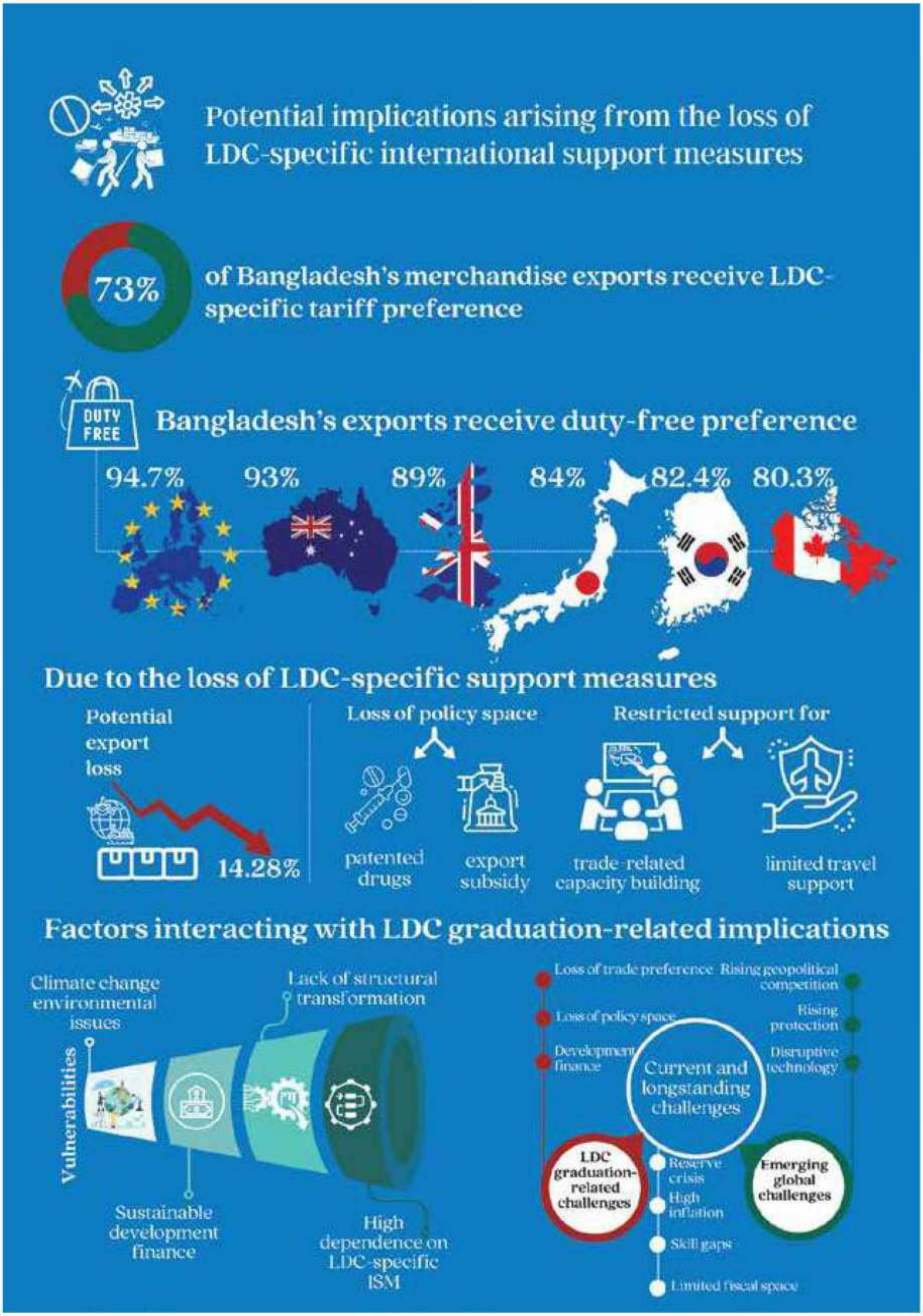
Chapter II

Potential Implications Arising from the Loss of LDC-specific International Support Measures



Potential implications arising from the loss of LDC-specific international support measures
73%
of Bangladesh's merchandise exports receive LDC-specific tariff preference
DUTY FREE
Bangladesh's exports receive duty-free preference
94.7%
93%
89%
84%
82.4%
80.3%
Due to the loss of LDC-specific support measures
Potential export loss
14.28%
Loss of policy space
patented drugs
export subsidy
Restricted support for
trade-related capacity building
limited travel support
Factors interacting with LDC graduation-related implications
Climate change environmental issues
Lack of structural transformation
Vulnerabilities
Sustainable development finance
High dependence on LDC-specific ISM
Loss of trade preference
Rising geopolitical competition
Loss of policy space
Rising protection
Development finance
Disruptive technology
Current and longstanding challenges
LDC graduation-related challenges
Reserve crisis
High inflation
Skill gaps
Limited fiscal space
Emerging global challenges

Bangladesh has substantially reaped the benefit from the LDC-specific International Support Measures (ISMs). These include trade and development partners' special attention and commitments to support LDCs with trade preferences, flexibility in undertaking commitments in multilateral and regional trade agreements, reduced contributions to international organisations, concessional development finance, and other technical assistance. The WTO has not only legitimised its members offering unilateral preferential market access to LDCs but also provided favourable conditions and flexibility for this group of countries in implementing and enforcing international trade rules and regulations. In many instances, LDCs have been accorded privileges associated with not undertaking any new commitments of trade liberalisation. However, the mere existence of LDC-ISMs does not automatically ensure that countries can derive benefits from them. The extent to which these measures translate into tangible outcomes depends on several factors, including a conducive policy environment, the structure of the economy, existing productive capacities, comparative advantages, and absorptive capacities for utilising financial and technical assistance significantly influence a country's ability to effectively utilise these support measures in a commercially meaningful way. Bangladesh is widely acknowledged as one of the primary beneficiaries of LDC-specific ISMs, particularly in the area of trade. Consequently, the cessation of these benefits following graduation from LDC status may have a disproportionate impact, necessitating a cautious and comprehensive approach to understanding the implications arising from the discontinuation of ISMs. The implications of discontinuing ISMs must be considered alongside other vulnerabilities and emerging challenges faced by graduating countries. UNCTAD conducts a vulnerability profile assessment of LDCs, which can be supplemented by other major emerging and longstanding issues affecting the economy, as reflected in national plan documents and other studies. Additionally, unfolding global economic trends pose significant challenges. The recent series of unfavourable global events have subjected previously accepted norms of international trade and globalisation to scrutiny, potentially affecting trade-led development prospects. Key concerns include global trade slowdown, faltering global economic recovery, rising economic protectionism, uncertainties surrounding the multilateral trading system, growing geo-political rivalry, and the impact of technological progress on employment.

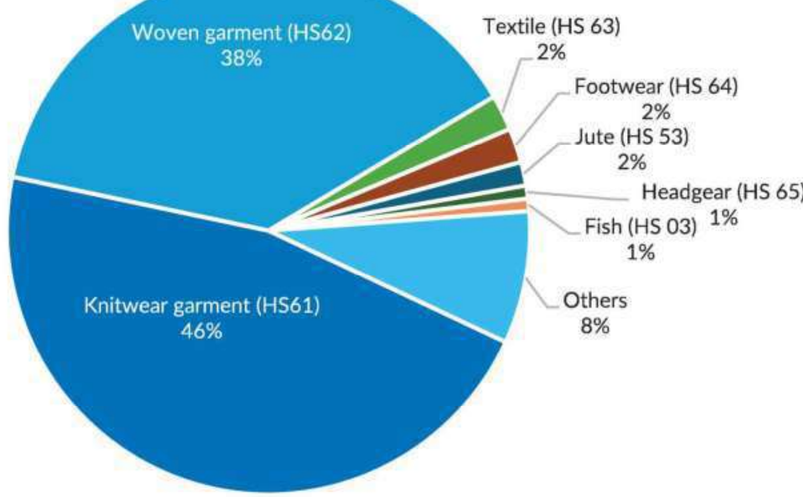
2.1 Trade-related ISMs

Most of the ISMs for LDCs are trade-related, and these measures have been extremely helpful for Bangladesh, especially in expanding the export of readymade garments. LDC-specific trade measures, the benefits of which would either cease to exist or could be limited after LDC graduation, include (i) preferential market access primarily for goods, including special treatment under regional agreements; (ii) special and differential treatment under WTO agreements; and (iii) capacity building, training, and technical assistance related to trade.

2.1.1 Preferential market access for trade in goods

Most developed and several developing countries provide either full or nearly full duty-free and quota-free (DFQF) market access to LDCs (UNDESA, 2020c; WTO, 2021b), along with offering less stringent rules of origin requirements for accessing the available preferences. In most developed country markets, former LDCs, after graduation, have access to standard GSP schemes and, for products outside these schemes, export under the most favoured nation (MFN) tariff or any relevant regional or bilateral agreements. In developing country markets, former LDCs export under MFN tariffs or relevant regional or bilateral agreements. The effects of losing LDC-specific schemes vary depending on (i) the graduating country's export products, (ii) their export destinations, (iii) the market access schemes available before and after graduation in each destination, and (iv) the extent to which exporters utilise these preferential schemes. Graduation does not affect exports of products and services that are not covered by LDC-specific preferences, exports to markets that do not offer LDC-specific preferences, exports to markets where the country enjoys equivalent or superior market access through bilateral, or regional agreements or exports that do not use the available preferences for any reason, such as high compliance costs.

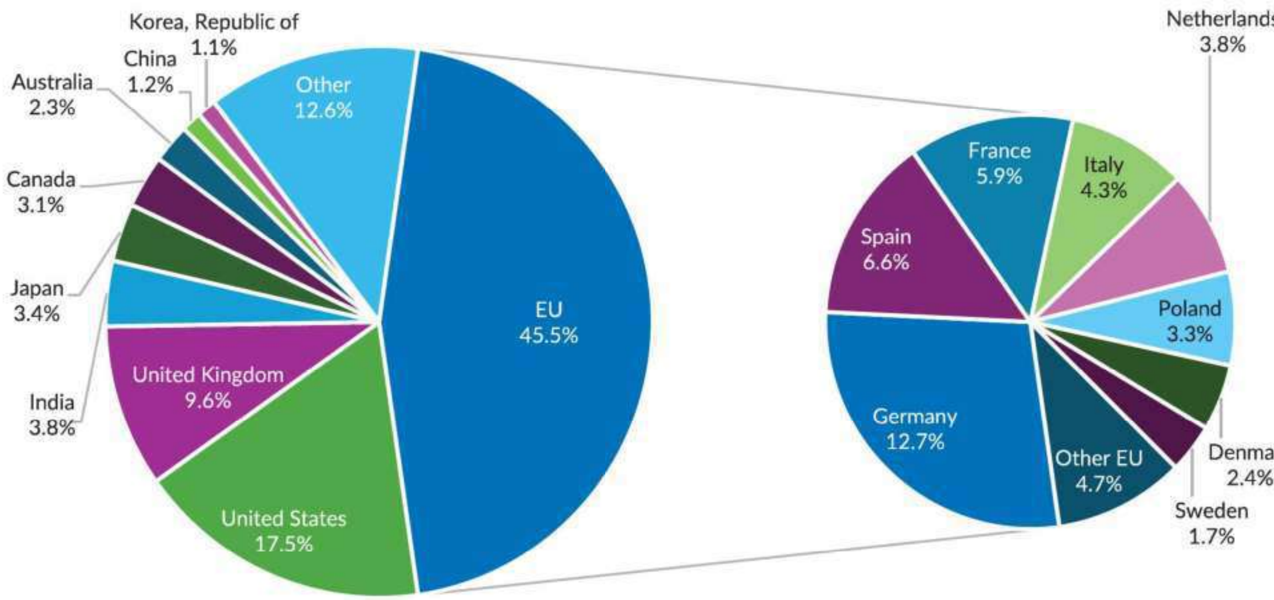
Figure 2.1: Bangladesh's merchandise export composition, 2022-23



Source: EPB (2024).

Considering Bangladesh's heavy reliance on apparel products for export earnings, any evaluation of the post-graduation implications will be significantly determined by the potential effects on this sector (Figure 2.1). Leather and leather goods, along with frozen fish and shrimp, are other sectors where there could be a modest impact. As 45 per cent of Bangladesh's exports are destined for the EU, which also provides generous LDC preferences, the overall post-graduation implications for Bangladesh will critically depend on how Bangladesh faces tariffs in this market (Figure 2.2). Apart from the EU, the UK, Canada, India, Japan, Australia, and China are major markets that also offer LDC-specific preferences. The US is the single largest export destination, but it does not offer any trade preferences for Bangladesh's exporters.

Figure 2.2: Bangladesh's main export destinations for 2022-23 (in percentage)



Source: EPB (2024).

2.1.2 LDC graduation-related changes in major markets of Bangladesh

European Union: Bangladesh's exports to the EU are currently governed by the EU's most generous market access scheme, which is exclusively for LDCs—Everything But Arms (EBA). The other two schemes under the EU's GSP include a general arrangement (known as standard GSP) and a special incentive arrangement for sustainable development and good governance (GSP+). The EU provides an additional three-year transition period after graduation, which means Bangladesh will continue to access the same EBA facilities until almost the end of November 2029.

The current GSP system of the EU was supposed to expire in December 2023 and be replaced by a new regime for 2024-2034, a draft framework with specified rules, regulations, and condition accessibility being available, but its enactment was then deferred until the end of 2027 pending the ratification and adoption by the EU Parliament and Council.[10] Under current EU regulations, also reflected in the draft framework of the upcoming regime, Bangladesh would be eligible for only standard GSP until it becomes an upper middle-income country as per the World Bank's classification of global economies.

[10] Through a resolution in July 2023, the EU Parliament extended the currently existing EU GSP scheme until 31 December 2027. https://www.europarl.europa.eu/doceo/document/INTA-PR-751608_EN.pdf

Table 2.1: Tariff rates in major exporting products under different schemes

Country	Duty Type	HS 03: Fish	HS 42 & HS 43: Leather goods	HS 53: Jute and Jute Goods	HS 61: Knitwear garment	HS 62: Woven garment	HS 63: Home textile	HS 64 Footwear*	HS 6403 Leather Footwear
Canada	MFN	0.7	6.1	0	16.8	15.6	15.5	12	12.9
	GPT	0.5	4	0	16.5	15.1	14.2	9.9	12.9
	LDC	0	0	0	0	0	0	0	0
China	MFN	7.1	11.5	6.1	6.8	6.6	6	8.6	9.4
	APTA	6.1	10.1	5.3	4.7	5.1	5.9	4.7	9.2
	LDC	0	0	0	0	0	0	0	0
EU	MFN	11.3	3	3.6	11.7	11.4	10	10.6	7.8
	Standard GSP	6.9	0.4	2.8	9.3	9.1	8	6.4	4.3
	GSP+	0	0	0	0	0	0	0	0
	EBA	0	0	0	0	0	0	0	0
India	MFN	30	12	11.3	19.5	20	11.1	30.3	35
	SAFTA	4.9	6.5	4.7	15.8	19.4	6.3	23.9	11.78
	APTA	4.6	11.9	11.3	19.5	20	11.1	30.3	35
	SAFTA LDC	0.1	0	0	0	0	0	0	0
Japan	MFN	5.8	11.5	3.4	8.7	9.3	5.7	15.3	23.9
	GSP	5.7	11.3	1.4	8.2	8.8	3.2	15.3	23.9
	LDC	2	4.4	0	0	0	0.1	6.3	0
Republic of Korea	MFN	16.4	9.6	4.8	12.6	12.4	11.4	10.5	13
	APTA	16.3	8.6	3.7	12.2	10.5	11.2	8	12.3
	LDC	9.3	0	0	0	0.3	0	0	0
UK	MFN	10.9	2.2	1	11.6	11.4	9.8	9	7.7
	SP	6.6	0.3	0.8	9.3	9.1	7.8	6.4	4.2
	EP	0	0	0	0	0	0	0	0
	CP	0	0	0	0	0	0	0	0

Source: Calculation based on WITS tariff data (World Bank, n.d.).
Notes: Only ad valorem tariff rates were considered. Estimation is based on simple average. *Excluding HS 6403. APTA = Asia-Pacific Trade Agreement, CP = Comprehensive Preference, EBA = Everything but Arms, EP = Enhanced Preference, GPT = General Preferential Tariff, GSP = Generalized System of Preferences, LDC = Least Developed Countries, MFN = Most Favoured Nation, SAFTA = South Asian Free Trade Area, SP = Standard Preference

Under Standard GSP, a beneficiary country moving from EBA to standard GSP will experience a significant rise in tariffs (though lower than the MFN rates), having to comply with more stringent rules of origin even for a lower margin of preference. For example, against the MFN tariff rate on fish is 11.3 per cent, standard GSP offers 6.9 per cent; for garments, standard GSP tariff rates are over 9 per cent in comparison with more than 11 per cent under MFN provisions; for leather footwear, the MFN rate is 7.8 per cent, which is reduced to 4.3 per cent under Standard GSP (Table 2.1).[11]

However, in order to qualify for GSP+, which is the next most attractive trade preference scheme after EBA, offering duty-free access to 66 per cent of all EU tariff lines (including sensitive products

[11] Standard GSP beneficiaries are, however, subject to safeguard measures kept for textiles and agricultural products. These provisions, if not amended, will not let Bangladesh enjoy duty-free market access in apparel items, as mentioned later in this section.

such as textiles and clothing items), Bangladesh must meet two criteria: vulnerability criteria and sustainable development criteria.[12] The vulnerability criterion requires the eligible country to have a non-diversified economy, where the country's seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the European Union over the past three consecutive years. This is based on the provisions included in the draft regulations of the upcoming EU GSP regime, which has now been deferred until the end of 2027. The proposed GSP scheme removes the import-share condition from the GSP+ vulnerability criterion. The removal of the import share criterion will help Bangladesh qualify for the GSP+ scheme if the other criterion is met. However, safeguard measures built into the EU GSP scheme, if unchanged, will not let Bangladesh continue with duty-free market access to clothing products. On the sustainable development criterion, a beneficiary country is required to ratify and effectively implement 32 international agreements and conventions related to human rights, labour rights, environmental protection, climate change, and good governance.[13]

Table 2.2: Comparison between existing and post-LDC trade preferences in major export destinations

Market	Current schemes for LDCs		Post graduation changes	
	Scheme	Tariff concessions and Rules of origin requirements	Scheme	Tariff concession and rules of origin
Canada	LDCT	-DFQF - Minimum 20% VA in general -25% VA for apparel and textile	GPT	-Major exporting products (such as garments and footwear) from Bangladesh will face tariff rate of 16 to 18% -Minimum 60% value addition (VA) requirements for any available tariff preferences
			GPT Plus	-With effect from 2025.
China	Duty-free treatment for LDC	-99% of products cover zero-duty tariff - General: 40% or CTH VA -Regional Cumulation: 50% VA	APTA	-Tariff concession for 2,191, with the margin of preference (MoP) being just about 33% of MFN tariffs. -For rest of the products, the full MFN tariff rate is applicable. -General rules of origin (RoO): 45% VA -RoO under regional cumulation: 60% VA
European Union	Everything But Arms (EBA)	-DFQF -30% minimum VA -Single-stage transformation required for clothing	GSP Plus	-Zero tariff for 66% of EU tariff lines. Textiles and clothing items are generally allowed duty-free but subject to safeguard clauses that do not offer any tariff preference for Bangladesh -50% minimum VA -Double-stage transformation for clothing (if any tariff preference is to be used)
			Standard GSP	-Duty concession and reduction for 66% of tariff lines. Such preferences for textile and clothing items are subject to safeguard clauses, restricting such benefits for Bangladesh. -50% minimum VA

[12] This 66 per cent preferential duty-free tariff lines, exclude MFN with zero tariff line.

[13] The new proposals update the Sustainable Development Criterion by expanding the list of international conventions to 32 (from the current list of 27). The new international conventions and agreements added to the GSP list include, the Paris Agreement on climate change 2015 (replacing the Kyoto Protocol); the Convention on the Rights of Persons with Disabilities (CRPD); the Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC); ILO Convention No 81 on Labour Inspection; ILO Convention No 144 on Tripartite Consultation; and the UN Convention against Transnational Organized Crime.

				-Double-stage transformation for clothing
India	SAFTA LDC[14]	-DFQF for all products except 25 sensitive products -RoO: 30% VA	SAFTA and APTA	-Low margin of preference -No tariff preference for 614 sensitive products -RoO: 40% VA -RoO under regional cumulation: CTH+ 50% VA
Japan	GSP for LDC	-DFQF for 98.2% of tariff line -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.	Standard GSP	-Duty concession for limited range of products -Most exports under HS 61 and HS62 are not covered in the GSP -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.
Republic of Korea	GSP for LDC	-DFQF for 95% of tariff line -RoO: General: 40% VA	APTA	-Tariff concession available for only 2560 products -General RoO: 45% VA -RoO under regional cumulation: 60% VA
United Kingdom	Comprehensive preference	DFQF for all products except arms and ammunition -RoO: -General 25% VA -For clothing: Single stage transformation	Enhanced preference	-92% of tariff lines get zero tariff preference -General RoO: 50% VA -For clothing: Double stage transformation
			Standard preference	-65% of tariff line gets zero tariff preference RoO: -General: 50% VA -For clothing: Double stage transformation

Source: Compiled from UNDESA (2020c), Razzaque et al. (2020), Foreign, Commonwealth & Development Office and Department for Business and Trade (2023), GED (2020b).
Note: CTH= Change in Tariff Heading, RC = Regional Cumulation, VA= Value Addition

Bangladesh fulfils the vulnerability criterion, as the seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the EU. Bangladesh has also ratified the relevant conventions, and efforts are being made to implement them. Even if the graduating Bangladesh is included in GSP+ upon complying with international conventions, apparel exports—as per the provisions set out in the draft EU GSP Scheme for the coming decade—will likely be subject to EU safeguard measures, resulting in exclusion from any preferential treatment. According to EU provisions on "Safeguards in the Textile, Agriculture, and Fisheries Sectors" (Article 29 of the proposed EU GSP), clothing products from a GSP+ beneficiary will not receive preferential access if the share of the relevant products is above 6 per cent of total EU imports of the same products and exceeds the product graduation threshold during a calendar year. The safeguard mechanism on these products will not apply to EBA recipients nor other GSP recipient countries with a proportion of relevant products that do not exceed 6 per cent of total EU imports of the same products (Article 29, paragraph 2 of the proposed EU GSP 2024-34).

Bangladesh's current apparel exports (defined under GSP section S-11b) are well above the 6 per cent market share threshold in the EU. Under such circumstances, the share of those products as a percentage of EU GSP-covered imports of the same products cannot be more than 37 per cent for receiving any tariff preference. However, a study suggests that the relevant share of Bangladesh is almost half of all GSP-covered clothing imports into the EU (Razzaque & Rahman, 2022). As a result, if the proposed GSP rules are not changed, Bangladesh would be in a unique position to

[14] India's GSP for LDCs, known as the Duty-Free Tariff Preference (DFTP) scheme, covers approximately 11,260 products. In comparison, the SAFTA LDC scheme encompasses around 11,513 products. Notably, all products included in the DFTP are also covered under the SAFTA LDC scheme.

qualify for GSP+, but its clothing items (S-11b) will be ineligible for any preference and end up paying MFN duty. In this case, Bangladesh's clothing exports to the EU, which comprise more than 90 per cent of exports to this market, will face tariffs of over 11 per cent against the current zero-duty facilities under EBA (Table 2.2). For other items, Bangladesh may be able to access GSP+ tariff preference.

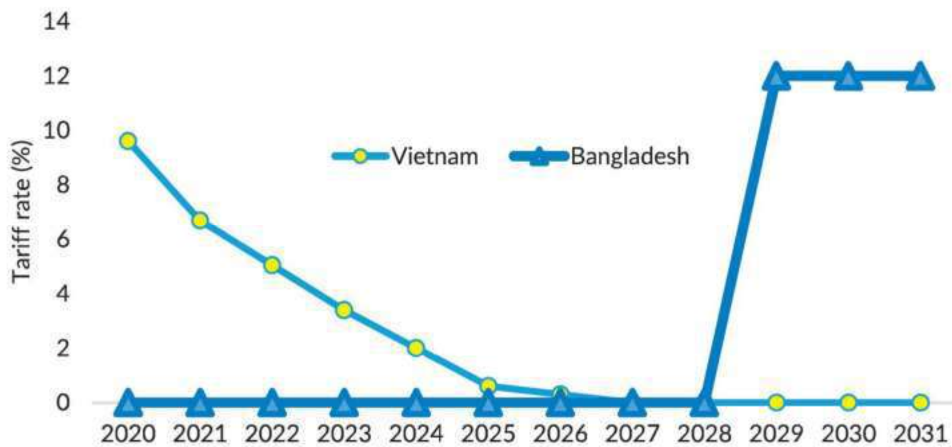
Accessing any GSP preference after LDC graduation will be accompanied by more stringent rules of origin. For non-apparel items, a 50 per cent domestic value addition will be required, while for apparel—assuming the safeguard measures discussed above are amended—a double-stage transformation will be necessary. Bangladesh has developed sufficient backward linkage capacities (spinning) in knitwear products. However, woven garments continue to rely mostly on imported fabrics, which can be a constraining factor in fulfilling Rules of Origin (RoO) obligations. Moreover, if the safeguard provisions of the EU GSP regime remain unchanged, excluding Bangladesh's apparel exports from any tariff preferences after graduation, the need to comply with RoO provisions becomes redundant. It should also be noted that all GSP facilities, such as EBA, Standard GSP, and GSP+ can be temporarily withdrawn by the EU if it views serious and systematic violations by the beneficiaries of the principles laid down in human rights and labour rights conventions.

While tariff hikes are anticipated for Bangladesh after its LDC graduation, other countries, through free trade agreements (FTAs), could gain further competitiveness, especially in Bangladesh's largest export market, the EU (Figure 2.3). For instance, Viet Nam—already a top apparel exporter—now has an FTA with the EU, which entered into force in August 2020. Viet Nam will see tariffs on its clothing exports to the EU gradually decline from the current average of 9 per cent to eventually zero approximately at the same time when Bangladesh, following its official graduation, will complete its additional three-year transition period (in 2029) in the EU.[15] If Bangladesh is eventually subject to EU safeguard measures, its apparel exports to the EU will see the average tariff rising from the current zero to around 11 per cent (Table 2.3). This striking change in market access conditions vis-à-vis Viet Nam could cause severe trade diversion for Bangladesh, making the latter much less competitive.[16]

[15] Among these, the RoO requirements under the European Union-Viet Nam FTA require the Vietnamese exporters to fulfil double transformation. This means exporters have to use domestically produced yarn in knitwear and locally-manufactured fabrics in woven garment making. Viet Nam's textile and garment exports to the EU face significant non-tariff measures (NTMs), including stringent rules of origin (RoO) requirements, import quotas, anti-dumping measures, safety regulations, social responsibility standards (SA 8000), chemical registration requirements (REACH), environmental regulations, quality standards (ISO), and labelling requirements. These NTMs pose considerable challenges, and as a result, Viet Nam's competitiveness in the EU market remains moderate despite the advantages provided by the FTA. Notably, the RoO requirements under the European Union-Viet Nam FTA mandate a double transformation process. This requires Vietnamese exporters to use domestically produced yarn for knitwear and locally manufactured fabrics for woven garments to be eligible for duty-free market access in the EU.

[16] Even when graduating LDCs can retain duty-free access under GSP+, such FTA arrangements will cause preference erosion. Pakistan, which has access to GSP+ and is a major cotton producer; and Indonesia and India, which are major apparel supplying countries, are currently negotiating FTAs with the EU. Competition will also emerge from garment exporting African LDCs, such as Ethiopia, Lesotho, and Madagascar, which have access not only to the EU EBA scheme, but also to AGOA, which grants duty-free treatment for garments entering the USA.

Figure 2.3: EU tariffs on apparel: Viet Nam under its FTA with the EU vis-à-vis Bangladesh graduating out of LDCs



Source: Razzaque & Rahman (2022).

United Kingdom: The UK's GSP regime, Developing Countries Trade Schemes (DCTS), provides GSP benefits under three tiers: Comprehensive Preferences reserved for LDCs, enhanced preferences for non-LDC low-income (LIC) and lower-middle income (LMIC) economically vulnerable countries, and standard preferences for a few other countries. After LDC graduation, Bangladesh will be able to retain the same comprehensive preferences for an additional three years until November 2029, when it will qualify for enhanced preferences. A non-LDC LMIC with receipts from the seven largest predefined broad categories of goods constituting more than 75 per cent of its total exports to the UK will be considered economically vulnerable and eligible for receiving benefits of Enhanced Preferences. As apparel products alone account for more than 90 per cent of its UK-bound exports, Bangladesh is almost certain to qualify for this status (Razzaque, 2022). A beneficiary who becomes an upper-middle-income country for three consecutive years will not receive any benefits from the DCTS.

Under the UK-DCTS enhanced preferences, Bangladesh will get duty-free market access in more than 92 per cent of UK tariff lines, including apparel products, with no provision of safeguard measures, unlike the EU GSP regime. According to the current export structure, more than 95 per cent of Bangladesh's exports bound for the UK will continue to enjoy duty-free market access even after LDC graduation. However, a significant concern is the tightening of rules of origin conditions, which will require a double-stage transformation for apparel products and a domestic value-added content requirement of 50 per cent for non-apparel products, an increase from the 25 per cent required for LDCs.

Canada: Bangladesh currently enjoys preferential market access under the Least Developed Country Tariff (LDCT) under Canada's unilateral tariff preference programmes. As per the information available at the time of drafting this strategy, Canada plans to implement a standard transition policy for graduating LDCs. This policy is expected to provide an additional three-year period during which these countries can continue to enjoy full tariff benefits. This initiative aligns with Canada's broader commitment to supporting a smooth and sustainable transition for LDCs as they graduate, helping to mitigate the immediate impact of losing preferential market access.[17] After graduation, Bangladesh's existing preference will be replaced by the General Preferential Tariff (GPT). However, due to its limited coverage, major export goods from Bangladesh will not receive any tariff benefits. Consequently, clothing and textile exports will face an average tariff rate of 14 to 16.5 per cent, and footwear exports will face an average tariff rate of about 11 per cent. Additionally, Bangladesh will encounter strict rules of origin requiring a minimum value addition of 60 per cent for products eligible for preferential access.

As of 1 January 2025, Canada's new Generalised System of Preferences (GSP) has come into effect, replacing the previous programme. The updated GSP introduces the GPT+ scheme, designed to incentivise countries that uphold international standards on labour rights, human rights, workplace conditions, gender equality, and environmental sustainability. In addition, the scheme simplifies technical requirements, particularly concerning the rules of origin for Least Developed Country Tariff (LDCT) access, which is expected to enhance participation in Canada's trade programmes. However, the detailed procedures and specific benefits under the GPT+ scheme are yet to be fully announced.

A country will graduate from the GPT programme if it meets either of the two development-based criteria established by Canada: (i) two consecutive years of classification as an upper-middle- or high-income economy, as defined by the World Bank, or (ii) a minimum global export share of 1 per cent for two consecutive years, according to WTO data. Conversely, former beneficiaries may request reinstatement to the programme if they fall below upper-middle-income status and a 1 per cent global export share for two consecutive years.

Japan: Bangladesh currently enjoys duty-free treatment for over 95 per cent of tariff lines under Japan's GSP Scheme for LDCs. After graduation, Bangladesh's existing preferential access will be replaced by the Japanese GSP for developing countries. However, Bangladesh's main exporting items will largely be outside of the relevant GSP for non-LDC economies. Consequently, tariffs on garment exports from Bangladesh after LDC graduation would rise from currently zero to more than 8 per cent. Footwear exports will be subject to tariff hike of 19 per cent from the current level of just 3.6 per cent for LDC exporters.

Republic of Korea: Bangladesh currently enjoys DFQF treatment for over 95 per cent of tariff lines under the Republic of Korea's GSP for LDC. After graduation, these facilities will be replaced by the Asia-Pacific Trade Agreement (APTA) preference for developing countries, which has a narrow coverage for preference, causing tariff hikes in the range of 10-12 per cent for apparel and footwear. Duty concessions (significantly different from duty-free access) for over 2,500 products could then be possible under APTA provisions, for which the rule of origin requirement is of 45 per cent domestic value addition.

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[17] More information can be found here: https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/canadas-unilateral-tariff-preference-programs-for-imports-from-developing-countries.html

India: Bangladesh receives LDC benefits under the South Asian Free Trade Agreement (SAFTA) in the Indian market. This scheme offers zero-tariff access for more than 11,500 products. After LDC graduation, Bangladesh will get preferential access through SAFTA and APTA schemes for non-LDCs as granted by India (UNDESA, 2020c), in which case the duty-free coverage will be extremely limited. The list of sensitive goods on which no preferences are given under SAFTA will increase to 614 from the current 25 under the SAFTA LDC package.[18, 19]

It is estimated that if no favourable agreement/arrangement with India can be reached, Bangladesh's woven garments will see the post-graduation average tariff rate rise to 19.4 per cent, while the corresponding increase for knitwear items will be around 16 per cent. Another important exporting product to India, jute, will face around a 5 per cent tariff on average. The value addition criteria for any preference will also change to 40 per cent from the existing 30 per cent under the SAFTA LDC scheme.

China: China provides duty-free and quota-free market access to Bangladesh for around 99 per cent of its tariff lines under its GSP schemes for LDC. However, China does not offer preferential schemes for developing countries under its GSP regime. As an APTA signatory, Bangladesh will be entitled to tariff concessions under APTA non-LDC preferential access in the Chinese market. However, the products eligible for tariff concessions under APTA non-LDC are quite limited, and the depth of tariff preference is shallow. Bangladesh's apparel exports will face an average tariff of 5 per cent and footwear of around 7 per cent. The value addition criteria will also increase to 45 per cent from the existing 35 per cent. Regional cumulation value addition will increase to 60 per cent from 50 per cent.

Australia: Bangladesh would qualify for the GSP for non-LDC developing countries offered by Australia. However, the top exporting products of Bangladesh, RMG, are not covered by that arrangement. The MFN tariffs on most garments exported by Bangladesh to Australia are 5 per cent. However, Australia has informed that it does not intend to change the tariff regime for graduating LDCs. As such, no adverse impact due to LDC graduation is anticipated.[20]

United States: Bangladesh never received duty-free market access for textile and apparel exports in the United States and has remained suspended from the GSP scheme for other products since 2013, when the U.S. Trade Representative considered that Bangladesh had failed to meet basic standards for workers' rights and worker safety that were a condition of eligibility (USTR, 2013, 2014). Since no preference is currently available, graduation will not change the terms of access to the United States market, and as such, any impacts are expected to be minimal. Under MFN tariffs, Bangladesh is the third largest supplier of apparel to the United States, after China and Viet Nam.

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[18] Full list of 614 sensitive products for non-LDC can be found here:
https://fta.gov.bd/api/files/7210583//9vw3pt_india_Revised_Sensitive_List_(phase-ii)_For_Non-ldcs_hs_2012.pdf

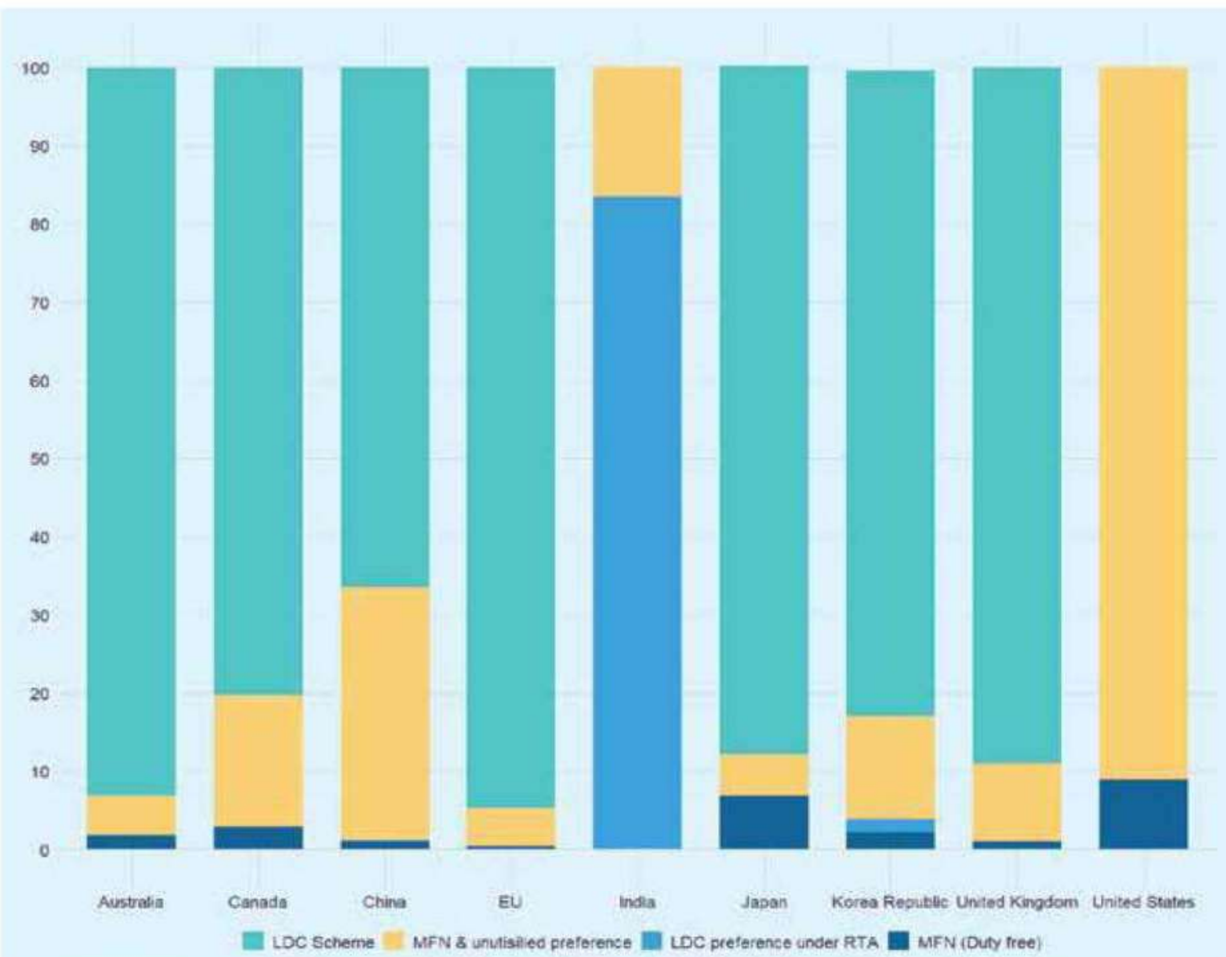
[19] Full list of 25 sensitive products for LDC can be found here:
https://fta.gov.bd/api/files/7210583//3igo6o_india_Revised_Sensitive_List_(phase-ii)_For_Ldcs_hs_2012.pdf

[20] See, The Dhaka Tribune (1 March 2022, online version) "Bangladesh secures duty-free export access to Australia after LDC graduation", which also available at https://www.dhakatribune.com/business/264718/bangladesh-secures-duty-free-export-access-to

2.1.3 Impact of the loss of tariff preference on Bangladesh's exports

Unlike most LDCs, Bangladesh has been the largest beneficiary of LDC-specific trade-related ISMs. No other LDCs have utilised tariff preferences in such a commercially significant manner as Bangladesh has. Almost three-quarters of Bangladesh's merchandise exports receive LDC-specific tariff preference. In Australia and the EU, more than 90 per cent of Bangladesh's exports receive duty-free preference, while in Canada, the Republic of Korea, and the UK, the corresponding figures are more than 80 per cent (Figure 2.4). The garment sector, which has been the driver of this LDC preference-led export growth for Bangladesh, is likely to see profound changes in the importing country trade policy regime after LDC graduation, with tariffs rising significantly. As things currently stand, apart from Australia and the UK, an overwhelming majority of Bangladesh's apparel products will lose tariff preferences and be subject to significant tariff hikes, as stipulated in Table 2.3.

Figure 2.4: Breakdown of Bangladesh's exports by duty types in major destinations



Source: Estimation using IDB and WTO databases. Calculations are based on 2022 data.

Note: In 2022-23, Australia, Canada, China, the European Union, India, Japan, the Republic of Korea, the United States, and the United Kingdom together accounted for approximately 88 per cent of Bangladesh's export revenue. The United

States does not grant Bangladesh any tariff preferences. 'MFN duty-free' indicates the situation when tariffs in the importing countries are zero on an MFN basis, leaving no room for any preference.

Table 2.3: Changes in the respective countries' GSP for apparel products

Markets	Post graduation preference	Post-graduation tariff rate		Product coverage and rules of origin requirement
		MFN	Post-LDC Tariff	
Canada	GPT	16.2%	11.2% for 28 products; MFN tariffs for the rest	GPT coverage is extremely limited. Minimum value addition criteria of 60% must be met to obtain tariff preference.
China	APTA	6.7%	4.4% for 403 products; for the rest MFN tariffs will apply	APTA coverage is limited. Minimum value addition of 45%; for regional cumulation, a value addition of 60% is required.
European Union	GSP+ or Standard GSP	11.5%	GSP+: 0.0% Standard GSP: 9.2%	Due to safeguard measures, Bangladesh's apparel exports will unlikely get any preferences after graduation and will face MFN tariffs.
India	SAFTA	20%	6.0% for 144 apparel products; MFN tariffs will apply for the rest.	SAFTA product coverage is limited, covering only 144 RMG products. To get tariff preference, the minimum value addition requirement is 40%.
Japan	GSP for developing country	9.0%	2.2%	Japan's GSP covers only 38 products. For these products, the value addition requirement is sufficient transformation, resulting in different products under the HS4-digit tariff headings.
United Kingdom	Enhanced Preference	11.5%	0.0%	Enhanced preference covers all the RMG goods of the UK's tariff lines. To get tariff benefits, double-stage transformation criteria must be fulfilled.

Source: UNDP (2022) and Razzaque (2024)

Transitioning from an import duty-free to a duty-paid regime typically signifies some degree of loss of competitiveness, resulting in potential export losses. Also, adverse impacts on a country's exports facing tariff preferences are considered to be typical textbook cases. Consequently, various studies that have attempted to empirically assess the impact of post-graduation tariff hikes report export losses for Bangladesh (Table 2.4).

Table 2.4: A summary of major LDC graduation impact assessment studies

Study	Methodology	Key findings
UNCTAD (2016)	Simulation based on change in tariff preference and gravity model	-Bangladesh's exports could decline by 7.5% due to the loss of preferential market access when graduation scenarios are considered for Bangladesh alone. Under an alternative scenario of all LDCs graduating simultaneously, the reported export loss for Bangladesh is 5.5%.
Rahman & Bari (2018)	Gravity model	-Bangladesh's exports would face 6.7% tariff due to graduation. -The export revenue is projected to decline by 8.7%. -Loss in trade preference will likely negatively impact the country's GDP growth rate, poverty alleviation, employment generation, and other socio-economic indicators
WTO (2020a)	Partial equilibrium	-Exports are estimated to decline by around 14.28% due to effective tariff changes in major destination markets. -Exports will decline significantly in the EU, followed by Canada, Japan, Korea, and China in terms of value. -The reduction in export earnings is expected to be compensated by rising exports in other markets partially.

		-Exports are likely to increase mostly in the USA, followed by the Middle East, Australia and some other regions. -Clothing, textile, leather, footwear, and fish and fish products will experience the largest decline in exports in terms of value.
Razzaque & Rahman (2019)	Partial equilibrium	-Estimated export loss in the EU range between 5% to 19% if Bangladesh gets standard GSP. The export loss increases from 6% to 24%, given that MFN rates are faced in that market. -China is likely to gain the most from Bangladesh's export loss, followed by Germany, Turkey and India.
GED (2020b)	Quantitative impact assessment based on social accounting matrix, dynamic computable general equilibrium model, employment satellite matrix and poverty model	The impact of garment export shocks could: -reduce gross domestic output by 0.39 to 1.17 per cent -decline employment by 0.41 to 0.88 million -increase the poverty rate by 0.14 percentage points -depress labour returns by 5.5 per cent. -impact on household consumption
UNDESA (2020c)	Secondary literature review	-Bangladesh's graduation from LDC status will result in the loss of preferential trade benefits, particularly impacting the garments industry in markets like the EU, Canada, and Japan. -The projected tariff rates for apparel exports to the EU, Canada, and Australia are 9.5, 17.0, and 5.0 per cent, respectively.
Raihan et al., (2022)	Computable General Equilibrium Model	Due to the preference erosion after graduation: -overall exports are expected to decline by 11.8 per cent. -largest decline in exports is for the textile and apparel sector, estimated at 14.7 per cent, followed by food, including fish (11.3%) and leather (3.1%). -exports of jute and jute products, other exports, and services exports are expected to increase. -the GDP is expected to decline by 1.53 per cent of real GDP.
Razzaque (2023)	Partial equilibrium and Computable General Equilibrium Model	-Agriculture exports will likely decline by 6 to 11 per cent due to tariff increment after graduation, as estimated using the partial equilibrium model. In contrast, CGE model suggests that the exports will decline by 3.8 per cent. -Bangladesh's agricultural exports are expected to decrease in the Indian and Chinese markets, mostly compared to other markets, primarily due to either limited coverage or high tariff rates imposed on products from developing countries.

Source: Compiled from the sources mentioned.

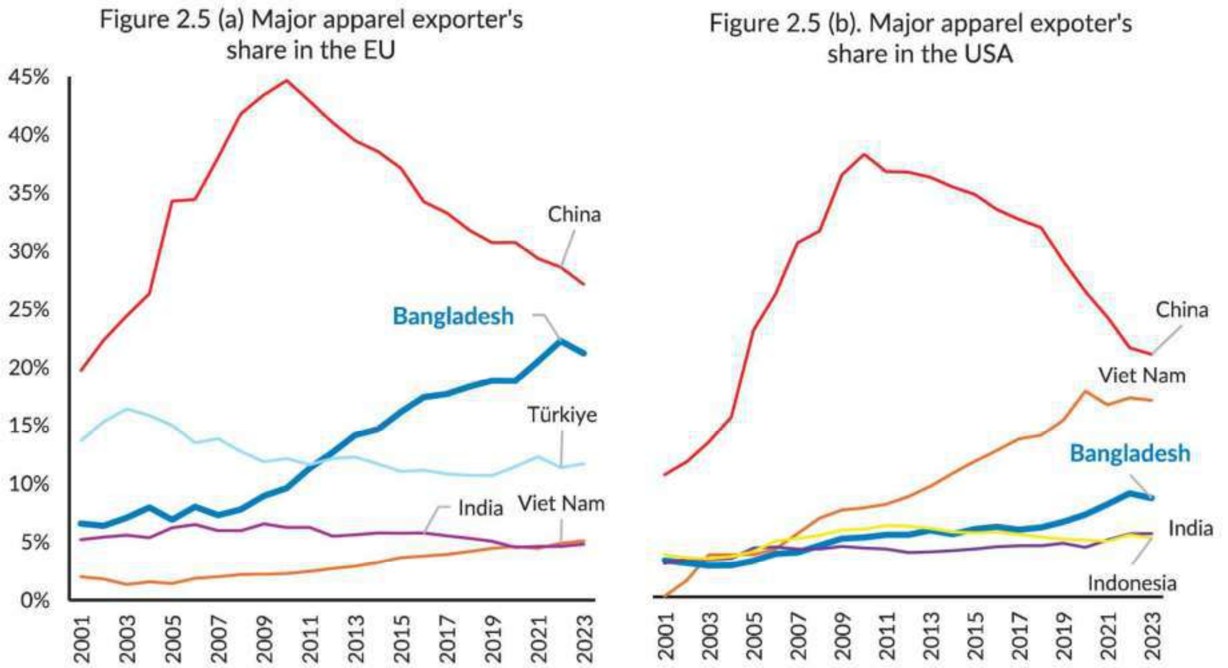
2.1.4 Qualifications of impact assessment studies

Although the impact assessment exercises using empirical methodologies have their values and provide helpful insights, they are also subject to important limitations that need to be taken into consideration.

- First and foremost, economic models cannot capture complexities of the real world and often use assumptions that may be problematic for their operationalisation, affecting the results they derive. Before the phase-out of the Multi-Fibre Arrangement (MFA) quotas, many studies predicted massive export losses, which were unfounded. Furthermore, despite the lack of tariff preference in the US market, Bangladesh has been able to increase its market share, although at a slower pace than in the EU market, where, taking advantage of duty-free market access, Bangladesh emerged as the second-largest apparel exporter (Figure 2.5).

- Global trade policy regimes are evolving in nature, and post-graduation issues can also change significantly. For example, the UK has already provided an almost unchanged tariff regime for graduating LDCs. Amongst others, Canada is currently reviewing its GPT regime with the possibility of extending preferences to non-LDC developing countries. Furthermore, the WTO General Council adopted a decision urging the extension of support measures by the preference-granting countries for the graduating LDCs (WTO, 2023), and some members are likely to respond to it.
- Bangladesh's garment industry benefits from economies of scale due to its bulk production capacity, which significantly reduces the cost per unit. Large-scale operations can help manufacturers secure better prices for raw materials and spread fixed costs over more units, lowering overall production costs. Factory clusters further reduce expenses through shared resources, labour, and logistics. This efficiency allows Bangladeshi manufacturers to offer competitive prices globally, making them a preferred choice for large orders. An ITC study shows that Bangladesh's top exports, such as T-shirts, fetch lower prices due to bulk production, exemplified by $8.7 billion in earnings from cotton T-shirts in 2022-23. The top five products contribute about 50 per cent of RMG export earnings, and the top 20 products account for 78 per cent of total RMG exports. While this level of product concentration may suggest vulnerability, it also highlights Bangladesh's extensive bulk production for these items, indicating a significant competitiveness that is challenging for other countries to replicate.
- If tariffs were imposed on a large supplier such as Bangladesh, the global apparel market could be impacted by rising prices, which can then also help Bangladesh cushion some of the tariff shocks.
- China's share in the global apparel market is falling (Figure 2.5). This is creating more room for suppliers from other countries. Furthermore, the Western countries' 'China Plus One' strategy aims to diversify supply sourcing, potentially benefiting Bangladesh.
- All studies have estimated potential export losses resulting from LDC graduation, assuming a complete capture of preference rent by Bangladesh's exporters. However, there is evidence of imperfect tariff preference pass-through (Razzaque & Islam, 2024), indicating that exporters only partially benefit from the preferences extended to them. In such cases, export losses could be overestimated.

Figure 2.5: Major apparel exporter's share in the EU and the USA



Source: Estimated from ITC data as in Razzaque (2024).

Despite the limitations of these impact assessment studies, it is crucial to recognise that potential impacts can affect different groups in various ways. For example, Bangladesh's transition from LDC status could have significant gender implications. Given the substantial role of women's employment in the RMG sector, any competitiveness challenges or export declines in this sector could disproportionately affect women's job opportunities. In the 1980s and 1990s, the sector's workforce was predominantly female. However, with increased capital-intensive production and automation, their share has dropped to 39 per cent, according to the Labour Force Survey 2022.[21] The loss of trade preferences could further pressure export competitiveness, leading to deepened automation and thereby reducing women's employment share in the garment industry further and potentially pushing them into informal employment with precarious conditions. Additionally, reduced concessional development financing could squeeze resources for sectors like health, education, and social protection, disproportionately impacting women and other population groups more dependent on public support in these areas.

In the same fashion, there are also concerns that SMEs might be more affected than their larger counterparts if there would be any adverse implications arising from LDC graduation. It is

[21] Between 2017 and 2022, women's jobs in the industry fell by 0.18 million. While the reasons are not well understood, it could be that women's jobs are predominantly in repetitive tasks for longer hours that are easily automated. Additionally, technological advancements might favour men due to women's generally weaker educational background and other cultural factors that prevent their upward mobility in job hierarchy that are often associated with operating machines and supervising factory work. The total women employment in the country declined to around 2 million in 2022 which was 2.86 million in 2016-17 (BBS, 2023a).

estimated that small and medium-sized enterprises (SMEs) account for 11 per cent of all export earnings (UNDP, 2024). The loss of trade benefits and reduced international support could particularly hinder their growth and development prospects by increasing the cost of finance and imposing additional regulatory and compliance burdens.[22] Therefore, the distributional consequences of any potential impact should be given a closer look.

2.1.5 Preferential treatment for services and service suppliers (the service waiver)

Despite the preferential measures under the General Agreement on Trade in Services (GATS), Bangladesh and other LDCs have not benefited from the service waivers, primarily due to the non-operationalisation of service waiver modalities. Liberalisation under the so-called Mode 4, Movement of Nature Persons, has not been achieved, and thus, no significant preferences could be secured to benefit from. Furthermore, supply-side constraints are one major problem for Bangladesh in benefiting from the expansion of service exports (UNDESA, 2020c). Consequently, post-graduation, Bangladesh is unlikely to face significant erosion of preferences or adjustment challenges in the service sector (GED, 2020b).

GATS, a WTO-led multilateral agreement from the Uruguay Round negotiations, governs international trade in services and comprises a framework Agreement with basic obligations for all members, national schedules of commitments for further liberalisation, and annexes addressing specific service sectors. Special provisions under GATS, like the 2011 LDC service waiver, were designed to enhance LDC participation in services trade. Despite initial resistance, by 2015 over 25 countries had committed to providing preferential treatment in certain sectors and supply modes, continuing these preferences until 2030. However, until now, market openings in these sectors have been extremely limited.

2.2 Special treatment on obligations and flexibilities under WTO rules

WTO agreements offer various S&DT provisions for LDCs, from which Bangladesh has benefited. Such benefits will no longer be available once Bangladesh graduates from the group of LDCs. The withdrawal of various LDC-specific provisions is likely to impact Bangladesh significantly after graduation.

2.2.1 Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)

As an LDC, Bangladesh has benefited from two primary S&DT provisions under the TRIPS agreement: the general transition period and the pharmaceutical waiver. Additionally, Article 66.2 of the agreement aims to foster technology transfer to LDCs, enabling them to establish a sound

[22] An estimate shows that Bangladesh's SMEs could potentially lose $295.9 million in export revenue when all LDC-specific trade facilities are phased out by 2030 (Bari, 2023). Specifically, RMG SMEs might lose $263.6 million, while non-RMG SMEs could lose $32.3 million in export revenue by 2030.

and viable technological base.[23] Although there are a few instances where developed countries have extended their support for capacity building under this provision, overall, the technology transfer has been limited (GED, 2020b; UNDESA, 2020c). Consequently, the loss of this flexibility is unlikely to have significant implications, as it has been underutilised. Any potential consequences would be confined primarily to the first two S&DT elements.

The general transition period has allowed Bangladesh a longer time to implement the provisions of the TRIPS agreement, apart from core provisions.[24] Initially, LDCs were not required to comply with all provisions of the TRIPS Agreement until 1 January 2006. However, after several extensions, the general transition period is now extended till 1 July 2034 or until the member ceases to LDC, whichever comes first. Thus, Bangladesh needs to comply with the TRIPS provisions upon graduation. In view of this, Bangladesh recently enacted a new patent law, known as the Bangladesh Patent Act 2023, and updated the Bangladesh Industrial Design Act 2023 and Copyright Act 2023. The new patent act now grants the level of IP protection for 20 years, amended from the previous 16 years.

The enforcement of IP protection in Bangladesh has been an issue.[25] This affects not only foreign patent holders but also local publishers and producers, disincentivising intellectual property development. However, implementing the TRIPS agreement could also restrict access to books, research papers, and software for students and academics (UNDESA, 2020). Small companies, which often rely on unlicensed software, will face higher costs as the country moves towards TRIPS compliance (Syam & Syed, 2023).

As per the General Council decision on 30 November 2015, WTO LDC members are not required to protect pharmaceutical patents either until 2033 or until their graduation year, whichever comes first. LDCs are also exempted from the obligation to provide for the possibility of filing mailbox applications and to provide exclusive marketing rights until January 2033. This waiver, complemented by domestic policy initiatives, is thought to have brought significant benefits to Bangladesh, which stands as the only LDC satisfying nearly 98 per cent of its domestic pharmaceutical demand (UNCTAD, 2024). This waiver allows Bangladeshi firms to manufacture any medications regardless of their patent protection status. They can also export these drugs to other LDCs or non-WTO member countries, provided that the destination country lacks patent protection. Additionally, any WTO member state can import pharmaceutical products from Bangladesh through parallel importation at a reduced cost.[26] It is widely anticipated that approximately 10 to 20 per cent of local pharmaceutical products are patented drugs. This enables

[23] Article 66.2 of TRIPS Agreements says: "Developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base."

[24] The three core provisions of TRIPS are: national treatment (article 3), most favoured nation (articles 4) and right of priority (article 5).

[25] This is reflected in *Intellectual Property Right (IPRs) Action Plan for Bangladesh in the Context of LDC Graduation*, prepared by the IPR Sub-Committee under the National Committee on Graduation, Government of Bangladesh.

[26] Parallel importation occurs when goods are purchased in one country, where the price is lower, and then imported into another country to be sold at a profit, often at a price lower than that offered by the official distributor in the destination country.

domestic firms to offer them at significantly lower prices compared to their internationally patented counterparts, thanks to the TRIPS waiver (UNCTAD, 2024).

As Bangladesh does not produce many patented drugs, the introduction of patent protection is unlikely to cause major disruptions. Recent changes to the patent act have capitalised on accessing most benefits by not granting patent protection for drugs already manufactured locally under international patent protection.[27] Consequently, LDC graduation *per se* is unlikely to cause drug prices to rise; however, in the future, any newly patented drugs cannot be produced locally, even if there is domestic capacity to do so, without the permission of patent holders and paying the appropriate royalty fees, as permitted within the Bangladesh legal framework. Under such circumstances, healthcare costs could rise (GED, 2020b; South Centre, 2020). However, this may not be a major concern given that domestic capacities to produce on-patent drugs are limited.

The post-LDC landscape will also be subject to changes in preferential market access in certain countries. However, Bangladesh currently has very limited pharmaceutical exports, and in many of Bangladesh's exporting destinations, the tariffs on pharmaceutical products are negligible. As such, the potential loss of tariff preferences in destination markets affecting export competitiveness after LDC graduation is negligible. Nonetheless, due to WTO rules, export subsidies currently provided to exporters of medicines and active pharmaceutical ingredients (APIs) may need to be discontinued, which could impact medicine exports. It has been found that a complete cessation of export incentives might lead to a decline of 5.8 to 6.9 per cent in pharmaceutical exports, amounting to a loss of approximately \$10 to \$12 million in medicine exports (Razzaque et al., 2024b).

2.2.2 Flexibilities for providing support to Agriculture

As an LDC, Bangladesh has benefited from the flexibilities provided under the WTO's Agreement on Agriculture (AoA). This agreement stipulates that members refrain from imposing measures such as import quotas and bans, variable import levies, minimum import prices, discretionary import licensing, and voluntary export restraints, among others. Bangladesh does not use such non-tariff measures, and consequently, its graduation from the LDC category will not limit its trade

[27] The impact of losing the pharmaceutical waiver is likely to be much less severe than previously anticipated. This is primarily due to the integration of existing flexibilities under the TRIPS agreement into the national legal framework. The Bangladesh Patent Act (BPA) 2023 excludes pharmaceutical products from patent protection, allowing Bangladesh to continue benefiting from the waiver as an LDC. Section 6(2) of the BPA 2023 states that, in line with the TRIPS Council's decision, pharmaceutical and agricultural chemical products (agrochemical products) will remain outside the scope of patent protection for as long as the exemption period is in force. Also, Bangladesh will not have to provide patent protection for the drugs invented before the LDC graduation timeline, as those drugs do not fulfil the novelty criteria (Section 27 of BPA 2023). The BPA 2023 also includes provisions against evergreening, preventing patents for minor improvements on existing inventions. Additionally, the Act allows for parallel importation of patented products at lower costs, encouraging domestic patent holders to maintain competitive pricing. Section 36 of the BPA details cases for issuing compulsory licenses, ensuring that if a pharmaceutical patent holder refuses to grant a license in the event of a national emergency or other critical situations, the patented products may be produced without the owner's consent. The BPA 2023 further provides exceptions for personal, non-commercial use, as well as for research, examination, and educational purposes. Earlier, Bangladesh had established a mailbox for storing patent applications with Exclusive Marketing Rights (EMR) for pharmaceutical products, which was a requirement for LDC, however, it has been closed as this requirement were waived.

policy flexibility in this area. While developed and developing countries had to adhere to tariff reduction commitments, LDCs were only required to bind their agricultural tariff lines (WTO, 2020b). Bangladesh has bound tariffs on 100 per cent of its agricultural products. Tariff negotiations in agriculture were taking place under the Doha Round of trade talks, which have since stalled, leaving no immediate expectations for tariff reductions. Moreover, Bangladesh's bound tariff rates are significantly higher than the applied rates.

Available evidence seems to suggest that flexibilities for providing support to agriculture will remain unaffected by LDC graduation. The AoA categorises such support and subsidies into three boxes – Amber, Blue, and Green.[28] Price support and/or subsidies directly linked to production quantities are classified under the Amber box.[29] These subsidies are considered the most trade-distorting and are subject to a 'de minimis' threshold, typically 5 per cent of the value of agricultural production for developed countries and 10 per cent for developing countries. According to the recent notification submitted by Bangladesh to the WTO Committee on Agriculture, the Aggregate Measurement of Support (AMS) provided to the agricultural sector is around 1.05 per cent, which is less than the de minimis level for developing countries. Consequently, Bangladesh will not be required to reduce its domestic support measures in agriculture (Table 2.5). A minor change following graduation will result in an increased frequency of notifications regarding domestic support measures. While LDCs are required to report to the WTO every two years on their use of domestic support, developing country members must submit such notifications annually.

Table 2.5: Domestic support provided by Bangladesh for the 2020-21

AMS type	Product	AMS support	Value of production	AMS as share of production
Product specific	Rice	259.35	13,735.15	1.89%
	Wheat	16.63	357.44	4.65%
Non-Product		433.51	53,517.56	0.81%
Total		709.49	67610.15	1.05%

Source: Committee on Agriculture (2024), WTO. Notification No: G/AG/N/BGD/11/Rev.1

The Agreement on Agriculture restricts export subsidies; apart from LDCs and Net Food Importing Developing Countries (NFIDCs), no members can provide export subsidies for agricultural products. Moreover, according to the Nairobi WTO Ministerial Decisions adopted at the 11th Ministerial Conference in December 2015, LDCs and NFIDCs are permitted to continue providing marketing-related subsidies until 2030.[30] Additionally, these countries can enjoy 36 to 54 months of repayment terms for imports benefiting from export financing support compared to 18 months for developing countries. Recent trade data show that agricultural goods exported from Bangladesh are less than those imported into the country, and the government has officially

[28] There are also exemptions for developing countries (sometimes called an "S&D box" or "development box").
[29] Blue box is defined as domestic support measures on which members are yet to reach an agreement. They are not subject to reduction commitments. Subsidies that have minimum distortions are in Green Box. It does not involve price support to producers and transfers from consumers. These subsidies mostly include government service programmes and direct payments to producers.
[30] Any developing country member of WTO can be considered as NFIDC if the country has been a net importer of basic foodstuff in three years of the most recent five years.

requested the WTO to include the country within the group of NFIDCs.[31] Inclusion in the list of NFIDCs would enhance policy flexibility in supporting certain agricultural export-related activities.

2.2.3 Policy space to provide export subsidies

The Agreement on SCM addresses the use of subsidies and provides remedial processes to counteract the harm caused by subsidised imports. Subsidies based on export performance and local content requirements are completely prohibited, as the agreement states. However, recognising the significant role subsidies can play in stimulating economic activities, especially in less developed nations, the agreement exempts LDCs and developing countries with GNP per capita income lower than $1,000 at 1990 prices from adhering to these rules unless they are globally competitive in specific products. Currently, Bangladesh offers various schemes that fall under the category of export subsidies, such as cash incentives, income tax rebates, and interest rate subsidies (Khan, 2022, Razzaque et al., forthcoming). In 2022-23, Bangladesh provided BDT 8,689 crore in cash incentives and BDT 25,766.57 crore in agricultural subsidies, according to data from Bangladesh Bank and the Monitoring Cell. Such support has to be withdrawn after graduation if Bangladesh is not included in Annex VII of the SCM, which lists countries with less than $1,000 per capita income at 1990 prices, allowing them to use export subsidies. A proposal has been submitted on behalf of the LDC group to allow graduated LDCs with per capita GNP below $1,000 at constant 1990 prices to continue benefiting from the exemption for export subsidies (WT/GC/W/752; G/C/W/752). However, no ministerial decision has been taken in this regard. Whether Bangladesh's GNI per capita would remain under the $1000 threshold depends on some economic factors such as GNI, exchange rate, and population growth, as well as the methodology used to calculate it.[32] As per the WTO calculations, Bangladesh's GNI per capita in 1990 prices was $799 in 2022 (Figure 2.6). The BBS shows Bangladesh's GNI per capita BDT 2,41,047 in 2021-22, rising to BDT 3,06,144 in 2023-24, reflecting a 27 per cent increase. Meanwhile, the taka's exchange rate against the dollar depreciated by 27.42 per cent.[33] Therefore, at this stage, it is difficult to predict how long Bangladesh's GNI per capita will remain below the threshold level.

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[31] As per the provisions used by the WTO, a country can be recognised as a net food-importing country if its imports of agricultural and food products exceed their exports of similar products in three out of five consecutive years. All types of edible items are considered food products by the WTO. Bangladesh imported food products worth of about $11 billion in 2021-22 as against its exports of only U$ 796 million such food items.

[32] The methodology of calculating the GNI per capita at 1990 prices can be found in WTO documents G/SCM/38 and G/SCM/110.

[33] According to the Bangladesh Economic Review 2024, the average exchange rate against the dollar was BDT 86.3006 during 2021-22 and BDT 109.3698 during the period of July to February in 2023-24.

Figure 2.6: Bangladesh's GNI per capita at constant 1990 dollars

Source: Compiled from WTO secretariat note (note number G/SCM/W/585 and G/SCM/W/594)

Export subsidies can be interpreted in terms of equivalence of tariff preferences and are likely to have the same impact on export competitiveness as generated through market access preference (Cadot et al., 2006). Therefore, discontinuing such support will add to the pressure on export competitiveness. When the loss of tariff preference in importing countries and discontinued export subsidies are taken together, the pressure on export competitiveness could be quite significant.

2.2.4 Flexibilities in dispute settlement in the WTO

The Dispute Settlement Understanding (DSU) within the WTO Agreement includes procedures for resolving disputes and contains S&DT provisions offering additional flexibilities for LDC members (WTO Secretariat & EIF, 2022). Article 24 of the DSU urges members to exercise restraint in bringing cases against LDCs and allows mediation by the Director-General or the Chair of the Dispute Settlement Body upon an LDC's request before forming a panel.[34] LDCs benefit from support from the Advisory Centre on WTO Law (ACWL), receiving free legal advice and training, with reduced fees for legal representation in disputes.

Upon graduation, Bangladesh will lose its Special and Differential Treatment (S&DT) benefits. However, the WTO's 13th Ministerial Decision on Smooth Transition Support Measures for Graduated LDCs (WT/MIN(24)/34 - WT/L/1189), adopted in February 2024, ensures that graduated countries retain the benefits of Article 24 of the Dispute Settlement Understanding (DSU) and receive specific technical assistance for three years post-graduation. As a result, Bangladesh will continue to benefit from these provisions until November 2029.

[34] Although LDCs seldom engage in WTO dispute processes, Bangladesh notably participated as a complainant in a dispute against India over anti-dumping measures on batteries in 2006, which was resolved through consultations.

2.2.5 Trade-related capacity building and training

Several initiatives are presently implemented to strengthen capacity building and provide training to LDCs, aiding them in meeting their WTO obligations and increasing their involvement in global trade. Certain initiatives will remain accessible for a specific period after LDC graduation before they are completely phased out.

Enhanced Integrated Framework for Trade-Related Assistance for LDC (EIF)

The EIF is the only multilateral partnership dedicated to helping LDCs use trade as a means of growth, sustainable development, and poverty alleviation. It consists of two funding facilities: Tier I focuses on institutional and policy-related assistance, including the development of Diagnostic Trade Integration Studies (DTIS) that help LDCs tackle trade-related challenges and integrate trade policy into their national institutional frameworks and development strategies. Tier II projects address supply-side constraints. Since joining the EIF in November 2009, Bangladesh has received support for various projects totalling around $300 million. Post-graduation, Bangladesh will be eligible for EIF for another five years, assuming that EIF Phase 2, which is currently under negotiation, maintains this provision from the current EIF.

Standards and Trade Development Facility

The Standards and Trade Development Facility (STDF) is a global partnership that has supported developing countries in implementing sanitary and phytosanitary (SPS) standards, particularly those outlined in the WTO Agreement on Sanitary and Phytosanitary Measures. It aims to allocate at least 40 per cent of its total project financing to LDCs or other low-income countries (OLICs), with a reduced co-financing requirement for technical assistance. LDCs and OLICs are only required to contribute a minimum of 10 per cent, whereas lower middle-income countries must contribute 20 per cent and upper-middle-income countries 60 per cent. STDF currently manages one Bangladesh-specific project and two regional projects, Bangladesh being among the beneficiaries.[35] Following graduation, financing for Bangladesh under this programme is likely to decline, although, given its significance, this should not be a major concern.

Support from the Advisory Centre on WTO Law (ACWL)

The Advisory Centre on WTO Law (ACWL) is a Geneva-based intergovernmental organisation established in 2001 to provide legal advice, training, and support in WTO dispute settlement proceedings to developing countries and LDCs. As an LDC, Bangladesh is entitled to the services of the ACWL without needing to be a member. LDCs are charged an hourly fee of $40, capped at $17,800 for support in WTO dispute panel proceedings, which is lower than the fees for developing countries and significantly below market rates. After graduation, Bangladesh will be eligible for membership in the ACWL, which is categorised based on its share in global trade. This membership requires a one-off payment of CHF 81,000, enabling Bangladesh to access ACWL legal

[35] The Bangladesh-specific project is titled "Prioritizing SPS Investments in Bangladesh using P-IMA Pesticide Residue." Additionally, there are two regional projects: "Managing Aflatoxin Contamination in Asia using One Health" and "Mitigation through the Promotion of Biopesticides."

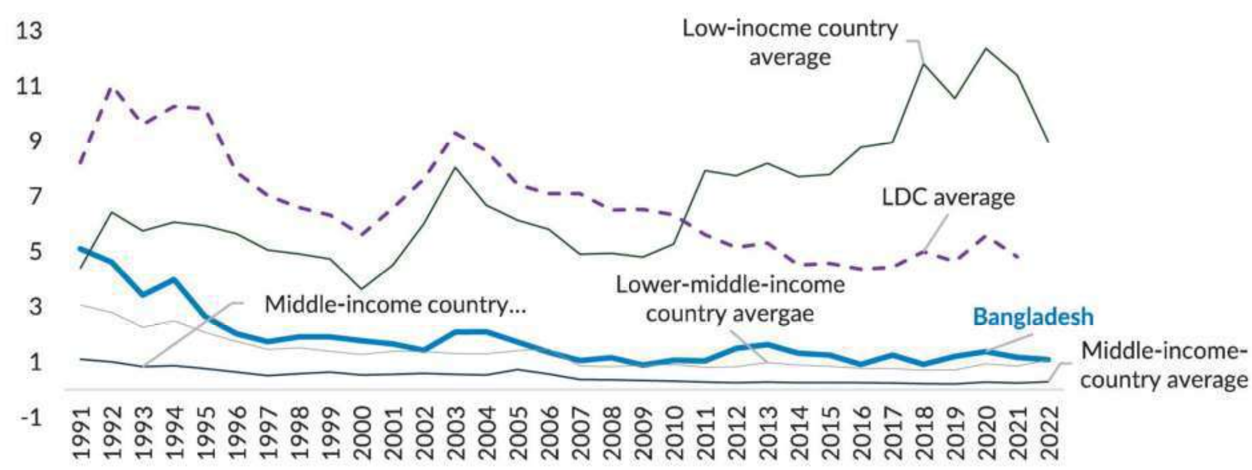
assistance at a rate of CHF 162 per hour for preparing for WTO dispute panel proceedings, with a total cost cap of CHF 71,928.[36]

2.3 Implications for concessional development financing

2.3.1 Trends in development financing in Bangladesh

Development assistance, including grants and concessional loans, received both bilaterally and multilaterally, has played a vital role in financing Bangladesh's development. Official development assistance (ODA) is utilised for implementing social and physical infrastructure projects, along with other supportive interventions such as education, health, skill development, and women empowerment. Bangladesh has undergone a significant transformation, with the relative importance of development assistance decreasing from about 8 per cent of GNI in the 1980s to just above 2 per cent in 2022-23, although in absolute terms, the inflow has been on a rising trend (Figure 2.7).[37] According to the data reported by the Economic Relations Division (ERD), the total aid inflow in Bangladesh rose from $1.3 billion in 2000-01 to $10 billion in 2022-23, with a cumulative inflow of around $43 billion over the past five years. Around one-third of the Annual Development Programme (ADP) is financed by ODA, and this share has remained relatively stable as the ADP has expanded, reflecting large-scale infrastructure projects (UNDESA, 2020c).

Figure 2.7: Net ODA received (% of GNI)



Source: OECD Creditor Reporting System (OECD-CRS).

[36] For details: https://www.acwl.ch/fees/

[37] The estimates are Based on OECD data on ODI flows and World Bank GNI estimates. According to OECD, ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 per cent. OECD data does not report ODA flows from China, India and some other non-DAC countries. Therefore, the actual estimates can we higher than reported in OECD.

There is concern that foreign assistance might diminish following LDC graduation; however, most principal aid recipients are not LDCs. For instance, only four of the top ten recipients were LDCs in 2022, receiving less than a quarter of the total ODA. Patterns of aid allocation suggest that historical and bilateral relationships with development partners and recipient country-specific situations, such as civil wars and unrest, natural disasters, health epidemics, and refugee crises, significantly influence aid flows. Only a few UN bodies and partners have specific budgets allocated for LDCs. Overall, LDC graduation may not significantly disrupt the receipt of ODA and other forms of foreign aid.

2.3.2 Bilateral Cooperation

Bilateral cooperation programmes are designed based on several factors, including the policies and priorities of both development partners and recipients. While certain countries may have specific provisions in designing the cooperation programmes, membership in the LDC category is not often a determining factor in the design of bilateral cooperation programmes. Instead, these programmes are designed based on a blend of factors such as income levels, national needs and vulnerabilities, development plans, historical and cultural ties, donor policies, priorities, and strategies, among others. While the LDC category does inform the formulation of development cooperation policies on a global scale, it usually does not serve as the major determinant in developing the nature and extent of bilateral cooperation. In Bangladesh, bilateral development programmes align closely with national planning instruments and priorities. Additionally, ongoing dialogue between the government and development partners facilitates collaboration and coordination. Development partners frequently engage in joint projects to pursue mutual goals and objectives. Bangladesh's graduation from the LDC status is unlikely to impact development finance from bilateral donors as they often do not consider LDC status for ODA (UNDESA, 2020c).

Canada: Canada is one of Bangladesh's key development partners. In 2022, Canada's net ODA flows to Bangladesh amounted to $91.12 million (OECD, n.d.). Canada's current focus of development assistance in Bangladesh includes gender equality and the empowerment of women and girls, healthcare (including sexual and reproductive health and rights), as well as skills training and assistance to the ready-made garment industry.[38] A gradual shift in Canadian development assistance to Bangladesh is expected to happen as the relationships are evolving from a traditional donor-recipient role to a collaborative partnership, shifting from financial assistance to technical and knowledge transfer (UNDESA, 2020c). This is due to Bangladesh's attainment of middle-income status and other pertinent factors rather than solely driven by its graduation from the LDC status.

China: A relatively new but prominent development partner for many developing countries, China's foreign assistance strategy is closely linked to its flagship initiative, the Belt and Road Initiative (BRI), identifying several areas of technical cooperation aligned with the UN's Agenda 2030 or the Sustainable Development Goals (SDGs). Chinese development cooperation with Bangladesh is governed by bilateral relationships, driven by mutual interests, and is not dependent on

[38] These development priorities are in line with Canada's Feminist International Assistance Policy.

Bangladesh's LDC status. Development aid flows from China have increased recently through BRI projects, and LDC graduation is not expected to impact Chinese development financing in Bangladesh.

Germany: Germany's development cooperation with Bangladesh prioritises renewable energy and energy efficiency, sustainable urban development, technical and vocational education and training, socially and environmentally responsible supply chains, trade and sustainable infrastructure, as well as the conservation of nature and natural resources.[39] The net inflow from Germany to Bangladesh stands at $192.4 million in 2022, of which more than 90 per cent of Bangladesh's ODA from Germany is in the form of grants. The Federal Ministry for Economic Cooperation and Development (BMZ) describes Bangladesh as a 'Bilateral Partner' in its long-term cooperation strategy, BMZ 2030, aimed at achieving shared development objectives.[40] Bangladesh's graduation could result in Germany shifting from grants to concessional loans, although grant aid may still be provided for certain areas (UNDESA, 2020c). However, any adjustments to aid programs following graduation would not occur automatically and would depend on various additional factors (Tavares, 2021).

India: India has extended development assistance to Bangladesh across various sectors, including infrastructure, education, healthcare, human resource development, connectivity enhancement, and defence. Most of the recent Indian development aid to Bangladesh has been in the form of loans for diverse development projects. The close economic relationship between the two countries is underpinned by mutual benefits and shared interests. LDC graduation is not expected to affect the flow of development finance from India.

Japan: Japan is providing development assistance to Bangladesh in the areas of communication infrastructure, power, energy, telecommunication, health care, education, human resource development, urban and rural development, etc.[41] In 2022, the net ODA disbursement from Japan stands at $2.3 billion. The LDC category is not a major determinant of Japanese bilateral cooperation with Bangladesh. In a previous UN impact assessment exercise, Japan stated that the LDC graduation would not affect its decision regarding grant funding or technical collaboration (UNDESA, 2020b, 2020a, 2020c). However, it is important to note that the potential impact of graduation can occur due to the changing terms and conditions for ODA loans. Bangladesh benefits from the second most favourable category of ODA loans stipulated for lower-middle-income LDCs.[42] Post graduation, Bangladesh will qualify for another category of ODA loan from Japan as

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[39] https://www.bmz.de/en/countries/bangladesh

[40] The BMZ 2030 introduces new recipient categories: (i) bilateral partners, (ii) global partners, and (iii) nexus and peace partners. There are two special forms of bilateral partnership – reform partnerships (for reform-minded partnerships to provide support through new instruments of reform financing), and transformation partnerships (to provide special support to the EU's neighbours in their political and economic transformation). Bangladesh is categorised as reform partner.

[41] To know more: https://tokyo.mofa.gov.bd/en/site/page/EconomicRelations#:~:text=Since%20independence%2C%20Japan%20has%20committed,grants%2C%20loans%20and%20technical%20assistance.

[42] A specific group of borrowers, termed "low-income LDCs," receives the most favourable Official Development Assistance (ODA) loan terms, irrespective of the sector or field. These terms include a minimal interest rate of 0.01 per cent and a repayment period of 40 years, with a grace period of 10 years. Japan also offers a three-year transition period to low-income LDC loan recipients who transition to the next category: "non-LDC low-income countries and LDCs with

a non-LDC lower-middle-income country. Interest rates for non-LDC lower-middle-income countries are 25 to 60 basis points higher than those for LDCs (UNDESA, 2020a).

Republic of Korea: LDCs, including Bangladesh, receive the most favourable terms of concessional loans operated under the Economic Development Cooperation Fund (EDCF), with the lowest interest rates and longest repayment and grace periods.[43] After graduation, Bangladesh will still have access to concessional EDCF loans, but with higher interest rates and shorter repayment periods, depending on its income classification by the World Bank. Graduation will have little or no impact on ODA grants provided by the Korean International Cooperation Agency (KOICA) (Tavares, 2021).

United States: Development aid from the United States in Bangladesh focuses on various areas, including sustainable agriculture, enhanced food security, modernisation of small-scale farming, bolstering trade and business environments, adapting to climate change, preserving biodiversity, enhancing public health and education, disaster preparedness and response, and advocating for democratic institutions and practices including the labour sector and workers' rights to assemble.[44] In 2022, Bangladesh received approximately $375.63 million in ODA from the USA. The United States' development cooperation in Bangladesh is independent of Bangladesh's LDC status, so graduation is not anticipated to bring significant changes in aid flows. Any potential changes in the type of assistance provided in the future would likely be influenced by Bangladesh's income level and changes in the United States' international development policies rather than the country's graduation from the LDC category.

Other countries: LDC status does not determine aid allocation from Australia, the United Kingdom and other Development Assistance Committee (DAC) countries. However, potential changes in the nature of assistance in the coming years would likely be determined by Bangladesh's per capita income level and shifts in the development partner countries' aid allocation policies and priorities.

2.3.3 Multilateral donors

Most international financial institutions and other multilateral organisations typically do not use LDC designation when distributing resources and aid. Funding decisions from these institutions are primarily influenced by income level, creditworthiness, and other factors rather than a country's LDC status. Hence, Bangladesh's LDC graduation will not significantly change the financial flows and loan terms from multilateral organisations. However, for Bangladesh, there is a gradual shift in financing terms from multilateral organisations, which will continue in the coming years due to a rise in per capita income and other relevant factors.

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higher incomes." In this category, the interest rate for loans varies from 0.1 to 0.6 per cent, with repayment periods ranging from 15 to 40 years and grace periods of 5 to 10 years, depending on loan terms and sectors. The third category consists of non-LDC lower-middle-income countries, which are eligible for preferential loans with interest rates ranging from 0.35 to 1.2 per cent and shorter grace periods.

[43] The five categories of partner countries are (1) LDCs identified by the United Nations; (2) countries having a GNI per capita less than or equal to $1,045; (3) countries having a GNI per capita $1,046–$1,985; (4) countries having a GNI per capita $1,986–$4,125; and (5) countries having a GNI per capita $4,126–$12,735.

[44] https://www.state.gov/u-s-relations-with-bangladesh/#:~:text=U.S.%20Assistance%20to%20Bangladesh,of%20U.S.%20assistance%20in%20Asia.

- World Bank: Eligibility for International Development Association (IDA) financing of the World Bank depends upon per capita income, risk of debt distress, and creditworthiness for International Bank for Reconstruction and Development (IBRD) borrowing rather than LDC status. Bangladesh currently receives IDA support on blend credit terms.[45] Its graduation from LDC status is not anticipated to affect funding from the World Bank.
- International Monetary Fund (IMF): The IMF uses World Bank-defined low-income country criteria, which include the IDA per capita GNI threshold, market access conditions, and short-term vulnerabilities, to allocate concessional loans. Graduation will not affect the availability of IMF loans or grants.
- Asian Development Bank (ADB): Bangladesh receives ADB funds on OCR blend terms. The country's LDC graduation will not alter its country lending classification or lending terms with ADB.
- Asian Infrastructure Investment Bank (AIIB): The AIIB offers various funding arrangements, none of which are linked to LDC. However, some of the financing options are related to the eligibility criteria for International Development Association (IDA) loans provided by the World Bank. Bangladesh's LDC graduation is not anticipated to affect its ability to access financing from the AIIB.
- European Union Institutions: EU institutions do not consider LDC status when providing funds; instead, the financial cooperation depends on the EU's priorities and the recipient country's national development strategies. Therefore, graduation from the LDC category is unlikely to affect EU development assistance to Bangladesh.

United Nations Organisations

Graduation from the LDC category is anticipated to have minimal impact on UN assistance in Bangladesh, as many UN-system organisations allocate a substantial portion of their technical and financial resources according to the specific needs of individual countries. Ongoing shifts in assistance, from direct intervention towards capacity building and technical training, are primarily driven by the country's developmental progress and broader agency policies rather than LDC status. Table 2.6 below summarises the scope of accessing UN-based assistance after graduation.

Table 2.6: Access to UN organisations-based assistance after graduation

UN Organisations	
UNDP	-UNDP allocates a portion of its regular resources to LDCs. -Though regular resources make up a relatively small portion of UNDP's budget in Bangladesh, graduation may have an impact on the country's allocation of regular resources in subsequent UNDP budget cycles, although any change would take other factors into account, such as country-specific requirements and UNDP's overall funding
Universal Postal Union (UPU)	-After graduation, Bangladesh would no longer be eligible to access UPU funds for procurement of equipment or technical assistance for postal agents.

[45] Bangladesh along with several other countries are considered under blend credit terms. More information on this can be found at https://ida.worldbank.org/en/about/borrowing-countries.

	After graduation, certain forms of country-specific technical assistance may no longer be available, but Bangladesh would still be included in regional activities and capacity-building initiatives.
International Atomic Energy Agency (IAEA)	-Graduation from LDC will not have any impact on accessing IAEA resource support, capacity-building, and training opportunities. -However, after graduation, Bangladesh will need to finance 5% of biannual project budgets under its Technical Cooperation Fund (TCF).
United Nations Volunteers (UNV)	-UNV's assistance is not contingent on a country's LDC status. Both LDCs and non-LDC developing countries can receive UNV support based on their specific needs. -UNV's government cost-sharing general management support fees (GMS) for LDCs are set at 3% and for others at 8 per cent. Thus, after graduation, Bangladesh may experience an increase in cost-share. However, the actual rate is determined through negotiations with the respective country and is influenced by various factors.
International Fund for Agricultural Development (IFAD)	-IFAD provides grants and concessional loans for agriculture and rural development. -Resource allocation is based on a combination of factors, including per capita income, rural population, and the relative performance of countries in establishing conducive institutional and policy frameworks for sustainable rural development, but not on LDC status.

Source: UNDESA (2020c), Tavares (2021), UNDP (2022)

Other funds

Bangladesh benefits from several other multilateral funds, including GAVI, the Global Fund, the OPEC Fund for International Development, and the Global Development Facility. LDC status is not a requirement for accessing these funds, so Bangladesh's graduation is not expected to impact its access to them (Table 2.7).

Table 2.7: Access to other funds after graduation

Other funds	Changes due to LDC graduation
GAVI, the Vaccine Alliance	-Gavi, the Vaccine Alliance provides funds to increase immunisation in poor countries. -Eligibility conditions depend on GNI per capita and certain other conditions, assessed by an independent group of experts, but not on LDC status.
OPEC Fund for International Development (OFID)	-The OFID provides funding to stimulate economic growth and social progress in low- and middle-income countries. -It gives higher priority to LDCs but supports all developing countries. Thus, graduation will not affect access to this fund.
Global Environment Facility (GEF)	-The GEF provides funds for practical programs and policy reform in five focal areas: biodiversity, climate change, land degradation, international waters, and chemicals and waste. -Funding is allocated through the 'System for Transparent Allocation of Resources' (STAR) methodology based on the global benefit index (based on biodiversity, climate change, and land degradation), country performance index (based on GEF portfolio performance, and institutional assessment) to achieve global environmental benefits, and an economic index based on the gross domestic product (GDP-based index, or GDPI) -The minimum allocation levels for LDCs are greater than that for non-LDCs. The minimum allocation for non-LDCs is \$5 million in the GEF-8 replenishment period 2022-2026, and it is \$8 million for LDCs.

	-Allocation for Bangladesh for the GEF-8 replenishment period is $10.58 million.[46] -Bangladesh mainly receives funds for the following areas: biodiversity, climate change, and land degradation.

Source: UNDESA (2020c).

Implications for LDC-specific instruments

There are several funds that support LDCs exclusively. Access to these funds will be restricted upon graduation. However, some funds mentioned below offer transition for graduating LDCs:

- Least Developed Countries Fund (LDCF): Upon graduation, Bangladesh will no longer have access to new funding from the LDCF. However, projects approved by the LDCF council before graduation will continue to receive support with LDCF resources until their completion.
- Green Climate Fund (GCF): Graduated Bangladesh will maintain access to the Green Climate Fund (GCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund. These funds support vulnerable developing countries in developing and implementing national adaptation plans (NAPs), mitigating greenhouse gas emissions, and implementing climate adaptation and resilience activities.
- United Nations Technology Bank for LDCs: After graduation, Bangladesh will be eligible to receive financial support and assistance from the LDC Technology Bank for a period of five years.
- United Nations Capital Development Fund (UNCDF): After graduation, the UNCDF continues to fund programs for LDCs who have graduated for three years. It offers financing for an additional two years with a cost-sharing arrangement of 50/50 between the graduated country's government or a third party.
- Investment Support Programme for LDCs (ISP/LDCs): Post-graduation, Bangladesh is eligible to receive assistance from the ISP/LDCs for a duration of five years.

2.4 Membership contributions and participation in international organisations and forums

After graduation, Bangladesh will no longer have access to support measures designed to help LDCs participate in the United Nations and other international forums. Such measures include limitations on mandatory budget contributions and support for travel to international conferences.

LDCs benefit from caps and limits on their mandatory contributions to the United Nations budget, peacekeeping operations, and agencies. Contributions are determined by the "scale of assessments," considering factors like GNI, debt burden, and per capita income. LDCs benefit from a maximum rate of 0.01 per cent, though most are assessed below this rate. This scale applies to

[46]https://www.thegef.org/sites/default/files/documents/2022-07/EN_GEF_C.63_Inf.05_Initial%20GEF-8%20STAR%20Country%20Allocations__0.pdf

most UN agencies, while peacekeeping and criminal tribunals use an adjusted scale. Agencies like ITU, WIPO, and UPU use "classes of contribution," allowing countries to choose their contribution level, with LDCs eligible for the lowest levels. After LDC graduation, Bangladesh's contributions to these agencies will increase.

In some cases, contribution does not depend on LDC status. For instance, contributions to the WTO are determined based on members' share of international trade with no concessions specifically for LDCs. Also, in some programmes, such as UNICEF and UNDP, contribution is completely voluntary. According to UNDESA (2020c), Bangladesh's financial contribution to the UN system would increase by $7 million annually after graduation. However, for a more accurate estimation, other indicators need to be considered. For example, if a country's performance on capacity to pay improves compared to other member states, its contribution to the UN budget will also increase.

The United Nations covers travel costs (excluding subsistence) for up to five representatives from each LDC for regular General Assembly sessions and one representative for special sessions. Additionally, one member from a permanent mission in New York is also covered. After LDC graduation, Bangladesh can enjoy these benefits for up to three years, subject to available funds and a formal request. Post-graduation, Bangladesh may still receive travel support for international conferences if there are designated mechanisms for other country categories. Travel support for meetings under organisations like IAEA, UNDP, UNICEF, UNODC, UNDRR, and WFP is expected to remain unchanged.

2.5 Other vulnerabilities and challenges

Along with understanding the impact of the loss of ISMs, it is also important to recognise other vulnerabilities and exposure to external shocks that a graduating country faces. These vulnerabilities can exacerbate the challenges of transitioning from LDC status, especially when support measures are withdrawn in the face of an emerging or unfolding crisis. Many developing countries, especially the graduating LDCs, are also vulnerable to external shocks like global trade disruptions, rising protectionism, the advent of disruptive technologies impacting employment generation, etc., which can further hinder a country's trade and economic development potential.

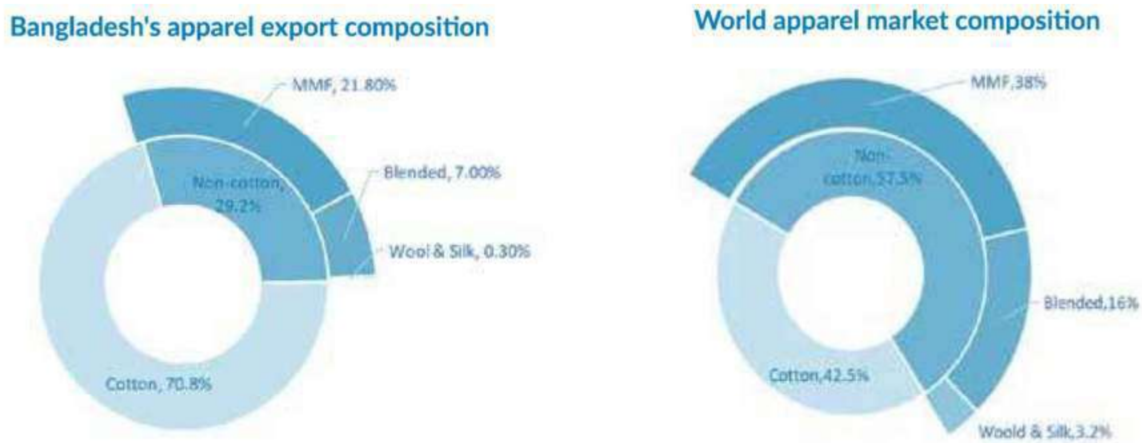
UNCTAD's 2022 Vulnerability Profile offers a comprehensive overview of Bangladesh's vulnerability. It evaluates vulnerability based on three main criteria used for LDC identification and graduation. Along with this, UNCTAD has highlighted four specific vulnerabilities: environmental vulnerability, dependence on LDC-specific ISMs for exports, limited trade and structural transformation, and the challenge of sustainable development finance due to limited domestic resource mobilisation capacity.

Environmental vulnerability remains high for Bangladesh, partly due to a significant portion of its territory and population being situated in low-lying areas prone to disasters. The country is susceptible to both natural disasters and climate change-related consequences and is ranked the seventh extreme disaster risk-prone country in the world as per the Global Climate Risk Index

2021.[47] Between 2000 and 2019, an average of seven natural disasters per year affected 110 million people and claimed 11,210 lives. Over 70 million people could be impacted by climate change, according to the National Adaptation Programme of Action (NAPA). The government has responded by undertaking elaborate programmes, yet the country remains highly susceptible to climate change risks compared to other South Asian LDCs.

Dependence on LDC-specific (ISMs): As mentioned earlier, no other LDCs rely as much on trade preferences as Bangladesh. Because of a lack of supply-side capacity, most LDCs find it challenging to utilise preferences. However, Bangladesh's success in apparel exports with the help of LDC-specific preferential market access makes it now vulnerable as the terms of export market access could change significantly after graduation (Raihan et al., 2023).

Figure 2.8: Dual concentration of Bangladesh's exports



Source: ERD (2024e).

Limited trade and structural transformation: Bangladesh's overwhelming reliance on a single export sector, with more than four-fifths of export earnings from the apparel sector alone, is a major vulnerability.[48] It exposes the economy to risks such as market fluctuations, changes in global demand, and sector-specific shocks emanating from just one sector. The global apparel market is witnessing a remarkable shift in the demand for non-cotton, particularly man-made fibre (MMF) based apparel, which is rising. This trend contrasts with Bangladesh's current export focus, which

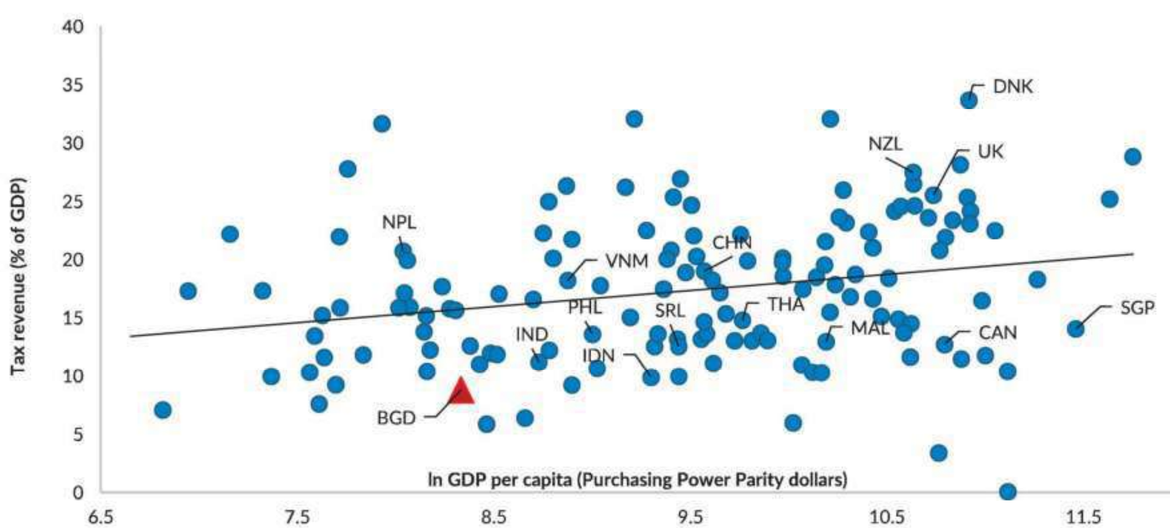
[47] The Global Climate Risk Index analyses to what extent countries have been affected by the impacts of weather-related events (storms, floods, heat waves etc.). The report can be found at https://www.germanwatch.org/en/cri

[48] Even within this sector, exports are highly concentrated in a few. At the HS 6-digit classification level, the leading 20 products combined represent over two-thirds of Bangladesh's entire merchandise exports, in contrast to countries such as China, India, and Viet Nam, where this proportion ranges from 25 per cent to 45 per cent. The collective export contribution of the top 100 products amounts to 92 per cent for Bangladesh, in comparison with 82 per cent in Cambodia, 80 per cent in Sri Lanka, 76 per cent in Indonesia, 61.2 per cent in India, 46.7 per cent in China, and 44.7 per cent in Viet Nam. It has been difficult for Bangladesh to introduce new products into its export basket and sustain it. Over the past two decades, the contribution of new products to Bangladesh's export growth is estimated to be less than 5 per cent as against of 18.7 per cent in India, 22.2 per cent in Cambodia, 25 per cent in Sri Lanka, 33 per cent in China, 22 per cent in Cambodia, 41 per cent in Viet Nam, and 62 per cent in Malaysia.

is heavily skewed towards cotton apparel. Despite non-cotton apparel constituting approximately 60 per cent of the global trade, over 70 per cent of Bangladesh's exports are in cotton apparel (Figure 2.8). Man-made fibres, such as polyester and nylon, offer greater versatility, durability, and performance characteristics like moisture-wicking and quick drying, making them ideal for activewear and outdoor clothing (ERD, 2024e). Advancements in technology have improved the quality and comfort of synthetic fabrics, increasing consumer acceptance. Environmental considerations also play a role, as many man-made fibres can be produced more sustainably than traditional cotton, which requires significant water and pesticide use. Furthermore, fashion trends increasingly favour the innovative textures and designs achievable with synthetic materials, driving their popularity in the global market. Therefore, Bangladesh faces a dual challenge of diversification: reducing the dependence on apparel within its overall merchandise exports and then reducing the reliance on cotton apparel by diversifying into non-cotton products.

Sustainable development finance: Domestic resource mobilisation efforts are quite low in Bangladesh as its tax-GDP ratio is amongst the lowest in the world (Figure 2.9). Because of limited fiscal space, Bangladesh's public spending is around 14 per cent as against around 25 per cent of lower-middle income developing countries. Given this, any potential reduction in external development financing could widen the resource gap—the difference between domestic savings and gross fixed capital formation—currently more than 6 per cent of GDP. While remittances covered a significant portion of this gap, contributions of ODA accounted for 15 per cent of the total government budget and 42 per cent of development spending in 2021-22 (Finance Division, 2023c). Insufficient public revenue limits the ability to increase budgetary allocations in essential services such as healthcare, education, social protection, and infrastructure. Creating employment, especially decent jobs, has also been a challenge as employment in the manufacturing sector has slowed down significantly, and the success of the garment industry cannot be replicated in other sectors.

Figure 2.9: Tax revenue and per capita GDP of global economies

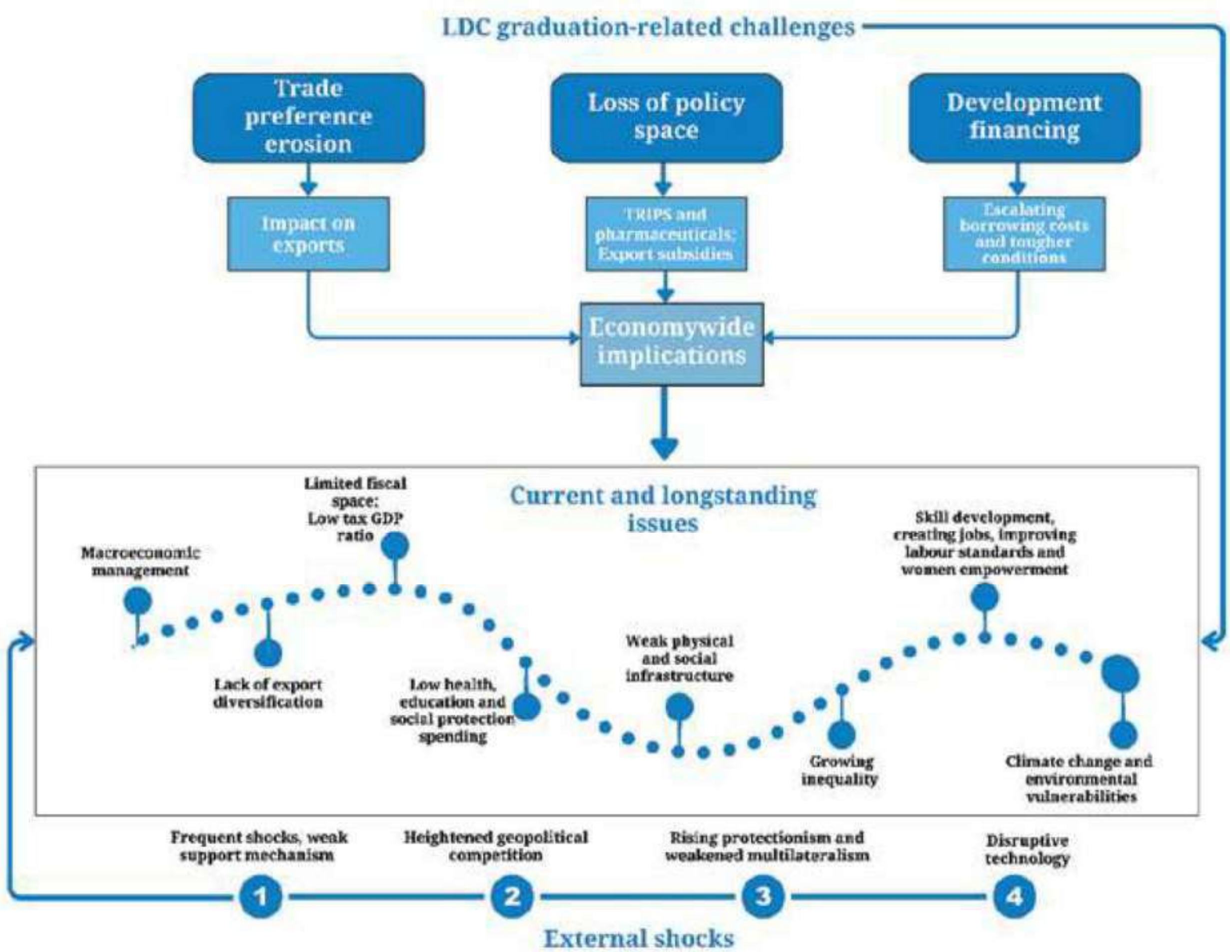


Source: Illustration using data from World Development Indicators, World Bank.

Along with the above vulnerabilities, the Bangladesh economy has recently witnessed difficulties in macroeconomic management. Triggered initially by the surge in demand for imports in the aftermath of the recovery from COVID-19 and global commodity price hikes, unfavourable balance of payments situations, reflected in declining foreign reserves, along with persistent domestic inflationary pressure have been confronting Bangladesh's long record of sound macroeconomic management.

External shocks also occur with greater frequency, posing significant challenges to development efforts within a developing country like Bangladesh. For instance, the great trade slowdown of 2015 and 2016 was soon followed by the US-China trade war, which caused global exports, including those from Bangladesh, to fall in much of 2019-20 before actually being hit by the COVID-19 pandemic. Immediately after the recovery from the pandemic, rising dollar prices, disrupted supply chain shocks, and the Russia-Ukraine conflict resulted in food and fuel price hikes adversely affecting many developing countries, including Bangladesh.

Figure 2.10: Interactions among LDC-specific, current and external challenges



Source: Illustration prepared for this Strategy.

Additionally, the intensifying geopolitical competition has heightened the risk of fragmenting the international trade landscape along geopolitical lines. This fragmentation contributes to energy and food price hikes and an uncertain global economic environment in which no effective support mechanism is available to help vulnerable countries mitigate the consequent impacts. There is evidence that geopolitical fragmentation leads to increased trade barriers, affecting certain sectors such as food and high-end manufacturing more than others and raising trade costs and international trade flows. This disproportionately affects developing economies in Asia, the Middle East, and sub-Saharan Africa, resulting in significant income losses for those least able to afford them (Hakobyan et al., 2023).

Concurrently, a surge in protectionist trade policies poses a further obstacle to inclusive global trade growth. Both developed and advanced developing countries are increasingly resorting to inward-looking policies, imposing import restrictions. By mid-October 2023, almost 12 per cent of G20 imports were affected by import restrictions implemented by G20 economies since 2009 (OECD, WTO and UNCTAD, 2023). The introduction of export restrictions has increased since 2020, first in the context of the pandemic and, more recently, in the aftermath of the war in Ukraine. In the face of rising protectionism, WTO-led trade multilateralism is under severe pressure, with the Doha Round of multilateral trade negotiations not reaching a successful conclusion and the Appellate Body, the WTO's highest dispute resolution forum, being dysfunctional due to members' failure to agree on appointing new judges.

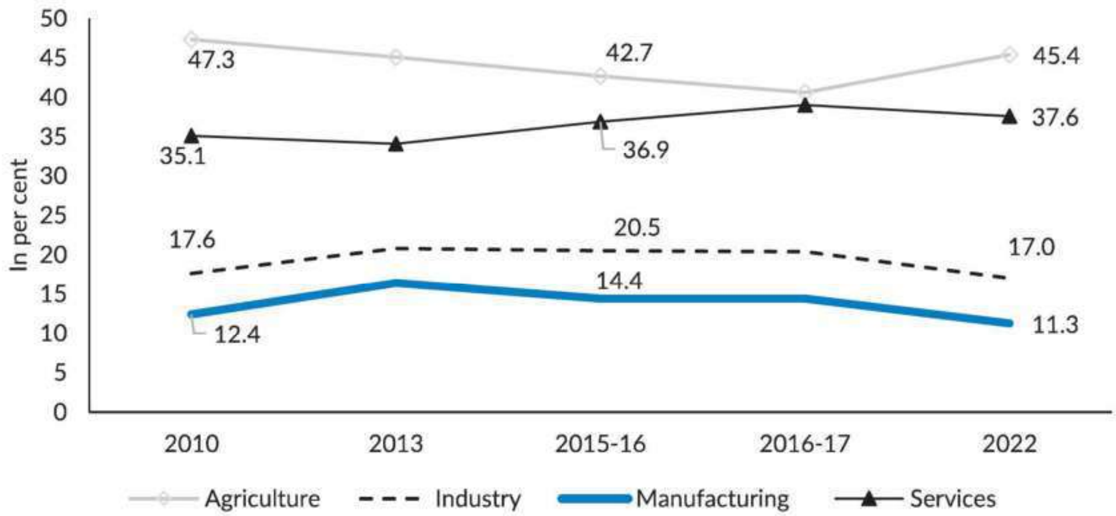
Therefore, while a graduating LDC expects a credible, fair, inclusive, and rules-based international trading system to support its transition, in reality, the global trade and economic prospects look increasingly uncertain. In fact, it is the interaction of concerns about the loss of LDC ISMs, longstanding and emerging challenges within its economy, external shocks, and a challenging geopolitical environment that make the graduation journey fraught with uncertainty and difficulty (Figure 2.10).

As Bangladesh is set to graduate from LDC status, a global-scale fourth industrial revolution powered by innovative technology is also on the horizon. Although the adaptation of core 4IR technologies is still some time away, technological deepening and automation are already having an impact. While technological adaptation is critical for improving efficiency, reducing costs, and enhancing growth, rapid technological advancement can pose significant challenges for employment. One key policy objective in Bangladesh has been to create 2 million jobs a year, but even a robust manufacturing growth of close to 10 per cent over the past decade could not lead to any additional employment generation with its relative significance in total employment actually falling from 14.4 per cent to 11.3 per cent (Figure 2.11). Despite a fourfold increase in apparel export earnings between 2008 and 2023, from approximately $10.7 billion to $47 billion, the number of workers employed in the sector has remained stagnant at around 3.5 million.[49] Furthermore, rising automation and technology-deepening processes appear to be associated with

[49] This implies that, in 2009-10 for exporting $1 million worth of RMG products, 288 workers were needed and in 2022-23 for such exports, the only 90 workers are needed.

the de-feminisation of the workforce in the industry, as the women's share in export-oriented apparel sector employment has now dropped to just 39 per cent.[50]

Figure 2.11: Sectoral share in total employment (%)



Source: Illustration using the BBS and LFS data.

Nevertheless, avoiding technological adaptation is not an option. Embracing technology is crucial for improving productivity and fostering new industries to seize opportunities in the global export market. By investing in education, training, and skill upgradation, it is important to develop a skilled workforce ready to thrive in an increasingly automated and technologically advanced global economy. Along with LDC graduation, Bangladesh must harness technological opportunities to boost productivity and employment while expanding activities across multiple sectors.

[50] Between 2017 and 2022, women's employment in the industrial sector declined by 0.18 million. While the precise reasons for this reduction remain unclear, it is likely that women's jobs, which are often concentrated in repetitive tasks requiring long hours, are more susceptible to automation. Furthermore, technological advancements in the sector may disproportionately favour men, partly due to women's generally weaker educational background and cultural barriers that hinder their upward mobility into roles involving machine operation and factory supervision. Overall, women's employment in the country fell to approximately 2 million in 2022, down from 2.86 million in 2016-17 (BBS, 2023a).