

Chapter 1

Development Progress and the LDC Graduation Challenge

1.1. Overview

Bangladesh has come a long way along the development ladder since independence. A snapshot of this progress against key development indicators is shown in Table 1.1. The development progress measured in terms of income, poverty and human development is truly impressive. This progress gained momentum after 2009 under the dynamic leadership of Prime Minister Sheikh Hasina, especially in terms of acceleration of GDP growth. In 2015, Bangladesh crossed the threshold of the World Bank-defined lower middle-income country (LMIC). In 2018 it also crossed the threshold for graduation from the list of UN-defined least developing countries (LDC).

Table 1.1: Development Performance 1980-2018

Indicators	1980	2000	2018
GNI per capita (\$)	140	581	1909 ¹
Poverty (UPL) (%)	58.5 ²	52.3	21.8
Life expectancy (years)	54.8	63.6	72.3
Infant mortality (%)	111.5	58.0	22.0
Adult Literacy (%)	29.2	52.8	73.9
Population growth rate (%)	2.35	1.41	1.2

Source: Bangladesh Bureau of Statistics

The LDC graduation is a game-changer for Bangladesh economy and society. In the early years of independence international critics thought Bangladesh was an international basket case. The development progress leading to the readiness for LDC graduation has proven that with strong commitment, good economic management and resilient economic progress under heavy odds is very much possible. Bangladesh is now considered a solid model for socio-economic progress with many positive lessons for other developing countries. In addition to the remarkable progress with human development and poverty reduction, the rapid rate of GDP growth is amongst the fastest in the world today.

But progress brings its own challenges as Bangladesh aspires to move forward further to achieve upper middle income status by FY2031 and high income status by FY2041. The successful move towards LDC graduation implies that the special benefits enjoyed by Bangladesh in its international trade and financial relations with the global community as an LDC will also come to an end after graduation. It must be acknowledged that Bangladesh has made the most of the International Support Measures (ISMs) accorded to LDCs. Some of the LDC benefits have been particularly propitious for Bangladesh, especially the duty-free access to exports in the European markets under the Everything but Arms (EBA) scheme. The readymade garments sector (RMG) got a tremendous boost in the European Union (EU) country markets with the support of this special GSP facility for LDCs. This is the most important benefit, but there are others.

¹Refers to FY2019

²Refers to 1983

But Bangladesh is not new to challenges stemming from external developments. The MFA phaseout was a watershed moment in 2005 that many analysts thought would spell disaster for the RMG industry. Yet, it was the strong competitiveness of the sector that ensured a firm footing in the global market. Likewise, given the strong record of resilience of the Bangladesh economy and its critical actors, we may surprise analysts again in rising to the challenge of post-graduation and moving forward on a steady path of growth towards Upper-Middle Income Country (UMIC) status by 2031. However, there should not be any ground for complacency. This report highlights the scope and extent of the possible emerging challenges and offers policy guidance for addressing them in order to stay on course of steady economic progress as planned.

In recognition of the importance of these preferential export market access, the LDC graduation process allows a fair amount of time for the formal graduation expected in 2024. The Bangladesh government is keen to utilize this transition period to develop a comprehensive strategy for LDC graduation with a view to ensuring that the graduation costs in terms of loss of benefits are well understood and appropriate strategies and policies are in place to allow a smooth transition from LDC status. As a first step, the government has asked the General Economics Division (GED) of the Planning Commission to conduct an in-depth analysis of the costs and consequences of LDC graduation and suggest appropriate strategies and policies to offset these costs through compensatory domestic policies and reforms.

This study provides an analysis of the costs of LDC graduation and strategies and policies to mitigate those costs and move forward steadily along the path of development articulated in the Perspective Plan 2041 (PP2041). The Report is organized as follows. In this first chapter, an analysis of progress with development and emerging issues and challenges in light of LDC graduation are provided. Chapter 2 contains an analysis of main benefits offered by the international community to support LDCs. Chapter 3 deals with major post-graduation challenges in light of the loss of LDC benefits and their likely impact. Chapter 4 reviews the globalization trends facing Bangladesh in a post-LDC environment. Chapter 5 analyses the macroeconomic strategies for post-LDC graduation adjustments. Chapter 6 reviews trade policies and strategies for smooth adjustment to the LDC graduation phase. In Chapter 7, analysis of behind-the-border issues to strengthen competition and gain market access in a post LDC-graduation environment are analysed. Finally, Chapter 8 provides an analysis of socioeconomic impacts of LDC graduation.

1.2. Growth and Structural Transformation

GDP and GNI growth: In the first two decades after independence, the Bangladesh economy performed at a low level in terms of real GDP growth, investment and savings rates. Average real GDP growth was less than 4%. Coupled with high population growth rate, this lackluster economic growth led to virtual stagnation in per capita real GDP. The growth in per capita GDP in dollar terms hovered between 1% to 1.5% (Figure 1.1). Per capita GDP started to grow modestly during 1990s, but still remained tepid at an average rate of 2.3% during the decade. Economic growth accelerated after 2000, while population growth rate slowed. These factors along with a stable exchange rate caused per capita GDP in dollar terms to surge from \$400 in FY01 to \$900 in FY11, and the annual average growth rate of GDP per capita in dollar terms accelerated to 7% during the decade. During FY11 to FY17, per capita GDP in dollar terms doubled to \$1800, as the growth rate in per capita GDP in dollar terms accelerated further to 10%.

Figure 1.1: Historical Trend of Real GDP and GDP per Capita (Current USD\$)

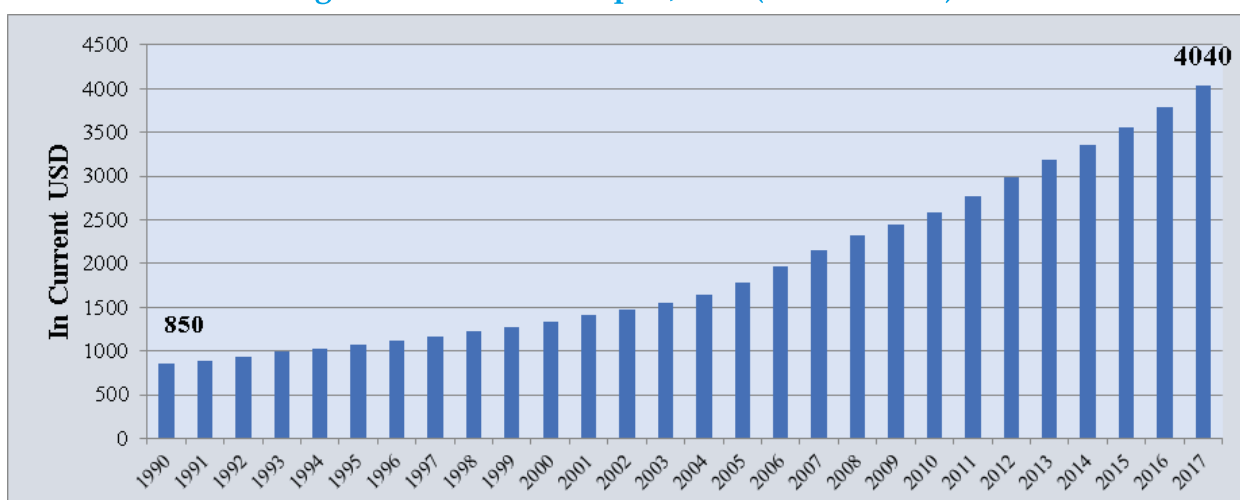


Source: Bangladesh Bureau of Statistics

A review of Bangladesh’s growth experience indicates that, real GDP growth increased steadily over the decades since 1980s, and the growth rate generally accelerated on average by about one percentage point per decade. The growth rate has been stable and without much cyclical variation. This is another remarkable feature of the Bangladesh growth experience.

The accelerating economic growth, combined with macroeconomic and exchange rate stability, declining population growth rate, and growing foreign remittances contributed to an acceleration in per capita gross national income (GNI). Whereas it took more than 20 years for per capita income to double in dollar terms from \$200 in 1980 to \$400 in 2002, it took only 7 years to double from \$600 in 2007 to close to \$1200 in 2014. In 2015 Bangladesh crossed a major milestone by moving out of the World Bank defined low income country to a lower middle-income country. The per capita GNI in FY19 reached \$1909 in current dollar terms, pointing to further acceleration in recent years. In terms of Purchasing Power Parity (PPP), Bangladesh’s per capita GNI increased by almost 5-fold since 1990 (Figure 1.2).

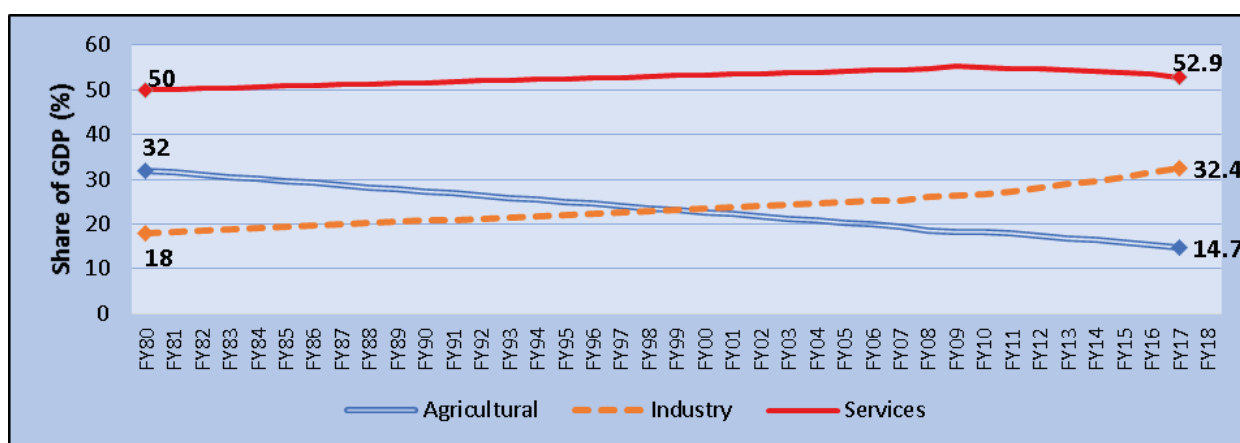
Figure 1.2: GNI Per Capita, PPP (current US \$)



Source: World Bank database

Structural change in production: Since end-1980s, the growth was driven by exports of RMG products thus contributing to the increasing share of manufacturing/industries over the last three decades. As the share of agriculture in GDP declined from 32% in FY80 to 14.7% in FY18, the share of industries increased correspondingly by 14.4 percentage points to 32.4% of GDP in FY18 (Figure 1.3). The share of service sector remained broadly stable at around 50% of GDP, but there were important qualitative changes. Many modern services activities have been emerging over the last two decade or so in banking, insurance, information communications technology (ICT), transport, healthcare, hospitality industry and education. Nevertheless, informal activities still remain dominant in the services sector.

Figure 1.3: Structural Transformation of Gross Value Added



Source: Bangladesh Bureau of Statistics

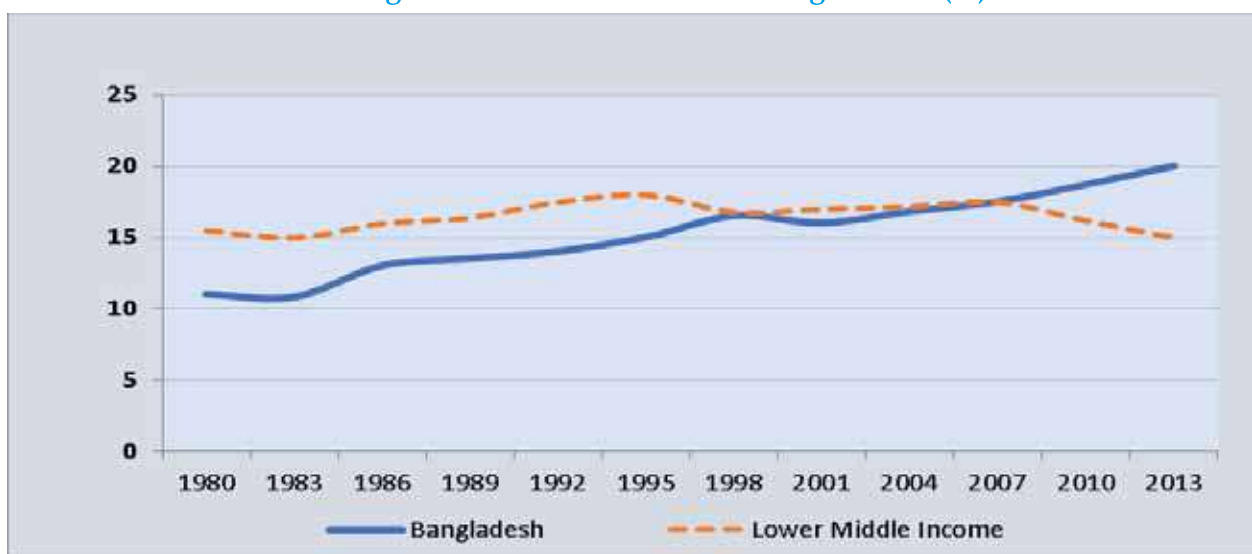
Despite its declining share in GDP, agriculture continued to grow at a respectable pace of 3%-4% per annum throughout this period and Bangladesh secured virtual food self-sufficiency in rice, with rice production increasing to 34.7 million ton in FY15 surging from only about 13 million ton in 1970s. This remarkable increase in rice production is primarily attributable to irrigation, fertilizer and the introduction of high-yielding variety (HYV) rice since mid-1970s. This seed-fertilizer-water technology led to a surge in the production of dry season boro rice, which grew by 11 times (Table 1.2). Wheat output also increased, although it still accounts for a very small proportion of total food grain production. This surge in food production was instrumental in eliminating hunger from Bangladesh and contributed handsomely to the reduction of poverty.

Table 1.2: Index of Food Grain Production (FY72=100)

	Aus Rice	Aman Rice	Boro Rice	Wheat
FY72	100	100	100	100
FY80	120	128.2	139.6	731.9
FY90	105.7	161.6	347.1	787.6
FY00	74.1	181	634.5	1628.3
FY08	64.4	169.7	1022	746.9
FY09	80.9	203.9	1024.7	751.3
FY10	73	214.3	1039.1	797.3
FY11	91.1	161	1071.2	860.2
FY12	99.4	161	1080.2	886.3
FY13	92.3	161.2	1080.2	1120.9
FY14	99.4	161.3	1093.7	1160.0
FY15	99.4	161.3	1102.7	1199.1
FY16	97.7	164.9	1088.1	1199.3
FY17	91.1	167.0	1035.1	1199.3

Source: Bangladesh Bureau of Statistics

As a result of the rapid growth of the manufacturing sector, supported by export-oriented RMG and other domestic demand-based manufacturing outputs, Bangladesh's share of manufacturing in GDP has grown. It now exceeds the average of lower middle-income countries (LMIC). This indicates that Bangladesh manufacturing has performed better than the average LMIC. This is a positive development and, if sustained and further augmented, this dynamic manufacturing sector will propel Bangladesh towards the UMIC country status as envisaged under the PP2041.

Figure 1.4: Share of Manufacturing in GDP (%)

Source: Bangladesh Bureau of Statistics

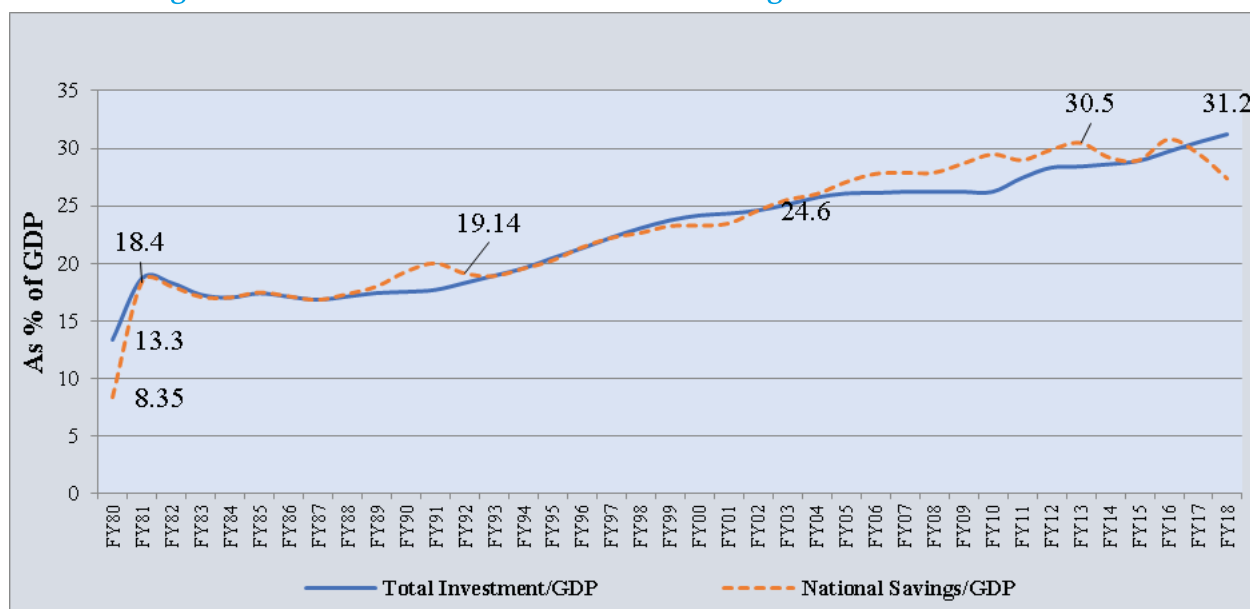
1.3. Sources of Growth

Bangladesh's impressive performance in terms of income and domestic output has been supported by several growth drivers. These include: capital accumulation financed by increased domestic savings and remittance inflows that boosted the national savings rate; a growing labour force that was supported by job creation based on growing demand; and the growth in exports fueled by the Ready-made Garments (RMG) revolution.

Bangladesh's national savings rate used to be less than 10% of GDP until it jumped to around 18% of GDP in FY82, supported by increased inflow of workers' remittances. It hovered around that level throughout the 1980s (Figure 1.5). The national savings rate continued to steadily increase after 1990 and reached a peak of 30.5% of GDP in FY13. It has dipped a bit since then due to the slowdown in the growth of foreign remittances. On average, the expansion of national savings has tremendously benefitted from the rapid inflow of workers' remittances, which at times exceeded 12% of GDP and currently accounts more than 7% of GDP.

Gross National Investment closely followed the trend in Gross National Savings during most of the period, indicating a sustained increase in investment supported almost entirely by national savings. Accordingly, the investment rate increased from a low of 13.3% of GDP in FY80 to 31.2% of GDP in FY18. This accumulation of capital (capital deepening) in recent decades has underpinned the pickup in the real GDP growth rate almost in a parallel path. The level of national investment was generally at or below the level of national savings, indicating that current investment was domestically financed and the external current account balance was in virtual balance or small surplus during most of the last three decade ensuring sustainability of the investment and growth momentum.

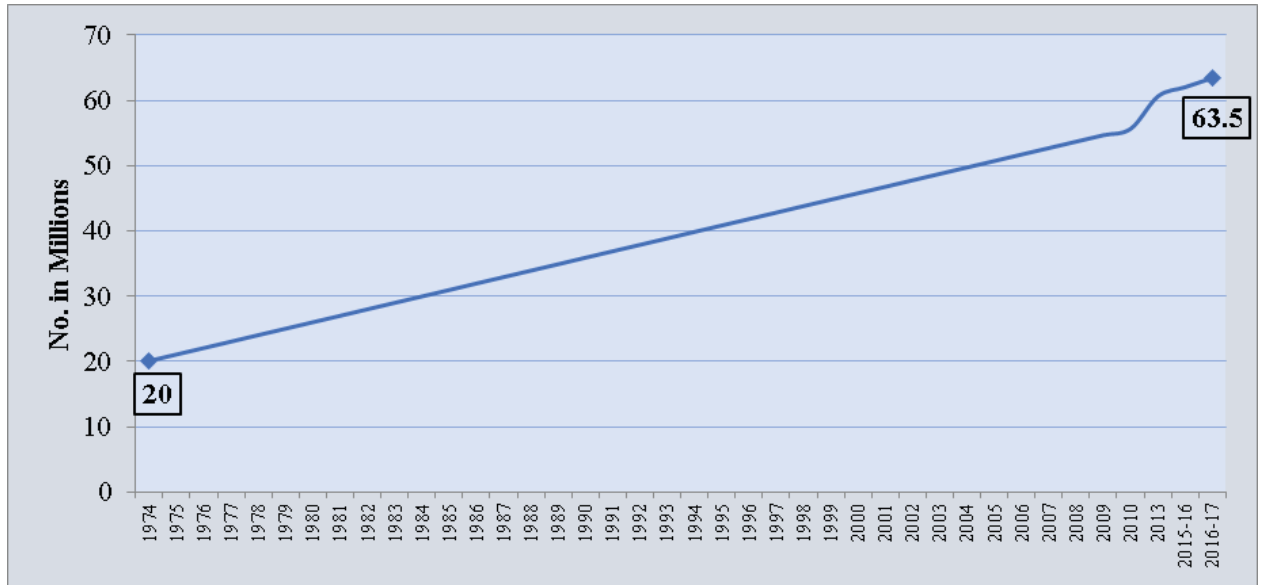
Figure 1.5: Historical Trends in National Savings and Investment Rates FY80-FY18



Source: Bangladesh Bureau of Statistics

Growth in the number of working age population, increased participation of women in the labour force, and increases in labour productivity were the other drivers of growth in Bangladesh. Total working age population increased more than 3-fold since 1974 from around 20 million to 63.5 million in FY17 (Figure 1.6). The growth dynamics was also supported by the increasing participation of women in the labour force (Figure 1.7).

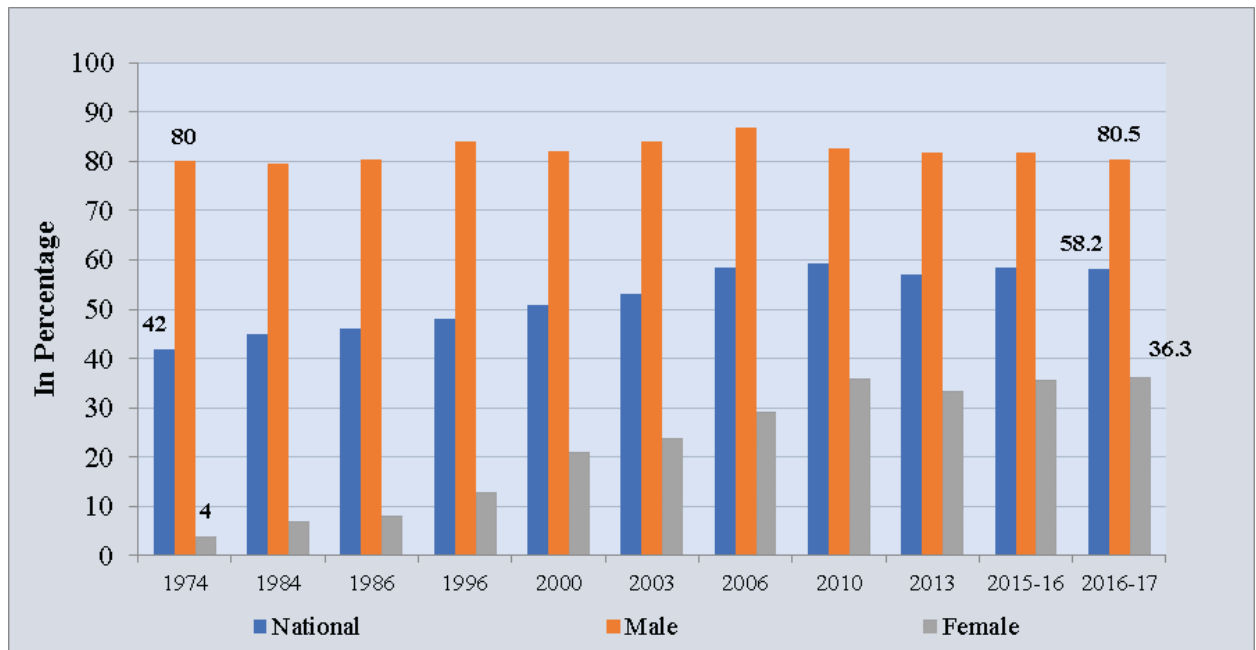
Figure 1.6: Trend in Economically Active Population/Labour Force



Source: Bangladesh Bureau of Statistics

Because of the growing participation of women, the share of female labour in the total labour force has been rising from only 4% in 1974 to more than 36% in FY17. While participation of male in the workforce has remained broadly unchanged at around 80% since 1974, the national participation rate increased from 42% in 1974 to 58.2% in 2016-17, reflecting the increasing participation of female labour. At 36.3% the female labour force participation rate is still quite low, indicating further scope for labour force expansion in the coming years.

Figure 1.7: Trend in Labour Force Participation

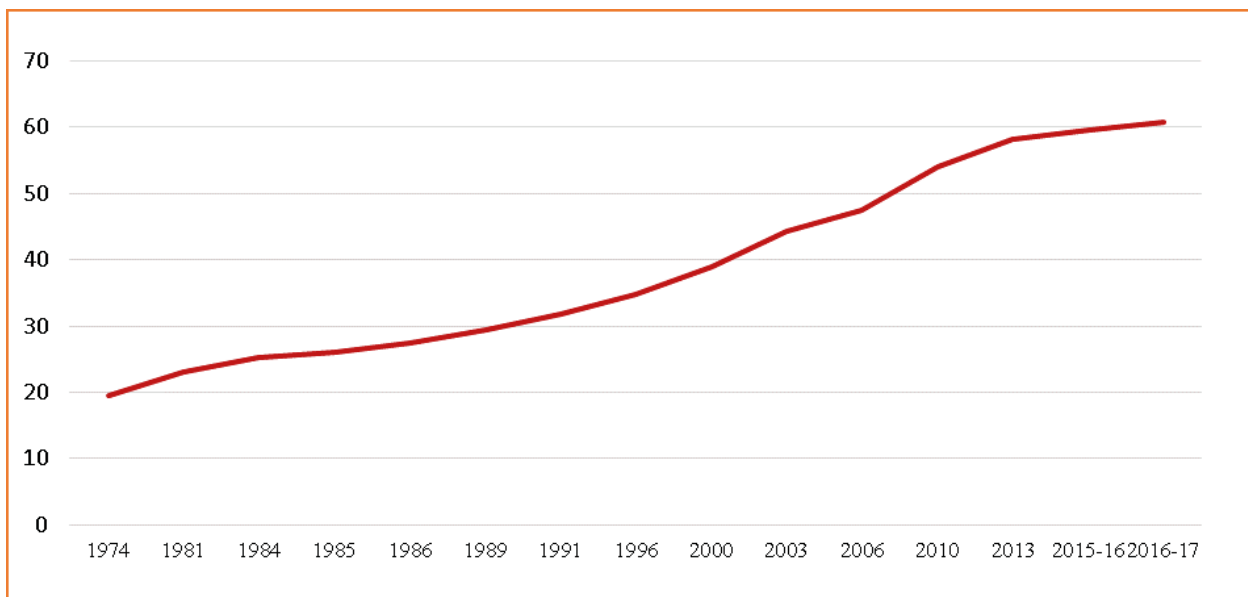


Source: Bangladesh Bureau of Statistics

The growing labour force contributed to a favorable labour supply situation thereby avoiding pressure on real wages. On the demand side, exports, investments and consumption growths all contributed to a growing demand for labour that supported an expansion in domestic employment. On average employment grew by 2.9% per year between 1974 and 2013 (Figure 1.8). Along with export of workers abroad, the overall employment situation remained comfortable for most of the years except recently (2013-2017).

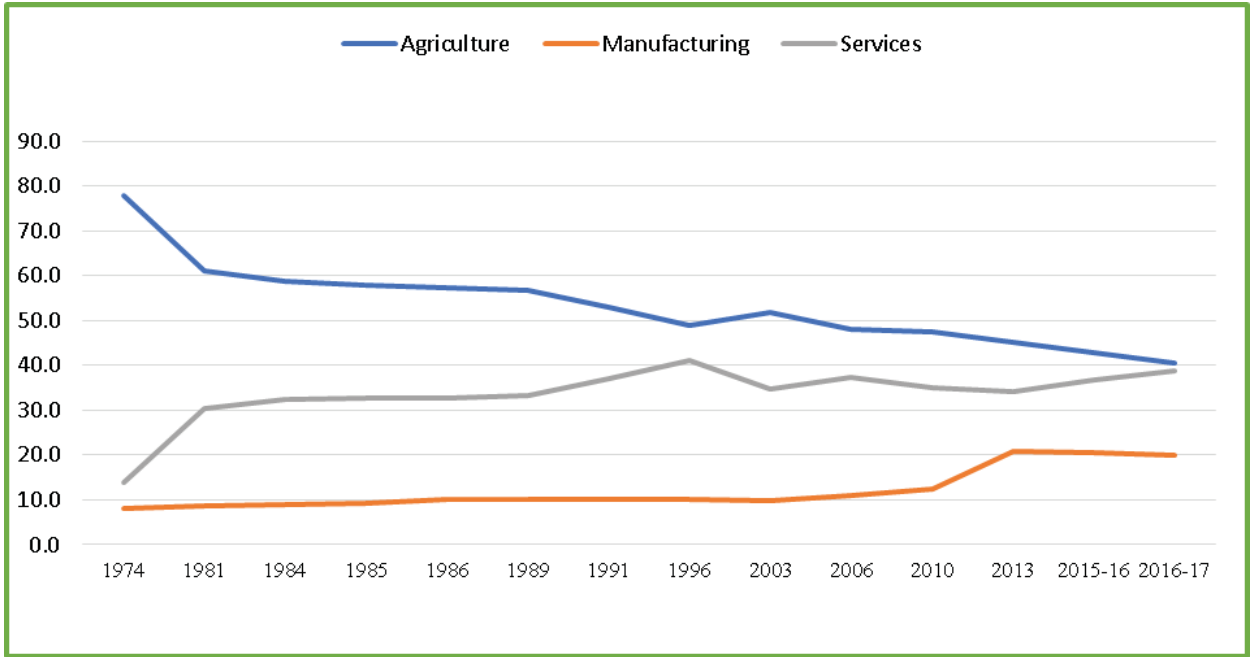
In a developing country like Bangladesh where formal employment and associated worker protection benefits are limited, open unemployment tends to be low as people cannot afford to stay unemployed and will take up any job in the informal sector at low real wages. So, along with total employment, the structure of employment is also very important. The changing structure of production noted above did support an improving employment structure. Workers on average tend to be compensated less owing to low productivity in agriculture and informal services relative to manufacturing and formal services. The structural change in employment is illustrated in Figure 1.9. Slowly but steadily, the employment share of manufacturing has grown from 8% in 1974 to 20% in 2016-17, while the employment shares in agriculture has fallen from 78% to 41% over the same periods. The employment share of services rose markedly from 14% in 1974 to 40% in 2016-17. This structural transformation has been accompanied by rising real wages in both agriculture and manufacturing that has contributed strongly to poverty reduction.

Figure 1.8: Trend in Employment (million workers)



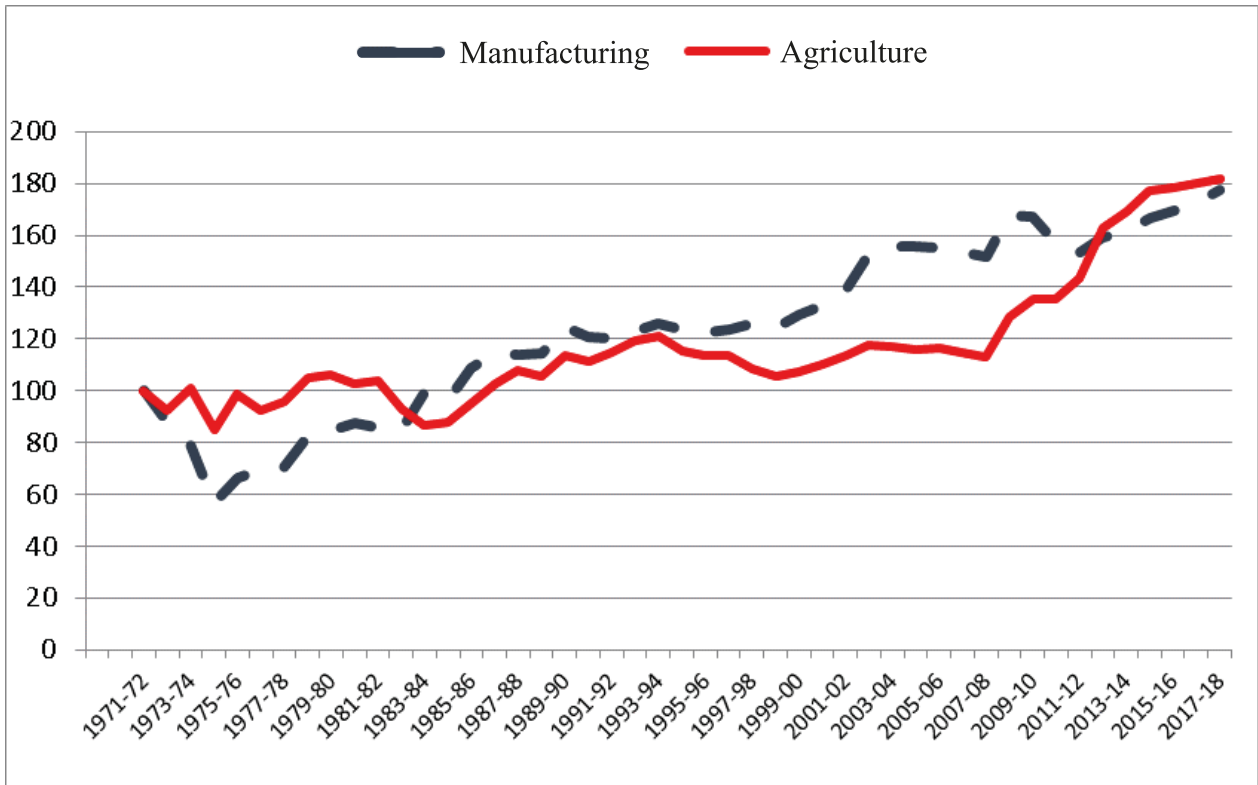
Source: Bangladesh Bureau of Statistics

Figure 1.9: Structural Change in Employment



Source: Bangladesh Bureau of Statistics

Figure 1.10: Trend in Real Wages (1971-72=100)



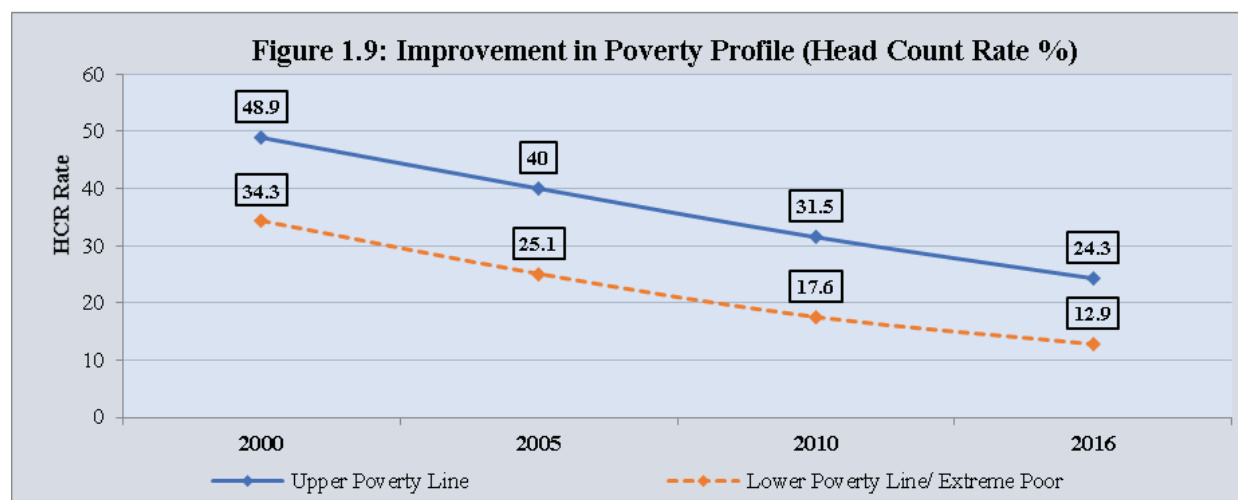
Source: Bangladesh Bureau of statistics

While the long-term story on employment and real wages is positive, there are some recent developments on the employment front that need to be managed. This concerns the recent slowdown in job creation, especially in manufacturing. The pace of employment growth in manufacturing in recent years is much slower than is necessary to absorb the growing labour force emerging from the demographic transition including higher participation of the female labour force, and to further reduce under-employment in agriculture and informal services. Technology changes in manufacturing and construction are slowing down job creation. Also, skills are a serious problem.

1.4. Distribution of the Gains from the Growth

The positive developments in real economic growth also led to improvements in various socio-economic indicators. As indicated in Table 1.1, in early 1970s, Bangladesh’s poverty level in terms of the upper poverty line was as high as 74%. By the year 2000, the poverty level in terms of upper poverty line declined to 48.9% of the total population but still almost half of the population remained poor. As economic growth gained momentum, the poverty rate was further cut by half to 24.3 percent by 2016 (Figure 1.9). Similar progress was made in terms of reduction in the incidence of extreme poverty, which declined by almost two-thirds to 12.9% in 2016, compared with 34.3% of population in 2000. A rapid expansion of income from rural non-farm activity and remittances, which currently account for more than 60% of rural household income, has contributed to this reduction in poverty across Bangladesh.

Box 1.1: Progress with Poverty and Food Intake



Source: Household Income and Expenditure Survey, BBS- Various Years

Along with progress on the poverty front, Bangladesh also made remarkable progress in terms of food security and nutrition intake. As discussed above in the context of agriculture sector performance, Bangladesh has already achieved self-sufficiency in rice production in a normal year when production is not impacted by devastating floods. Moreover, non-crop agriculture like eggs and poultry, fish, milk and livestock production has expanded rapidly contributing towards the restoration of nutritional balance in the daily intake of essential foods. As the daily intake of protein, dairy, vegetables, and fruits increased rapidly, per capita daily intake of rice started to decline steadily in a predictable manner.

The nutritional rebalancing is important for preventing stunting and malnutrition among children of poor and uninformed households. Bangladesh has made good progress in this direction, but still has some way to go particularly to address the stunting and malnutrition of children among the ultra-poor households.

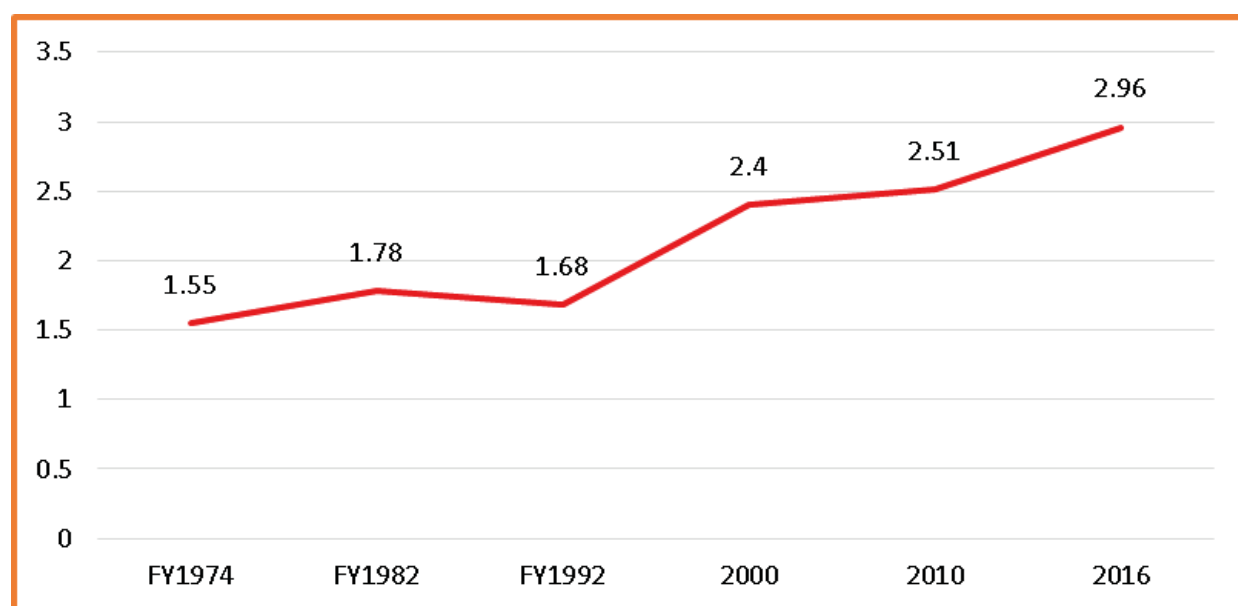
Table 1.3: Per Capita per day Intake of Major Food Items (Grams)

Items	1995-96	2000	2005	2010	2016
Total	913.8	893	947.8	1000	976
Rice	464.3	458.5	439.6	416.0	367.2
Protein-based food	58.6	57.0	62.5	75.4	101.6
Vegetables, Dairy and Others	390.9	377.5	445.6	508.6	506.8

Source: BBS, HIES- Various Years

While the progress with poverty reduction, the elimination of hunger and increase in food nutrition are all major wins for the welfare of the Bangladeshi population, one worrisome negative development is the growing incidence of income inequality that has also tended to lower the poverty impact of growth. Income inequality as measured by the traditional gini coefficient has been creeping up in Bangladesh over the years. A more reliable indicator of income inequality is the Palma Ratio that calculates the ratio of the share of income of the top 10th percentile of the population divided by the share of the bottom 40th percentile. The richest 10th percentile of the population had income that was 1.7 times higher than the combined incomes of the bottom 40 percentile of the population in 1992. This soared to a high of around three times in 2016. Clearly, income inequality is on the rise and sharply so as reflected by the Palma Ratio (Figure 1.11). Rising income inequality not only reduces the poverty impact of growth it also leads to social unrest. It also goes against the spirit of the government's philosophy to promote prosperity and inclusiveness. Addressing the income inequality is a major policy challenge moving forward.

Figure 1.11: Income Inequality (the Palma Ratio %)



Source: Bangladesh Bureau of Statistics

The other important downside that needs careful management is the recent slowdown in job creation, especially in manufacturing. According to the latest round of the labour force survey (LFS 2017), job creation has been rather modest, despite rapid GDP growth. Compared with average GDP growth of 6.6% per year, employment has grown slowly at the rate of 1.7% between 2010 and 2017. This suggests a very low elasticity of employment to GDP growth (0.26). On the positive side, the employment share of agriculture has fallen from 48% to 41% while the employment share of manufacturing has increased from 12% to 20%. Technology changes in manufacturing and construction are slowing down job creation. Also, skills are a serious problem.

1.5. Bangladesh's Remarkable Journey Toward LDC Graduation

Evolution of the LDC status

The Least Developed Countries, as defined by the United Nations Committee for Development Policy (UNCDP) are a group of countries that exhibit the lowest indicators of socioeconomic development. The concept of LDCs emerged way back in the late 1960s during the review of the International Development Strategy of the first Development Decade (IDS-I) of the UN. During that period, there was growing consensus regarding the inadequacy of the conventional or historical methods to facilitate economic development in most vulnerable countries. As a result, the global community started to acknowledge the necessity of special attention and a strong framework for it. Finally, in November 1971, 25 countries were listed together as LDCs in UN resolution 2768 (XXVI)³. Table 1.4 provides a brief history of the inception of the LDC group with a list of events.

Consequently, the International Development Strategy for the second UN Development Decade (IDS-II) in the 1970s incorporated special measures in favour of the LDCs. Later at different stages, 28 more countries were added to this group. Bangladesh became a member in 1975, along with the Gambia and the Central African Republic. Since 1994 to 2018, only five countries have successfully managed to graduate out of the LDC status. One noticeable factor is that these countries were either small island nations or have an abundance of natural resources, which eased their position in the global export market for primary goods⁴.

Currently, there are 47 countries in the LDC group. These LDCs consists of 986 million people but account for only 1.3 percent of the global economic production and 0.9 percent of global trade. These simple numbers clearly indicate how productivity and financial progression remains obstructed in LDCs, owing to a mixture of structural or natural factors. To understand the evolution of LDC status, it is important to probe through the LDC member selection criteria. Since the inception in 1971, the LDC member selection criteria has changed seven times. The original LDC simple identification criteria only accounted for “low-income countries that face structural handicaps”, while indicators included GDP per capita, adult literacy rate and share of manufacturing sector in the economy. The indicators have changed as well as the identification criteria. According to the latest round of updates made by UNCDP in 2017, LDCs are low-income countries suffering from the most severe structural impediments to sustainable development. The indicators include GNI per capita, Human Assets Index (HAI), and Economic Vulnerability Index (EVI). The evolution of LDC criteria is indicated in Table 1.5, while Figure 1.12 provides detailed information regarding HAI and EVI.

³These countries included Afghanistan, Bhutan, Botswana, Burundi, Chad, Dahomey (later Benin), Ethiopia, Guinea, Haiti, Laos (later Lao PDR), Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Kingdom of Sikkim (later part of India), Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta (later Burkina-Faso), Western Samoa (later Samoa) and Yemen.

⁴Among those five countries, Botswana graduated in 1994 with 91% valuable natural stones in export basket. Cape Verde (graduated in 2007), Maldives (graduated in 2011), Samoa (graduated in 2014) are small island nations with each containing less than half a million population. Crude oil exporting Equatorial Guinea became the only LDC to graduate out by income-only criteria in 2017.

Table 1.4: Timeline of Events for Least Developed Countries

December 1971	26th session of the United Nations General Assembly Formally endorsed the list of the 25 LDCs
March 1971	7th session of the Committee for Developing Planning (CDP) Determined the initial criteria for identification of LDCs to be low per capita gross domestic product (GDP) and the presence of structural impediments to growth Identified a tentative list of 25 countries as LDCs based on these criteria
December 1970	25th session of the United Nations General Assembly Reiterated the urgency of formal identification of LDCs
March 1970	6th session of the Committee for Developing Planning (CDP) Formed a working group to define the methodology for identifying LDCs
December 1969	24th session of the United Nations General Assembly Acknowledged the need to alleviate the problems of underdevelopment in the less developed countries Requested the Secretary-General to carry out a comprehensive examination of the special problems of the LDCs and to recommend special measures for dealing with them
January-March 1968	Second session of the United Nations Conference on Trade and Development Acknowledged the need to alleviate the problems of underdevelopment in the less developed countries Requested the Secretary-General to carry out a comprehensive examination of the special problems of the LDCs and to recommend special measures for dealing with them
March-June 1964	First session of the United Nations Conference on Trade and Development UNCTAD member States agreed that special attention was to be “paid to the less developed among the developing countries, as an effective means of ensuring sustained growth with equitable opportunity for each developing country”

Source: UNDESA 2018

Table 1.5: Evolution of LDC Definition and LDC-Selection Criteria

LDCs are low-income countries suffering from the most severe structural impediments to sustainable development			
2017	GNI per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> • Under-five mortality rate • Percentage of population undernourished • Maternal mortality ratio • Gross secondary school enrolment ratio • Adult literacy rate 	<ul style="list-style-type: none"> • Population • Remoteness • Merchandise export concentration • Share of agriculture, forestry and fishing in GDP • Share of population in low elevated coastal zones • Instability of exports of goods and services • Victims of natural disasters Instability of agricultural production
LDCs are low-income countries suffering from the most severe structural impediments to sustainable development			
2011	GNI per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> • Percentage of population undernourished • Under five mortality rates • Gross secondary school enrolment ratio • Adult literacy rate 	<ul style="list-style-type: none"> • Population • Remoteness • Merchandise export concentration • Share of agriculture, forestry and fishing in GDP • Instability of exports of goods & services • Victims of natural disaster • Share of population in low elevated coastal zones
LDCs are low-income countries suffering from low level of human resources and a high degree of economic vulnerability			
2007	GNI per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> • Percentage of population undernourished • Under five mortality rates • Gross secondary school enrolment ratio • Adult literacy rate 	<ul style="list-style-type: none"> • Population • Remoteness • Merchandise export concentration • Share of agriculture, forestry and fishing in GDP • Instability of exports of goods & services • Homelessness due to disasters • Instability of agricultural production

LDCs are low-income countries suffering from low level of human resources and a high degree of economic vulnerability

2002	GNI per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> Percentage of population undernourished Under five mortality rates Gross secondary school enrolment ratio Adult literacy rate 	<ul style="list-style-type: none"> Population size Export concentration Share of manufacturing and modern services in GDP. Instability of exports of goods & services Instability of agricultural production

LDCs are low-income countries suffering from low level of human resources and a high degree of economic vulnerability

1999	GDP per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> Under five mortality rates Average calorie intake per capita as a percentage of the requirement Combined Primary and secondary school enrolment ratio Adult literacy rate 	<ul style="list-style-type: none"> Population size Export concentration Share of manufacturing and modern services in GDP. Instability of exports of goods & services Instability of agricultural production

LDCs are low-income countries suffering from long-term handicaps to growth, in particular, low levels of human resource development and/or severe structural weaknesses

1991	GDP per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> Life expectancy at birth Combined Primary and secondary school enrolment ratio Per capita calorie supply Adult literacy rate 	<ul style="list-style-type: none"> Export concentration ratio Share of manufacturing in GDP Share of employment in industry Share of per capita electricity consumption

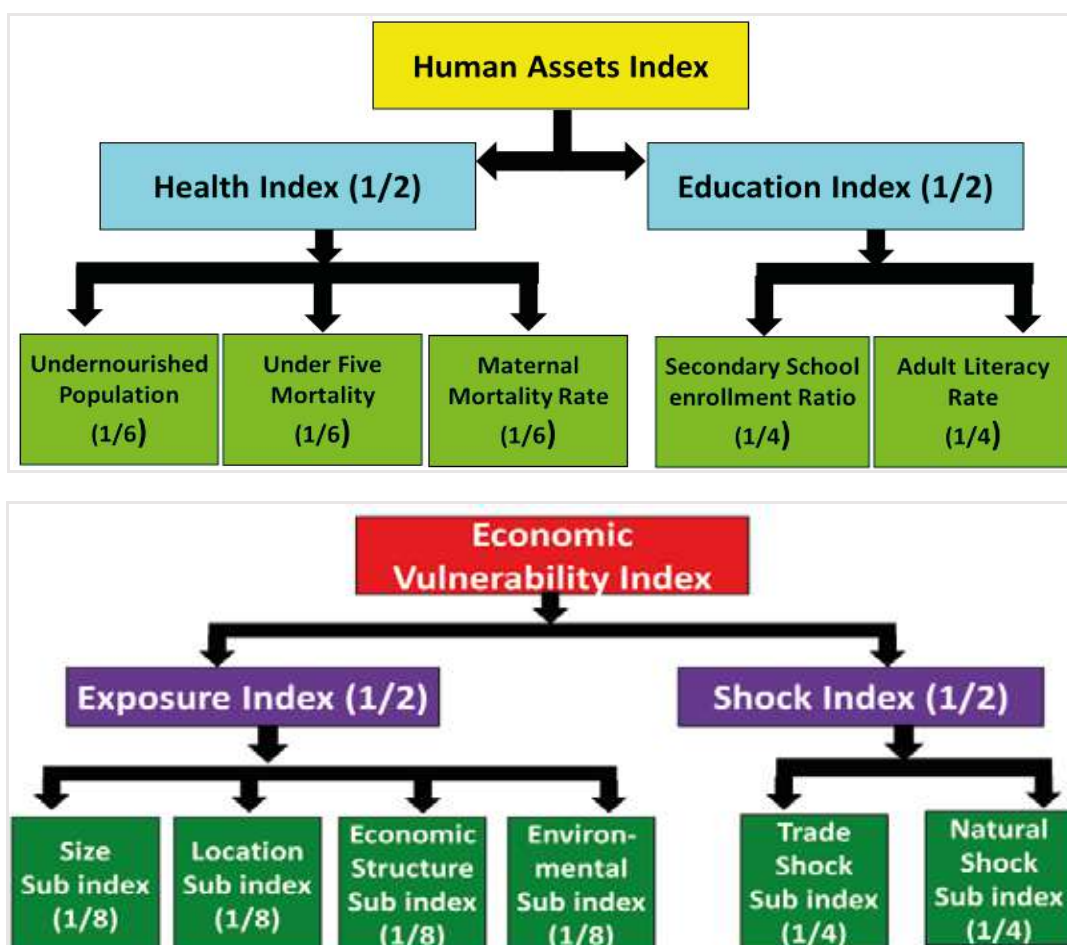
LDCs are countries with very low levels of per capita gross domestic product facing the most severe obstacles to development

1971	GDP per capita	Human assets index (HAI)	Economic vulnerability index (EVI)
		<ul style="list-style-type: none"> Adult literacy rate 	<ul style="list-style-type: none"> Share of manufacturing in GDP

Source: UNDESA 2018

The Human Assets Index or HAI is a measure of the level of human capital. A lower HAI represents a lower development of human capital. It is often believed that low levels of human assets indicate major structural impediments to sustainable development. As a result, UNCDP started using absolute thresholds for the HAI to determine inclusion and graduation eligibility. HAI is divided into two sections. The health index consisting percentage of the undernourished population, under-five mortality and maternal mortality rate carries half of the weights. On the other hand, education index including secondary school enrollment ratio between girls and boys, and adult literacy rate carries rest of the weight for HAI.

Figure 1.12: Human Assets Index (HAI) and the Economic Vulnerability Index (EVI)



Source: UNDESA 2018

The Economic Vulnerability Index (EVI) is a measure of structural vulnerability to economic and environmental shocks. Exposure to high vulnerability is closely related with higher economic vulnerability in landlocked countries or small economies. It also indicates major structural impediments to sustainable development. EVI is a composition of Exposure index and Shock index, each carrying equal weights. The Exposure index includes size sub-index (population), location sub-index (remoteness), structure sub-index (merchandise export concentration and share of agriculture, forestry, fishing in GDP) and the environment sub-index (population at low-lying coastal areas). The shock index contains trade shock sub-index (instability of export items) and natural shock sub-index (victims of natural disaster and instability of agriculture production).

It is worth noticing that, the UN Committee for Development Policy (CDP) in 1991 decided that countries with a population over 75 million should not be considered for inclusion in the LDC category. The only countries with populations over 75 million that were admitted to the list of LDCs before 1991 - Bangladesh and Ethiopia - were allowed to stay in the list. However, there is no provision for any country for reverting back to LDC status after it has graduated out. This should not be a concern for Bangladesh. Prior to graduation in 2024, it is highly unlikely that in the upcoming years Bangladesh will experience extremely adverse economic conditions, resulting in poor scores for GNI per capita, HAI and EVI index and thereby postponing graduation. So, effectively, barring a disaster situation, Bangladesh will likely graduate from LDC status in 2024 and it can never have the LDC status again. In any case, the idea that Bangladesh will stay as an LDC after 2024 is inconsistent with the government's development target to achieve upper middle-income status by FY2031.

Bangladesh LDC Graduation Process

The UN set up a Committee for Development Policy (CDP) that updates the criteria for graduation and also reviews the progress of LDCs every three years to determine which countries are eligible for graduation. As it currently stands, a country must surpass any two of these three-eligibility criteria- a) Per capita GNI above \$1,230; b) HAI score of 66 or above and c) EVI of 32 or below (Table 1.6) But there is another alternative criterion for graduation which is known as the income only criteria. Following that, an LDC can be considered for graduation if it has a per capita GNI of \$2,460 or above, even if it does not fulfil other criteria. During UNCDP's 2018 triannual review meeting, Bangladesh had a HAI of 72.8, EVI of 25.2 and GNI of \$1,274 (Table 1.6). It means Bangladesh has now successfully met all three criteria for graduation. The graduation process for Bangladesh has been long but steady, and the country is firmly on course to receive official

Table 1.6: Eligibility Criteria for LDC-graduation

	Per Capita Gross National Income	Human Assets Index	Economic Vulnerability Index
Required	\$1,230 or above	66 or above	32 or below
Income Only Criteria	GNI of \$2,460 or above		
Bangladesh Score at 2018	\$1,274	72.8	25.2

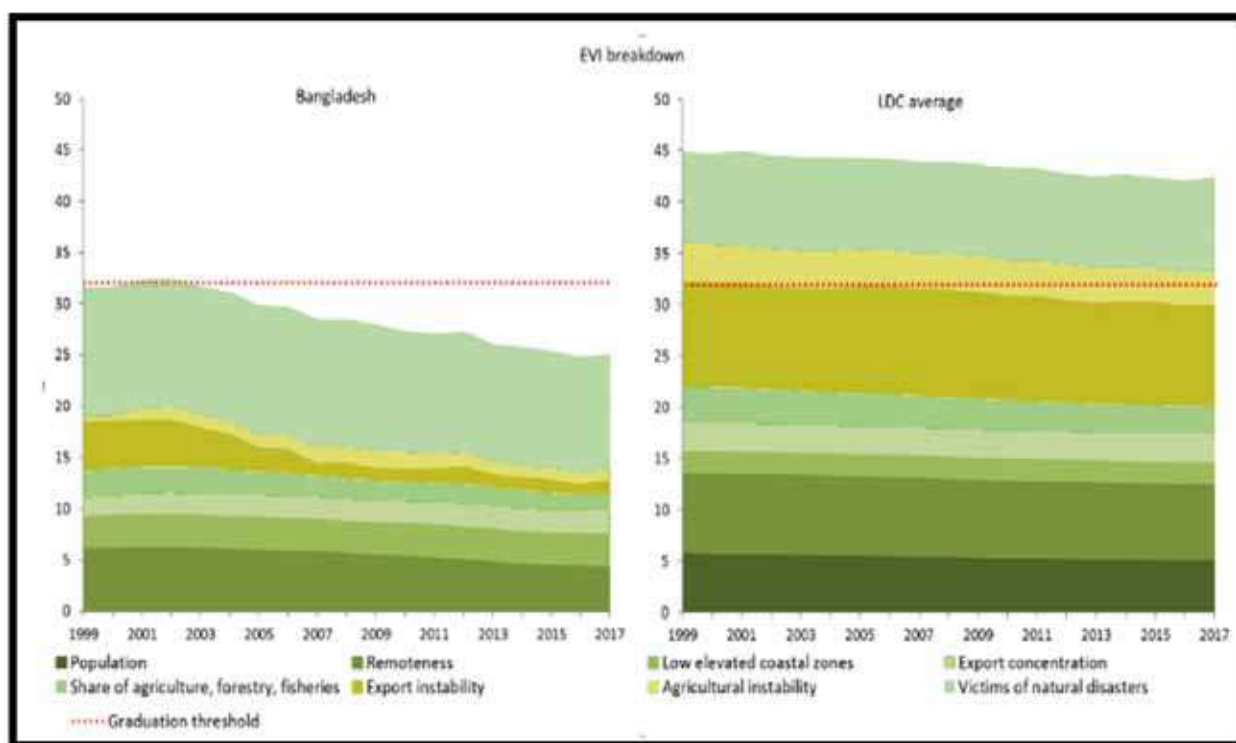
Source: UNDESA 2018

Developing Country status by 2024. As noted, Bangladesh already secured the status of World Bank-defined LMIC status in 2015 and has now embarked on its journey to achieve UMIC by 2031⁵.

Fulfillment of the HAI criteria: Bangladesh’s stellar performance in achieving the Millennium Development Goals (MDGs), which focused on human development indicators, enabled it to achieve HAI of 72.8 compared with the graduation threshold of 66 and above. In three out of four indicators taken into account for calculating HAI, Bangladesh outperformed many countries in its peer group and exceeded the overall HAI score comfortably.

Fulfillment of EVI criteria: Although Bangladesh is considered to be an environmentally vulnerable country in terms of climate change, the economic vulnerability index (EVI) for Bangladesh has consistently been decreasing since 2003 (Figure 1.13), the first year it fell below the CDP’s official threshold. The remarkably low EVI for Bangladesh is primarily attributable to stability and growth of its exports and agricultural production, the rapidly declining share of agriculture in GDP, and a rapid deceleration of population growth helped contribute to a much lower EVI for Bangladesh compared with the UNCDP threshold for LDCs. While the average EVI for the LDCs remained well above the threshold level of 32 for many decades without much of a downward trend, the same for Bangladesh has precipitously fallen below the threshold since 2003 and consistently declined almost every year since then.

Figure 1.13: Economic Vulnerability Index, Bangladesh and LDC average, 1999-2017

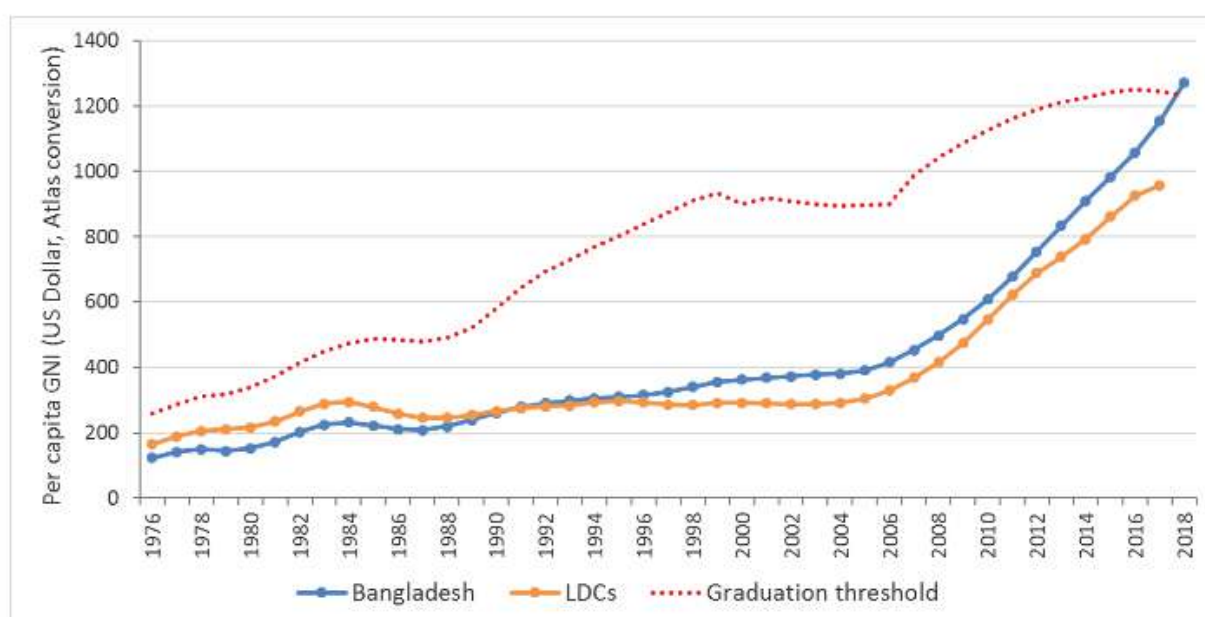


Source: GED estimations

⁵The World Bank country classification is based solely on per-capita income thresholds using the so-called Atlas Method. Income is only one variable under the UN country classification of LDCs.

Fulfillment of the income criteria: One criterion where Bangladesh significantly lagged in terms of LDC graduation over the years was the threshold for per capita gross national income using the World Bank Atlas method (Figure 1.14). Even though Bangladesh has consistently outstripped the LDC average since 1996, only after 2006, when the average growth rate approached close to 6% in real terms and the exchange rate remained stable for a long time, the gap between the graduation threshold and Bangladesh's GNI per capita (based on Atlas method) started to narrow markedly, and eventually has risen above the threshold used by the CDP in 2018. Bangladesh's success comes on the back of six straight years when economic growth exceeded 6%, culminating in some of the fastest growth rates in the world in recent years.

Figure 1.14: Per Capita GNI, US\$, Atlas Conversion, 1976-2018 (3-year averages)



Source: World Bank Database

The transition period: But graduation is not a simple task of crossing a certain mark for once, the question of sustainability is closely intertwined with LDC graduation. And as graduation elevates the status of former least developed countries into other developing countries (ODCs), it must remain competent in pursuing further economic progression. As UNCTAD (2016) mentions in their LDC report that graduation is a milestone, not a winning post. Henceforth, LDC's are given three years to hold onto their achievements of crossing the thresholds. If an LDC can continuously stay above at least two of the three eligibility criteria for three years, the country is considered for graduation over the next two triannual reviews.

The UNCDP's next triannual review meeting in 2021 will decide if Bangladesh will successfully stay above those thresholds. If it manages to do so, then Bangladesh will be given another three years before it completely graduates out from the LDC status to the ODC status in 2024. It is also worth mentioning that Bangladesh's graduation is unique in the sense that it would be the only LDC to graduate on all three indices in one go, while for the graduation purpose achieving any two out of the three criteria is considered adequate. Although formal graduation from the LDC status is still 5 years ahead, given Bangladesh's robust growth performance (more than 7% average real

growth in recent years) backed by double-digit manufacturing growth, strong export growth and sustained improvement in the HDI, by all reasonable expectations the gains made over the last several decades are not likely to be reversed in the course of the next two rounds of reviews by UNCDP and the UN General Assembly, respectively.

1.6. The Way Forward

The development process leading to LDC graduation is clearly remarkable and suggests a big win for Bangladesh. But it also gives rise to concerns about potentially sizeable economic costs because of the loss of access to various International Support Measures (ISM) associated with LDC status. The available support measures for LDCs encompass a range of concessions, commitments and provisions made by international agencies and development partners across the fields of development finance, trade, technology and technical assistance. The magnitude of any costs will depend on the extent to which a country is benefited from such measures prior to graduation. Hence, for Bangladesh, while graduation out of LDC status inspires hope of greater prosperity, the transition also comes with the potential of economic shocks that must be addressed systematically. Therefore, it is very important that policy makers have before them an assessment of possible country-wide impacts and make timely preparation for addressing any emerging challenges. The next 7 chapters of this report provide an analysis of the estimated costs of LDC graduation and the way forward.

