

Chapter 3

Post-Graduation Challenges and their Estimated Impacts

3.1. Overview

The review of International Support Measures for LDCs in Chapter 2 suggests that a fairly comprehensive package of enabling support is available for LDCs to push development through better access to export markets, other trade-related concessions and technical assistance programmes. Unlike most LDCs, Bangladesh has been able to make use of many of these facilities, helping its development process. Therefore, the withdrawal of access to these ISMs in the post-graduation phase can have some real costs. It is therefore important to understand which of the ISMs matter most for Bangladesh and the likely consequences of forgoing them. The analysis here is not about providing precise quantitative estimates since: (a) the implications will depend on the various assumptions underlying the quantitative framework being used; and (b) in some cases the lack of data and uncertainties about likely impact also means that the assessments will have to be qualitative in nature. Therefore, this chapter aims to identify all potential areas that could have a negative impact on the Bangladesh economy; provide a quantitative assessment of costs wherever possible; provide policy makers a broad sense of the likely implications and the nature of policy challenges in mitigating any adverse consequences.

3.2. Preference Erosion and their Impacts

Bangladesh faces a unique post-graduation challenge in the international market when it comes to preference erosion in trade. In FY18, Bangladesh accounted for approximately a quarter of total merchandise exports by all LDCs (\$36.66 billion out of a total of \$145.44 billion from all LDCs combined). Compared to any other LDCs, Bangladesh has a higher dependence on preferential market access for its exports.

The loss of preferences in the markets of European Union Canada, Australia, Japan, India and China in 2024 (the year which will mark the end of preferences for Bangladesh if the country can officially graduate from the LDC status in 2024) might lead to a reduction in total exports of Bangladesh.

Much of the preference erosion or loss of preferences will originate from the fact that Bangladesh will no longer be considered for concessional tariff rates as it enjoys as an LDC. But, in most cases, there are transitional preferences between tariff rates for LDCs and MFN tariffs, implying that tariff escalations could be significant after graduation. Besides, many of the exemptions of WTO provisions will no longer be available after 2024 Potentially undermining external competitiveness further. Table 3.1 provides a summary of various benefits Bangladesh's now avail vis-à-vis the provisions available in the post-graduation era.

Table 3.1: LDC-specific Preferences Before and After Graduation in Prominent Export Destinations

| Countries | LDC-Specific Schemes | Applicable schemes after graduation* |
|-------------------|---|---|
| European Union | Everything But Arms (DFQF) | Standard GSP or GSP+ (after 3-year smooth transition) |
| Turkey | Everything But Arms (DFQF) | Standard GSP or GSP+ (after 3-year smooth transition) |
| USA | GSP for LDCs (Bangladesh currently received no preferences) | Standard GSP; AGOA for African states. Bangladesh will continue to face MFN tariffs. |
| China | Preferential tariffs for LDCs | MFN for WTO members, general duty rates for non-members |
| Japan | GSP for LDCs | Standard GSP (no transition support) |
| Canada | GSP for LDCs | Standard GSP (no transition support) |
| Republic of Korea | Preferential tariffs for LDCs | MFN |
| India | Preferential tariffs for LDCs | MFN (Bangladesh to face SAFTA tariffs) |
| Switzerland | GSP for LDCs | Standard GSP |
| Russia | GSP for LDCs | Standard GSP |
| Australia | GSP for LDCs | Standard GSP/ MFN tariff |

Source: UNCDP 2018.

*Note: GSP for LDCs are more generous than general or standard GSP. Apart from the EU and Turkey, the transition period support is not guaranteed. Exceptions are only made due to successful trade negotiations and are subject to compatibility with WTO rules.

It is anticipated that the highest impact of preference erosion will generate from the EU market. The EU is the destination for approximately two-thirds of all goods exported from Bangladesh. On the other hand, no impact of LDC-graduation is likely to be felt in the US market given that Bangladesh presently does not get any preferences in that market. Among other developed country markets, Canada, Japan, Australia, Switzerland and Russia under their respective standard GSP schemes do not cover an important part of Bangladesh's exports, which will face MFN tariffs (UNDESA, 2019). But the biggest issue with post-graduation preferential systems like standard GSP in developed country markets (including in the EU) is that Bangladesh would no longer be able to use dedicated rules of origin for LDCs, making it more difficult to use preferences for the tariff lines covered by the standard GSPs than it is to use GSP for LDCs.

In the case of Bangladesh's two other largest trading partners, viz. India and China, Bangladesh can export to India under the South Asian Free Trade Agreement and to China under the Asia-Pacific Trade Agreement¹⁵. The tariff lines and preferences granted by Turkey aligns with the EU. In other countries, exporters will be subject to MFN tariffs (e.g. South Korea). These countries however account for very insignificant amount of export earnings than advanced economies. Therefore, post-graduation export impacts are likely to be trivial.

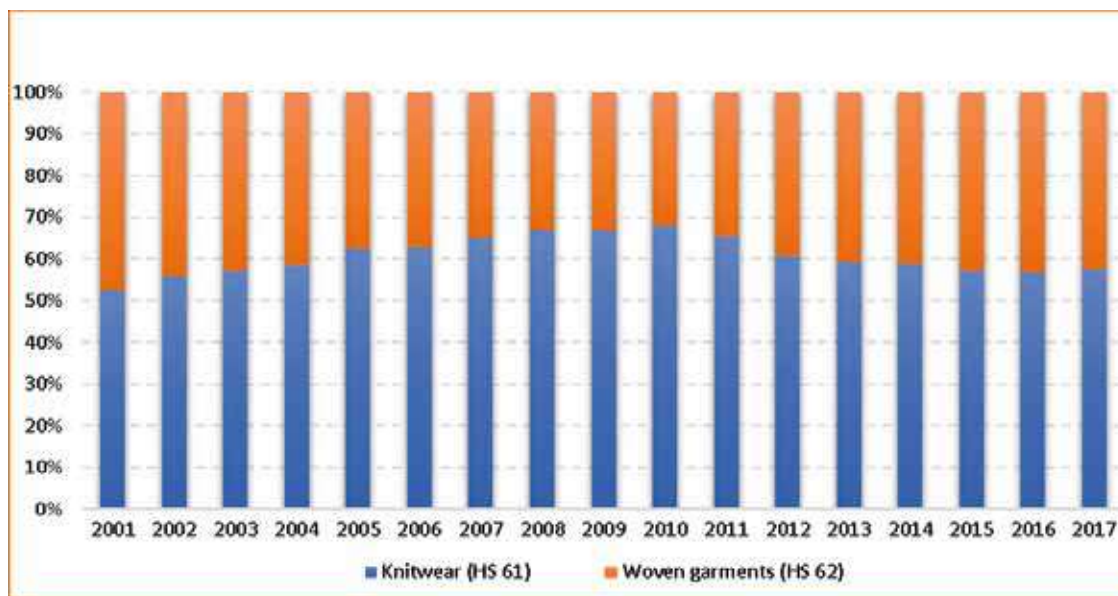
¹⁵ In FY18, Bangladesh export to India accounted for \$873.27 million. All of it came from the DFQF preferences provided by India to LDC countries. During the same period, Bangladesh exported \$694.47 million to China, where Bangladesh got LDC specific preference for 35 percent (1,251) of tariff lines under APTA. China allows LDC-specific preference for LDCs up to 97 percent (8,036) of tariff line. Bangladesh is currently negotiating to obtain the same preference.

Significance of the European Union Market for Bangladesh

The Everything But Arms (EBA) preferential market access to LDCs offered by the European Union has played a key role in boosting export growth of Bangladesh. The EU is the largest market for Bangladeshi export products. In FY2018, out of \$36.66 billion, the EU alone accounted for more than \$21 billion. Out of which, \$19.6 billion were income from apparel exports to the EU market (62 percent of total apparel exports from Bangladesh). It is worth noting that Bangladesh is a dominant supplier in the EU market as an apparel exporter. Over the past decade (since 2008) its average yearly growth in exports to the EU was 12 percent. While at the same time, apparel exports by rest of the world to EU grew at a rate of only 2.4 percent per annum (Razzaque and Rahman 2019).

Owing to strong backward linkages, Bangladesh's apparel exports to the EU are dominated by knitwear items under the Harmonized System (HS) of product classification category 61, accounting for a share of about 57 percent in 2018, which was around 68 percent in 2001. While EBA itself has been an active preferential system since 2001, it initially specified rules of origin (ROO) requirements with a 'double transformation' for clothing items as a precondition for tariff-free market access. Although knitwear did well in the EU, for woven apparels (under HS 62), this would imply domestically produced fabrics to be used in garment making, hindering Bangladesh's capacity to utilise EU preferences. The derogation of EU ROO in 2011 allowed single transformation for LDC clothing exports, prompting reinvigorated supply response from the woven garment sector. As shown in Figure 3.1, following a noticeable decline in relative significance between 2001 and 2010, the share of woven exports to the EU bounced back after 2011 when the rules of origin changed.

Figure 3.1: Structure of Bangladesh's Apparel Exports to the EU



Source: Razzaque and Rahman 2019

The derogated ROO of EBA preferential system is one of the most favourable preferential treatments enjoyed by Bangladesh. In the post-graduation era, Bangladesh can apply for two lesser preferential systems in the EU, the GSP+ and general GSP. The GSP+ system will be quite favourable for Bangladesh in terms of tariff rates (zero tariffs for 66 percent of tariff line) with preferences for apparel exports. However, the ROO system of GSP+ is much stricter than EBA, requiring double transformation of textile goods. The general GSP system is the least preferential. Although it provides zero tariff on 66 percent of the EU tariff line, apparel items are subject to substantially higher levels of tariffs than those under the EBA regime. At the same time, they must fulfill double transformation ROO. For any other exported items, local value addition has to be 50 percent or more, under both GSP+ and GSP. Table 3.2 provides detailed information about tariff levels that local exporters are likely to face in EU market after graduation.

Table 3.2: Post-graduation Tariff Rates in the European Union

| HS Chapter | Product | Share of total exports to the EU (2016) | Post-graduation tariffs | | |
|------------|-------------------|---|---|----------------------|-----------------------------------|
| | | | Under <i>GSP</i> | Under <i>GSP+</i> | Under <i>MFN</i> |
| 61 | Knitwear | 53 percent | 6.4%-9.6% under <i>GSP</i> . 9.6% for most products , including all or most products within HS 6109, 6110, 6104, 6105, 6111 and 6108; which together account for approximately 90% of Bangladesh exports to the EU under HS 61. | 0% under <i>GSP+</i> | 12 percent for most products |
| 62 | Woven garments | 38 percent | 5%- 9.6% under <i>GSP</i> . 9.6% for most products , including all products within HS 6203, 6204, 6205, 6206, which together account for approximately 85% of exports to the EU under HS 62. | 0% under <i>GSP+</i> | 12 percent for most products |
| 64 | Footwear | 2 percent | 0%-11.9% under <i>GSP</i> 4.5% on most products in HS 6403 (62% of exports in this group) . 11.9% on all products in HS 6404 (18% of exports) and 6402 (16% of exports). | 0% under <i>GSP+</i> | 8 or 17 percent for most products |
| 63 | Home textiles | 2 percent | 1.6%-9.6% under <i>GSP</i> . 9.6% for most products in HS 6302 and 6303 (77% of exports to the EU under 63) . Lower (1.6-5.7%) for most products in HS 6305 (16% of exports to the EU under chapter 63). | 0% under <i>GSP+</i> | 12 percent for most products |
| 03 | Fish; Crustaceans | 2 percent | 0%-18.5%. Most exports are under HS 030617. Within that group, GSP tariffs on most products are 4.2% ; 7% in one product; 14.5% in another product. | 0% under <i>GSP+</i> | 12-20 percent for most products |

Source: Based on UNDESA 2019

According to the guidelines of the European Union, any export vulnerable/developing country must fulfill three criteria before applying for the GSP+ status. They are shown in Table 3.3. Bangladesh strongly satisfies the third criteria as two major EU imports from Bangladesh alone accounts for the necessary 75 percent mark. Bangladesh can ratify the Minimum Age for Admission to Employment convention before graduating out of LDC status, and thereby is likely to satisfy the first criterion as well. Bangladesh has already ratified and implemented the other 26 conventions. However, Bangladesh is unlikely to be able to satisfy the second criterion, which says that the share in GSP-covered imports from preference receiving country has to be less than 6.5 percent of total GSP-covered imports by the EU. Therefore, as it stands, the most plausible scenario for Bangladesh is that after graduation in 2024, it will enjoy a 3-year transition period granted by the EU. From 2027 Bangladesh will be eligible for EU preferential market access under the standard GSP regime.

Table 3.3: Criteria for the GSP+

| No | Criteria | Current status of Bangladesh |
|----|--|--|
| 1 | Must ratify and effectively implement 27 international conventions on labour rights, human rights, environmental protection and good governance. | ✗ Convention of the Minimum Age for Admission to Employment is yet to be ratified by Bangladesh. |
| 2 | Has a share in GSP-covered imports of less than 6.5 percent of GSP-covered imports of all GSP countries | ✗ GSP-covered imports from Bangladesh is more than 17 percent of all EU GSP-covered imports |
| 3 | Has at least 75 per cent of its total GSP imports coming from the seven largest sections of GSP-covered imports. | ✓ Bangladesh fulfills this criterion without facing any problem. |

Source: Based on the European Commission guidelines for preferential market access.

3.3. Impact Assessment of Preference Erosion Through Quantitative Analysis

There is some apprehension regarding the potential consequences of preference erosion. A detailed quantitative impact of loss of LDC status on exports, macroeconomic balances, and socioeconomic impact is carried in this report. Chapter 8 provides the details of the analytical model used to capture the impact on exports, GDP growth, employment and poverty. Chapter 6 looks into the impact of loss of exports and GDP on current account balance and debt servicing. Below, the report analyses the potential direct impact of this preference erosion on loss of exports using a partial equilibrium model. Details of this model can be found in Razzaque and Rahman (2019). Only the results are summarized here.

Loss of Export Earnings

The partial equilibrium is a condition of economic equilibrium, which takes the price change of a single component in consideration, with prices of all other products are held fixed. It implies, the analysis only considers effects of a given action in the market (in this case changes in price after loss of preference) that are directly affected. It does not account for the economic interactions between the various markets in a given economy. Holding everything else constant, this partial equilibrium estimates the impact on exports due to price changes emanating from forgone tariff preferences in the destination market.

The main advantage of the partial equilibrium approach to market access analysis is its minimal data requirement. In fact, it only requires data for the trade flows, the trade policy (tariff), and a behavioral parameter like elasticities. It uses only one sector while disregarding its interactions with others – a feature that general equilibrium models (GEMs) deal with. However, in contrast to general equilibrium models, this approach employed in this model makes use of trade and tariff data at highly disaggregated levels.

The potential impact of LDC-graduation in this model is transmitted through the following path:

- Price effects: An increase in price of exported goods from Bangladesh, which is caused by higher tariff rates in the post-graduation era.
- This will result in potential substitution between exports from graduate and nongraduate countries.
- The results are dependent on market share elasticities and therefore the extent of price sensitivities.

The trade effects of graduation from LDC status can be estimated by comparing the unit price received by the preference-receiving country with that of the MFN exporters. Using a standard partial equilibrium model and alternative values of the price elasticity of demand between 0.5 and 2, possible implications arising from Bangladesh’s losing EBA preferences and being subject to EU Standard GSP scheme can be simulated.

The estimated potential loss of exports depends upon the price elasticity of demand for Bangladesh’s exports and whether Bangladesh gets a standard GSP preference or faces MFN tariffs after graduation. The higher the price elasticity, the higher is the potential loss of export earnings. On the other hand, obtaining Standard GSP will lower the likely losses in comparison with the situation of being subject to MFN tariffs. In the most likely scenario of unitary price elasticity of demand and replacing duty-free access with the Standard GSP regime, the result would show a potential loss of export earnings for Bangladesh by \$1.6 billion.¹⁶ This amounts to 9.5 percent of average export revenues from the EU during 2015-17 (Table 3.4). While the forgone revenues due to woven garments would be lower than \$700 million, the comparable figure for knitwear would be close to \$1 billion.

Table 3.4: Potential Loss of Apparel Export Earnings in EU Due to Tariff Rise (million \$)

| Price Elasticity of Demand | If Bangladesh gets standard GSP preference (million \$) | If Bangladesh faces MFN tariff (million \$) |
|----------------------------|---|---|
| 0.5 | 800.8 | 1,001.0 |
| 1.0 | 1,601.6 | 2,002.0 |
| 1.5 | 2,402.4 | 3,003.0 |
| 2.0 | 3,203.2 | 4,004.0 |

Source: Razzaque and Rahman 2019

¹⁶ Most partial equilibrium models generally use a value of the price elasticity of demand of at least one if not higher. A value lower than one will make the good in question price inelastic. Goods that have close substitutes cannot have price elasticities less than one. A price elasticity value less than 1 means, the country in question will have very strong market power. In one of the most influential paper on demand elasticity, it has been found that price elasticities for RMG products tend to be very high (Panagariya, Shah and Mishra, 2001). It is true that the product categories that Bangladesh exports have many close substitutes. Therefore, it is only realistic to consider that Bangladesh cannot command a price inelastic export demand for its garment items.

As Bangladesh will lose from preference erosion, other competing countries will grab any potential market share lost by Bangladesh. China is likely to gain highest amount (above half billion) from preference erosion of Bangladesh.¹⁷ Among others, Cambodia, China, India, Turkey, and Vietnam stand to gain. When disaggregated by knitwear and woven apparels, China, Turkey, India and Cambodia seem to benefit more from increased exports of knitwear, while export rises of Pakistan, Morocco, Tunisia and Vietnam are dominated by woven garments.

The same modelling exercise has been carried out for measuring potential implications of loss of preferential access in two more countries (Canada and Australia) using the assumption of unit elasticity of demand for RMG products. In Canada, Bangladesh is likely to receive the standard General Preferential Treatment (GPT) upon LDC-graduation without any transition period. Bangladesh's average export to Canadian market under LDC-specific preference between 2015-17 was just over a billion dollar (\$1,030 million). Under the GPT tariff regime for developing countries, exported items will be subjected to a substantial 17 percent tariff rate on average. This change from replacing the duty-free access with the GPT would result in a potential loss of \$175 million export revenues by Bangladesh. This loss is equivalent to 17 percent of average export revenues from the Canada during 2015-17.

In Australian market, Bangladesh post-graduation may be subjected to the MFN tariff regime, which will result in about 5 percent tariff hike on average to exported items. In that case, Bangladesh's export incomes will face a loss of \$29 million, about 5 percent of \$524 million exports to Australia between 2015-17. Considering the three markets (Australia, Canada and the EU) together, a total of \$1.8 billion potential loss of export incomes is obtained (Table 3.5).

Table 3.5: Potential Loss of Export Earnings Due to Tariff Rise After Graduation

| Export destination | Scenarios | Average tariff faced (%) | Potential loss of export receipts (\$ millions) |
|--------------------|--|--------------------------|---|
| EU | Bangladesh received Standard GSP | 9.5 | 1,602 |
| Canada | Bangladesh received GPT for developing countries | 17.0 | 175 |
| Australia | Bangladesh faced MFN tariffs | 5.0 | 29 |
| Total | Post-graduation most likely tariff regimes in individual markets | 9.6* | 1,806 |

*Considers weighted average of tariffs in the three markets.

Source: Case-study prepared by Razzaque (2019) for UNDESA 2019. EU trade data are from the Comext database. Bangladesh's exports to Canada and Australia are from Trade Map database of the International Trade Centre.

The potential limitations of this approach are that it assumes constant import price elasticities, i.e. if the price of a given item declines, each producer adapts in the same way regardless of different adaptation measures within the structure of production. In any case, the potential shifts in exports may depend on producers' supply capacities and competitiveness, which are not captured in this market share-based approach.¹⁸ It needs to be pointed out models simplify complex matters of the real world, and the derived results depend on certain assumptions to make the model operational. There are so many factors involved in actual market situations that the results need to be interpreted with caution.

¹⁷ However, note that this model does not consider the fact that wages are rising in China and as such it is likely to face competitiveness pressure from other rivals.

The derived results thus represent potential consequences. One of the most fundamental tenets of international trade is that imposition of tariffs leads to reduced imports and thus lower revenues for the concerned exporters, other things remaining constant. The modelling framework used and results obtained are compatible with this basic principle. Similarly, the results obtained are consistent with the underlying reason why a country seeks duty-free market access in the first place. LDCs' demand for duty-free, quota-free market access for their products in developed and relatively advanced developing countries has been a salient feature of multilateral trade negotiations. The principle behind it is that preferential market access will make their exports more competitive and thus they will be able to export more. Conversely, from a situation of duty-free market access to being subject to tariffs would undermine export competitiveness and thus potentially reduce export earnings.

Other Notable Estimations

Since issue of LDC-graduation has generated a lot of interest, corresponding research work is still unfolding regarding this issue. Couple of other estimations are mentioned here.

- UNCTAD (2016) calculated, for all LDCs, the effects of preference losses related to LDC graduation in G20 countries, considering a scenario in which only the country in question graduates and another in which all LDCs graduate. For Bangladesh, it estimated a reduction in exports of close to 7 per cent in the first scenario and a little over 5 per cent in the second scenario. Amongst others, for Vanuatu, the estimated adverse consequences are around 15 per cent, for Tanzania 9 per cent, Cambodia 11 per cent, and so on.
- Rahman and Bari (2018) estimate that Bangladesh would face additional tariffs of about 6.7 per cent in absence of LDC preferential treatment, resulting in a possible export loss of US\$ 2.7 billion in view of potential earnings (equivalent to 8.7 per cent of Bangladesh's exports in FY2014-15).

¹⁸ It is to be noted that one popular approach to impact assessment due to trade policy changes is through the application of the general equilibrium models. One advantage of the GEMs is to allow interactions between sectors and markets. However, for operational purposes GEMs usually consider one aggregate product rather than disaggregated items and tariff rates as used in the partial equilibrium analysis. The most popular general equilibrium framework for assessing trade impact is due to the so-called GTAP (Global Trade Analysis Project) model. However, one problem is that such models use many restrictive assumptions and imposes certain analytical structures that are often not plausible. Furthermore, these models consider instantaneous adjustments as a result of which the resultant effects are sometimes overly exaggerated. For this study, a GTAP-based modelling exercise was also undertaken. This however generated a potential loss of export earnings that appeared to be excessively high. Prior to the MFA phase out in 2005, GTAP models were used by amongst others the IMF and WTO that produced very alarming scenarios of Bangladesh's apparel exports being wiped out substantially. Having acknowledged this problem, this study has refrained from using the GTAP results. It remains an area of further research to analyse the GEMs carefully and employing various sensitivity analysis.

¹⁹ That tariff hikes affect exports has also been reflected in the on-going USA-China trade war. An UNCTAD study shows that US tariffs caused a 25 per cent export loss, inflicting a US\$35 billion blow to Chinese exports in the US market for tariffed goods in the first half of 2019.

Summary of Export Income Loss

There is no doubt that the removal of LDC trade preferences will hurt Bangladesh's export competitiveness. This could result in losses ranging from \$1.0 billion (low price elasticity) to \$4.00 billion (high price elasticity). In percentage terms, they amount to a low of 2.8% of total exports in FY2018 to 11.1%. The most likely loss will be about \$1.8 billion, which is 5% of export earnings in FY2018. The absolute dollar values will be larger depending upon the timing of LDC graduation. These are not overwhelming losses but neither are they very small. Unless these losses are over-turned with coping policy measures, the cumulative losses over the years could be large. Additionally, there are other adverse implications of LDC graduation related to the end of special treatment under WTO provisions that are not easily quantifiable but can create important challenges. Importantly, the direct and multiplier effects of these export loss on GDP, employment and poverty reduction can be substantial as explained in detail in Chapter 8.

3.4. End of Special Treatment Under WTO Provisions

As differential WTO preferences will end for Bangladesh with LDC graduation, the country will face some unique challenges in the post-graduation era. Some of these challenges are likely to be more difficult than others. But they also present an opportunity to modernize trade policy based on a comprehensive reform that prepares Bangladesh to operate within the full rules and regulations of the WTO. Importantly, compliance with WTO regulations will also require building institutions, acquiring modern technology, improving labour skills and increasing productivity to increase global competitiveness.

Impact on Agreement of Subsidies and Countervailing Measures (SCM)

As explained in Chapter 2, the agreement of SCM deals with consistency of subsidies and international provision for using countervailing measures. As an LDC, Bangladesh is exempt from maintaining the high standards of self-restraint regarding trade distortionary subsidies. At the same time, the country is eligible for receiving free technical assistance support in the WTO's dispute settlement process.

The biggest impact Bangladesh is likely to face is for using the prohibited or actionable subsidies, or any subsidies that are provided upon export performance. The government of Bangladesh currently provides cash subsidies on exports. Since this is done to incentivize exports, it falls under the prohibited subsidies. According to the WTO Trade Policy Review of Bangladesh (2019), these take the form of cash incentives, and are provided to exporters who do not avail of the duty drawback facility or the bonded warehousing facility. It needs to be pointed out that duty-drawback and bonded warehouse facilities should not be regarded as export subsidies. However, the problem is when cash assistance is provided to exporters that are not using duty drawbacks and bonded warehouses, it is difficult to assess the genuine subsidy elements in the scheme. Therefore, although not the entire cash assistance can be regarded as export subsidies, any WTO member could raise the question about the current policy of supporting export as being non-compliant with WTO rules. In FY18, the government provided around \$560 million as export subsidy to 36 items, with nearly half of it going to the apparel industry. In addition to that, the government also makes several industry or sector specific fiscal contribution including grants and tax holidays.

In post-graduation era, these subsidies will be considered actionable. Any WTO member will be able to lodge official complaints against Bangladesh. Recent developments in the WTO suggest that developed countries are proactively pursuing legal actions against developing economies that violate restraints on such prohibited or actionable subsidies.

In 2018, USA lodged official complaint against India about the latter's supporting garment and some other exports, stating that India provides actionable subsidies in special economic zones, which are not in line with Article 3.1(a) of SCM agreement. This has now been a subject of dispute settlement (DS541). WTO members have generally been reluctant about raising complaints against LDCs with a very few exceptions. However, after graduation such a situation can change dramatically.

Bangladesh needs to closely study such issues and learn what can be done about making the export support policy regime WTO-consistent. Government authorities and other stakeholders should prepare for phasing out export subsidies and other actionable subsidies. Since subsidies will remain important and necessary for incentivizing trade, all concerned bodies should work closely to find out areas of subsidy provisions which are not consistent with WTO's SCM and other agreements.

Currently, it is very difficult to ascertain what portion of cash assistance to exporters can be considered as 'true' subsidies (as mentioned above, these subsidies are often available for firms that do not use bonded warehouses and duty drawback facilities). The cash assistance rates also differ between export sectors. One way of assessing the potential impact of discontinuing cash assistance support is to make use of two assumptions: first, to consider the 'true' subsidy element in the export policy, and second, to consider that export subsidy rates can be treated as equivalent of tariff rates (since both of them promote export competitiveness). If it is assumed that half of the total cash assistance in 2018 (i.e. \$280 million), then using the same partial equilibrium model referred to above (Razzaque and Rahman, 2019) it can be estimated that the potential export loss could be to the tune of \$131 million or 0.36 percent of total exports in 2018.

Impact for Agreement on Agriculture

As per the WTO's Agreement on Agriculture (AoA), Bangladesh will have to address a few issues. A primary concern will emerge from subsidies that falls under the so-called amber box. Agricultural subsidies in terms of price support will have to be completely avoided in the future. In FY19, the government proposed an agricultural subsidy package of approximately \$1.1 billion. These subsidies do not include any type of price support. But they are mostly implicit support on fertilizers, seeds and fuels used for irrigation. There are also subsidies on farming techniques, farming production, agricultural export, agriculture processing, etc. According to AoA, members cannot provide subsidies on agricultural processing for exporting or agricultural exports. They are considered as violation of the agreement and treated as such by other members.

After graduation, Bangladesh might have to undertake lowering bound tariff rates for agricultural items. With the average bound tariff rates of around 200 percent for agriculture, the applied MFN tariffs (around 25 percent) are much less than those of the bound rates. Unlike for other developing and developed country members of the WTO, Bangladesh did not have to make any cut or pledge in the earlier stage of AoA negotiations. Nonetheless, given the huge water in the tariff, any required adjustments in the bound tariff rates for agricultural items should not present any major issue for Bangladesh (i.e. there is hardly going to be any discernible impact for domestic producers).

Another issue is the Aggregate Measurement of Support (AMS). It is the indicator of the domestic support on which discipline for the AoA is required. The AMS calculation depends on the value of products and market prices. Developing countries, including LDCs are allowed to provide domestic supports up to 10% (de minimis ceiling) of the value of total agricultural production. Estimates from early 2000's suggests that Bangladesh's product subsidy (PS-AMS) is negative, while non-product subsidy (NPS-AMS) is around 1 percent of value of production (VoP) (FAO, 2002). While this may indicate Bangladesh has some wiggling room in terms of AMS and subsidy provision, it is also true that a lot of support that is currently provided are not included in AMS.

Nevertheless, it is generally recognised that the total amount of these subsidies is below 5% of the value of total agricultural production of the country. Therefore, the domestic support Bangladesh is now providing in agriculture sector is well within the de minimis ceiling, i.e., 10%. This should allow Bangladesh to continue with subsidies in fertilizer, irrigation fuel, etc.

As regards agricultural export subsidies, LDCs and the Net Food Importing Developing Countries (NFIDCs) are allowed to provide certain forms of export subsidies until 2030, according to the decision taken in the Nairobi Ministerial Conference of the WTO. One issue for Bangladesh is if after graduation from LDCs it will be automatically included in the list of NFIDC. This is a matter of a clarification from the WTO. If Bangladesh is admitted to the group of NFIDC, maintaining export subsidies on agricultural products until 2030 would be a possibility. In any case, the relative significance of agricultural exports in Bangladesh's total exports is quite small and thus any relevant changes in the policy issues are unlikely to generate a significant impact.

Impact on General Agreement on Trade in Services

Non-factor services export from Bangladesh remains around 10 percent of total export from the country. In FY18, Bangladesh exported services worth of \$3.7 billion. So far as it seems, the impact of LDC-graduation on GATS agreement and trade in services are going to be negligible. However, recent developments regarding global services export suggests that Bangladesh is probably going to miss out a window of opportunity in post-graduation era.

So far, 25 countries have announced certain services areas for special treatment of LDCs. These opportunities have just started opening up. LDCs often lack technical capacity to understand what these opportunities really mean and how to operationalize these opportunities through legal procedures.

The countries granting the waiver 'must' notify the Council for Trade in Services, which will conduct an annual review and assess whether the exceptional circumstances that justify the waiver still exist or not. The provision calls for non-discriminatory participation of LDCs. Since the process is cumbersome, developed countries are more interested in dealing with these issues under certain provisions, without notifying the WTO, and only offering opportunities to some selected LDCs. Effective implementation of LDC-specific services waiver is quite uncertain at this moment. Therefore, Bangladesh needs to remain vigilant in the WTO if any opportunities arise. Bangladesh has a significant potential for expanded exports in certain services sectors. IT, banking and financial sector, transportation, tourism and hospitalities are areas where service exports can utilise any LDC specific support measures until graduation in 2024.

Impact on Other Agreements

Impact of LDC-graduation on other WTO agreements are likely to be minimal, or non-existent for Bangladesh. The Agreement on TRIMs does not have massive LDC-specific implications for Bangladesh. But successfully graduating out of LDC status will surely require reviewing provisions carefully and reevaluating options for investment-related engagements in the private sector. Among other agreements, the TFA has some LDC-specific support measures of Bangladesh's interest. According to Article 18 and 20 of TFA, LDC members can avail 3 years additional implementation time for certain facilitation act. Bangladesh has already pledged timelines for implementation in category A, B and C. The National Board of Revenue (NBR) is currently working on developing the Authorized Economic Operator/ Trusted Traders system in Bangladesh, as part of customs modernization programme.

A National Enquiry Point has been established and an MoU has been signed for the National Single Window. If necessary, Bangladesh can unveil technical support for any facilitation project. Bangladesh already has the capacity to materialise commitments under category A. Implementation of activities in category B and category C must be sped up and finished before LDC graduation, if necessary, by utilizing available window for special support.

Preparedness for TRIPS Waiver Phase-Out

The primary impact of TRIPS waiver phase-out is likely to be felt in the pharmaceutical sector of the country. Unlike other LDCs, Bangladesh has a unique and highly functioning pharmaceutical export sector. While most least developed economies suffer from technological capacity constraints and shortage of skilled manpower to effectively produce medicines domestically, Bangladesh has acquired a large capacity in fulfilling more than 90 percent of the local market demands for drugs. Owing to the flexibilities offered by WTO TRIPS agreement and the support granted by the National Drug Control Ordinance (1982), local firms have enjoyed advantageous provisions, boosting domestic pharmaceutical production with import substitution and thus saving foreign currency on pharmaceutical imports. The current pharmaceutical industry of Bangladesh is valued at more than \$2.5 billion, which is about 1 percent of GDP. In FY18, the export of drugs from Bangladesh exceeded \$100 million mark. The end of TRIPS waiver will likely trigger two types of potential consequences for the industry: production and export related impacts and significant changes in the local legal framework to make it compatible with the WTO regime.

On economic impacts, several things could happen. The current industry of Bangladesh mostly depends on exporting generic drugs, or patented versions of generic drugs. In simple terms, since Bangladesh is a member of the LDC group, it is allowed to produce drugs and export them regardless of active patents. In post-LDC era, local firms may face cutbacks in production and export of patented generics because that will be the violation of TRIPS argument. This may lead to a loss of some export earnings for local manufacturers. There needs to be more empirical research on this issue to find out exact potential impact on market as it is not known to what extent patented drugs are produced and exported.

The potential impacts of graduation can also affect prices of drugs and market concentration, and they both can affect each other. The demand for medicines is price inelastic and largely influenced by physicians and retail pharmacies. As Rahman and Farin (2018) indicate, while impact on prices are somewhat unpredictable, they will be determined by net effect of different forces and are likely to vary across genres of medicines. But if productions of generic drugs are hampered, then price of such drugs would go up. It is important to notice that, for some life-saving drugs (such as those related to cancer & HIV/AIDS), local producers can sell drugs at a fraction of the price of patent holders. They may not be able to do so in post-TRIPS era. Since local producers now manufacture 97 percent drugs demanded by Bangladeshi consumers, market may get unstable. Drugs that already have their patents expired are not likely to cause abrupt price changes.

For market concentration, there is a chance that smaller firms may become unprofitable and lose their market share. Bigger firms are likely to get a bigger grip on market as they have the technological knowhow and ability to invest in research & development to produce new drugs. They are more prepared for TRIPS waiver phasing out after LDC graduation. The pharmaceutical market is already quite concentrated in Bangladesh as the top 20 companies together account for a close to 90 percent of market share. Foreign multinationals currently hold 9.4 percent of the industry. Their share is expected to grow in post-TRIPS era as government will be forced to make changes in legal framework, allowing them opportunities to invest and do business at more liberal terms.

As regards the changes in legal framework, there needs to some significant adjustments. Currently, the Patent and Designs Act, 1911. provides patent for only 16 years. A TRIPS- consistent regime will require a 20-year patent life instead. So, the law requires an amendment. As it stands, Bangladesh does not provide patent for medicines if they have not been produced domestically for four years. This will also have to be extended to 20 years, regardless of production status. Also, Bangladesh does not provide patent for foreign medicines, domestic producers can produce patented foreign medicine if they want. All patents for foreign medicines are being currently being ignored under the exemptions allowed by the TRIPS-pharmaceutical waiver.

Another change that is imminent after graduation is the amendments to the National Drug Control Ordinance, which currently does not offer multinational companies to operate without a production facility in Bangladesh, with collaboration of another Bangladeshi pharmaceutical firm. If a drug has three close substitutes available in the domestic market, they are not allowed to be imported either. Imported medicines cannot be advertised under current regulations. These provisions may have to change to remove discriminatory practices against the multinational pharmaceutical firms. They will also have to be provided with protection for test data and formulaic information for imported drugs, which have to be unveiled mandatorily according to current law.

Overall, the legal changes for consistency with TRIPS will have to include: i) protection of patented pharmaceutical products and processes for 20 years; ii) opening mailbox and activating patents; iii) allowing single ownership of firms and investment by multinational firms; iv) granting marketing approval for imported items; v) allowing import drugs items even if they are manufactured locally; vi) distribution and sales of imported drugs even if the owner firm in question does not have any production facility in Bangladesh; vii) providing protection for test data and formulaic information; viii) provision of cash-subsidy on pharmaceutical exports or Active Pharmaceutical Ingredients (API).

Therefore, adjusting to the conclusion of the TRIPs Waiver could be a significant undertaking for Bangladesh. It is important to undertake a sector-specific detailed assessment to analyse all relevant implications. Such a study should also be able to gather information on the nature of production and exports (e.g. by patent status) to offer relevant policy recommendations. There is often the argument of seeking an extension of the TRIPs waiver for Bangladesh beyond the graduation on the ground that this not a purely trade issue, rather this is a public health issues for which the Doha Declaration indicated certain flexibilities. As part of the preparedness for LDC graduation, the pharmaceutical industry and the implications of forgoing TRIPs waiver will require serious attention.

Quite apart from the impact on the pharmaceutical industry, one other implication needs to be recognized. In fact, there are two exemptions for LDCs under the TRIPS Agreement. One is general exemption and the other is related to pharmaceutical products. The general exemption exempted the LDCs from implementing all substantive TRIPS obligations, such as providing and ensuring various Intellectual Property Rights (IPRs). It will remain in force until 01 July, 2021, which is very likely to be extended further as it happened twice in the past. The main objective of the general exemption is to allow LDCs time to develop their IP regimes through enacting laws and enhancing enforcement capacities.

Though Bangladesh has enacted several IP laws or amended the previous ones, in most cases enforcement is still very weak. This is partly due to capacity constraints and partly due to economic unaffordability. For example, copied books and software are being widely used with affordable prices taking the advantage of exemption from the IPR obligations.

However, after the graduation from the LDC status, Bangladesh will be required to maintain and enforce all IP laws very strictly for providing IP rights. Enactment of new laws will also be necessary to provide IP rights in new areas, such as Layout Designs of Integrated Circuits, Undisclosed Information.

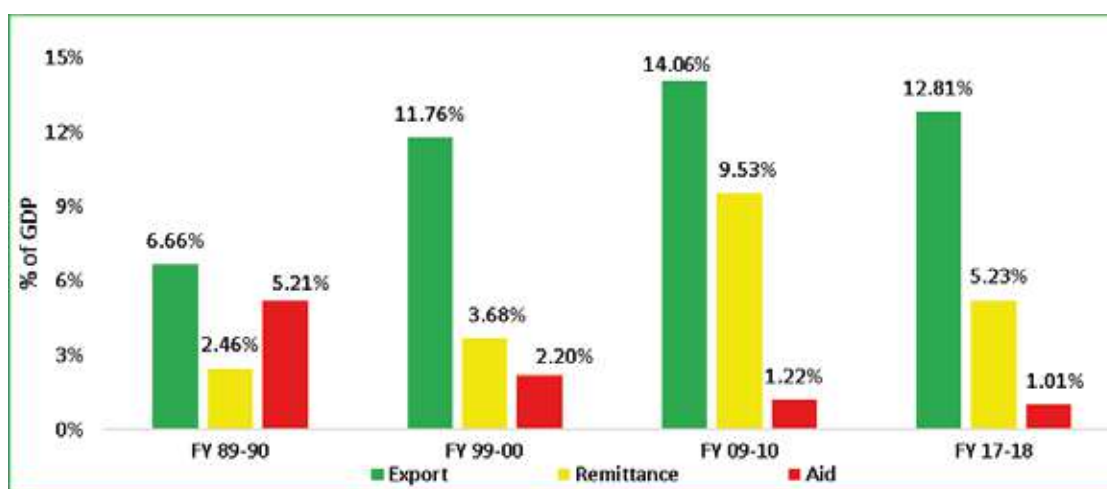
3.5. Impact on ODA

Although the impending fall in the amount of Official Development Assistances in post-LDC era for Bangladesh has been pointed out by several critiques, it is important to remember that Bangladesh’s dependence on foreign aid has declined tremendously from more than 8 percent of GDP in the early 1980s to just above 1 percent in 2018. Instead, the country welcomes foreign direct investment (FDI). Despite the fact that a number of development projects are currently being funded by development partners, the share of foreign aid has steadily kept falling over the past four decades as the economy grew and along with it domestic savings, exports and remittances showed dynamism (Figure 3.2).

A noteworthy fact about the official development assistance (ODA) is that the highest recipients are not always LDCs and in fact have been dominated by non-LDC countries. Various geo-political factors and pressing issues (such as wars and conflicts, refugee crisis, natural disasters, potential returns from investment, ability of any government to return loans, political stability of a country, etc.) are considered by development partners before disbursing any assistance. Figure 3.3 shows that for all of net ODA inflows in 2014, 2015 and 2016, there were only 3 LDCs (Afghanistan, Ethiopia, Tanzania) among the top ten ODA recipients. Bangladesh accounted for only 1.53% of net ODA receipts during these years. Even big developing economies

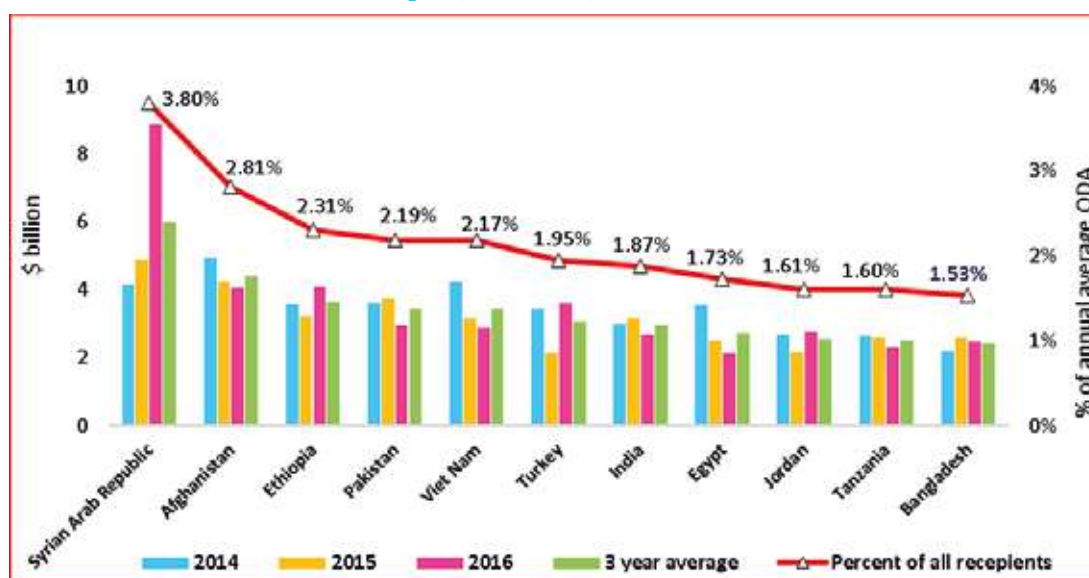
like Turkey and India enjoyed higher share of ODA than Bangladesh. Therefore, Bangladesh should not have too much concern about drastic fall in ODA inflows after LDC graduation. As mentioned earlier in the report the World Bank uses its own income classifications of countries in granting concessional loans. Furthermore, providing LDCs with equivalent to 0.15–0.20 percent of donor countries’ GNI as specified in the Istanbul Plan of Action adopted at the IV UN Conference on the LDCs in 2011 has never been materialized. Therefore, LDC status did not have much relevance regarding disbursing of foreign assistance. The trends in aid allocation would rather suggest that recipient countries’ historical and bilateral relationships with donors are an important determinant of ODA.

Figure 3.2: A Tale of Three Decades; Share of Export, Remittance and Aid as percent of GDP



Source: Based on ERD data

**Figure 3.3: Top 10 ODA Recipients and Bangladesh [2014 to 2016];
Net ODA Receipts (in \$billion), from all DAC Donors**



Source: Based on OECD data

Another important factor that should be noted is that grants and concessional loans received from such countries like Russia, India and China and many other emerging donors are not included in the ODA statistics. These are a significant source of development financing for Bangladesh. Most of the foreign investment received in mega-infrastructure development projects and initiatives in pursuit of achieving 2030 agenda of sustainable development goals came as bilateral and commercial loans. These indicate a shift in the capacity of the government in undertaking big investment projects and repaying loans.

Along with availability of ODA, it is also important to consider absorptive capacity. Underutilization of aid has been a regular phenomenon of Bangladesh's fiscal management. The accumulation of foreign assistance in the pipeline has risen to about a staggering \$50 billion. While complex procedural requirements and donor conditionalities could be problems in utilizing aid money, delays in project preparation and implementation are also an important factor for not being able to fully utilize the currently available assistance. Given this trend in aid utilisation, many would argue that availability of aid should not be a major concern for Bangladesh.

However, it should be borne in mind that conventional sources of funding are going to cost more in the future. This has already begun well before LDC graduation. Bangladesh's higher borrowing costs are associated with the accession from lower-income group to lower-middle-income group and not related to LDC graduation. Bangladesh, having moved to lower-middle income group, is no longer eligible for World Bank's most concessional IDA loans, with a typical interest rate of 0.75%, with longer grace period and other more relaxed terms. Instead it can apply for less concessional IDA gap loans²⁰.

²⁰ The typical interest rate charges on IDA Gap loans are 2 percent. World Bank's concessional interest rates are generally of four types: (a) IDA only (national per capita income cut-off level currently of less than \$1,165); (b) IDA gap (applicable for countries with income above the cut-off level for more than two years); (c) IDA blend (improved creditworthiness as considered by the World Bank); (d) IBRD (complete graduation from IDA and eligible for IBRD loans).

ADB is now only offering market-based loans with LIBOR rates. JICA has been the first major donor agency to increase concessional interest rate from 0.01 percent to 1 percent. Two major non-DAC governments that have financed infrastructure development in recent years, China and India are charging 2.4 percent and 1 percent, respectively. Borrowing from domestic sources is much costlier option as the government has to pay a staggering 9 percent plus interest rates on national savings certificates for public borrowing and loans from private Banks. While the reduced prospect for low cost financing is an issue, it would have taken place sooner or later regardless of LDC-graduation.

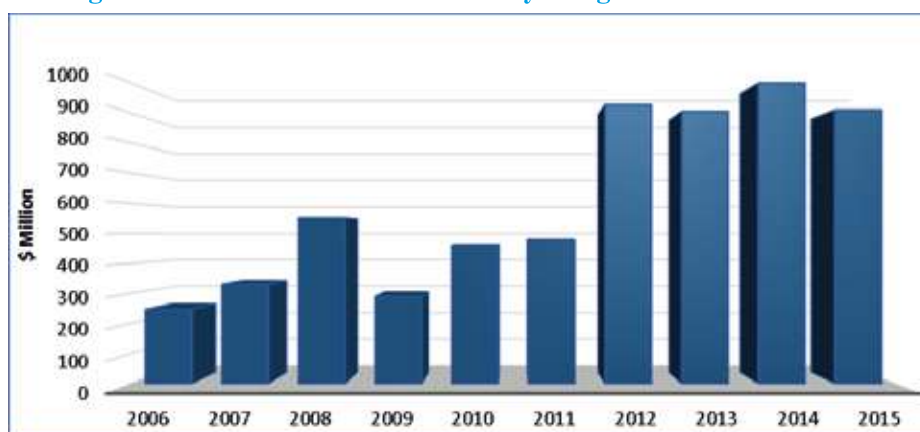
To summarise, the prospects of ODA, LDC graduation is unlikely to have any major impact. The LDC status is not a significant determinant of ODA inflows as many non-LDCs are major recipients of foreign assistance. Furthermore, a huge building up of committed resources in the aid pipeline means absorptive capacity is a huge problem for Bangladesh instead of fund availability. It is true that cost of foreign financing is on the rise but that is not because of LDC graduation. The sustained economic growth over the past decades means Bangladesh has moved up into the lower-middle income group of countries as per World Bank classification, which is usually associated with higher interest rates. Finally, Bangladesh tends to rely significantly on borrowing from domestic sources for public expenditure. These are much more costlier sources than the available ODA. An improved domestic resource mobilization capacity can greatly help with public sector resource management.

3.6. Impact on Other Trade- related Support Measures (Aid-for-Trade and others)

While preferential trade access provides significant benefits to Bangladesh and other LDCs, other trade related international support measures (ISMs) have not been so effective due to their narrow scopes, vague formulations and non-binding clauses, unequal distribution of preferences, and slower pace of operationalization. Given this, the post-graduation era is not going to cause too much of a problem for Bangladesh.

Aid for Trade is an issue of interest. The global Aid for Trade trends seem to suggest LDCs do receive some considerable funding. Bangladesh has received increasingly higher amount of Aid for Trade support in the past years, and the assistance provided have been utilised in improving infrastructure and building human assets for trade. As shown in Figure 3.4, between 2012 to 2016, Bangladesh on average received around \$935.54 million support as Aid for Trade. Energy sector was the most prominent recipient (38.34 percent) during that time, followed by transport and storage (23.25 percent), and agriculture (15.10 percent). But these amounts are not very significant compared to the size of the GDP or amount of support that is necessary for improving trade related conditions in Bangladesh.

Figure 3.4: Aid-for-Trade Received by Bangladesh Over the Years



Source: *Aid for Trade at a Glance 2017: Promoting Trade, Inclusiveness and Connectivity for Sustainable Development*, OECD/WTO 2017

It needs to be kept in mind that Aid for Trade remains part of ODA and Aft allocation is done using the same principle of aid allocation. As a result, Bangladesh does not have to worry about any potential consequences of Aft. In the coming years, Bangladesh may seek to obtain more resources to trade facilitation and build trade negotiation capacity. These areas will be key in promoting trade competitiveness and securing new export markets. Bangladesh may engage with the WTO to ensure greater assistance in this respect as the country makes the transition toward non-LDC era.

3.7. Other Impacts

Apart from these major points of impacts, there are a plethora of issue that will have to change in post-graduation era. Most of them are likely quite negligible changes. Nonetheless, there are some issues which should be approached with caution and requires detailed preparation.

Funds for Global Climate Change

Currently there are 29 international implementing agencies, 21 multilateral funds and 7 bilateral funds or initiatives active in the field of climate change financing (UNCTAD, 2016). LDCs, and developing Countries vulnerable to natural disasters, with very low Economic Vulnerability Index (EVI) are qualified to receive support from these sources. Although Bangladesh has better EVI than other LDCs, geographical location of the country makes it a disaster-prone area. Therefore, it is eligible for receiving funding from most of these. LDCF of United Nations Framework Convention on Climate Change (UNFCCC) is the Only special climate change fund for LDCs. With the help of this mechanism, Bangladesh is currently implementing National Adaptation Programme of Action (NAPA). Graduating from LDC will mark an end to receiving direct assistance from LDCF.

The Bangladesh Climate Change Trust Fund (BCCTF) has received support from around the globe and disbursed close to Tk 3,200 crore on various projects between FY 11 to FY 17. The Bangladesh Climate Resilience Fund (BCRF), which is managed by World Bank, has accumulated a fund of \$1 Billion with the help of ADB, IFC and IBRD. Both the BCRF as well as the BCCTF pre-allocated 10 percent of their total funding in order to support grassroots and community level adaptation to climate change. The Palli Karma Sahayak Foundation (PKSF) is the chosen agency to manage these funds. To implement adaptation and cut carbon emission, Bangladesh is also eligible to receive assistance from the Green Climate Fund (GCF) which is set up under UNFCCC. However, only two agencies received approval for support out of 54, as other public-private entities lack administrative capacity or transparency to meet the high standards of GCF funds. Similar problems have been faced by other LDCs, LMICs or developing countries.

Scale, accessibility and availability of climate change and adaptation funds have been rather uncertain for LDCs and developing countries. The disbursement of funds has been largely concentrated and not all eligible countries receive necessary supports. As an LDC, Bangladesh currently does not have to meet internationally agreed obligations to pursue mitigation efforts. Rather, its efforts are more inclined towards developing resilience against climate change related impacts. In post-graduation era, Bangladesh will have to compete with other LDCs and developing countries by showing convincing reasons for the continuous inflow of ODA in climate change funds. It will also have to start following obligations on carbon emission and pollution. Limited institutional and human capabilities may negatively affect Bangladesh's ability to compete for funds against other eligible recipients. Therefore, improving fund management capacity, ensuring transparency and international standard of fund management will become key challenges in this matter. Bangladesh may face international backlash if corruption, or lack of transparency smears reputation in handling climate change funds.

Changes in Membership Charges

LDCs are provided concessions in several membership charges, particularly in the bodies of the UN. Bangladesh's contribution to the UN will rise significantly in post-graduation era. The UN considers gross national income, population, and debt burden in determining the percentage of the total budget each member state must pay to fund general UN operations. That budget is known as the "regular budget."²¹

Bangladesh currently pays 0.01 percent of the UN regular budget (around \$0.53 million in 2018). This will become 0.07 percent in post-graduation era. Bangladesh currently enjoys a 90 percent discount on annual budget of UN Peacekeeping (UNPK) operations and pays 0.001 percent of total costs²². This will rise by 13.8 times.

The Bangladesh Mission in Geneva may no longer be eligible for a reduced/preferential rate of rentals of chancery premises. Current LDC specific UN preferences for fringe benefits such as travel costs, free air-tickets, accommodation supports will no longer be available in post-graduation era. LDCs also receive some research-related financial supports in the form of scholarships, fellowships for capacity development, travel grants, research funds. Graduation will mark and end to all these supports.

In addition to these, subscription for UN agencies such as UNDP, IFAD, UNVO, UNEP, UNICEF, UNFPA, UNODC, UN-WOMEN etc. will also increase. In WTO, Bangladesh currently receives free services from the Advisory Center on WTO Law (ACWL) to enhance its capacity in addressing any dispute settlement process. In post-graduation era, Bangladesh will have to renew membership annually. Bangladesh's voluntary contributions to the UN Funds and Programmes will also increase considerably. While all these hikes are significant in absolute terms, they amount to small amounts of money and the government is not likely to have any issue regarding them.

The preceding discussion on possible impacts of LDC graduation is summarized in Box 3.1

3.8. Conclusion and the Way Forward

The loss of trade preferences would be a major area of immediate concern for Bangladesh arising from LDC graduation. But it does not mean all is lost. The EU is the most important market for Bangladesh. Bangladesh must have proactive engagements with the EU right from now. First and foremost, the political processes within UN systems and its development partners generally emphasise smooth graduation and transition processes, although there is not much clarity regarding how other international support measures, such as bilateral and multilateral aid and technical assistance, can be of help and will actually be made available. Given EU rules, Bangladesh will remain eligible for duty-free market access until 2027. But Bangladesh can request for a longer transition period citing the reasons for being overwhelmingly dependent on EU trade preferences and the need for securing SDGs through a trade-led economic development mechanism.

Although under the existing rules Bangladesh might not qualify for GSP Plus, the European Commission's current GSP regime will apply until 2023 and is likely to be replaced by a new regime. Therefore, a proactive engagement with the European Commission and other stakeholders must be undertaken to influence any future changes in the EU GSP regime that would benefit Bangladesh. In light of the fact that several other LDCs are in the process of graduation, coordinated efforts could enhance the chance of graduating LDCs having an extended transition period from EBA and/or more liberal GSP Plus provisions including continuation of the EBA ROO for graduating LDCs.

²¹ Methods of determining UN regular budget can be found here: <https://undocs.org/en/a/res/70/245>

²² Methods of determining UNPK Budget can be found here: https://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/70/246

In the run up to graduation from LDC status, serious attention should be given to consider all options for securing favourable market access in the EU mobilising capacities for immediate proactive engagements with all relevant stakeholders. Striking a free trade agreement with the EU could also be an option. Although the market size in Bangladesh may appear small, it is growing rapidly.

Given the medium-term growth outlook, Bangladesh's economy is set to grow to more than US\$500 billion by 2025. According to recent PricewaterhouseCoopers projections, Bangladesh will be the 28th largest economy by 2030, in terms of GDP measured in purchasing power parity (PPP) dollars. Another important feature that makes Bangladesh an attractive partner for a free trade agreement is its robust economic growth accompanied by a highly protected trade policy regime. A growing market shielded by high tariffs provides preferential partners with a large competitive advantage (over others who do not have such preferential access) and thus should be of interest to many countries.

A bilateral trade arrangement with such a major partner as the EU will be a mammoth undertaking for a country such as Bangladesh, which has very limited trade negotiation capacity and does not have any bilateral free trade agreement with any other country. But the recent successful outcome of the EU-Vietnam FTA shows that striking such a deal is not impossible. Bangladesh should invest in its trade policy and negotiation capacities while at the same time identifying its defensive interests including any major reforms and concessions that bilateral trading partners might ask while negotiating a free trade deal. This should help with the preparatory process and in many cases specific requests can be made to development partners for capacity-building and preparatory support in the relevant areas.

Another issue that requires serious attention is the scope of extending the transition period in other preference-offering countries. Only the EU allows LDCs to have an extended transition period of three years (i.e. although Bangladesh will graduate in 2024, it will enjoy EBA benefits until 2027). Bangladesh can engage with other major preference-providing countries such as Australia, New Zealand, Canada, Japan, South Korea, etc. to follow the EU example of considering extended transition period. Challenging international trading environments and global commitments for attaining SDGs can be used as rationale for making such an argument. It needs to be pointed out that for graduating countries on previous occasions did not pursue this case as they could not utilise GSP facilities in those markets. In addition, Bangladesh should request India to continue with SAFTA LDC preferences even after graduation as the Maldives were granted the same.

The withdrawal of special and differential treatment of WTO rules for LDCs will present substantial challenges for Bangladesh. The implications of all relevant WTO agreements will have to be understood clearly and required actions will have to be undertaken. Obligations under the WTO's Agreement on Subsidies and Countervailing Measures (SCM) would imply that policies such as cash assistance will unlikely be viable. Bangladesh must clarify the matter very strongly that not all cash assistance can be considered as subsidies. This is because, in most cases, the scheme is open to only those exporters who do not access duty drawback and bonded warehouse facilities. Nevertheless, there is a genuine subsidy component in the cash assistance programme²³, removal of which could generate competitiveness pressure for exporters.

For agriculture, Bangladesh's one principal objective will be to get admitted into the group of net food importing developing countries (NFIDCs) to maintain certain flexibilities on agricultural subsidies and domestic support for the sector. In the case of services exports, as the LDC waiver has not been effectively operationalised, Bangladesh does not stand to lose from graduation. However, Bangladesh could argue that all graduating LDCs should be allowed to continue as beneficiaries until the end of the waiver period.

²³ Domestic content subsidies are prohibited under WTO rules. But a major portion of our cash subsidy to exports actually goes to deemed exports (yarn and fabrics) to the RMG sector.

The phasing-out of the TRIPS waiver is likely to have some major implications for Bangladesh. In this context, specific technical studies need to be undertaken to assess the nature and severity of the likely implications and preparatory measures that need to be undertaken. There is also lack of information (e.g how much patented drugs Bangladesh produces and exports, the extent of the use of copyright materials in academic institutions, areas where reforms will be needed to make the domestic legal regime compatible with the WTO system). The opportunity of seeking an extension of the TRIPs on the ground of public health issue also needs to be explored.

As regards the impact of the availability of the overseas development assistance (ODA), the evidence seems to suggest that LDC graduation is unlikely to be a major factor. However, Bangladesh must improve efficiency and absorptive capacity of in utilising aid resources. If foreign resources are going to cost higher, it would be important to mobilise more resources for domestic financing, for which Bangladesh must strive to raise its tax-GDP ratio.

While the WTO-led initiative of Aid for Trade has gained a lot of attention, it remains part of ODA and as such additionality of such resources will critically depend on the overall size of global aid budget itself. Bangladesh will have to look for enhanced financial and technical assistance for trade facilitation and trade negotiation capacity building. These areas will be key in promoting trade competitiveness and securing new export markets. Also, Bangladesh should build a greater coalition with other LDCs and developing countries and engage with the WTO to ensure greater flows of assistance in this respect as the country makes the transition toward the non-LDC era, accommodating wide-ranging trade-related adjustments.

Box 3.1: Summary of Impacts due to Graduation under various WTO Agreements and Regional Trade Agreements

| Impacts | Summary |
|--|---|
| 1. Impact related to Agreement on Subsidies and Countervailing Measures (SCM) | <ul style="list-style-type: none"> • The biggest impact Bangladesh is likely to face is for using the prohibited or actionable subsidies, or any subsidies that are provided upon export performance. The government of Bangladesh currently provides cash subsidies on exports. Since this is done to incentivize exports, it falls under the prohibited subsidies. Post-LDC, this might become a serious issue when other WTO member file complaints against Bangladesh. |
| 2. Impact for Agreement on Agriculture | <ul style="list-style-type: none"> • Agricultural subsidies in terms of price support will have to be completely avoided in the future. Bangladesh provides agricultural input subsidies on fertilizers, seeds and fuels used for irrigation, and also on farming techniques, farming production, agricultural export, agriculture processing, etc. As a result, after graduation, Bangladesh might have to undertake lowering bound tariff rates for agricultural items. • If Bangladesh is admitted to the group of NFIDC, maintaining export subsidies on agricultural products until 2030 would be a possibility. In any case, the relative significance of agricultural exports in Bangladesh's total exports is quite small and thus any relevant changes in the policy issues are unlikely to generate a significant impact. |
| 3. Impact on General Agreement on Trade in Services | <ul style="list-style-type: none"> • The impact of LDC-graduation on GATS agreement and trade in services are going to be negligible as Bangladesh is not a service export-oriented economy as of yet. • However, about 25 countries have announced certain services areas for special treatment of LDCs and so Bangladesh needs to remain vigilant in the WTO if any opportunities arise, especially in sectors like IT, banking and financial sector, transportation, tourism and hospitalities. |
| 4. Impact on Other Agreements | <ul style="list-style-type: none"> • Impact of LDC-graduation on other WTO agreements are likely to be minimal, or non-existent for Bangladesh. The Agreement on TRIMs does not have massive LDC-specific implications for Bangladesh. • But successfully graduating out of LDC status will surely require reviewing provisions carefully and reevaluating options for investment-related engagements in the private sector. |
| 5. Preparedness for TRIPS Waiver Phase-Out | <p>The primary impact of TRIPS waiver phase-out is likely to be felt in the pharmaceutical sector of the country.</p> <ul style="list-style-type: none"> • Local firms may face cutbacks in production and export of patented generics because that will be the violation of TRIPS argument. • The potential impacts of graduation can also affect prices of drugs and market concentration, and they both can affect each other. • There is a chance that smaller firms may become unprofitable and lose their market share. • Bangladesh does not provide patent for medicines if they have not been produced domestically for four years. This will also have to be extended to 20 years, regardless of production status. <p>Amendments to the National Drug Control Ordinance: which currently does not offer multinational companies to operate without a production facility in Bangladesh, with collaboration of another Bangladeshi pharmaceutical firm.</p> |

| | |
|--|---|
| <p>6. Impact on ODA</p> | <ul style="list-style-type: none"> • Bangladesh's dependence on foreign aid has declined tremendously, as the economy grew and along with it, domestic savings, exports and remittances showed dynamism. Moreover, most of the foreign investment received in mega-infrastructure development projects came as bilateral and commercial loans. • However, it should be borne in mind that conventional sources of funding are going to cost more in the future. This has already begun well before LDC graduation. Bangladesh, having moved to lower-middle income group, is no longer eligible for World Bank's most concessional IDA loans, with a typical interest rate of 0.75%, with longer grace period and other more relaxed terms. |
| <p>7. Impact on Other Trade - related Support Measures (Aid - for-Trade and others)</p> | <ul style="list-style-type: none"> • It needs to be kept in mind that Aid for Trade remains part of ODA and AfT allocation is done using the same principle of aid allocation. As a result, Bangladesh does not have to worry about any potential consequences of AfT. |
| <p>8. Other Impacts</p> | <p>Funds for Global Climate Change: Graduating from LDC will mark an end to receiving direct assistance from LDCF. In post-graduation era, Bangladesh will have to compete with other LDCs and developing countries by showing convincing reasons for the continuous inflow of ODA in climate change funds.</p> <p>Changes in UN membership charges: Changes in Membership Charges, especially in the bodies of the UN, will increase in post LDC era.</p> |

