

TRAINING ON SMOOTH TRANSITION STRATEGY (STS) FOR LDC GRADUATION OF BANGLADESH FOR ERD OFFICIALS

*Organized by the Support to Sustainable Graduation Project, Economic Relations
Division*

Date & Venue: 23 February 2025; NEC-II Conference Room, ERD

Outcome Document

A training program on 'Smooth Transition Strategy (STS) For LDC Graduation of Bangladesh for ERD Officials' was organized by the Support to Sustainable Graduation Project (SSGP) of Economic Relations Division (ERD) on 23 February 2025 at the NEC II Conference Room of ERD. ERD Secretary Mr. Md. Shahriar Kader Siddiky graced the inaugural session of the event as chief guest. Additional Secretary of ERD and the Project Director of SSGP Mr. A H M Jahangir chaired the program. Major discussions and recommendations coming from the event are documented below.

Welcome Remarks by the Chair: Mr. A H M Jahangir, Additional Secretary and PD, SSGP, ERD

Mr. Jahangir, in his welcome remarks, recalled that United Nations recommend a graduating LDC to prepare a national Smooth Transition Strategy (STS) during the preparatory period in cooperation with its development and trading partners and with targeted assistance from the UN system. He also recalled that Bangladesh had consequently prepared an STS with technical support from UN DESA and SSGP. He mentioned that the STS had incorporated a time-bound action plan - prioritising and expediting the implementation of necessary reforms to achieve sustainable graduation. Noting that ERD, as the government's focal point for LDC graduation, would play the coordinating role in the implementation of STS—he observed that it would be imperative for the ERD officials to have a precise understanding of STS and its implementation mechanism. In this context, he said that the training program had been organized to sensitize the ERD officials about the impacts of LDC graduation, STS and its implementation modality.

Inaugural Speech by the Chief Guest: Mr. Md. Shahriar Kader Siddiky, Secretary, Economic Relations Division:

The chief guest, in his remarks, recalled that ERD, as the government's nodal agency for LDC graduation issues, would play a central role in the implementation of the STS. As such, he asked the ERD officials to study and analyse the STS document. Highlighting that the implementation of STS would require substantial amount of external financing—he said that a major role of ERD would be to identify the source of innovative, concessional and blended financing for STS implementation and to negotiate with the development partners to mobilize such financing. As such, he asked the ERD officials to explore and identify such sources



of innovative financing and to analyse the policy requirements and policy implications of mobilizing such financing. Reflecting on the climate vulnerability of Bangladesh, he said that climate financing should be a major focus of external resource mobilization of the country in the coming years. Accordingly, he called for developing a knowledge base among the ERD officials in this regard. Recalling that the 4th International Conference on Financing for Development (FfD4) would take place in June this year, he asked the ERD officials to thoroughly read and analyse the draft FfD4 outcome document and provide their necessary feedback. He observed that the outcome document of FfD4 would provide some strategic insights regarding multifarious sources of financing. He also asked the participants to analyse the STS recommendations from the perspective of the ongoing reform agenda of the government and to identify recommendations where ERD can play a vital role. Reflecting on the ongoing geopolitical and technological changes across the world, he said that the ERD officials should keep themselves abreast of such changes and their potential implications. He emphasized the importance of verifying relevant data for accuracy before engaging in negotiations with development partners to foster mutual trust and understanding.

Session 1

An Overview on LDC Graduation Process and Preparation of Smooth Transition Strategy (STS) by Dr. Md. Rezaul Bashar Siddique, Component Manager-2, SSGP

In the beginning of his presentation, Dr. Siddique explained the background and context of the concept of LDC category. Later, he highlighted some stylized facts about LDCs. He focused on the 'Decadal Programmes' undertaken for LDCs since 1981—including the Istanbul Program of Action (IPoA) and the Doha Program of Action (DPoA). He then explained, in detail, the LDC graduation criteria. He also explained the eligibility rules and thresholds for inclusion and graduation from LDC category. Later, he explained the meaning and significance of the 'Preparatory Period' and 'Transition Period' in the context of LDC graduation. Afterwards, he explained the difference between the graduation from LDC category and graduation from low-income to lower-middle income country category. Subsequently, Dr. Siddique highlighted, step by step, on Bangladesh's LDC graduation timeline. Explaining the graduation threshold for various LDC graduation indicators, Dr. Siddique also highlighted Bangladesh's latest scores in those indicators. He focused on the unique aspects of Bangladesh's LDC graduation journey. Highlighting the opportunities offered by LDC graduation, Dr. Siddique explained that graduation from LDC category can offer a virtual cycle of development. Later, he highlighted on the initiatives taken by the government for smooth transition from LDC. He also observed that Bangladesh currently stands at a point where it can simultaneously take advantages of being an LDC, a graduating LDC as well as a future non-LDC developing country. Reflecting on the country's strengths, he expressed his hope that Bangladesh would boldly face the graduation challenges and would secure a smooth transition from LDC category.



Q & A:

- Participants opined that there should be a comparative analysis of the potential gains and losses of LDC graduation to assist the government in making judicious policy decisions in this regard. In response, it was informed that the government had recently decided to form a National Steering Committee on LDC Graduation led by the Hon'ble Chief Adviser to provide policy directions regarding LDC graduation. It was further informed that the government had decided to form a committee led by the ERD Secretary to analyse the potential gains and losses of LDC graduation and to evaluate Bangladesh's preparation in this regard.
- Participants queried that whether graduation from LDC status would expose Bangladesh to the risk of falling into the Middle-Income Trap. In response, it was observed that LDC graduation is very unlikely to expose Bangladesh to the risk of falling into the Middle-Income Trap. Rather, it was pointed out that the reforms to be carried out as part of LDC graduation would help Bangladesh to avoid the Middle-Income Trap.
- Participants also suggested that a study or analysis could be carried out through SSGP on what policy measures Bangladesh should take to ensure debt sustainability and efficient debt management.
- Participants also queried that whether the loss of trade related ISMs would result in increased production cost for the export sector. In response, it was pointed out that any potential increase in production cost would depend on multifarious factors apart from the loss of trade related ISMs.
- Referring to the recently published report of the "White Paper on State of the Bangladesh Economy" which had found evidence of significant data manipulation in recent years—it was asked that whether such manipulation necessitates revisiting of the LDC graduation related data. In response, it was pointed out that the White Paper report had mentioned that the 'inflated nature of certain critical indicators will have little relevance' in case of LDC graduation.

Session-2

Potential Implications of LDC Graduation and Vision of STS by Mr. Nesar Ahmed, International Trade Expert, SSGP:

Mr. Nesar Ahmed, in his presentation, highlighted that the challenges of LDC graduation will be generated mainly due to the termination of the LDC-specific International Support Measures (ISMs). Subsequently, he pointed out that such ISMs can be grouped into three main categories:

- International trade-related supports
- Development assistance
- General support and other forms of assistance



Noting that the trade related ISMs are the most important ones among the ISMs—he said that the trade-related ISMs utilized by Bangladesh could be categorized into the following:

- 1) Preferential market access - Duty-free & quota-free (DFQF) market access
- 2) Preferential/Flexible Rules of Origin
- 3) Export subsidies (Cash incentives)
- 4) TRIPS exemptions

Later, he reflected on the nature and extent of each of these trade related ISMs. He also expounded on the potential implications of the withdrawal of those ISMs after LDC graduation. These include:

- Termination of the DFQF market access in all export destinations after the graduation in 2026 (Only EU, UK and Turkey will continue DFQF for three more years, until 2029)
- Around 10 percent increase in Tariff (Customs duty) on average
- Double-stage transformation for RMG and 50% value addition for other goods
- Withdrawal of cash incentives

Later, he elaborated on the vision of STS which is ‘To transform the country’s economy from international support dependent one to a competitive, resilient, and sustainable economy’.

Q & A:

- Participants inquired whether any study or analysis supports the argument that LDC graduation would not affect the flow of development financing. In response, it was informed that the international financial institutions and multilateral development partners do not primarily base their resource allocation on LDC status. Instead, their funding decisions are driven by factors such as a country's income level and creditworthiness. It was also pointed out that although some LDC-specific assistance may be discontinued upon LDC graduation, these had not been major sources of development financing for Bangladesh. It was further informed that according to the impact assessment carried out by the UNDESA, Bangladesh’s LDC graduation is unlikely to have any significant impact on the flow of development financing in the country.
- Participants also asked that what sort of impact LDC graduation may have on the domestic price of medicines. In response, it was informed that only around 20 percent of medicines currently produced in Bangladesh are patented abroad while the rest of them are off patent. As such, the loss of TRIPS flexibilities is unlikely to have any significant impact on the prices of the majority of the medicines available in the local market.



- It was also queried that what impact the loss of TRIPS flexibilities may have on the country's nascent IT sector. In response, it was pointed out that although the loss of TRIPS flexibilities after graduation may restrict the availability of pirated software in the local market—this would also create the compulsion for strengthening the IP regime in the country, which in turn would encourage innovation, help to attract foreign direct investment and facilitate technology transfer. This, in long run, would benefit the domestic industries including the IT industry.
- Participants put emphasis on the quantification of the potential gains and losses of LDC graduation. In response, it was informed that although such quantifications had already been made regarding tariff—any such quantification would be difficult for other sectors.
- Participants queried that whether any timebound action plan had been formulated to address the challenges of LDC graduation. In response, it was informed that the STS contain a timebound action plan outlining the measures that need to be taken in the coming times to ensure a smooth and sustainable LDC graduation. It was also recalled that a monitoring and evaluation framework had been developed to monitor the implementation of STS. It was also informed that Bangladesh had been submitting annual progress reports to CDP since 2021—documenting the measures that are being taken to address the LDC graduation related dynamics and challenges.

Session-3

Priorities and Implementation Mechanisms of STS by Dr. Mostafa Abid Khan, Component Manger-2, SSGP:

At the outset, Dr. Khan highlighted the country's trends in various key economic indicators since it was recommended for LDC graduation in 2021. Reflecting on some major economic concerns faced by the country—he pointed out that apart from the loss of ISMs, none of these challenges are related to LDC graduation. He highlighted on some major preconditions the country has to fulfil to transition from LDC status towards a structurally transformed inclusive, resilient and competitive economy. Later, he elaborated on the strategic pillars of the STS which are as follows:

- (1) Ensure sustained macroeconomic stability to facilitate a smooth transition from LDC status
- (2) Exploring and securing trade preferences and favourable transition measures beyond LDC graduation
- (3) Enhance trade competitiveness through comprehensive reforms aimed at revitalising the economic environment, facilitating transformation, and fostering new sources of competitiveness
- (4) Building productive capacity to promote structural transformation and achieve the long-term vision of becoming a high-income country



- (5) Building partnerships and international cooperation for promoting sustainable development and improving resilience against global uncertainty

Lastly, he focused on the STS implementation framework and some major actions that need to be taken in the long and short term for its effective implementation.

Q & A:

- It was queried that whether there is any target or projection regarding how much of the STS recommendations would be implemented by the time Bangladesh graduates in 2026. In response, it was informed that some of the recommendations coming from the STS are already being implemented. It was also pointed out that some of the recommended actions contained in the STS are long term in nature which would be continued even after LDC gradation.
- Participants queried that what recommendations had been made in the STS to address the 'anti-export bias'. In response, it was informed that STS had called for rationalizing the tariff structure of the country. It was also informed that earlier the National Tariff Policy had also called for rationalizing the country's tariff structure. In this connection, it was recalled that the NBR had lately initiated a project to implement the NTP.

Conclusion by the Chair: Mr. A H M Jahangir, Additional Secretary and PD, SSGP, ERD

The Chair, in his concluding remarks, thanked the participants for their queries and feedback. He observed that the training program would go a long way in sensitizing the ERD officials regarding STS. He hoped that this sensitization would be vital in the coordinating role to be played by ERD in STS implementation. Lastly, he concluded the event by thanking all the participants.

