Original Research Article

The Export challenges faced by Bangladesh’s LDC graduation in the new Era

ABSTRACT

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| Bangladesh is heading toward a middle-income country with incremental growth over the last five years. Current export earnings of Bangladesh reach USD 53.93 billion in FY2023-24 (EPB, 2024), but export concentration on RMG, and lack of product diversification may make Bangladesh uncompetitive in the world market, after Lest Least Developed Countries (LDC) Graduation. Bangladesh has met three criteria Human Asset Index, the Economic Vulnerability Index, and the GNI indices to graduate from the least developed countries to developing ones in the third triennial review. The study aims to assess the trade preference loss and to find out the impact of graduation on exports. A combination of qualitative and quantitative approaches is followed in the study, where for quantifying the impact on export, Trade Intelligence and Negotiation Adviser (TINA) is used, and 20 KIIs are taken with the purposive sampling method. The study was conducted during the period from 2022 to 2024 in Dhaka. The article, using exploratory research methodology, finds out the potential problem and prospects of LDC graduation and assesses the trade preference loss with TINA Simulation Tools to measure LDC preference loss. Referring to the number of UNCTAD reports, articles and secondary literature, the explanatory research sheds light on how sustainable economic growth can be ensured through diversified products and internal resource mobilisation. In the post-graduation era, Bangladesh will face several challenges related to preferential market access, minimum value addition conditions, and other LDC-related leverage in developed countries’ markets. As a result, the trade loss in the post-graduation era may range from US$17 billion to US$4.7 billion as per the simulation result of TINA LDC preference loss mechanism. The paper identifies a lack of resource mobilisation and export concentration are the major hindrances to overcoming the hurdles of graduation. To comply with the new ecosystem of graduation, the paper emphasises both private and public sector joint initiatives to implement the strategic roadmap for a smooth transition to be aligned with national graduation strategies. Given the situation, it will be crucial for Bangladesh to include trade concerns at each level of the development planning cycle. To guarantee a seamless transition process for Bangladesh, this has to be supported by robust inter-ministerial coordination and consultation procedures involving a variety of stakeholders. With a participatory approach and implementation of pragmatic STS, Bangladesh can go through the process of a smooth transition to becoming a middle-income country in the near future. |

*Keywords: LDC Graduation of Bangladesh, Preference Loss, Special & Differential Treatment under WTO Agreements, Export Loss, Smooth Transition Strategies.*

1. INTRODUCTION

Bangladesh has made some remarkable achievements related to development in the recent times. One of the important achievements was achieved in 2015 when it was upgraded itself to the World Bank's “lower middle income” category by increasing its Gross National Income (GNI). Another milestone was achieved in March 16, 2018 where Bangladesh has fulfilled the conditions for becoming a developing country from the least developed country (LDC) (Badiuzzaman et al., 2018).Bangladesh is heading toward a middle-income country with incremental growth over the last five years. Current export earnings of Bangladesh reach USD 53.93 billion in FY2023-24 (EPB, 2024), but export concentration on RMG and lack of product diversification may make Bangladesh uncompetitive in the world market, after Least Developed Countries (LDC) Graduation. Bangladesh has qualified in all criteria for graduating from LDC in 2018 and met the conditions, despite various economic instabilities (UN, 2024). Bangladesh is expected to graduate from LDC status in 2026, having fulfilled all three UNCDP criteria in the 2024 evaluation.. Bangladesh's government has also taken proactive steps to prepare the country for a 'graduation with momentum' and a ‘smooth transition' into a new economic environment. Graduation enhances the image of a country as well as its credit ratings and improves investors’ perceptions in both the public and the private sector. Graduation has economic implications and involves and risk factors like withdrawal of International Support Measures, reduction of preferential market access and TRIPS complications. Graduation is an irreversible track for Bangladesh. Bangladesh requires strong international support in terms of stirring necessary knowledge, technologies, and capacities (Rahman et al., 2020). The objective of the research is to assess the trade preference loss with TINA simulation tools and clarify the challenges of graduation to leap forward from the LDC to developing countries. In the graduation process, the lack of an investment-friendly environment, lower-skilled manpower, unpredictable policy and lack of good governance create hurdles for an LDC like Bangladesh. Hence, the article will analyse the specific problems related to investment, product diversification, private investment, and overall growth of the economy of Bangladesh and finally draw out the solution to these specific problems. The author has analysed the discrete view of the possible impact of LDC graduation Investment Need Analysis (TINA) simulation tools. It is a trade analysis tool developed by UNDP, ITC and WTO to help countries assess their trade and investment during economic transitions like LDC graduation. As well as twenty Key Informant Interviews (KIIs) were conducted to assess the potential impact and find out the pragmatic Smooth Transition Strategies (STS) to face the challenges of Graduation.  The article explored the variable of LDC graduation challenges on the specific indicator and its way out depending on the variable of the private investment, export diversification, resources mobilisation, skilled labour forces and good governance, affecting sustainable economic development after graduation. The status of Bangladesh in the triennial reviews of UNCDP are explored in the following table:

Table 1: Status of Bangladesh in the triennial reviews of UNCDP

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Graduation Criteria** | **2018** | | **2021** | | **2024** | |
| **Graduation Threshold** | **Bangladesh** | **Graduation Threshold** | **Bangladesh** | **Graduation Threshold** | **Bangladesh** |
| Gross national income (GNI) per capita | US$ 1,230 or above | US$ 1,274 | US$ 1,222 or above | US$ 1,827 | U$ 1,306 | U$ 2,684 |
| Human assets index (HAI) | 66 or above | 73.2 | 66 or above | 75.3 | 66 or above | 77.5 |
| Economic and environmental vulnerability index (EVI) | 32 or below | 25.2 | 32 or below | 27.2 | 32 or below | 21.9 |

**Source: UNCTAD 2024 statistics**

2. Literature Review

Bhattacharya & Borgatti (2012) urged that the graduation process is directly related to human capital development and they emphasise human capital development, given the proper human capital enforcement policies. They prioritise framing national employment-generating strategies at the domestic level, aiming to leave the LDC category. Given the concern, if private investment along with product diversification and market expansion is not possible, then the opportunity will shrink to become a developed nation (Ramirez & Nazmi, 2003). The growth of technology, the discovery of new economic resources, specialisation in labour skills, producing more value-added products and savings supported by investment enhance the process of graduation (Rai,2017). Because of low income and structural impediments in the least developed countries, long-term socio-economic development is falling into a vicious circle of underdevelopment.

Chakraborty & Gopal (2011) urged infrastructure gaps and an urgent need for modernised transport, energy, and digital connectivity to make Bangladesh’s progress toward achieving middle‐income status. Specially, regulatory and policy bottlenecks that hinder further private sector investment and productivity. As well as a persistent skills gap and other human capital constraints in keeping pace with rapid industrial change, this cannot ensure uninterrupted support for industrial growth. They also suggested implementing pragmatic policy reform to create a more business-friendly environment that attracts foreign direct investment. They also suggested investing in modern infrastructure and human capital development to facilitate diversified and high-value exports. IPoA finds that building productive capacity, enhancing trade in goods and services, and flows of different forms of development finance and disasters are possible challenges to graduation. The report identified that the export baskets of the LDCs have become less diversified over time, and there is increased export concentration against the dramatic preference erosion for the LDCs (LDC IV Monitor,2020).

UN ESCAP (2019) report explores that since 1991, Vanuatu has consistently met the two criteria, per capita income threshold, and human capital criteria, but Vanuatu has never become successful in the economic vulnerability threshold. Vanuatu, in its early stage, faced significant barriers to international trade, and export earnings and remained dependent on the same handful of unprocessed or semi-processed agricultural commodities. Despite these hurdles, when its graduation was formally triggered in 2012, Vanuatu reviewed its complex policy framework and sectoral strategies to boost productive capacity, reduce reliance on imports, improve export potential, raise much-needed revenue, create gainful employment and income-generating opportunities and perform better in Economic Vulnerability Index (EVI) (Brien, 2017).

Kim (2018) found that during the past 47 years, only five countries, namely Botswana in 1994, Cape Verde in 2007, the Maldives in 2011, Samoa in 2014, and Equatorial Guinea in 2017, graduated from LDC out of 52 LDCs. Currently, 47 countries are in the LDC threshold, of which 33 countries are from Africa, 13 countries from Asia, and 1 country from Latin America. By developing a historical graph, he sheds light on how the GNI and HAI indices of developing countries are on the rise from 2012 to 2018, but there is little change in the EVI index of those countries. Finally, he emphasises the unprecedented pace of growth in per capita income, human assets, and reduction in economic and environmental vulnerability. His statistical research informed that LDCs must either increase their revenue by at least 7% or accelerate their advancement two or three times quicker than long-term trends. A significant portion of LDCs will only be able to achieve the graduation requirements by 2030 under such circumstances (Bhattacharya & Khan, 2018).

Bangladesh’s absence from regional trade agreement negotiations may impact its future trade potential. Khan & Kamal (2018) explored that the future economic growth prospects may depend on labour productivity and hence pragmatic measures to enhance human capital in the context of a changing demographic dividend, while reviewing the existing policy reform is necessary. Finally, they shed light on remittance inflow, as it is so crucial for Bangladesh to enable socio-economic development at the national and household levels.

UNCTAD Handbook of Statistics (2018) reported that at least ten countries, including Angola, Vanuatu, Timor-Leste, Tuvalu, Bhutan, Nepal, São Tomé, and Príncipe, and the Solomon Islands may graduate within 2021. The report explained that the real GDP growth of the graduating countries, except Samoa, declined considerably in the 5 years after graduation from the 5 years before graduation. While the GDP growth of the last 5 years in Bangladesh an on averaged 7% plus. During the same time, the status of the current account as a percentage of GDP deteriorated in Cape Verde and Samoa but improved in the Maldives, though the country couldn’t come out of deficit. Interestingly, FDI, as a percentage of GDP, increased in almost all graduates after 5 years of graduation. Remittance, as a percentage of GDP has declined in almost all countries, and the Tax-GDP ratio increased in the Maldives and Samoa but reduced in Botswana and Cape Verde, while the Tax-GDP ratio of Bangladesh is lower than that of all the countries.

With the largest population and higher GDP, Bangladesh faces an exceptional experience compared to its peer-graduated economies throughout 2010-19. Bangladesh had higher and more stable growth in its real GDP, an average of 6% plus. Remittance as a percentage of GDP and the manufacturing sector is also in a better situation than that of peers (Gay, 2017). Hence, Daniel Gay defined the move for Bangladesh on the next rung of development as a major concern, as Bangladesh has to raise wages of the working poor without losing international competitiveness while its competitiveness is currently based on cheap labour. He further urgedthatBangladesh exporters will remain competitive over the medium term of graduation, but a number of other economic challenges like infrastructure, exchange rate and the global economic trend will become the major concern.

In evaluating the performance of Bangladesh in all three criteria, Odusola (2016) urged along with the GNI and HAI index, no country graduated under the economic vulnerability criterion. It proves that better performance in the economic vulnerability criterion can enhance merchandise exports with diversified products, as it can make the process easier for graduation. He further explored that a smoother transition of LDC implies enhancing agricultural productivity and diversifying economies from primary commodities production and export markets are crucial.

Analysing the economy of Botswana, Makoni (2015), it was found that diamonds contribute 50% of Botswana’s GDP, and the extreme dependence of economies on only one sector hinders them from gaining satisfactory results in the economic vulnerability index. Exemplifying the weakness of Maldives, he urged that Maldives’ FDI depends on the tourism sector constitutes 88.9% of GDP. Hence, it is justified that to perform better in the Economic Vulnerability Index (EVI), export diversification of the traditional export-oriented industry is necessary.

Bruckner (2018) urged that the Maldives’ fishery industry, providing 11 % of the country’s employment and a major share of exports, was exposed to a fear of reduction because of graduation from LDC. In Post post-LDC graduation, the Maldives managed to keep the export of fish stable and promoted export diversification, product innovation and higher value-added products. The Maldives’ experience of the fish industry suggests that the loss of preference can successfully be managed if a country can already develop a reasonable level of productive capacity and diversification.

3. Methodology of the Study

Graduation from LDC will pose a multifaceted pressure for market access, preference erosion, value addition condition additional tariff, reducing overall export and employment of LDCs like Bangladesh. The Bangladeshi exporters will face the risk of losing competitiveness in the international market due to loss of preferential access in the EU and other developed country markets, erasing the WTO waiver and preference under TRIPS, etc. Official Development Assistance (ODA) will be reduced (World Bank, 2024). Exporters’ major challenge will be to face “preference erosion” due to the LDC graduation, as they will face additional tariffs in the absence of LDC treatment, resulting in a billion-dollar export loss. The market preference provided by WTO, GSP and different trade agreements can be lessened. The Preferential Market Access that Bangladesh will lose due to graduation are as follows;

1. World Trade Organisation (WTO) specific provision for Special and Differential Treatment (S&D) treatment for LDC.
2. Generalised System of Preference (GSP) scheme of various countries.
3. Preferential market access under various regional trade agreements (RTAs) for LDCs such as SAFTA, APTA, BIMSTEC and other bilateral trade agreements.

Given the concern, researchers have used Trade Intelligence and Negotiation Adviser (TINA) simulation tools to assess the benefits extracted by Bangladesh under WTO agreements and bilateral and multilateral trade agreements. Here, using the UNESCAP suggested

**TINA Simulation Tools for LDC preference Loss, the researcher** simulates the expected trade loss and trade diversion as a result of increased tariffs (the consequence of loss of preferential treatment, such as for example the case in LDC graduation). Moreover, this is to inform that TINA also uses partial equilibrium modelling to determine the effects on trade of preference losses, such as through LDC graduation, GSP preference losses or withdrawal from a bilateral or multilateral trade agreement. To estimate the potential export loss for Bangladesh due to preferential tariffs under WTO and different bilateral and regional trade agreements following its graduation from the least developed country (LDC) Category.

: Current export of product i to the world trade partner w (trade data sourced from UNcomtrade)

Tariff Scenario Inputs : Post-graduation tariff (MFN or GSP+rates)

Elasticizes= Price Elasticity of demand for export product i. (Where higher elasticity higher sensitivity to tariff changes.

* **Simulation Scenario A:** Graduation, no preferential access (MFN Tariff)
* **Scenario B:** Graduation with GSP+ benefits

For each ,product country pair with world trade (i & w)

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Bangladesh gets preferences under 57 regional/bloc trade agreements and/or preference schemes (such as “GSP for LDC Beneficiaries”). LDCs often receive trade preferences (e.g., tariff reductions, quota-free access) from developed countries. The preference loss occurs when these benefits diminish due to policy changes, competition, or global trade shifts.

**Proposed Mathematical Explanation of TINA**

* Let represent the trade volumes of LDCs with preferential treatment
* Let represent the trade volumes of LDCs without preferential treatment
* Let be the **preference loss**, defined as the **decline in trade value due to reduced preferences**.

Hence, the Formula for LDC preference Loss will be to measure the preference loss in the following way:

= Preference Loss Percentage

= Trade under preference schemes (before changes)

Let = Trade after loss of preference (or under a non-preferential scheme)

**Parameter for Simulation A:** The following are the parameters for TINA simulation on preference loss, where 2 bilateral agreements and 57 countries, and major economic blocs under the following S&DT and regional trade agreements are considered:

Table 2: Preference under 2 Bilateral Agreements and 57 Regional Agreements

| **Serial No** | **Agreement** | **Tariffs reported by Countries and (Number of Commodities)** |
| --- | --- | --- |
|  | Sri Lanka (GSTP) Countries 2017 | Sri Lanka (64 Commodities) |
|  | South Asian Free Trade Area (SAFTA) LDCs | India (10106); Sri Lanka (2430); Nepal (74) |
|  | SAARC | Bangladesh (7428); India (1492); Sri Lanka (8) |
|  | Preferential tariff for SAARC 2009 | Afghanistan (2480); India (8292); Sri Lanka (2228); Maldives (6960); Nepal (5358); Pakistan (4434) |
|  | Preferential tariff for APTA(LDC)countries | Bangladesh (16); Sri Lanka (28) |
|  | Preferential duty rate for the Trade Negotiations among Developing Countries in the WTO | Republic of Korea (84) |
|  | Preferential duty rate for the Asia-Pacific Trade Agreement | Republic of Korea (3592) |
|  | Least-developed countries (LDC) duties for 41 countries | China (9496) |
|  | Least Developed Country Framework (LDCF) | United Kingdom (5058) |
|  | Least Developed Countries (LDC) duties | Switzerland (7592) |
|  | Chile (10390) |
|  | European Union (EU) (7690) |
|  | Japan (5226) |
|  | Republic of Korea (8100) |
|  | Australia (5424) |
|  | Montenegro (6712) |
|  | Norway (1398) |
|  | New Zealand (4354) |
|  | Thailand (5060) |
|  | Other Asia, nes (476) |
|  | Canada (2848) |
|  | LDC duty rates | Russian Federation (6336) |
|  | LDC Beneficiaries: Turkey 2019 | Turkiye (6588) |
|  | LDC Beneficiaries: Japan 2019 | Japan (310) |
|  | LDC Beneficiaries: India 2018 | India (9966) |
|  | LDC Beneficiaries in 2015 | Thailand (9) |
|  | LDC - Kyrgyz Republic | Kyrgyzstan (6332) |
|  | India (GSTP) Countries 2017 | India (44) |
|  | GSP2: Australia 2018 (Code 'DC') | Australia (5) |
|  | GSP for LDC: Australia 2006 (Code 'LDC') | Australia (5); New Zealand (110) |
|  | GSP for LDC Beneficiaries: Norway 2019 | Norway (400) |
|  | GSP for LDC Beneficiaries: Iceland 2019 | Iceland (194) |
|  | GSP for LDC Beneficiaries: Canada 2017 | Canada (108) |
|  | GSP for LDC Beneficiaries: 2018 | Republic of Korea (18) |
|  | Chile (8) |
|  | GSP for LDC Beneficiaries: 2017 | Armenia (2048); Belarus (2054); Kazakhstan (2048); Kyrgyzstan (223); Russian Federation (223) |
|  | GSP for LDC Beneficiaries 2018 | Other Asia, nes (3) |
|  | GSP duty rates | Russian Federation (2788) |
|  | GSP Beneficiaries: Liechtenstein & Switzerland 2018 | Switzerland (700) |
|  | GSP Beneficiaries: Japan 2019 | Japan (143) |
|  | Global System of Trade Preferences among Developing Countries (GSTP) | Republic of Korea (94) |
|  | Generalised System of Preferences, GSP+ scheme | Norway (1374) |
|  | GSP scheme for developing countries in Part 3 of Schedule 1 | Australia (5242) |
|  | GSP scheme | Switzerland (7592) |
|  | European Union (EU) (7584) |
|  | Japan (4066) |
|  | New Zealand (898) |
|  | Canada (2008) |
|  | EU LDC Beneficiaries 2019 | European Union (EU) (324) |
|  | EU - Country Specific Tariff Preferences for Bangladesh | European Union (EU) (644) |
|  | Egypt (GSTP) Countries 2017 | Egypt (156) |
|  | CHE & LIE LDC beneficiary 2017 | Switzerland (846) |
|  | Bhutan, Maldives, Nepal, Bangladesh | India (4436) |
|  | Asia-Pacific Trade Agreement (APTA) | Bangladesh (1048); India (3132); Republic of Korea (2); Sri Lanka (566) |
|  | Asia Pacific Trade Agreement (APTA) | Lao People's Dem. Rep. (616) |
|  | Algeria (GSTP) Countries 2018 | Brazil (110) |
|  | (GSTP) Countries 2017 | Argentina (78) |
|  | Agreement with Sri Lanka | 20 Commodities |
|  | Agreement with India | 98 Commodities |

Here, from the TINA simulation, it is found that it consists of a trade loss of US$ -17.72 billion and trade diversion of US$ -4.74 billion and reduced exports to 23 economies, with trade diverting to 176 economies.

Table 3: Reduced Export Form, Potential Market, and Affected Commodities

| **Serial No** | **Economy** | **Reduced Imports from BGD ($) in million** | **Change as % of the Current import value from BGD** |
| --- | --- | --- | --- |
| 1 | European Union (EU) | 16088.80 | -0.60 |
| 2 | Canada | 1521.58 | -0.92 |
| 3 | United Kingdom | 1494.18 | -0.35 |
| 4 | India | 1010.92 | -0.53 |
| 5 | Switzerland | 668.15 | -0.60 |
| 6 | Japan | 583.32 | -0.37 |
| 7 | China | 301.80 | -0.29 |
| 8 | Turkiye | 282.91 | -0.43 |
| 9 | Australia | 230.55 | -0.24 |
| 10 | Norway | 126.17 | -0.36 |
| 11 | Chile | 63.81 | -0.33 |
| 12 | New Zealand | 58.64 | -0.39 |
| 13 | Thailand | 10.86 | -0.12 |
| 14 | Montenegro | 6.96 | -0.61 |
| 15 | Pakistan | 4.07 | -0.07 |
| 16 | Other Asia, nes | 2.77 | -0.03 |
| 17 | Sri Lanka | 1.45 | -0.02 |
| 18 | Maldives | 0.35 | -0.06 |
| 19 | Kazakhstan | 0.25 | 0.00 |
| 20 | Armenia | 0.24 | -0.01 |
| 21 | Kyrgyzstan | 0.23 | -0.10 |
| 22 | Iceland | 0.02 | 0.00 |
| 23 | Egypt | 0.00 | <-0.01% |

**Source: Author's own calculation from TINA Simulation Tools**

**Parameter for Simulation B:** The following are the parameters for TINA simulation on preference loss, where two bilateral agreements and 53 preferential Trade Agreements are considered, except the European Union Trade Preferential Scheme. Here, from the TINA simulation, it is found that it consists of a trade loss of US$ -4.26 billion and trade diversion of US$ -1.10 billion and reduced exports to 23 economies.

Table 4- Preference under two bilateral agreements and 53 preferential Trade Agreements except the European Union Trade Preferential Scheme

| **Serial No** | **Economy** | **Reduced Imports from BGD ($) in million** | **Change as % of the Current import value from BGD** |
| --- | --- | --- | --- |
| 1 | Canada | -18,663.0 | -92.28% |
| 2 | India | -11,708.8 | -58.50% |
| 3 | Japan | -6,421.2 | -37.66% |
| 4 | Republic of Korea | -5,582.0 | -82.42% |
| 5 | China | -3,022.4 | -30.79% |
| 6 | Australia | -2,603.9 | -24.39% |
| 7 | Turkiye | -2,410.7 | -36.32% |
| 8 | Norway | -1,366.6 | -33.84% |
| 9 | Chile | -888.5 | -34.75% |
| 10 | New Zealand | -573.1 | -38.38% |
| 11 | Thailand | -85.1 | -10.06% |
| 12 | Nepal | -83.6 | -14.02% |
| 13 | Pakistan | -63.9 | -7.93% |
| 14 | Montenegro | -57.9 | -60.70% |
| 15 | Sri Lanka | -33.0 | -3.83% |
| 16 | Other Asia, nes | -25.5 | -2.13% |
| 17 | Maldives | -4.3 | -5.54% |
| 18 | Kazakhstan | -4.3 | -0.87% |
| 19 | Kyrgyzstan | -1.6 | -9.17% |
| 20 | Armenia | -0.3 | -0.17% |
| 21 | Iceland | -0.1 | -0.05% |
| 22 | Egypt | 0.0 | -0.05% |
| 23 | Canada | -18,663.0 | -92.28% |

**Source: Author's own calculation from TINA Simulation Tools**

4. results and discussion

From the TINA simulation analysis, it was found that if Bangladesh's trade preference was affected under 2 bilateral and 57 trade agreements, the trade loss of Bangladesh would be US$ -17.72 billion. On the contrary , if we assume Bangladesh can adopt GSP plus conditions and secure preferential market access in the European Union, direct trade loss will be for Bangladesh, amounting to US$ -4.26 billion. As we know that under the WTO's purview, those classified as least developed countries (LDCs) are entitled to special and distinctive international assistance programs. For which, countries like Bangladesh become able to expand their export potentials titled as trade-related international support measures (ISMs) that LDCs can use are referred to as "Special and Differential Treatments" (S&DT). It is beneficial to include S&D provisions in WTO agreements and decisions that consider the particular needs and interests of LDCs and developing countries. After graduation, Bangladesh will lose preference under the following major WTO Agreements:

### **4.1 Preference Loss under Agreement on Agriculture (AoA)**

By creating legally enforceable obligations in three key areas—market access, domestic assistance, and export competition—the agriculture agreement has three S&DT provisions for LDCs (Article 15.2, Article 16.1, and Article 16.2) which offer a framework for reducing agricultural support and protection. The objective was to reduce tariffs by 36% by developed nations and for developing countries to reduce them by 24%. LDCs were not required to commit to any tariff reductions (WTO Agreement on Agriculture). Product-specific and non-product-specific specific in the agriculture sector is exempted from the reduction of subsidies under this agreement if they do not exceed 5% of the value of production for developed countries. For developing countries, the de minimis ceiling is set at 10%.

### **4.2** **Preference Loss under WTO Agreement on Subsidies and Countervailing Measures (SCM)**

While export subsidies for non-agricultural goods are forbidden by the SCM Agreement, LDC members are granted S&DT under Article 27 of the SCM. LDC members are exempt from the SCM Agreement's ban on export subsidies, as stated in Article 27.2 and Annexe VII(a). This section of the agreement recognises that subsidies, particularly those focused on exports, may be extremely important for the growth of economies and trade in developing nations. Until their GNI per capita hits $1,000 in constant 1990 dollars, developing nation members specified in Annexe VII(b) are likewise immune from this limitation, in addition to the LDCs. Although the nations specified in Annexe VII (b) are permitted to offer export subsidies, they are subject to an annual review. However, this exemption no longer applies if a product becomes globally competitive, meaning it holds a 3.25% share of global exports (WTO Agreement on SCM, 2017).

### **4.3 Preference Loss Under TRIPS Agreement**

The TRIPS Agreement gives LDCs special flexibility as LDCs were initially granted an 11-year transition period under the TRIPS Agreement, which allowed them to postpone implementing the Agreement's terms until 2005. The transition period was later extended three times (in 2005, 2013, and 2021). This transition time was further extended until January 1, 2033, or until a member's LDC status expires, whichever comes first. Bangladesh would be immune from pharmaceutical patents until 2026 as a least developed nation under the WTO's TRIPS agreement. Due to the WTO TRIPS agreement's flexibilities and the assistance provided by the National Drug Control Ordinance (1982), Bangladeshi companies have benefited from favourable provisions that have increased domestic pharmaceutical production through import substitution and reduced foreign exchange costs associated with pharmaceutical imports.

### **4.4 Obligation under Trade Facilitation Agreement (TFA)**

Regarding the notification under TFA, LDCs have been granted more time than developing nations to implement different types of obligations. Longer notice periods for both indicative and definite implementation dates for category B and C commitments are advantageous to LDCs. Longer dispute resolution grace periods—six years for category A obligations and eight years for category B and C commitments—are also advantageous to LDCs. Under the Early Warning Mechanism, LDCs are also given greater flexibility in extending the dates on which category B or C commitments must be implemented (WTO Agreement on TFA, 2017).

### **4.5 Compliance with the WTO SPS agreement**

LDC members are given extended periods for having compliance with SPS on the product in which developing nations have an interest as per SPS Article 10(2). Members of the least-developed countries may postpone the implementation of this Agreement's provisions for a maximum of five years, whereas developing nations (apart from LDCs) may postpone for two years. Similar to this, the Committee may grant developing country members, upon request, specific, time-limited exemptions in whole or in part from obligations under this Agreement, considering their technical, trade, and development needs as per SPS Article 10(3). Bangladesh exporters cannot follow the Codex Alimentarius Standard for food, IPPC for Plant and Plant-related products and the World Organisation of Animal Health (WOAH) for animal-origin products properly.

### **4.6 Compliance with WTO TBT Agreement**

However, under Article 12(7)-TBT, members should pay special attention to the provisions of this Agreement about the rights and duties of developing country Members. TBT Article 12(4) called on members to acknowledge that, despite the existence of international standards, guidelines, or recommendations, developing country members adopt specific technical regulations, standards, or conformity assessment procedures to preserve indigenous technology and production methods and processes that are compatible with their development needs, given their unique technological and socioeconomic circumstances. Similarly, as per Article 12(3) TBT, members must consider the unique development, financial, and trade requirements of developing country members when drafting and implementing technical regulations, standards, and conformity assessment procedures. This is done to make sure that these measures do not unnecessarily impede exports from developing country Members. The Bangladesh Standards and Testing Institution has accredited testing procedures for 35 products with 125 parameters and around 4500 Bangladeshi-developed standards and only 75 products are under the Compulsory Marking Systems (CMS) of BSTI. It implies standard compliance of a product is not properly in both export and domestic markets. As a result, Bangladesh is probably facing more non-tariff barriers than tariff barriers after graduation, creating a critical barrier to market access after graduation.

### **4.7 Balance-of-Payments provisions of General Agreements on Tariffs and Trade (GATT) under Articles XII and XVIII**

According to paragraph 1 of Articles XII and XVIII: B of the GATT 1994 and the adopted Declaration on Trade Measures Taken for Balance-of-Payments Purposes, WTO members must reaffirm their commitment to publicly announce time-schedules for the removal of restrictive import measures taken for balance-of-payments purposes. As an LDC, Bangladesh notifies the General Council of the potential timeline for lifting import restrictions in order to address the balance of payments issue, without providing a rationale. According to paragraph 3 of the same article, members must refrain from imposing new quantitative restrictions for Balance-of-Payments purposes after graduation unless price-based measures are unable to stop a significant decline in the external payments position due to a critical Balance-of-Payments situation.

**Valuation of Goods at Customs Article VII of General Agreement on Tariffs and Trade (GATT) 1994:** Article VII of the General Agreement on Tariffs and Trade (GATT) 1994 states that the customs value of imported goods will be the transaction value, or the price actually paid or payable for the goods when they are sold for export to the country of importation —will be the customs value of imported goods, adjusted in line with the terms of Article 7, Paragraph (2) b of the agreement. As a World Trade Organisation member, Bangladesh ratified the Agreement on Customs Valuation and, as a result, Bangladesh bases its customs valuation on the transaction value idea. However, Bangladesh also adheres to the Customs Act 2023's minimum tariff value regulations for some products till now.

### **4.8 Preferential Rules of Origin (RoO) for goods**

The loss of beneficial Rules of Origin (RoO) for privileged access would have a major effect on Bangladesh's exports of clothing. The EU only requires a single stage of transformation for RMG exports from Bangladesh, and other poor nations enjoy comparable benefits. These regulations will become much stricter after graduation, increasing costs and eventually weakening Bangladesh RMG's competitive edge. Under the EBA system, LDC companies are only obliged to carry out a "single-stage transformation" from fabrics to garments when exporting apparel to the EU, but a double-stage transformation of the HS Code from fibre to fabric to clothing would be required under the standard GSP.

Table 5: Preferential Rules of Origin in Major Markets

|  |  |  |
| --- | --- | --- |
| **Countries/Blocs** | **RoO for LDCs** | **RoO for developing countries** |
| **European Union** | For textile and apparel products:  single-stage transformation | For textile and apparel products:  double-stage transformation |
| 30% | 50% |
| USA | 35% | 35% |
| Canada | 40% | 60% |
| **United Kingdom** | For textile and apparel products: single-stage transformation | For textile and apparel products: double-stage transformation |
| 25% under new GSP scheme “Developing Countries Trading Scheme (DCTS) | 50% for all other products |
| SAFTA | 30 | 40 |
| APTA | 35 | 45 |

Source: BFTI, 2023

## **4.9 Export Concentration and lower tax GDP ratio**

Bangladesh has experienced export concentration, as EPB (2023-24) data explored that 81.29% of total merchandise export earnings come from the Garments industry (EPB, 2024). Besides, compared to the apparel export price of the world, the price of Bangladeshi apparel in the USA is below the world average market price. Similarly, internal resource mobilisation becomes a major concern for LDCs like Bangladesh, as the government in LDC countries cannot enhance its spending in education, skilling and reskilling of the workforce, health, and economic infrastructure due to a lower tax GDP ratio. Bangladesh's Tax GDP ratio is the lowest in the South Asian region due to the high tax rate, complex tax structure, the complexity of Income Tax Act, VAT & SD Act 2012 and a fully automated payment system. Along with these, the inefficiency of the tax authority causes incremental evasion compared to the other parts of the world. Hence, NBR (2021) revealed that only 45,000 companies submit returns from the registered 213,505 companies that got registration from the Registrar of Joint Stock Companies and Firms. There is an inconsistency in tax collection compared to the targeted collection shown in the graph, and NBR cannot achieve both the initial and revised targets of tax collection:

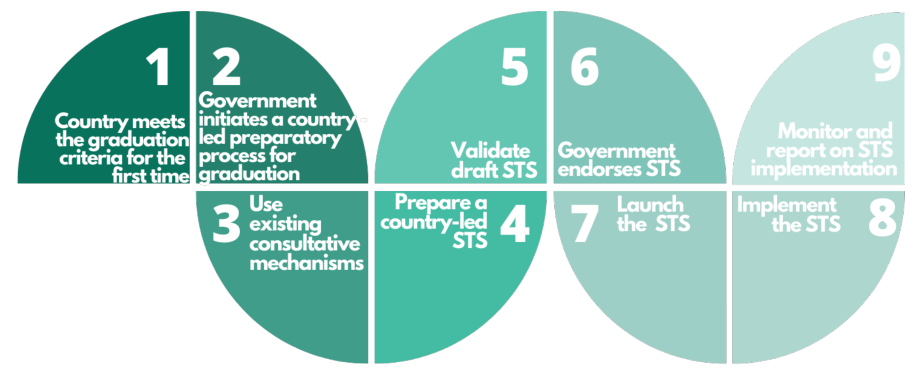
Figure 1NBR Revenue Earnings in BDT Year-wise

**Source: Adapted by the author from NBR Revenue Data 2022**

## **4.10 Smooth Transition Strategy (STS) Approach and Process**

Bangladesh must give considerable thought to the strategy and procedure to reshape its STS. There are some important factors to consider. The nation might use its graduation assessment, which was created by the United Nations Department of Economic and Social Affairs (DESA), as well as other UN bodies that may already have identified potential STS components, such as a UNCTAD vulnerability profile and a DESA impact assessment. The UN DESA's STS process consists of nine phases that are based on two main ideas: 1) Country-led, country-owned, and, to the greatest degree feasible, utilising existing country processes; 2) International community support is timely, high-quality, and driven by national needs (UNDESA, 2021). The steps of the STS process are described below:

Figure 2Steps of the STS process



*Source: Smooth transition strategy guidance note, UN DESA*

The author conducted 20 Key informant interviews with purposive sampling among policymakers, businessmen and representatives from various chambers and associations to learn about the perspective of STS and its effective implementation. Most respondents have emphasised strategies for overcoming graduation challenges so that Bangladesh can reap the benefit of graduation. To overcome the Gradation Momentum, stakeholders responded that Bangladesh may continue negotiating with its trading partners to sign PTAs, FTAs, and CEPAs while bolstering its economic diplomacy. At the same time, they proposed to develop methods for breaking into new markets in regions such as the Middle East and Latin America. They also identified that diversifying the export basket is crucial, which can be achieved by encouraging the export of new products like frozen meals, leather goods, and plastic items. Hence, respondents suggested that executing an LDC-specific strategic plan will further strengthen economic resilience. Finally, they stressed that the public and private sectors to focus more on research and development, new technology development, and investment. As collaboration between the public and private sectors is essential to enhance product and market diversification, ensuring sustainable economic growth. The respondents further informed that after LDC graduation, the loss of GSP facilities may lead to a significant decline in exports to EU markets. In particular, RMG exporters are expected to miss out on approximately US$4 billion in the EU. This decline in exports will harm employment, potentially affecting a large workforce dependent on the sector. Bangladesh can implement the Smooth Transition Strategy (STS) in consultation with the UN RCO, the UN System, the private sector, and other relevant stakeholders. Additionally, the government can initiate a country-led preparatory process to ensure a smooth and sustainable transition before LDC graduation. In November 2024, a Validation Workshop on Bangladesh's National Smooth Transition Strategy was held. It is expected that this validated STS will facilitate the smoother transition process of Bangladesh.

On November 24, 2026, Bangladesh is expected to leave the Least Developed Country (LDC) category. To guarantee a smooth transition to developing nation status, the government has been actively constructing a National Smooth Transition Strategy (STS) in anticipation of this change. Seven thematic subcommittees have been established to explore different fundamental topics about LDC graduation under the direction of the NCG. Development researchers and stakeholders from the business sector make up each subcommittee. These subcommittees' adopted actions centre on graduation obstacles and STS measures for S&DT benefits (PMO,2023). An action plan with a deadline has been created to carry out the required changes to achieve sustainable graduation. Increasing productivity, making investments in skill development, encouraging innovation, implementing sustainable business practices, and attaining equitable growth are the main goals of this strategy. It also urges levelling the playing field for all exporters, simplifying the present tariff framework, and negotiating extended trade preferences with key trading partners. To get the nation ready for LDC graduation, they emphasised the significance of boosting productivity, guaranteeing respectable working conditions, using cutting-edge technology, and encouraging innovation.

Figure 3: Response on STS in %

Source: Author's own interview

5. Conclusion

Bangladesh needs increased private investment for export diversification to articulate aspired growth momentum in the graduation process. Here, diversification includes both products and market diversification, as a minimum of 40% value addition conditions have prevailed to export in most of the Free and Preferential Trade Agreements. Stronger backwards linkages and industry-oriented policy support, along with a re-skilled workforce, can mitigate the hurdles of graduation and the Middle-Income trap. Similarly, managing the transition requires investment in the adoption of new technology, developing infrastructure, research and innovation and trade facilitation programs to integrate Bangladeshi exporters into the global value chain. The contemporary global issues of conservatism, protectionism, extremism, and economic polarisation may significantly challenge the journey towards graduation and beyond. These may also create another opportunity for a country to leap forward to a further stage of development. Moreover, multilateral-private, public and civil society consensus within the country needs to prepare a policy framework or strategic roadmap to ease this transition process and ensure the betterment of the nation shortly through a participatory and integrated strategic approach to development. Given the situation, it will be crucial for Bangladesh to include trade concerns at each level of the development planning cycle. To guarantee a seamless transition process for Bangladesh, this has to be supported by robust inter-ministerial coordination and consultation procedures involving a variety of stakeholders. With a participatory approach and implementation of pragmatic STS, Bangladesh can go through the process of a smooth transition to becoming a middle-income country in the near future.

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