Executive Summary

Development Context

Since independence, Bangladesh has climbed a long way up the development ladder. The progress measured in terms of income, poverty and human development is truly impressive. Development progress has been particularly rapid since 2009 under the dynamic leadership of Prime Minister Sheikh Hasina, particularly in terms of acceleration of GDP growth. Continuing on its path of growth hike, per capita income has risen to $1909 in FY 2019, which is over 20 times the per capita income at independence. 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 UN-defined list of Least Developed Countries (LDC). The presumptive date for formal graduation out of LDC status is 01 January 2024, after going through the standard process of approval and announcement under the UN system.

This progress with development and its international recognition are welcome news. International analysts are now describing Bangladesh as the “poster-child” of development, a significant upgrade from the 1970s ubiquitous stamp of “a test case of development”. Bangladesh today is regarded as an example of a development miracle, having earned international acclaim on its tremendous success in attaining MDGs, particularly in the areas of poverty alleviation, food security, gender parity in primary and secondary education, infant and under-five mortality, and maternal mortality. The gains in human development could now further fuel economic growth through a virtual cycle and positive synergies. Thus, the economy is poised for higher attainments. Importantly, this has set the stage for Bangladesh to aspire to reach upper middle-income status by FY2031 and high-income status by FY2041.

But progress brings its own challenges that have to be addressed effectively as the country aspires to move forward further. 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. Some of the LDC benefits have been very helpful for Bangladesh, especially the duty-free access to exports in the European markets. The readymade garments sector (RMG) has prospered globally but particularly in the European Union (EU) country markets with the support of this duty-free access under the Everything But Arms (EBA) facility. The Bangladesh pharmaceutical sector has benefited and flourished into a vibrant industry thanks to the flexibility for LDCs in the application of the World Trade Organization (WTO) Agreement on Trade Related Intellectual Property Rights (TRIPS). These are the most important benefits, but there are others. Perhaps Bangladesh is the LDC that was able to leverage the International Support Measures (ISM) the most.

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. The formal graduation is set for 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 and suggest appropriate strategies and policies to offset these costs through compensatory domestic policies and reforms. This report provides an analysis of the costs of LDC graduation and provides suggested strategies and policies to mitigate those costs and move forward along the path of the development articulated in the Perspective Plan 2041 (PP2041).

Loss of LDC Benefits

The International Support Measures Portal for Least Developed Countries of the United Nations Committee for Development Policy lists the ISMs in three categories: (I) General Support related International Support Measures; (II) Development Assistance related International Support Measures; and (III) Trade related International Support Measures.

General Support- related International Support Measures (ISMs): One of the major components of General Support ISMs for LDCs is the financial support in the form of scholarships and travel grants for research, which are provided to citizens from this group of countries. The organizations offering such opportunities to citizens to LDCs range from specialized agencies like the United Nations Educational, Scientific and Cultural Organization (UNESCO) to international organizations like the Intergovernmental Panel on Climate Change (IPCC). In addition, academic institutions like the Berkeley Law School and the Leipzig Graduate School of Management also provide scholarships to deserving students.

The most important institutional support is the assistance provided to prepare a strategy for a smooth transition after graduation from LDC status. This smooth transition is of vital importance since a country which is no longer an LDC will stop enjoying trade related support measures like preferential market access. Another support measure is the cap on the contribution of an LDC member country to the UN's total budget at 0.01% regardless of the country GNI. For example, in 2015, the amount was capped at $271,356. In 2018, eight LDCs used this measure to determine their contribution to the UN budget, including Bangladesh. At the same time, the countries have to make a minimum contribution of 0.001% to the UN – in 2015 it was $27,136. The LDCs are entitled to a discount of 90% on their contributions to peacekeeping operations.

Development Assistance-related ISMs: Official Development Assistance, or the ODA is integral component of the special support measures to the LDC economies. Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) uses the term ODA to measure aid. Since LDCs face numerous structural challenges, their economies are vulnerable and exposed to natural as well as human-made shocks, ODAs provide some degree of secured assistance to these countries. There is a longstanding commitment by developed countries, reiterated in the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action), to provide the equivalent of 0.15 to 0.20 percent of their gross national income (GNI) in the form of ODA to LDCs. This is in parallel to a commitment to provide the equivalent of 0.7 percent of GNI in ODA to developing countries.

Unfortunately, as of 2016, only 6 countries were able to fulfill their 0.7 percent ODA/GNI ratio, and 0.15-0.20 percent GNI/ODA ratio has not been achieved yet.

Another aspect of ODA is in 2001 the OECD countries decided to untie aid for LDCs. Apart from South Korea and a few Eastern European countries, 22 DAC members have been able to untie their LDC specific ODA between 90%-100%. But there are questions regarding transparency of actual untied support measures. Several OECD member countries provide development assistance as grants or on concessional terms to LDCs.

In addition to bilateral assistance by the member countries, assistance is also provided to the LDCs through the UN's specialized agencies like the United Nations Development Programme (UNDP), United Nations International Children's Emergency Fund (UNICEF) and the World Food Programme (WFP). The UNDP and UNICEF target at least 60% of their regular assistance to the LDCs while the WFP allocates 50% of their funds for the same. At the same time, the World Bank provides loans on concessional terms like lower interest rates and longer grace periods through its International Development Association (IDA) to countries whose per-capita incomes fall below a certain threshold (defined by World Bank as low-income countries).

There are also a number of specialized funds and programmes that seek to support specific aspects of LDC needs or vulnerabilities. These include: The Least Developed Countries Fund (LDCF) under the United Nations Framework for Climate Challenge (UNFCC) to help fight climate change; the Global Climate Change Alliance (GCCA) of the EU that also supports LDC effort to fight climate change; and the United Nations Capital Development Fund (UNCDF) that seeks to promote small enterprises in LDCs.

Trade-related ISMs: Most of the International Support Measures for the LDCs are trade related. The trade related ISMs for LDCs are mainly based on three categories: (i) preferential access to markets; (ii) special treatment regarding the World Trade Organization (WTO) obligations; and (iii) building of trade-related capacities. So far, sixteen countries and the European Union have granted LDCs preferential access to their markets: (i) Turkey; (ii) Switzerland; (iii) Japan; (iv) Iceland; (v) Morocco; (vi) China; (vii) Chile; (viii) the European Union; (ix) New Zealand; (x) Norway; (xi) Thailand; (xii) India; (xiii) the Eurasian Customs Union (consisting of Russia, Kazakhstan and Belarus); (xiv) Australia; (xv) Canada; (xvi) the United States; and (xvii) the Republic of Korea. This preferential access is given under two schemes: The Generalized System of Preferences (GSP) – under which the countries benefitting from it are not bound to reciprocate; and (ii) the Global System of Trade Preferences (GSTP) – under which the countries benefitting are supposed to reciprocate. In addition, regional trade agreements like the South Asian Free Trade Area (SAFTA) and the Asia Pacific Trade Agreement (APTA) also provide concessions on access to markets for the LDCs.

In the European Union (EU) countries, Bangladesh enjoys a comprehensive duty-free and quota-free (DFQF) market access for its merchandise exports. This preference is provided to all LDCs under the EU's "Everything But Arms" (EBA) scheme, which is the most generous among the three different GSP schemes provided by the EU for different groups of developing countries. Bangladesh is the largest beneficiary of the scheme; in 2017-18, it accounted for 64.1 percent of all EU imports under EBA, and 9.5 percent of the EU's total import under preferential treatment. Bangladesh enjoys on average a 9-12 percent preference margin under the EBA for its exports of apparels to EU. The current EBA scheme is likely to continue for three years after LDC graduation, till 2027.

Apart from the EU, the list of countries providing preferential market access to Bangladesh exports includes Australia, Belarus, Canada (98.6%; except: dairy, eggs and poultry), Liechtenstein, Japan (97.9%; except: rice, sugar, fishery products, articles of leather), New Zealand, Norway, Russian Federation (38.1%), Switzerland, and Turkey (79.7%; except: meat, fish, food, steel etc.). In addition, there are some special and partial DFQF facilities provided by a handful of developing countries including China (61.5%), Chile (99.5%), Korea Republic (90.4%), Chinese Taipei (31%). It is important to note that Bangladesh does not enjoy any type of GSP facilities in the largest developed economy market of the world, the USA. Bangladesh used to receive some limited US GSP facilities, which remained suspended from 2013, but never had any preferential access for its apparel exports to the U.S. market.

Loss of Specialized and Differential Treatment Regarding WTO-related Measures: There are a range of restrictive WTO rules and agreements that have been temporarily waived for LDCs as a special concession. These are included within the Agreement of Subsidies and Countervailing Measures (SCMs); Agreement on Agriculture (AoA); General Agreement on Trade in Services (GATS); Agreement on Trade Related Investment Measures (TRIMS); and Trade Related Intellectual Property Rights (TRIPS). Compliance with these agreements will all be obligatory on Bangladesh after the LDC graduation. In particular, compliance with SCMs, AoA, and the termination of TRIPS transition period can be challenging for Bangladesh.

Estimated loss from LDC Graduation: While the access to scholarships and concessional subscription to UN membership has been useful, the financial impact of loss of access to General Support ISMs is not significant when seen in the context of the potential loss of export earnings. Regarding the loss of access to subsidized ODA and grants, this is important but not a huge source of concern in financial terms presently. At the early stages of development up to the 1990s, like other LDCs Bangladesh benefitted a lot from concessional ODA. But as development proceeded over 2000-2019, the reliance on ODA as well as the concessional component fell significantly. Reduction in the share of concessional lending is an outcome of increases in per capita income and not directly linked to LDC graduation. Yet, post-LDC graduation, this trend will continue and concessional aid will eventually disappear. Bangladesh will have to increase its reliance on market-based commercial borrowing. So, the average interest cost of foreign borrowing will increase. Simulation exercise done in the report shows that this would cause an increase in debt-servicing payment, but debt sustainability will not be threatened if a prudent approach to foreign borrowing is preserved. There will also be some losses of grants post-LDC graduation, estimated at around $700 million, of which $400 million is for the government and $300 million for NGOs. These grants are not growing much and the losses are very small relative to export earnings during the graduation period (FY24-27). Similarly, the loss of access to special climate funds for LDCs is not a worrisome factor. The benefits are small in financial terms. Moreover, Bangladesh will continue to have access to the Green Climate Fund (GCF), which is presently underutilized.

Not surprisingly, the biggest source of loss comes from the withdrawal of trade-related ISMs. The preferential access to markets at zero or very low tariffs has been a big boost for Bangladesh exports. In FY 2017, about 75 percent of Bangladesh's total export earnings came from countries that provided some degree of preferential access. Of these, the EU market accounted for 72%. Therefore, the loss of EBA facility will be an important loss. These losses in RMG exports could range from $1.0 billion (low price elasticity) to $4 billion (high price elasticity) in terms of the FY2018 export base. In percentage terms, they amount to a low of 2.8% of total exports in FY2018 to a high of 11.1%. The most likely loss will be about $1.8 billion (price elasticity of 1), which is 5% of export earnings in FY2018. The absolute dollar values will be larger depending upon the timing of LDC graduation. For example, using the PP2041 macroeconomic framework and unitary price elasticity assumptions, the projected loss of exports could be in the range of $7 billion in FY2027. These are not overwhelming losses compared to the export base but neither are they very small. Also, the loses will be higher if import price elasticity of demand for RMG is higher. Additionally, as noted below, there are other adverse implications of LDC graduation related to the end of special treatment under WTO provisions that can create important challenges. So, unless these losses are over-turned with coping policy measures, the cumulative losses over the years could be large.

It is not possible to quantify the loss emerging from the phasing away of the specialized and differential treatment of WTO provisions. These loses will emerge over time and can be substantial depending upon the institution of offsetting supportive measures and responses from the private sector. The challenge for Bangladesh is to use this opportunity of LDC graduation to modernize its trade and industrialization policy so that it is ready to compete more effectively in the global market without LDC-type concessions and meet all its WTO obligations with least cost.

Socioeconomic impact: If the export loses are not countered with timely measures, the estimated socioeconomic impact can be substantial. Simulation results show that the direct and multiplier effects of the export shock can cause an average GDP loss of 0.4% to 1.4% per year depending upon the price elasticity of demand for RMG exports. The GDP loss would be higher if policies are not in place to tackle the challenges emerging from the withdrawal of specialized and differential treatment of WTO regulations. These will have adverse effects on employment and poverty reduction. Importantly, Bangladesh will go off-track on the PP2041 development path. It will not be able to reach UMIC target by FY2030 and HIC target by FY2041. The goals of eliminating extreme poverty by FY2030 and reducing absolute poverty to 5% or less by FY2041 will not be possible. Hence, the acceleration of policy reforms to counter the potential losses from LDC graduation is essential.

The Way Forward

Graduation from LDC is a major milestone and Bangladesh should be justifiably proud of the achievement. It is both a reflection of the economy's resilience and recognition by the international community that Bangladesh's internal capacities to face the global competitive challenges are increasing. So, the march towards the development goals of PP2041 must continue. The loss of LDC benefits will create important challenges in terms of potential loss of exports and the end of special and differential treatment under WTO that could affect tariff protection, export subsidies, agriculture sector, pharmaceuticals and the services sector. Additionally, the LDC graduation is coming at a time when the global environment for trade is becoming more constrained due to deglobalization trends from economic nationalism and protectionist policies in the USA and some other OECD countries, while the onset of the Forth Industrialization Revolution (4IR) is posing a major challenge for employment owing to technology-driven capital intensity of production and automation. All these changes in the external sector will need to be managed deftly starting from now in order to be well prepared for a smooth transition to post LDC Bangladesh.

In responding to the challenges of the Multi-Fibre Agreement (MFA) phase out in 2005 and the Global Food Price and Financial Crises of 2008-10, Bangladesh demonstrated its abilities to reform and adapt effectively to the realities of the global economy. The economy emerged stronger over the FY2010-FY2019 periods. In preparation to face the upcoming LDC Graduation and other development challenges related to climate change and water management, the government has already initiated major strategies and associated reform programmes. Thus, the PP2041 development strategy and the associated macroeconomic framework and the Delta Plan are both well-thought out and balanced development strategies. Their solid implementation can help overcome the challenges posed by LDC graduation as well as the challenges and vulnerabilities emerging from climate change

The specific reforms that need to be implemented to avoid the export and GDP shock from LDC graduation are summarized in the Policy Matrix attached at the end of the Executive Summary. They include the following:

Strengthen the implementation of a prudent macroeconomic framework: Bangladesh has generally followed a prudent macroeconomic framework that has served the country well in terms of low inflation, low interest rates, stable balance of payments and exchange rate and comfortable public debt situation. The macroeconomy has come under stress recently owing to weak public resource mobilization, over-valuation of the real exchange rate, and growing non-performing loans (NPLs) of the banking sector. These imbalances must be addressed and removed quickly to put the macroeconomy on track as envisaged under the 7th Plan and PP2041. If these are not addressed comprehensively now, the LDC graduation costs could overwhelm macroeconomic management and jeopardize the growth momentum. Addressing the public resource mobilization challenge to sharply increase the tax to GDP ratio from the present 8.7% to at least 10% by FY21 and undertaking banking reforms to lower NPLs in a sustainable manner by addressing the root causes are the two top most macroeconomic priority for the immediate future. Once the immediate macroeconomic imbalances are reduced, the macroeconomic management must be aligned to the PP2041 macroeconomic framework in order to offset the macroeconomic effects of LDC graduation and support the acceleration of the GDP growth rate to 8-9 %. Fiscal reforms, especially the tax reforms, will be the most critical challenge.

Reform trade and exchange rate policies: The best way to counter the probable export losses from LDC graduation is to increase the rate of growth of exports by diversifying the export base. Diversification of the exports base requires a host of measures, but the two most important reforms are: reducing trade protection in order to minimize anti-export bias of trade policies and avoiding the over-valuation of the real exchange rate. Exports growth has slowed down considerably in the past 5 years as compared to the growth between FY2000-FY2014. Export concentration on RMG products has also increased. The lack of export diversification has contributed to the slowdown of export growth.

The importance of proper management of the exchange rate for export diversification and growth cannot be over-emphasized. Flexible management of the exchange rate has been an important enabler of export growth in Bangladesh, but the recent real appreciation is hurting exports. A policy of compensation through subsidies or tax breaks is not sustainable and could also amount to use of multiple currency practices. Bangladesh should best pursue a pragmatic flexible management of exchange rate such that real appreciation should not happen. To avoid increase in import prices this flexibility in nominal exchange rate management could be combined with reduction in tariff.

Research shows that export diversification has not happened mainly because the trade regime is biased against exports. Large trade protection through tariffs and para tariffs has provided strong incentives to production for domestic market where rates of return are much higher than exports owing to protection.

Additionally, the over-valuation of the real exchange rate since 2008 has hurt exports. The RMG sector has been sheltered through a range of support measures like duty-free imports of inputs through bonded warehouse, export subsidies and income tax break that is not generally available to all exports. A sharp reduction in trade protection along with a supportive real exchange rate will be very important to help export diversification. Moreover, trade protection and export subsidy issues will need to be addressed comprehensively in any case to comply with the WTO rules once the special treatment provisions are eliminated in a post LDC graduation world.

Address behind-the-border issues: The private sector is engine of growth for Bangladesh. It has come a long way since the early 1990s based on a series of trade and investment deregulation measures. The private investment rate surged from less than 10% of GDP in FY1990 to 22% in FY2010. Since then, however, the private investment rate has stagnated at around 22-23% of GDP. Productivity improvement of private investment has helped boost growth in the interim period along with better capacity utilization. But export growth of 12% based on diversification and GDP growth in the 9% range as envisaged in PP2041 will not be possible without an increase in the private investment rate to the 27-32% of GDP range over the next 10-12 years. Despite solid progress with development, Bangladesh has not attracted adequate foreign direct investment (FDI). Overall FDI in Bangladesh reached a mere $2.2 billion in 2017, as compared with $134 billion in China, $40 billion in India and $14 billion in Vietnam. Moreover, most FDI investments are outside manufacturing.

A range of behind the border issues will need to be addressed to spur the growth of FDI and domestic private investment. These include: strengthening electricity and transport infrastructure; improving trade logistics focused on enhancing the efficiency and timeliness of port clearances; improving the investment climate by reducing the cost of doing business related to licensing and clearances, access to serviced land, property registration, ease of foreign currency transactions, ease of tax payments, ease of contract enforcements, and bankruptcy laws; improving technology transfer, skills and market access through partnership and joint ventures with FDI; investment in research and development to support innovation and adoption of new production technologies; strengthening labour productivity through investments in human capital; fostering trade facilitation and competitiveness with customs modernization; and strengthening institutions for trade and industry. Reforms in these areas will also strengthen export competitiveness that is essential to penetrate markets in the post-LDC world. Detailed reforms in each of these areas are contained in chapters 6-7 of this Report and also in the PP2041. Implementation of these reforms will be critical to ensure a smooth and successful transition from LDC graduation to the PP2041 growth path.

Adapt to the world of the Fourth Industrial Revolution (IR4): As Bangladesh is set to graduate out of the LDC status, a global scale fourth industrial revolution powered by cutting-edge technology is also on the horizon. As 21st century world prepares for a new age economic transformation, mechanisation or automation has arrived as a credible problem for job creation that requires preparation. In order to remain competitive in the global market, Bangladesh will also need to adapt to the new production technologies in all spheres of production, especially in manufacturing and modern services. Bangladesh economy is already showing signs of first stage automation. Modernization of the RMG industry over past several years has increased the capital intensity of production and raised productivity but it has slowed down employment growth.

Despite this employment challenge, automation is inevitable, and there should be no hesitancy in promoting competitiveness by supporting technological up-gradation, particularly for export sectors. In some cases, technological advancement can lead to improvements in product quality with prospects for export expansion. Non-export and import-competing sectors also need to embrace more capital-intensive production techniques.

Investment in machinery and equipment, as measured by import data, per unit of labour is much lower in Bangladesh, compared to Cambodia, Viet Nam or China. To balance this automation of production trend with job creation, the best response is to promote export growth and diversification that will create more jobs through the scale effects. Additionally, backward linkages to export-led manufacturing will help create jobs in modern services. This will have to be supported by strong effort to raise labour force education and skills. Automation will eliminate many jobs now done manually with low skills, but it will also create new jobs that are technical in nature and are skill intensive.

Moving forward, two specific reform actions that will be very important are first the need to develop and adopt a sound technology strategy and policies; the second is the need to develop a solid job creation strategy and policies, both geared to the adoption to the 4IR. These strategies should be developed on a priority basis and then followed through with specific Action Plans for implementation. Additionally, policy attention will need to intensify the implementation of the skills development strategy highlighted in the PP2041.

Trade agreements with regional communities: Barring the USA, the vast majority of WTO member countries would like to see a reformed and more effective multilateral trading system. Bangladesh, which has benefited from the multilateral regime as an LDC, may use the special dispensation for LDCs for the remaining years (until 2024) but will have to prepare for the stiffer competition in the global market, once the preferential access provisions evaporate following graduation. Furthermore, it must seek market access under various bilateral and regional trade and investment agreements. Markets in Asia are growing faster than any other region of the world and the ADB projects that by 2050 some 50% of global GDP will be in Asia. Two regional trading arrangements that hold tremendous potential for trade and investment are RCEP (ASEAN+) and CPTPP which together will constitute the bulk of Asian market of the future. Bangladesh would be well advised to seek membership or FTAs with these groupings. But that could be an uphill task give the current high tariff regime in Bangladesh and the enormous resistance from domestic import substitution industries to any reduction of protective tariffs. The political economy challenge is considerable but a breakthrough is essential.

The Government of Bangladesh has received proposals for potential bilateral trade arrangements from several countries including China, Malaysia and Thailand in recent years. Some analysts suggest that under current unorthodox protectionist approaches by US and some European governments to trade negotiations, Bangladesh would be an attractive country for a potential bilateral deal. Post-LDC Bangladesh may have to negotiate a trading arrangement with the EU along with the possibility of an FTA with the post-Brexit United Kingdom. But as it stands today, Bangladesh neither has the adequate capacities or experiences for strong trade negotiations and signing comprehensive FTAs. Urgent attention should be given to enhancing trade policy capacity including negotiating FTAs.

Preparing the transition strategy for post-LDC full WTO compliance: Getting ready to comply with the full range of WTO regulations can be very challenging and an early start is essential. As a first step, a clear understanding of the implications of each of the relevant WTO regulations (especially SCMs, AoA and TRIPS Waiver) for the Bangladesh economy is necessary. Early preparation can help phase in compliance with these agreements over a period of time along with implementation of required policy reforms to counter any negative impact on Bangladesh. Of particular importance is to focus on how to deal with export subsidies as an instrument for export promotion in the post LDC graduation world. Similarly, the pharmaceutical industry's adjustments 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.

Developing trade policy capacity: While LDC graduation has major adjustment costs, it also provides an opportunity to upgrade and modernize Bangladesh's trade policy and industrialization strategy and related capacities. Presently trade policy is the responsibility of the Ministry of Commerce. Industrialization Policy is the responsibility of the Ministry of Industries. Tariff setting de-facto is done by the National Board of Revenue (NBR). There is very little coordination between these three agencies in the setting of a coherent trade and industrialization policy. As an example, the tariff policy including regulatory and supplementary duties is almost entirely set by the NBR primarily based on revenue considerations. Similarly, when domestic protection is considered, this is done based on the influence of powerful lobbies rather than on objective assessment of the likely impact on investment, production and employment. A sea change is needed in the setting up of trade and industrialization policy based on a clear industrial strategy focused on investment, job creation, production and exports. Tariff and para-tariffs structure must be revisited to make them consistent with this trade and industrialization strategy. Proper coordination between the three agencies is essential to secure this.

More broadly, as the primary institution responsible for trade policy, the institutional capacity of the Ministry of Commerce must be sharply raised to prepare the necessary ground work for addressing the trade-related LDC graduation issues. The task ahead is immense including: development of trade protection policies; export promotion strategies; time path for adherence to all WTO policies including TRIPS, TRIMs, SCMs, AoA and GATS; and strategies for FTAs. Detailed studies and research might be needed in each specific area to develop action plans for implementation. In this regard, the Ministry can develop partnerships with local research institutions as well as seek technical assistance from WTO and donors.

Policy Matrix for Coping up with LDC Graduation

Reform Area	Proposed Policy Action	Outcome	Timeline	Implementing Agency
Fiscal Policy	Implement the fiscal policy framework of Perspective Plan 2041 (PP2041)	--Raise tax to GDP ratio to 10% by FY2021 -- Increase tax/GDP ratio to 15% by FY2031 --Fiscal deficit at below 5% of GDP	FY2021-FY2031	Ministry of Finance (MoF) / the National Board of Revenue (NBR)
Monetary Policy	Manage expansion of money supply (M2) in line with GDP growth and inflation targets	Keep inflation rate at 5% or below.	FY2021-FY2031	Bangladesh Bank in coordination with MoF
Exchange Rate Management	Maintain flexibility of nominal exchange rate	Stabilityof the real exchange rate	FY2021-FY2031	Bangladesh Bank
External Debt	Maintain prudent external borrowing commensurate with development needs	--External debt to GDP ratio below 15% --External debt service to total exportsand remittancesbelow 10%.	FY2021-FY2031	MoF and Bangladesh Bank
Financial Sector	Sharply strengthen banking supervision and implementation of full prudential norms for all banks	NPL of banking sector reduced to 7% or below by FY2021 in a sustainable manner	FY2021	Bangladesh Bank and MoF
Trade Policy	Sharply reduce trade protection with a view to eliminating anti export bias of trade policy	--Average nominal protection rate (NPR) for final consumer goods reduced from 46% in FY2019 to 10% by FY2025 and 5% by FY2031 --Average NPR for intermediate goods reduced from 14% in FY2019 to 5% by FY2025	FY2021-FY2031	Ministry of Commerce and NBR
Trade and Industrialization Policy	Develop and implement sound trade and industrialization strategy that seeks to promote private investment, increase manufacturing value added and increase exports	--Trade and industrialization strategy ready by FY2021 -- Policies developed and implementation starts in FY2022	FY2021-FY2022	Ministry of Commerce, Ministry of Industry and NBR.
Trade-related Capacity Building	Develop trade policy capacity in Ministry of commerce with a view to addressing all trade related issues from LDC graduation	--Research/analysis on implications of WTO regulations for the Bangladesh economy relating toTRIPS, TRIMs, SCMs, AoA and GATS ready by FY2022 --Time path / Action plan for implementation ready by FY2023 --Develop at least 2-3 major FTA proposals by FY2022 --Implementation of at least 2 major FTAs by FY2023.	FY2021-FY2023	Ministry of Commerce

Investment Climate	Develop and implement a comprehensive Action Plan for improving the investment climate for domestic and foreign private sector	--Improve ranking of World Bank Doing Business Indicators from 176 in 2019 to 150 by 2021, 100 by 2023 and 75 by 2024 --Increase private investment ratefrom 23% of GDP to 29% of GDP by FY2025 and 32% of GDP by FY2031 --Increase FDI inflows from $2.3 billion in 2018 to $10 billion by 2022.	FY2021-FY2025	BIDA, Ministry of Finance, Bangladesh Bank
Infrastructure	--Strengthen power and energy policy and develop transport infrastructure strategy and policies --Develop and implement an Action Plan to strengthen transport sector project implementation capacity	-- Sound implementation of the PP2041 power sector strategy --Increase access to power from 92% in FY2019 to 100% by FY2022 --Sound implementation of the PP2041 transport sector strategy -- Timely completion of all major projects. --Accelerated implementation of PPP-based transport projects --Increase transport infrastructure ranking as defined under World Bank LPI rankings from 121 in 2018 to 100 by FY2023 and 60 by FY2031	FY2021-FY2031	Ministry of Energy and Power; Ministry of Transport
Education and Training	Sharply improve labor skills through investment in education quality and training	--Implementthe education and training strategy of the PP2041 --Increase education spending from 1.8% of GDP in FY2019 to 2.5% of GDP by FY2021 and 3.5% by FY2031	FY2021-FY2025	Ministry of Education and MoF
Technology	Develop a sound technology strategy	--Develop a technology strategy by FY2021 --Develop an Action Plan for implementation by FY2022	FY2021-FY2022	Ministry of Science and Technology, Ministry of Industry and MoF
Employment	Develop and implement a sound employment policy that balances technology for enhanced productivity with employment	--Develop a sound employment strategy that balances technology for enhanced productivity with employment by FY2022 --Develop an Action Plan and initiate implementation by FY2023	FY2022-FY2023	General Economics Division of the Planning Commission and line Ministries