Learning from the Past, Preparing for the Future: What Bangladesh Needs to Know

Debapiya Bhattacharya and Sarah Sabin Khan

Problematic

The outlook for the United Nations list of least developed countries (LDCs) is finally becoming optimistic following 47 years of lacklustre performance since the category’s establishment in 1971. There have been 52 inclusions and only five graduations to date (CDP and UN DESA, 2015). At least 10 countries are predicted to graduate from the LDC category between 2011 and 2021 (UNCTAD, 2016). Bangladesh, an LDC, remains on track. Unless affected by major unanticipated setbacks in the near future, the country is highly likely to meet the graduation criteria in 2018 and graduate as early as 2024. What can Bangladesh learn from LDC graduates and co-graduating countries? The present brief sheds some light in that regard.

Bangladesh in the Unfolding Graduation Scenario

Bangladesh’s graduation is expected to be a landmark success in contemporary development experience. The five countries that graduated from the LDC category, namely Botswana, Cape Verde, the Maldives, Samoa and Equatorial Guinea, are all characterised by smallness in terms of size of the economy and population – Botswana is a landlocked developing country, Equatorial Guinea is a small oil-exporting developing country, and the other countries are small island developing states (SIDS). Bangladesh’s graduation would be important since it is the first large developing country – in terms of population, size of the economy, exports and poverty alleviation – poised to leave behind the LDC status. Bangladesh is also likely to be one of the first LDCs to meet all three graduation criteria – the income criterion of gross national income (GNI) per capita and the Human Assets Index (HAI) and Economic Vulnerability Index (EVI) criteria – at the time of graduation.

Comparing with Peers

Ten countries are expected to graduate between 2015 and 2021 (UNCTAD, 2016). Of these ten, Equatorial Guinea graduated in 2017, Angola and Vanuatu have been recommended for graduation, Kiribati, Timor-Leste and Tuvalu are under review for recommendations and Bhutan, Nepal, São Tomé and Príncipe, and the Solomon Islands became eligible for graduation for the first time in 2015. Comparing Bangladesh’s performance on various socio-economic indicators with these countries – especially Bhutan and Nepal – can be insightful. Table 1 compares the performances of Bangladesh and co-graduating countries on graduation criteria at the 2015 review of the United Nations Committee for Development Policy (CDP).

Over the last five years, growth in Bangladesh’s real gross domestic product (GDP) was higher than that of co-graduating countries. Moreover, despite being one of the largest recipients of official development assistance (ODA) among LDCs, Bangladesh’s dependence on ODA was relatively low and has been declining over the 2010–14 period compared to its graduating Asian counterparts. Any loss in ODA as a result of graduation is thus likely to have a minimal impact on the country. Bangladesh has also been one of the largest beneficiaries of remittances by volume, regardless of a sharp decline in 2015. In terms of the contribution of remittances to GDP, the
Note: Authors’ calculations using data from CDP (2015).

Table 3: Changes in Key Indicators of Former LDCs and Comparison with Bangladesh

<table>
<thead>
<tr>
<th>Country</th>
<th>Reference year</th>
<th>Real GDP growth (%)</th>
<th>Current account (% of GDP)</th>
<th>FDI (% of GDP)</th>
<th>ODA (% of GNI)</th>
<th>Remittances (% of GDP)</th>
<th>Tax revenue (% of GDP)</th>
<th>Merchandise exports (% of world trade)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>Before Graduation (5 Years)</td>
<td>10.55</td>
<td>7.78</td>
<td>-0.66</td>
<td>3.67</td>
<td>2.01</td>
<td>26.15</td>
<td>0.0510</td>
</tr>
<tr>
<td></td>
<td>After Graduation (5 Years)</td>
<td>5.05</td>
<td>7.93</td>
<td>-1.32</td>
<td>2.06</td>
<td>1.16</td>
<td>17.21</td>
<td>0.0430</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>Before Graduation (5 Years)</td>
<td>6.18</td>
<td>-8.50</td>
<td>6.66</td>
<td>15.92</td>
<td>13.14</td>
<td>21.91</td>
<td>0.0002</td>
</tr>
<tr>
<td></td>
<td>After Graduation (5 Years)</td>
<td>3.89</td>
<td>-13.74</td>
<td>10.46</td>
<td>14.04</td>
<td>8.64</td>
<td>20.20</td>
<td>0.0003</td>
</tr>
<tr>
<td>Maldives</td>
<td>Before Graduation (5 Years)</td>
<td>9.09</td>
<td>-16.67</td>
<td>7.83</td>
<td>3.08</td>
<td>0.26</td>
<td>11.56</td>
<td>0.0020</td>
</tr>
<tr>
<td></td>
<td>After Graduation (4/5 Years)</td>
<td>7.40</td>
<td>-8.14</td>
<td>12.14</td>
<td>1.70</td>
<td>0.12</td>
<td>18.47</td>
<td>0.0020</td>
</tr>
<tr>
<td>Samoa</td>
<td>Before Graduation (5 Years)</td>
<td>0.43</td>
<td>-4.70</td>
<td>1.73</td>
<td>16.44</td>
<td>21.05</td>
<td>20.68</td>
<td>0.0004</td>
</tr>
<tr>
<td></td>
<td>After Graduation (1/2 Years)</td>
<td>1.53</td>
<td>-5.90</td>
<td>2.41</td>
<td>11.98</td>
<td>18.91</td>
<td>23.06</td>
<td>0.0003</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Average (2010–14)</td>
<td>6.31</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.32</td>
<td>8.40</td>
<td>0.1557</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations using data from UNCTAD (n.d.) and World Bank (2017).

Table 1: Performances on Graduation Criteria at the 2015 CDP Review

<table>
<thead>
<tr>
<th>Country</th>
<th>Graduation Criteria (thresholds)</th>
<th>GNI per capita (USD)</th>
<th>HAI (&gt;66.0)</th>
<th>EVI (&gt;32.0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td></td>
<td>926.00</td>
<td>63.8</td>
<td>25.1</td>
</tr>
<tr>
<td>Bhutan</td>
<td></td>
<td>2,277.00</td>
<td>67.9</td>
<td>40.2</td>
</tr>
<tr>
<td>Nepal</td>
<td></td>
<td>659.00</td>
<td>68.7</td>
<td>26.8</td>
</tr>
<tr>
<td>Graduating oil - exporting African LDCs</td>
<td></td>
<td>10,303.50</td>
<td>48.35</td>
<td>39.5</td>
</tr>
<tr>
<td>Graduating SIDS</td>
<td></td>
<td>2,979.00</td>
<td>77.15</td>
<td>53.0</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations using data from UNCTAD (n.d.) and World Bank (2017).

Note: Angola and Equatorial Guinea are oil-exporting African LDCs, Kiribati, São Tomé and Príncipe, the Solomon Islands, Timor-Leste, Tuvalu and Vanuatu are SIDS.

country lags behind Nepal but outperforms other co-graduating countries (Table 2).

Further, Bangladesh is a small recipient of foreign direct investment (FDI) compared to most of the co-graduating countries. It is also a poor performer with respect to mobilising domestic resources and has one of the lowest tax-GDP ratios in the world, let alone among LDCs. Between 2004 and 2014, average tax revenue as a percentage of GDP for Bangladesh was 8 per cent as opposed to 11 per cent, 12 per cent, 15 per cent and 39 per cent for Bhutan, Nepal, graduating African LDCs and graduating SIDS, respectively (World Bank, 2017).

Finally, trends in structural transformation in Bangladesh and co-graduating countries indicate that the manufacturing sector has been stronger in Bangladesh than other graduating countries both in terms of share in total value added and employment over both 2005-09 and 2010-14 periods. Despite Nepal and the two African LDCs’ apparent success in graduating ahead of Bangladesh, they are worse off in terms of structural transformation. In Nepal, the shares in total value added of both manufacturing and services fell with commensurate falls in shares in employment over the years. Graduating oil-exporting African LDCs also had very weak improvements are at a much slower rate than most others (ILO, n.d.). In the case of these countries, both of which are graduating based on the income-only criterion, weak progress on the HAI could be a reflection of their inability to transform their production structures.

However, Bangladesh is estimated to have the second least productive labour force among graduating LDCs and projected improvements are at a much slower rate than most others (ILO, n.d.). The country also lags seriously behind in terms of export diversification with an export concentration index of 0.40 compared to Bhutan’s 0.36 and Nepal’s 0.14 (UNCTAD, n.d.). For Bangladesh diversification is essential, particularly in view of the loss in preferential market access that will follow graduation.

Comparing with Predecessors

Useful insights can be gained from comparing where Bangladesh stands along key economic indicators a few years before its likely graduation with where former LDCs (except Equatorial Guinea) stood before theirs. Post-graduation developments are especially helpful in drawing lessons for Bangladesh. While Bangladesh’s real GDP growth over the past five years is comparable with that of Cape Verde before its graduation, Bangladesh’s growth is slower for the first LDCs to meet all three graduation criteria – the income criterion of gross national income (GNI) per capita and the Human Assets Index (HAI) and Economic Vulnerability Index (EVI) criteria – at the time of graduation.
compared to what it had been for Botswana and the Maldives. Real GDP growth slowed down in all former LDCs after graduation except Samoa. Bangladesh is relatively better off in terms of its current account and merchandise exports, though relatively worse off in terms of FDI and tax revenue (Table 3).

Indicators of structural transformation depict that the contribution of agriculture in total value added and employment declined for former LDCs (except Botswana) after graduation. Bangladesh has a relatively higher, though declining, dependence on agriculture during its run up to graduation compared to former LDCs before their graduation. On the other hand, the country has a favourably higher share of manufacturing in total value added and employment compared to former LDCs. Bangladesh is also ahead in terms of its share of merchandise exports in world trade compared to where former LDCs stood before and stand after graduation (UNCTAD and ILO, n.d.). In terms of structural change, Bangladesh may thus be exhibiting better trends. The trends also indicate that graduation does not necessarily ensure structural transformation.

Lessons for Bangladesh from Graduation Experiences

From former LDCs’ experiences, good practices for both pre- and post-graduation phases can be identified for the benefit of graduating countries including Bangladesh. Figure 1 depicts some common lessons for the run up to Bangladesh’s graduation while Figure 2 highlights some common lessons for smooth transition after graduation.

Figure 1: Pre-graduation Lessons from Graduated Countries

- Budget surplus as a result of average tax-GDP ratio of 50 per cent in Botswana
- Significant improvement in national planning and revenue collection with the introduction of an integrated system for budget and financial management in 2002 in Cape Verde
- The Cape Verde government devoted substantial resources to education and health care during the 1980–2010 period amounting to, on average, approximately 16.7 per cent and 10.1 per cent of GDP, respectively
- Increased budgetary allocations to raise education standards, which increased school enrolment rates in Botswana
- In the Maldives, incentives (e.g. low taxes and rents) successful in attracting foreign and private sector actors
- Effective industrial policies adopted by government inducing private sector-oriented development of the mining sector in Botswana
- Effectively channelling ODA into national development priorities through proactive engagement with development partners in Botswana
- Requirement from donors to align ODA with policy interventions already existing in national plans in Samoa

What do We do with these Lessons?

From the graduation experiences of former LDCs and comparison of Bangladesh with other LDCs, a few issues can be highlighted. During the run-up to graduation, Bangladesh’s smooth transition will depend, in varying degrees, on its ability to take measures to address concerns regarding strong governance and mobilising domestic resources, encouraging private and foreign direct investment, diversifying exports and markets, and proactive and timely discussions with trade and development partners to collaborate on smooth transition strategies. Any action plan developed in this regard would need to approach the matter of LDC graduation from the following policy perspectives:

- Balance the need for an explicit strategy to pursue graduation with the need to focus on structural transformation.
- Assess the sufficiency of Bangladesh’s current policy landscape (e.g. the Seventh Five Year Plan) against the need for a special perspective plan.
- Link the Sustainable Development Goals in Bangladesh’s context to LDC graduation and smooth transition.

Bangladesh’s imminent graduation from the LDC category will set an instructive development experience. But to sustain the graduation momentum, a strategic path drawing from comparative perspectives and striving towards inclusive and sustainable growth is compulsory.
Keep both fiscal and current account deficits in check

- Botswana successfully maintained large current account surpluses following graduation

- Cape Verde established a Transition Support Group as a means to ensure smooth transition from the LDC category in 2006 and negotiated a two-year extension on top of the standard practice of a three-year grace period under the European Union’s Everything But Arms initiative

- The Maldives benefited from an additional two years of partial funding from the World Trade Organization’s Enhanced Integrated Framework on a project basis

Government’s proactive stance in negotiations with bilateral and multilateral trading partners

Continued engagement with development partners

Post-graduation lessons

- Samoa’s government negotiated zero-tariff access for noni juice and other agro-processing products with China until 2017
- Cape Verde qualified for the European Union’s enhanced Generalised System of Preferences-plus (GSP plus) trade scheme in 2011
- Botswana’s government successfully brought down its external debt to an average of 15–17 per cent of GNI since 2008 through good planning and management
- The International Monetary Fund classified Samoa as being at high risk of debt distress in 2013

Strengthen regulatory frameworks

Manage external debt

Seek alternate forms of preferential access and concessionalities beyond LDC status

- African LDCs and graduating SIDS, respectively (World Bank, 2017).
- GDP growth over the past five years is comparable with that of Cape Verde.
- Bangladesh’s graduation with where former LDCs (except Equatorial Guinea) graduated in 2006 and negotiated framework on a project basis.
- Comparing with Predecessors
- Graduating oil-exporting African LDCs also had very weak diversification is essential, particularly in view of the loss in income-only criterion, weak progress on the HAI could be a reflection of their inability to transform their production structures.
- However, Bangladesh is estimated to have the second least high share of manufacturing in total value added and relatively higher, though declining, dependence on agriculture off in terms of FDI and tax revenue (Table 3).
- GDP growth slowed down in all former LDCs after graduation compared to what it had been for Botswana and the Maldives. Real income-only criterion, weak progress on the HAI could be a reflection of their inability to transform their production structures.
- Bangladesh in the Unfolding Graduation Scenario

The policy brief is based on the following study


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