

VALIDATION WORKSHOP ON BANGLADESH'S NATIONAL SMOOTH TRANSITION STRATEGY

Date: Sunday 24 November 2024

Venue: Hotel InterContinental, 1 Minto Road, Dhaka

Outcome Document

Economic Relations Division (ERD) and United Nations Department of Economic and Social Affairs (UN DESA) jointly organized the 'Validation Workshop on Bangladesh's National Smooth Transition Strategy' on 24 November 2024 at the InterContinental Dhaka. Hon'ble Finance Adviser Dr. Salehuddin Ahmed graced the workshop as chief guest. Special Envoy on International Affairs to the Hon'ble Chief Adviser Mr. Lutfey Siddiqi; Principal Secretary to the Hon'ble Chief Adviser Mr. M Siraz Uddin Miah; Principal Coordinator (SDG) Ms. Lamiya Morshed; and the UN Resident Coordinator in Bangladesh Ms. Gwyn Lewis were present as special guests. Member of the UN Committee for Development Policy (CDP) Mr. Taffere Tesfachew attended the event as Guest of Honor. ERD Secretary Mr. Md. Shahriar Kader Siddiky chaired the event. Major discussions and recommendations coming from the event are documented below.

Inaugural Session

Welcome Remarks by A. H. M. Jahangir, Additional Secretary, 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 the 9-member Subcommittee on STS led by the Secretary of the ERD and co-led by the Secretary of the Chief Adviser's Office (CAO) is responsible for steering the formulation of the STS. Mr. Jahangir noted that UN DESA earlier had agreed to provide technical and financial assistance to the country in the formulation of the STS. As part of it, UN DESA had engaged a national and an international consultant to provide support in drafting the STS. He also recalled that a series of consultative dialogues including a Technical Workshop were held involving all the relevant stakeholders including the government agencies, CSOs, think tanks as well as trade and development partners— based on which, the final draft of STS along with an action plan has been prepared for the validation workshop.

Address by Ms. Gwyn Lewis, UN Resident Coordinator in Bangladesh:

Ms. Lewis, in her speech, congratulated the government on the remarkable progress made in drafting the STS. She noted that the latest draft of the STS had not only identified measures to address the adverse challenges but also measures that would help Bangladesh increase its



competitiveness for the next economic transformation. She, however, also pointed out that connecting these transition measures with the national financing framework, embedding those transition measures into national development plans, and bringing all stakeholders together to ensure the complementarity of their respective roles would be the key. The UN Resident Coordinator informed that her office is working closely with UN agencies and development partners to do a comprehensive mapping that would allow the UN system to analyse any gaps and to step up where support would be crucial to implement the STS.

Address by Ms. Lamiya Morshed, Principal Coordinator (SDG):

Ms. Lamiya Morshed, in her speech, explained that LDC graduation offers Bangladesh several pathways to accelerate progress toward achieving the SDGs. She pointed out that LDC graduation can enable the process of positioning Bangladesh as a competitive economy, fostering innovation, industrialization, and employment opportunities. She also observed that the resources and capacities developed during the graduation preparation can be channelled toward eradicating extreme poverty, empowering women, and addressing inequalities. She also emphasised that LDC graduation requires stronger institutions, improved governance, and greater policy coherence, which together lay the foundation for achieving the SDGs by ensuring that development policies are inclusive, participatory, and sustainable. She explained that STS can be a roadmap for sustaining and accelerating the progress while navigating the complexities of a post-LDC landscape. Lastly, she suggested that validating the STS could enable the country to align its LDC graduation roadmap with the implementation of the SDGs.

Address by Mr. M Siraz Uddin Miah, Principal Secretary to the Hon'ble Chief Adviser:

The Principal Secretary highlighted that LDC graduation could introduce significant challenges, particularly for the country's export and pharmaceutical sectors, which have been further exacerbated by recent economic turmoil. Pointing out that the government is making all-out efforts to stabilize the economy-- he opined that it would be essential to address the longstanding issues such as limited export diversification and low tax-to-GDP ratio. He hoped that the STS would come up with necessary recommendations to address this issue effectively. He emphasised the importance of improving the business environment, streamlining customs procedures, and boosting productivity through technological upgrades and skill development. He also called for transitioning from relying on low wages and cost-cutting manufacturing to prioritizing quality, ethical standards, and sustainability, with a focus on improving labour rights and environmental protection. He asked all the relevant stakeholders to play their due role in implementing the STS. He further stressed the need for effectively incorporating the strategy's recommendations into all national policy documents on economic reforms.

Remarks by the Guest of Honour - Mr. Taffere Tesfachew, Member of the UN Committee for Development Policy and Rapporteur for Bangladesh:

At the start of his speech, Mr. Taffere Tesfachew highlighted that Bangladesh's early-stage structural transformation—characterised by a shift towards labour-intensive, export-led, and



manufacturing-driven industrialisation—offers valuable lessons for other LDCs, particularly agrarian economies in Africa. He further highlighted that Bangladesh's remarkable achievements in poverty reduction, structural transformation, export-led industrialisation, and its dynamic pharmaceutical industry distinguish it from other LDCs. He observed that Bangladesh, along with other graduating countries in this region, are preparing for graduation at a time of slow global economic recovery, increasing protectionism in international trade, decreasing support from traditional donors and lingering economic uncertainties, both at international and national level. However, he expressed his optimism that Bangladesh will find ways to overcome many of the current challenges.

Address by Mr. Lutfey Siddiqi, Special Envoy on International Affairs to the Chief Adviser:

Mr. Lutfey Siddiqi, in his speech, opined that LDC graduation gives credence and thrust to the reform agenda of the Interim Government. Reflecting on the benefits of LDC graduation, he observed that graduation may usher in greater inflow of foreign direct investment into the country. In this context, he stressed the importance of enhancing the investment environment to enable Bangladesh to fully capitalise on the opportunities of LDC graduation. He also underscored the need for the effective implementation of the recommendations outlined in the STS.

Inaugural Speech by the Chief Guest- Dr. Salehuddin Ahmed, Hon'ble Adviser for Finance:

Hon'ble Finance Advisor, in his speech, opined that LDC graduation is unlikely to have any significant negative consequences for Bangladesh's export as the country will enjoy duty-free market access in the EU and other major export destinations for several years after LDC graduation. He was also optimistic that the loss of TRIPS related benefits would not have much detrimental impact on the pharmaceutical sector as the local firms have developed notable internal capacity over the past decades. He identified macroeconomic stability as the most important prerequisite for ensuring smooth and sustainable graduation. In this context, he stated that the interim government has successfully achieved a significant level of macroeconomic stability by stabilising the foreign exchange market and halting the decline in forex reserves. He noted that the economy is moving in the right direction due to reforms in the financial sector, revenue system, and business environment. He expressed hope that the ongoing reform initiatives by the Interim Government would leave a positive legacy for the future administration. He further stated that the government would make informed and prudent decisions regarding the timeline for LDC graduation after thorough consultations with all relevant stakeholders.

The Finance Adviser emphasised the importance of increasing productivity, ensuring a decent working environment, and adopting new technologies to prepare the country for LDC graduation. He also stressed the need for equitable and inclusive growth to ensure the sustainability of the graduation process.



Remarks by the Chair- Mr. Md. Shahriar Kader Siddiky, Secretary, Economic Relations Division, Ministry of Finance:

Mr. Md. Shahriar Kader Siddiky, in his remarks, thanked the chief guest, special guests and the guest of honour for their valuable insights and recommendations. He hoped that the recommendations coming from the workshop would be helpful in outlining the way forward regarding LDC graduation aligning it with the reform agenda of the Interim Government. He expressed optimism that Bangladesh can successfully navigate the challenges of LDC graduation through strong commitment and effective measures. He also stressed the importance of collaborative efforts among all relevant stakeholders for the successful implementation of the STS.

Business Session

Presentation on the STS by Dr. M. A. Razzaque:

Dr. Razzaque, in his presentation, provided a chapter wise overview of the draft STS. These chapters are:

Chapter-I: Background and Context

Chapter-II: Potential Implications arising from the withdrawal of International Support Measures

Chapter-III: Transitioning from LDC status towards a structurally transformed competitive economy

Chapter-IV: Prioritized Smooth Transition Measures: Strategic Pillars and Required Actions

Chapter-V: STS Implementation Mechanisms

Dr. Razzaque, in his presentation, highlighted the key findings and analyses from each chapter, providing critical insights into Bangladesh's economic trajectory. He observed that the current economic model—characterised by a preference-dependent, export-oriented garment sector, and a heavily protected import-competing sector with generally weak complinace—has reached its limits. He emphasised that the next phase of structural transformation must focus on what is often referred to as "high-road" economic development.. He underscored the importance of prioritising quality enhancement and adherence to international standards to sustain export competitiveness in the post-LDC graduation period. Dr. Razzaque stressed the need for Bangladesh to move away from dependence on trade preferences and high protectionism, instead focusing on transforming its economic competitiveness.

He highlighted that transitioning to a productivity-driven economy requires knowledge-based skill development and an efficient workforce. He also noted that improvements in infrastructure, trade logistics, and the ease of doing business are critical for enhancing competitiveness and driving structural transformation. These transformative changes, he argued, could far outweigh the advantages gained from preference-dependent competitiveness.



While presenting the Smooth Transition Strategy (STS), Dr. Razzaque outlined its strategic pillars, highlighting their critical role in ensuring a successful transition from LDC status. He emphasised the following priority measures:

Sustaining Macroeconomic Stability: Maintain robust macroeconomic stability to support a seamless transition from LDC status.

Securing Trade Preferences: Explore and negotiate extended trade preferences and favourable transition arrangements post-graduation.

Enhancing Export Diversification and Competitiveness: Implement comprehensive reforms to revitalise the economic environment, drive structural transformation, and foster new areas of competitiveness.

Building Productive Capacity: Strengthen productive capacity to accelerate structural transformation and advance the long-term vision of achieving high-income status.

Fostering Partnerships: Develop international partnerships and enhance global cooperation to promote sustainable development and strengthen resilience against global uncertainties.

This clear and concise articulation underscores the strategic focus required for a smooth and sustainable transition. Dr. Razzaque subsequently outlined possible actions for each strategic pillar of the STS, emphasising practical steps to achieve the desired outcomes. He also elaborated on the implementation mechanism, highlighting the individual and collective responsibilities of key stakeholders, including:

- Government ministries and departments
- Private sector actors and public-private partnership entities
- Civil society organisations
- Development and trading partners

This comprehensive approach underscores the need for coordinated efforts to ensure the effective implementation of the STS and a successful transition from LDC status.

Discussion by the Panelists:

Mr. ICHIGUCHI Tomohide, Chief Representative, JICA Bangladesh Office:

Mr. Tomohide, in his speech, said that LDC graduation offers a fantastic opportunity to address the structural issues like export diversification as well as foreign direct investment promotion. He highlighted that JICA has been prioritising industrial applications and FDI by supporting the development of Special Economic Zones, a deep-sea port, human resource development in the ICT and manufacturing sectors, and improvements to the investment climate. He presented the following recommendations for improving the investment climate in the country::



- Establishing a dedicated government ministry or agency, led by a minister, to coordinate all investment promotion activities by consolidating entities such as BIDA, BEZA, BEPZA, and the Hi-Tech Park Authority. Enforcing the principle that special laws take precedence over general laws. For example, investors in Bangladesh often do not receive the expected incentives provided under special laws like BEZA Act due to its conflict with NBR related regulations.
- Providing robust investment support measures focusing on three or four model Economic Zones instead of developing 100 Economic Zones.
- Implementing the real, consolidated One-Stop-Service by deputing relevant officials from concerned ministries/departments so that all the approvals can be received from a single point.
- Promoting incentives for domestic manufacturing--particularly automobiles and light engineering. The existing tariff structure incentivizes the importation of final products. However, incentives should be provided for import of various parts of machineries that would be used for manufacturing or assembling the final products in Bangladesh.
- Establishing dedicated customs house at the aforementioned three or four model economic zones. Given the heavy workload at Chittagong Port, these customs houses would significantly save time and enhance operational efficiency. Establishing an electronic national single window for trade related procedures including customs, port operation and cargo handling.
- Simplifying the paper works or documentation processes. According to an assessment by JICA, paper works in Bangladesh is twice lengthier than Vietnam and thrice lengthier than India.

Mr. Syed Nasim Manzur, President, Leathergoods and Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB):

- In the beginning of his remarks, Mr. Manzur pointed out that the recent government initiative to reduce cash incentives for exports have led to significant decrease in export earnings from sectors like jute, furniture and light engineering. He also noted that apart from low wages, every other factor of production in Bangladesh is quite high including cost of land, cost of energy as well as interest rates. He observed that the country's cost competitiveness could be enhanced by reducing the costs of land, energy, and financing while ensuring fair wages for workers. He then presented the following recommendations to help the country prepare for the impending LDC graduation. The revenue structure must be reformed with a view to decrease the country's dependence on supplementary duties.
- Bangladesh needs to negotiate bilateral trade preferences with various key trading partners.
- The Ministry of Commerce should work in close collaboration with the Ministry of Finance to create a separate wing to boost support measures.



- Bangladesh also needs to develop and engage a pool of professional and dedicated trade negotiators to negotiate trade related issues with the overseas partners.
- Persistent negotiations with the WTO to make it adopt the WTO LDC group proposal for continuing ISMs for an extended period after graduation.
- Developing alternative support measures in line with the WTO rules and provisions similar to India's production linked incentive scheme.
- Current export policy measures should be implemented and enforceable.

Observations and comments by the participants:

At this stage, the floor was opened for comments and feedback from participants. during this session, the following major feedback came form them:

- In the third paragraph of page 61 of the report, it has been mentioned that 'Ensuring uniform high standards across all sectors will create a level playing field, fostering competitiveness based on excellence rather than cost-cutting measures'. However, it may not be possible to ensure uniform standards for all the sectors because of their distinct nature.
- In the second bullet point under the paragraph 4.2.5, it has been mentioned that 'Based on the trade data, Bangladesh should be included in the NFIDCs list. A request has been made to the WTO regarding this. This should now be proactively pursued by the WTO.' Here, the last sentence should be revisited as it is Bangladesh who should actively pursue with WTO for inclusion in the NFIDC list.
- The STS action plan should provide some specific actions for branding Bangladesh in the context of the country's LDC graduation.
- Bangladesh Bank should be the sole responsible agency for action number 1 of Strategic Pillar 1 (Continue with market-oriented interest rate policies).
- Action number 2 of Strategic Pillar 1 (Use fiscal policy options to complement the monetary policy objective of tackling inflation) should be revisited as such action may prove to be restrictive for the policy makers. Again, Bangladesh Bank should be the sole responsible agency for this action.
- The last sentence of the first paragraph of page 91 which says 'Additionally, the lack of prudent macroeconomic management from early 2021 to July 2024—evidenced by excessive borrowing from the central bank, delayed policy responses to inflationary and balance of payments pressures, and undisciplined public spending—has exacerbated the situation', should be revisited. It was opined that the stated situation is not due to the lack of prudent macroeconomic policy-- rather due to the inadequate implementation of reforms initiated in revenue mobilization.
- The figures of total debt-to-GDP ratio and external debt-to-GDP ratio cited in the first paragraph of section 4.1.2 (Financing budget through sustainable debt management) of the draft STS need to be crosschecked.



- In the same page, it has been mentioned among the specific actions: 'Maintaining domestic borrowing from the central bank and commercial banks within sustainable limits'. However, it is notable that the government doesn't borrow from the central bank. Therefore, this sentence should be revisited.
- The action plan should identify some immediately actionable items so that the government can move towards the implementation of those actions.
- Informal sector forms a large part of Bangladesh's economy. The recent rise in policy rate is detrimental to the informal sector.

Remarks by the UN Expert: Mr. Taffere Tesfachew, Member of the UN Committee for Development Policy and Rapporteur for Bangladesh:

In his remarks, Mr. Taffere Tesfachew highly commended the quality of Bangladesh's STS, praising its well-articulated vision, the identification of relevant measures, and its comprehensive approach. He expressed hope that the transition strategy would be integrated into the country's national development plans. He emphasised the importance of effective implementation of the STS, highlighting the need for transparency, accountability, regular monitoring and evaluation, and robust policy coordination.

According to him, development partners should view LDC graduation as a collective endeavour and encouraged graduating countries to treat the process as a motivational opportunity. Mr. Tesfachew suggested that Bangladesh consider seeking support from UNCTAD to conduct a productive capacity gap assessment to identify areas for enhancing its productive capabilities. He further emphasised expanding non-farm economic activities to generate employment opportunities for young people at the grassroots level. Lastly, he emphasised the potential benefits of greater regional trade integration, which could help Bangladesh improve and diversify its export performance.

Feedback from Keynote Presenter:

The keynote presenter, Dr. Razzaque, expressed his gratitude to all participants for their valuable feedback and insights. He highlighted the recent decision taken at the 13th Ministerial Conference of the WTO, where members agreed to refrain from initiating any action against a graduating country for at least three years following its LDC graduation. This decision, he noted, provides an important cushion for countries like Bangladesh as they navigate the challenges of graduation.

Dr. Razzaque further elaborated on the provisions under the WTO's Agreement on Agriculture, particularly the special and differential treatment (S&DT) measures available to developing countries. He pointed out that Bangladesh, as a developing country post-graduation, would remain eligible for several supportive measures, including the de minimis threshold for domestic support in agriculture. Currently, Bangladesh provides domestic support well below the permissible threshold, creating potential room for scaling up assistance to its agricultural sector while remaining compliant with WTO rules. This flexibility, he observed, could enable



Bangladesh to address critical challenges in agricultural productivity and competitiveness during the transition period. He emphasised the importance of leveraging all such provisions to ensure smoother structural adjustments and sustain trade growth post-graduation. Additionally, he underscored the need for robust monitoring mechanism for STS implementation, incorporating clear metrics and indicators to track the progress. Such a framework, as he argued, would enhance accountability and ensure that policy actions remain aligned with the country's graduation and development objectives.

Conclusion by the Chair: Mr. Md. Shahriar Kader Siddiky, Secretary, ERD:

The Chair, in his concluding remarks, emphasised the importance of active collaboration among all relevant stakeholders, along with regular consultation and monitoring, to ensure the effective and coordinated implementation of the STS. He underscored the need to focus not only on the challenges posed by LDC graduation but also on the opportunities it creates.

He assured participants that the ERD would adopt an inclusive approach, working closely with development partners and other stakeholders, and would facilitate regular consultations to ensure the effective execution of the STS recommendations. The Chair urged all participants and stakeholders to provide their comments, feedback, and insights on the draft STS within the next few days.

He further informed the audience that the final draft of the STS, after incorporating the relevant recommendations and observations from the validation workshop, would be prepared soon. It would then be presented to the Chief Adviser and the Advisory Council for final guidance and approval.

