

Bangladesh Graduation from LDC Status: Opportunities and Way Forward

1.0 Introduction

Starting its journey as a war torn ravaged nation back in 1971, Bangladesh has come a long way in becoming a remarkable achiever in the global arena of development. Led by prudent government policies and driven by a vibrant, productive workforce, the country has achieved high economic growth in the last ten years and is on course to attain many of the targets set under the government's Vision 2021. To keep this momentum, the country is now working towards the long-term target of becoming a developed country by the year 2041 while also focusing on achieving the UN mandated Sustainable Development Goals by 2030.

Corresponding to the tremendous socio economic growth the country has witnessed in the last decades, Bangladesh has met the criteria for graduating from the Least Developed Country status. Bangladesh is the first country to meet all three thresholds for LDC Graduation, namely GNI per capita, Human Asset Index (HAI), and Economic Vulnerability Index (EVI). Bangladesh's significant success in achieving MDGs and strong policy alignment towards 2030 Agenda has augmented the process of graduation from the LDC status.

With the current economic and development trajectory, it is highly probable that Bangladesh will be recommended by the UNECOSOC for graduation in the next triennial review in 2021. Subsequent to a three-year transition period during 2021-24, Bangladesh will officially graduate from the LDC category in 2024.

2.0 Bangladesh is unique among the LDCs

Bangladesh, with 160 million people, has some unique features that place it in a unique position among the LDC countries. An analysis of LDCs highlights that most of the countries in this category are affected by three major vicious cycles - poverty trap, commodity trap, and weak productive base. Many LDCs with low income and limited economic growth are affected with high levels of poverty. However, Bangladesh's growth performance over the last decade and its success in reducing poverty from 31.5 per cent in 2010 to 23.4 per cent in 2016 shows that the development journey of the country has been highly inclusive and the benefit of development has been able to reach a large segment of disadvantaged sections of the society.

Bangladesh, unlike other LDCs, does not suffer from a commodity trap, as it depends heavily on manufacturing and export for employment, income, savings and foreign exchange. Bangladesh's

burgeoning manufacturing and service sectors are the key drivers for higher economic growth. The country's declining debt-GDP ratio, gradual decrease in export concentration and its continued focus on diversification of manufacturing led by a young and energetic entrepreneur class puts it in a new trajectory of economic and social development. Bangladesh's increasing dependence on manufacturing for its exports, unlike most of the LDCs, puts it in a unique position and opens up huge potential for further exploiting the demographic dividend the country is currently enjoying.

Bangladesh's macroeconomic fundamentals are very strong and have remained stable over a long period of time with low dependence on external resources, low inflationary pressure, stable foreign currency reserve and low level of budget deficit. Furthermore, export-led manufacturing creates investment and production linkages with potentially much larger and richer sources of the world market. This, in turn, generates opportunities for technological changes in manufacturing sector which result in higher productivity and income growth for workers. Bangladesh will likely succeed in smoothing out the graduation transition through transformational change in the economy.

3.0 Bangladesh towards graduation: Sustaining the momentum

Achieving the status of Developed Countries by 2041 is the next big vision in the long-term development canvas of Bangladesh. Therefore, graduation from the LDC status, per se, is not the final destination, but rather another milestone towards the Vision 2041. The journey towards graduation for Bangladesh is not merely the crossing of statistical hurdles, rather the enviable human development and social progress achieved by this country in recent years. This has created an enabling environment for faster and double digit growth which is expected to continue in the near future. This, in turn, will break structural impediments and unleash the immense potentials of its strong and vibrant human capital - the major contributing driver for faster development.

3.1 Strong alignment with Agenda 2030

The recent socioeconomic development and a stock of large human capital has established the foundations Bangladesh needed to maintain development progress beyond graduation. However, the country will require major breakthroughs in the development of productive capacities, structural transformation, technological upgradation, economic diversification, productivity and job creation for achieving the SDGs. Thus, for Bangladesh to meet the SDGs targets in full would entail not only graduation in a formal sense, but graduation as part of a broader and longer-term process of economic transformation - graduation with a purpose.

3.2 Stable macroeconomic fundamentals

Bangladesh economy has grown at over 6.26% per annum for a decade and poverty has been halved from the 1990 level. Life expectancy, rate of literacy and per capita food production have increased significantly. In 2015 the economy 'graduated' to middle-income band according to the classification of the World Bank. The GDP growth of Bangladesh during the fiscal Year 2017 was 7.28%-- highest in recent years. This has been possible due to prudent policies that revived exports and sustained domestic consumption. Prudent macroeconomic management in recent years has also helped keep inflation within reasonable limits, build up foreign exchange reserves, hold the currency exchange rate steady, restrain fiscal deficits, and shrink external debt as a percentage of GDP. The growth drivers (key contributors to the country's development) - garments, pharmaceuticals, remittance, agriculture - have mostly been inclusive, contributing to social harmony. The country continues to struggle to improve its infrastructure, business climate and the quality of its workforce. Tackling the impacts of climate change remains a major development priority.

3.3 Demographic dividend and increased women participation

Young population of Bangladesh constitutes 30 per cent of the total population. Demographic trend in Bangladesh is opening up new economic opportunities. Bangladesh's national budget gives highest priority on education, health and skill enhancement for ensuring that the right investments are made to tap the demographic dividend. If working-age people can be productively employed, Bangladesh's economic growth will be poised to accelerate. Appropriate policy measures blended with accelerated investment can enhance Bangladesh's realization of economic benefits stemming from demographic change. Recent trend of women's participation in the labor force is encouraging. Creating more opportunities and enabling environment for increased women participation will further unleash the potential of girls and women, who constitute 50 percent of the population, thus potentially increasing national productivity and further boosting internal demand and economic growth.

3.4 Diversification in manufacturing base

It is widely acknowledged that with development of the economy, usually the share of agriculture declines while share of industry increases and eventually widens the service sector. This structural transformation is obvious for Bangladesh economy. Unlike other LDCs, Bangladesh exports are predominantly in manufacturing. In a predictable transformation, Bangladesh has experienced sharp decline of the share of agriculture while share of services and manufacturing to GDP has increased significantly. Transforming Bangladesh's agrarian economy into a modern manufacturing and organized service based economy is a reality now. This transformation reinforces productivity and fuels sustained and higher growth.

3.5 Large untapped domestic market of 160 million

Bangladesh, with a large population, is emerging as one of the world's next growth driver for the Fast Moving Consumer Goods (FMCG) companies. The Boston Consulting Group highlighted in its October 2015 report that more than two million Bangladeshis join the ranks of the middle class and the affluent every year. Bangladeshi consumers are eager to boost spending and trade up to higher-level goods and services, according to the BCG report. The high penetration of mobile phones especially the smart phones, digital gadgets and rapidly growing e-commerce market has created opportunity for diversification of manufacturing goods. The domestic manufacturers as well as foreign investors have a potential market to tap for faster growth which will pave the way for demand driven stronger manufacturing base.

3.6 Better credit rating, wider credit access

It is widely accepted that at low levels of debt, additional foreign borrowing or financing could stimulate growth to the extent that the additional capital financed by the new borrowing enhances the country's productive capacity. Bangladesh's strong internal demand with large younger population warrants both higher private and public sector investment. The graduation may enhance its credentials in the global financial market signaling self-reliance and less vulnerability of Bangladesh economy, and as such, improving the country's credit rating and credit worthiness. With the graduation, the ceiling for loan may get eroded - giving the opportunity for adding more capital to enhance the productive capacity. Bangladesh economy is currently struggling for enhancing investment frontier especially from the private sector to achieve the double digit growth. The better credit rating due to improved image of Bangladesh will allow our entrepreneurs to borrow from international market with better terms and rates.

3.7 Huge potentials of diaspora

The potential of effectively engaging Bangladesh's large diaspora in the mainstream economy is frequently overlooked. This community can cater knowledge-based development beyond graduation and overcome challenges that may cause to cease TRIP related trade benefit for the LDCs. The NRBs (non-Resident Bangladeshis) may significantly support the economy through entrepreneurship, investments, remittances or philanthropic contribution. The substantial foreign exchange reserve due to remittances eases the currency market and makes it less vulnerable to fluctuations which affect international trade, businesses and consumers - and above all the confidence of both local and foreign investors. Influx of large remittance in Bangladesh economy have fueled a massive consumption boom and internal aggregate demand resulting in the rapid growth of the domestic retail, financial services, telecommunications and construction activities.

4.0 Ways forward

The key importance of attaining graduation with momentum, rather than simply graduating, indicates a need to establishing the foundations for a continuing development process beyond the graduation milestone. This implies mobilizing strategic policy instruments and planning techniques need to be undertaken for addressing macroeconomic and sectoral development challenges.

4.1 Graduation with diversity-driven macro policy

Bangladesh needs to approach the quest for graduation from the perspective of the development of productive capacities in order to achieve graduation with momentum. This entails giving the highest priority to structural transformation of the economy and development of productive capacities, including shifting production and exports to higher-value-added products and sectors, upgrading technology, diversifying the economy and raising productivity, stepping towards knowledge-based society, devising innovative financing for infrastructure etc.

4.2 Declining trend of ODA flows and increasing reliance on domestic resources

Bangladesh's sustained economic growth over a reasonable period has created an enabling environment and demand for higher investment to support large infrastructure and social improvement programs. On the contrary, increasing evidence indicates that ODA flow is declining particularly in developing countries. In the last decade, the world has experienced a slow growth of ODA which is mainly because of global recession and financial crisis in developed economies. Though ODA is expected to continue to be a critical source of development finance post 2015, the world may see the ODA continues to taper off in years to come. Therefore, in the new environment of low flow from donors, domestic resources are taking increasing share of the Bangladesh development costs with the pace of time.

4.3 Creating enabling environment for private sector

Private sector is the main engine for growth in the developing countries. Bangladesh graduation may open wider window for borrowing from financial and non-financial institutions at home and abroad in a sustainable fashion for achieving its development goals for creating public goods that has high financial return and does not distort market. A careful policy crafting should be aimed towards this end so it brings in private sector investment through FDI and PPP (private public partnership) initiatives. Strengthening and deepening of financial market as well as capacitating and empowering of watchdog agencies are key measures to address the issue systematically.

4.4 Diversifying public revenue sources - innovative financing

For fulfilling the national and global development agenda, collection of taxes and public revenues are considered as one of the main vehicles for generating necessary financing for Bangladesh. In this scenario, we need to devise better tax management, explore potentials of untapped areas for revenue generation, and reform the taxation system to widen the tax net and make it more citizen-friendly. To tackle this complex and inter-related issue Bangladesh has undertaken VAT improvement and tax modernization initiatives.

4.5 Diversification of exports

Unlike other LDCs, exports of Bangladesh have gone through a transformational phase - from over dominance of primary products to large manufacturing base items. GoB is also striving to diversify the export basket and the government's export policy puts high priority on a sound strategy shift from the over-concentration on a single product (RMG) to variety of non-RMG multi-products like leather and leather items, pharmaceuticals, ship building, skilled exportable work-force, processed agro products etc. However, Bangladesh should adopt an approach to ensure export growth and diversification, that is grounded in domestic resource base and labor intensive manufacturing.

4.6 Strategies to neutralize the loss of trade facilities

Currently, Bangladesh, as an LDC, is enjoying preferential market access in a large number of developed countries including European Union. It is obvious that the loss of LDC status at graduation may give rise to some economic costs for Bangladesh as a result of the loss of access to such ISMs (International Support Measures). The extent and the true costs is currently a subject of a systemic survey. Nevertheless, Bangladesh needs to leverage its negotiating capacity to gain new trade incentives like 'GSP Plus' and also needs to diversify its export- both in term of destinations and products to fend off any possible impact.

4.7 Support from global community

There are opportunities for the international development community to engage with Bangladesh during its transitional phase by providing analytical inputs, advisory services and new forms of concrete development cooperation aimed at smoothing out the impact of graduation. Global community needs to extend support or devise instruments that cushion trade and exports of Bangladesh during the transitional period. The global community will do well in recognizing that Bangladesh's graduation can and should be a win-win situation across the board.

5.0 Conclusion

It is evident that the pace of progress and development has led Bangladesh to the inevitable path of graduation. Bangladesh's graduation from LDC status will be a matter of great pride and aspiration for its people. It will open a new horizon of hopes and opportunities in socioeconomic arena and brand Bangladesh with a new identity in the global community. Bangladesh's relatively little post-graduation vulnerability, tremendous performance in social frontiers with low resources, timely strategizing for diversification of export products and markets, strong alignments of national policy with the Agenda 2030 and adequate as well as advanced preparedness, puts Bangladesh in an advantageous position. And therefore, it is expected that the negative impact of graduation from LDC status would be less for Bangladesh unlike in other LDCs.