US$1,165 (in FY2018). Bangladesh is now eligible for blended financing. In

[25] Blended finance is defined as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets", resulting in positive results for both investors and communities.

[26] The International Development Association is a development finance institution which offers concessional loans and grants to the world's poorest developing countries.

FY2018, the blend operation threshold was US$1,905. If current GNI per capita growth rates are sustained, Bangladesh may cross that threshold by the time it, most likely, graduates in 2024[27].

However, following the transition from International Development Association (IDA) – only to blended and afterwards to International Bank for Reconstruction and Development (IBRD) assistance, Bangladesh's economic strength as a non-LDC would have to be seen from the perspective of the country's improved credit worthiness**.** Graduation could unlock a broad range of development financing options, albeit at a price. The Chinese proposal of US$25 billion with an interest rate of 2 per cent (March & Report, 2022), the Russian loan of US$11.4 billion with an interest rate of 4 per cent for the Rooppur Nuclear Power Plant and Indian lines of credit at concessional interest rates are early signs of such options (CPD 2017). On the other hand, securing loans, either by the public sector (issuing sovereign bonds) or private sector (raising commercial loans), would be possible at relatively lower interest rates given better credit ratings. To the extent that LDC graduation reflects strength of an economy and its embedded capacities, it is also expected that investors' interest in a country would rise (Bari and Rahman, 2018)[28].

According to scores pertaining to International Development Association (IDA) credit ratings, Bangladesh has performed relatively better in terms of indicators of economic management and policies for social inclusion when compared to the 15

[27] For GNI per capita of more than US$1,905, a country is only eligible for IBRD (World Bank 2017b).
[28] The assumption is that interest rates would be lower or preferential. However, terms of loan also depend on the political situation of a country.

candidate LDCs for graduation by 2024[29]. However, with respect to indicators such as implementing structural policies and public sector management and institutions, Bangladesh's performance was relatively weak[30]. Overall, Bangladesh's credit rating in terms of managing International Development Association (IDA) loans was similar to those of the 15 prospective LDC graduates, though lower than those of the five graduated countries. A graduation strategy would need to be cognizant of these assessments.

Foreign assistance has been a mixed bag for Bangladesh. Government and donors both have played a role in the main causes. According to Khan (2014), the donors' current approach to the aid delivery mechanism is insufficient in many ways, including the disconnect between financial support provided by donor and their influence on policy, the conditions put forth by the donors to limit of domestic policy autonomy, the lack of ownership of the recipient country in proposed policy packages results in lack of enthusiasm for project implementation, and the use of a set template for policy suggestions without taking into account the nuanced context of each individual country.

Another aspect often overlooked is the cumbersome policies, procedures and practices of donor agencies – each of which have plentiful reporting requirements and insist on specific ways of doing things – thus putting enormous pressure on the limited administrative capacity of the recipient countries (Easterly 2002). To

[29] Bangladesh's scores for macroeconomic management and implementing policies for social inclusion were 3.8 and 3.5 respectively. These were higher than the average scores of 3.3 and 3.2 when compared to the 15 LDCs that are expected to graduate by 2024 (World Bank, 2017).

[30] Bangladesh's scores for implementing structural policies and public sector management and institutions were respectively 3.0 and 2.9, which were lower than the average scores of 3.1 (for both these indicators) when compared to the 15 LDCs expected to graduate by 2024 (ibid).

address these difficulties, the current donor strategy must be modified to allow for more flexibility in assistance distribution, provide recipients considerable room for policymaking, and place more focus on results. However, these changes will not be sufficient by themselves unless complemented by governmental measures to ensure good governance, conducive economic atmosphere, and enhancement of domestic absorption and implementation capacities (Quibria and Islam 2015). Khan (2014) observed that aid can influence economic and political outcomes by altering the rent seeking behavior of the relevant entities. Depending on how aid interacts with pre-existing economic and political foundations, ODA's influence may fluctuate. When developing Bangladesh's future foreign aid plans, it is necessary to consider the structure of economic and political factors.

As previously indicated, Bangladesh is becoming less dependent on ODA, but the need of mobilizing domestic resources is growing. Although volatility of the commitment to ODA is decreasing, a number of procedure delays may prevent Bangladesh from fully benefiting. In upcoming years, while managing overall debt Bangladesh may face some difficulties due to the progressive decrease of concessional ODA.

Bangladesh's transition from being a recipient of special support measures to a more economically self-reliant status brings about a nuanced interplay between challenges and benefits. The loss of these measures poses immediate difficulties, loss of International Support Measures, Official Development Assistance and development programs that were previously supported. However, this process is counterbalanced by several positive outcomes. On the positive side, as Bangladesh experiences economic growth, it gains increased competitiveness in global markets. This growth attracts foreign direct investment (FDI) and enhances the country's global standing. Moreover, the transition allows Bangladesh access to loans at lower interest rates due to its improved creditworthiness, further facilitating economic expansion.

In summary, Bangladesh's shift away from special support measures involves a careful balancing act. While challenges arise from the loss of supports, the country is responding by capitalizing on the benefits of economic growth, enhanced competitiveness, increased FDI, and better access to loans. This multifaceted approach seeks to ensure sustained development and prosperity while safeguarding the well-being of its citizens during the transition.

Chapter 5: Looking Forward

LDC graduation is a monumental accomplishment for Bangladesh. According to Rahman (2018), even a decade ago, no observers thought that Bangladesh would be able to achieve this feat so soon**.** However, the development transition will also bring challenges. Economic development is about building resilience and generating capacities to deal with unfolding circumstances that may not always remain favorable.

Therefore, the task is now to prepare well for tackling any challenges to ensure smooth graduation. In this respect, adaptation strategies should consider various policy options at the national level as well as changes or improvements in firm-level business and operational practices. While one can list a host of specific tasks for graduation preparation, here I highlight only the most important issues.

Proactively Exploring Trade Preferences Post-Graduation

Due to a large private company boom, Bangladesh have been able to effectively leverage trade advantages among other LDCs. Although mostly restricted to the garment sector, this has been reflected in the nation's export performance. However, the former reliance on trade advantages has also made private sector businesses rather vulnerable as a result of the expected changes in domestic and international policy frameworks brought on by LDC graduation. Therefore, proactively engaging with trading partners to achieve longer transition periods or exploring other measures to mitigate any sudden changes in market access must now be one of the top priorities.

As discussed earlier, LDC-specific preferences in the European Union (EU) are likely to continue for an additional three years after graduation (i.e., preferences will continue until 2027) if Bangladesh meets the graduation criteria in the second consecutive review in 2021. This offers some additional time to prepare for any eventualities that might unfold in the upcoming years.

Clearly, Bangladesh will have to look for obtaining an alternative EU trade policy regime, which is more generous and attractive than Standard General Preferential Tariff (GSP). One option is to strongly pursue EU GSP+ scheme (a special incentive arrangement for sustainable development and good governance), which will require relaxed terms of eligibility criteria. The current EU GSP regime will expire in 2023 and is expected to be replaced by a new one. Proactive engagements with the European Commission are to be given an utmost priority so that the required changes in GSP conditionalities are introduced to secure admissibility in GSP+. In this respect, the upcoming consultations, expected to be initiated in 2020, in the run-up to the transition towards the new GSP regime, should be considered as a major opportunity for influencing the relevant discourse and EU policy changes. Bangladesh should try to establish a coalition with other graduating LDCs to demand for relaxed GSP terms post-graduation. Graduating LDCs should strive for negotiating a further extended transition period from the Everything but Arms or seek more liberal GSP+ provisions including the continuation of Everything but Arms rules of origin for graduating LDCs (Razzaque & Rahman, 2019).

Requesting extended transition periods from other preference-donor countries is another priority. Such countries as Australia, Canada, China, Japan, the Republic of Korea, etc. should be urged to follow the EU example of offering an additional three-year transition period for LDCs. Another possible engagement for Bangladesh is to attempt for obtaining trade preferences from the United States. While many observers would consider it an extremely unlikely proposition given the recent U.S. policy reversals on many trade issues, entering into a Free Trade Agreement (FTA) is likely to generate a win-win situation for both the countries. It might be a reasonable stance to ask for unilateral trade preferences in a time-bound manner within which an Free Trade Agreement (FTA) with the United States could be negotiated.

Bangladesh's existing regional trading arrangements (mainly South Asian Free Trade Agreement (SAFTA), Asia Pacific Regional Treading Agreement (APTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Trade Preferential System among the OIC Members (TPS-OIC)) also have many LDC-specific preferences that will get eroded after graduation. Preferences currently enjoyed in the world's two largest economies, China and India, are dependent on the LDC status. With more than one-billion-dollar export earnings in FY19, India is increasingly becoming a crucial market. It is thus important to look for options in maintaining the same level of market access in India after graduation. In China, Bangladesh should try to obtain an immediately expanded coverage of duty-free access from the currently available rate of around 61 per cent of tariff lines to at least 95 per cent, which many other LDCs are enjoying. Along with asking for an extended graduation transition period, a gradual withdrawal of tariff preferences and negotiating a bilateral Free Trade Agreement should be among other considerations as part of building a deepened trade and economic cooperation arrangements with China.

Markets in Asia are growing faster than any other region of the world and the Asian Development Bank projects that by 2050 some 50% of global GDP will be in Asia. Two regional trading arrangements that hold tremendous potential for trade and investment are ASEAN+ and The Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP) which together will constitute the bulk of Asian market of the future. Bangladesh would be well advised to seek membership or Free Trade Agreements with these groupings. But that could be an uphill task give the current high tariff regime in Bangladesh and the enormous resistance from domestic import substitution industries to any reduction of protective tariffs. The political economy challenge is considerable, but a breakthrough is essential.

It should also be noted that, the proposed mega-regional arrangements such as The Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP), flagrantly discriminate against every single excluded actors of global trade, especially emerging economies and all LDCs including Bangladesh. In many cases, mega-regionals agreements are politicized, and uses trade as a weapon to enforce geopolitical hierarchy. Therefore, in several ways, the original multilateral dream of trade liberalization is facing dire consequences from multiplication of Regional Trade Agreements (RTA). And the WTO's agenda of economic integration is being thrown in the backseat, with countries showing reluctance in making meaningful multilateral progress and providing more efforts in RTA negotiations. Therefore, regionalism has eventually turned into stumbling block in the path of multilateralism and greater international integration, instead of helping the original cause.

Devising WTO-Consistent Export-Incentive Mechanisms

One of the biggest post-graduation issues is how to support exporters in a manner that will be consistent with the multilateral trade regime overseen by the WTO. Since direct subsidies and/or cash assistance linked to certain sectors and export-performance will be extremely difficult to continue with, innovative options and appropriate restructuring of the export policy must be considered.

A policy option for Bangladesh will be to consider those export promotional support measures that are most widely used. Along with these, Research and Development support for industries and assistance for retailing activities in foreign markets could be important for many exporters. For example, if any local brand can develop a commercial presence in key export destinations, supporting some of its operational costs under commercial presence is likely to be consistent with multilateral rules. These incentives may also help exporters move up the value chain thereby enhancing export revenues.

Improving Domestic Resource Mobilization and Reducing Dependence on Import Tariffs

Domestic revenue mobilization has important implications for development financing in the post-LDC era. While foreign aid and ODA in flows are unlikely to slow down just because of LDC graduation, concessional loans are going to cost more due to Bangladesh's accession to lower-middle-income country status.

Therefore, domestically mobilized resources should play a bigger role in development financing.

A reinvigorated approach to domestic resource mobilization should also aim to reduce the dependence on import revenues. Currently, more than 32 per cent of all government revenues are sourced from import duties and other import taxes (Razzaque, 2020). It is generally recognized that less-than-optimal revenue collection from domestic sources is keeping Bangladesh reliant upon revenues gathered from imports. This excessive dependence on trade revenues will make it difficult to undertake reciprocity-based bilateral and regional trade deals.

The dependence on import tariffs—often very high when other para tariffs such as supplementary and regulatory duties are added—has other implications including trade distortion, reduced consumer choice, inefficiency in domestic industries, strained trade relationships with other countries, and potential impacts on foreign investment. A high import tax incidence increases profitability in the domestic market. When such taxes are imposed, the cost of importing foreign goods into the domestic market increases. As a result, domestic producers may find it more profitable to sell their goods in the domestic market instead of competing with cheaper imported alternatives. This can also reduce export incentives in relative terms. Sustained economic growth with a large population means the domestic market for investors has become very attractive, which is further exacerbated by high import tariffs. In contrast, trade preferences are increasingly coming under pressure. Therefore, post LDC graduation, the future export support policy will have to carefully evaluate the implications of high import tariffs on many exportoriented industries and prominent export items such as ready-made garments industry.

Promoting Firm-Level Competitiveness

The impending trade preference erosion for the private sector and loss of policy space for supporting exporters are likely to put some pressure on competitiveness. A part of it can be overcome through improved competitiveness at the firm-level. It is generally recognized that, in comparison with many other developing countries, labor productivity and managerial efficiencies are lower in Bangladesh.

Firm-level competitiveness depends on a variety of factors. Improved labor productivity requires good management, evidence-based decision-making, labor training, and the use of improved technologies. There are ample opportunities for investing in state-of-the-art knowhow and skill development for which public-private partnerships will be important. Particularly, enterprises will need support to procure appropriate technologies and to have access to a skilled workforce. Foreign Direct Investment in this regard can greatly help as foreign firms are known for their use of improved technologies, modern management practices, and effective integration within global value chains. International evidence seems to suggest that domestic enterprises also benefit from the spillover effects of firms managed by foreign investors. Foreign Direct Investment can also help improve product quality and compliance standards (Razzaque and Bari, 2018).

Through improved labor productivity, technologies, product quality, and compliance, local manufacturers can attain a strong footing in the international market. These areas should be focus of building firm-level competitiveness. A final stage in improving firm-level competitiveness is to develop capacities to move upwards in global value chains. This requires firms' involvement in branding, marketing, retailing, and Research and Development activities. Since LDC-graduation is still a few years away, enhancing firm-level capacity building should comprise an immediate policy attention.

The primary responsibility for protecting the rights of workers rests with the Bangladesh government. While Bangladeshi law, despite recent reforms, still falls short of international standards in important respects, rigorous enforcement of existing law would go a long way toward ending impunity for employers who harass and intimidate both workers and local trade unionists seeking to exercise their right to organize and collectively bargain. Section 195 of the Bangladesh Labor Act, 2006 (amended 2013) outlaws numerous "unfair labor practices." Bangladesh has also ratified International Labor Organization (ILO) conventions 87 and 98 on freedom of association and collective bargaining and is required to protect the rights contained in them.

The factory owners also need to commit to reform. There is much more the government, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) can do to ensure compliance with such provisions, and to sanction companies that abuse worker rights. However, factory owners can carry considerable political clout in Bangladesh, and this can act as a barrier to holding them to account for violating workplace rights, as well as health and safety provisions. Mohammad Shahidullah Azim, Vice-President of BGMEA said that

Rana Plaza had served as a "wake up call and turning point" and that factory owners now recognize that "compliance is not for customers, but for safety" (Human Rights Watch, 2015).

International companies that purchase clothes and other products from Bangladesh factories also have a responsibility to ensure that worker safety and rights are maintained throughout their supply chains. According to the UN Guiding Principles on Business and Human Rights, factory owners and the companies which buy their products also have responsibilities to prevent human rights violations occurring in the garment factories and should take remedial action should abuses occur. All businesses, regardless of their size or where they are based, should "avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur." They should also "seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts." Many national and international companies with business activities in Bangladesh are failing to meet these responsibilities.

Tackling Infrastructural Bottlenecks and Cost of Doing Business

Given that Bangladesh has faced infrastructural bottlenecks and excessive cost of doing business for a long time, any improvements in these areas can boost export competitiveness. In the World Bank's Ease of Doing Business Index (2020), Bangladesh has made some progress and is ranked 168th among 190 countries. However, considering the main competitors such as China (31st), India (63rd) and Vietnam (70th), Bangladesh will need to continue with its relentless efforts in making further progress. Weak and inadequate port facilities in conjunction with inefficient inland road transportation and trade logistics contribute to longer lead time and higher costs, undermining competitiveness.

According to Razzaque et al. (2018) establishing new inland port depots and extending the capacity of existing facilities can help reduce costs and lead time to export. At the same time, building more off-dock facilities like private container freight stations could be helpful. The effective operation of one-stop service facilities for foreign as well as domestic investors can cut down business costs significantly.

Addressing infrastructural bottlenecks and excessive business costs can substantially help recoup a part of forgone trade preferences. In this respect, the Ministry of Commerce, Export Promotion Bureau, National Board of Revenue, Bangladesh Bank, Bangladesh Investment Development Authority (BIDA) and other relevant agencies in collaboration with the private sector should develop and implement a joint work plan. Ameliorating the current business and investment climate situations could provide the biggest boost to external competitiveness.

Chapter 6: Conclusion

Graduation from the LDC category is a significant indicator of global socioeconomic advancement. Bangladesh has made significant progress in defying significant challenges to enable the shift to LDC graduate status. The country's quick economic development has been greatly aided by a thriving export sector. The growth process has been marked by brisk manufacturing operations as well as readymade garment export success.

Bangladesh has a sizable population, a growing economy, and no geographical restrictions because it is neither a landlocked developing country nor a Small Island Developing State (SIDS), unlike those that have previously graduated. Bangladesh will probably be among the first nations to pass all three graduation requirements, which are the GNI per capita, the human asset, and the environmental impact. Beyond local stakeholders, the story of Bangladesh's development towards non-LDC status may be quite compelling. The ideas and comparative viewpoints discussed in the preceding chapters can be used to a general plan towards LDC graduation. The important conclusions that follow respond to the research questions posed at the start of the thesis.

According to the Bangladesh Government, after graduation, Bangladesh's participation in international trade and productivity in industrial production will rise to the next level fuelled by new-found zeal and confidence (August & Unb, 2022).

The transition will improve the country's credit rating, increase productive efficiency, and enhance our ability to compete globally, broadening our scope of export earnings. International financial institutions and credit rating agencies will evaluate Bangladesh more favourably after graduation. It will enhance our scope of attracting foreign funding both in the public and also in the private sector for investment and development financing purposes. Foreign direct investment will get a boost enabling new developments. This will lead to massive development of infrastructure in the country, new job creation, and overall better living standards for the people of Bangladesh.

The loss of the LDC specific benefits will create an obligation for the country to increase its productive capacity and efficiency to compete in the export market, diversify our export basket and create new markets. Besides, this will both encourage and force the country to go for higher value-added products (August & Unb, 2022).

From the analysis, it seems Bangladesh’s aim is to graduate from the Least Developed Category in name supporting its political ambitions but keep majority of the international support measures through trade and alignment. Bangladesh understands graduating is prestigious, but it also will try to negotiate hard to keep as many these supports as they can.

Graduation from LDC status offers a variety of new opportunities and potential, as well as challenges. Nevertheless, graduation should not be seen as an end but rather as a set of new challenges. The LDC graduation process should be seen as a way to achieve structural change, poverty eradication and economic diversification in LDCs and thereby contribute to the achievement of a country’s unique development goals as well as the general goals of the IPoA.

However, it is unavoidable that throughout the development transition, some advantages and special treatment that are only given to LDCs would have to be given up. Thus, the upcoming graduation is anticipated to have some effects on trade and raises worries about possibly significant economic costs as a result of losing access to assistance measures linked to the LDC designation. The two biggest problems facing Bangladesh are the loss of trade preferences and the shrinking development assistance.

Bangladesh has benefited most from LDC-specific trade advantages among the LDCs. Currently, duty-free market access is available for over three-quarters of the country's exports. The EU is Bangladesh's most important export market; under the EU's ‘Everything But Arms’ (EBA) policy for LDCs, nearly all LDC exports are duty-free.

Bangladesh may face major challenges if it loses privileged access to the European Union (EU) markets. However, the EU does offer an extra three-year transition period, which suggests that the present market access rules will probably not alter until 2027. After graduating, an LDC has the option of receiving preferential access from the EU under the Standard General Preferential Tariff (GSP) or GSP+ (a special incentive arrangement for sustainable development and good governance) programmes. In accordance with the current rules, exports of ready-made clothing would be permitted under GSP+ but under Standard GSP, but they would be subject to average import duties of 9.6%. In other markets (including Australia, Canada, China, Japan, and the Republic of Korea) post-graduation privileged access is probably going to be constrained as well. To pursue any agreements that can provide better market access than he most favoured nation (MFN) conditions, Bangladesh will have to negotiate with these countries. Demanding that these countries give a prolonged transition time in line with the EU's precedent will be a significant undertaking.

Giving the export industry direct support in the form of financial aid and other subsidies may not be permissible under international trade rules. As a result, different policy choices must be implemented to give exporters incentives. After graduation, Bangladesh will need to make sure that intellectual property is protected more thoroughly. For the purpose of ensuring compliance with WTO rules and regulations, it may also be necessary to make adjustments to several elements in the import regime for pharmaceutical items.

A significant source of development financing has been Official Development Assistance (ODA), which has aided in the expansion of the economy by creating physical and social infrastructure. The future availability of such ODA is not anticipated to be significantly impacted by LDC graduation. Bangladesh has recently been forced to pay higher interest rates on concessional loans. The reason for this, however, is not the graduation of LDCs, but rather Bangladesh's move from the low-income group to the lower-middle income group of World Bank category which directly impacts its access to development funds.

There are several approaches for minimising potential negative effects and helping the growing developing countries. There are numerous alternatives for post-LDC trade benefits in the EU due to LDC graduation. In order to get the best possible mechanism, Bangladesh must make use of the discussions that will occur in the lead-up to the next EU GSP regime. There should be proactive negotiations with other significant preference-giving nations (such as Australia, Canada, China, India, Japan, the Republic of Korea, etc.) to secure a prolonged transition time and take into account future arrangements, including bilateral trade agreements.

Collier (2007, p. 65) argued that bad governance 'has not prevented Bangladesh from adopting fairly reasonable economic policies and from growing' and Sachs (2005, p. 10) highlighted that 'Bangladesh shows us that even in circumstances that seem the most hopeless there are ways forward if the right strategies are applied, and if the right combination of investments is made'.

It is to be noted that the development agenda of many developing countries have been dominated by neoliberal[31] orientation driven by market reforms, social inequality and a move towards enhancing the economic competitiveness of the supply side of the economy (Raco 2005). For most developing countries, solutions to socio-economic development problems have been left to the mercies of free-market mechanisms such as marketisation, deregulation, privatisation and the commodification of common property resources (Holmes 2012).

One of the reasons why neoliberal policies have been far from satisfactory in addressing sustainable development ideals relate to the excessive focus on economic growth as the overriding focus for achieving sustainable development and in particular poverty reduction. To put it in another way, many of the

[31] Neoliberalism as a hegemonic political and economic discourse has swept the development arena in developing countries, making it almost impossible for any country to claim immunity from its influences (Klein 2010). Proponents maintain that market-based strategies promote efficiency, competition and stabilisation of the economy (Easterly 2005).

approaches and interventions underpinning neoliberalism tend to focus on increasing the rate of growth with the hope of addressing pattern and the distribution of its benefits later. But the trickle-down logic has failed largely to address the underlying needs of most (poor) people. It only enriches a few and contributes largely to deterioration in the quality of natural environment (Barkin 1997). Therefore, it will be essential for national governments to divert from the conventional approach of achieving development where the focus is on economic growth indicators such as low inflation, fiscal sustainability and the balance of payments towards a paradigm where sustainable development does not lead to unemployment; removal or cuts of social support schemes; deterioration of environment and natural resources- and one that strongly protects the interests of the common people.

However, a medium- to long-term export policy should be designed to encourage exporters with WTO-consistent and other regulatory body rules. The export support programmes of other nations like India, Vietnam etc. who engage with similar stakeholders may offer helpful insights. A post-graduation trading plan must take into account efficient means of fostering firm-level competition. This includes, among other things, increasing workforce productivity, modernising technology, moving higher up value chains, and luring foreign direct investment. Finally, there is significant room for lowering the cost of doing business in the nation as well as improving infrastructure and trade logistics. Any advancement in these fields would help increase the external competitiveness of businesses.

Graduation efforts must be driven by the goals and leadership of LDCs themselves. To ensure that LDCs achieve sustainable and transformational graduation, their efforts need to be supported by development and trading partners in a spirit of shared responsibility and mutual accountability. To enable more LDCs to meet the criteria for graduation, strengthened and more focused support will be needed in the next decade.

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