LDC Graduation of Bangladesh- In Search of Coping Strategies for the Bangladeshi RMG Industry

Ehsan, Zaeem-Al

Institute of Business Administration, University of Dhaka

March 2021

LDC Graduation of Bangladesh- In Search of Coping Strategies for the Bangladeshi RMG Industry

Zaeem Al Ehsan,
[1]MSS in Economics student, East West University,
BBA, Institute of Business Administration, University of Dhaka, Dhaka, Bangladesh
zaeemalehsaan@gmail.com

Abstract - This paper set out to assess the implication of graduation on the RMG sector of Bangladesh and propose coping strategies for smooth transition. It has been identified that Bangladesh has a RMG export concertation (80%) in the EU and North American market, a product concentration of 73% in 5 basic products, a dependence on cotton for 74% of RMG exports and a very poor global competitiveness index rank (105th out of 141 countries). Graduation from LDC category will mean that Bangladesh will be subject to standard Generalized System of Preferences. Bangladesh would also lose Duty-Free and Quota Free access to EU, Canada and other developed countries. Furthermore, RMG exports from Bangladesh will be subject to normal Rules of Origins, entailing the erosion of the "single transformation" charge they were once entitled to. Hence, to ease transition and to take full advantage of graduation, Bangladesh should expand its international market for RMG exports by targeting markets it has condoned till date. These include China, India, Indonesia etc. To widen its portfolio and reduce its dependence on cotton, Bangladesh should invest in Man-Made Fabric (MMF) and high-tech products. To this end Bangladesh should attract FDI to utilize the potential of backward linkage in MMF. Attracting FDI will prove to be easier if Bangladesh can improve its competitive indicators by investing more in infrastructure, industrial upgradation, administrative hurdles etc.

Keywords – **Bangladesh**, **LDC, RMG**

I. INTRODUCTION

The capricious nature of the economic turmoil instigated by the COVID-19 pandemic has raised fears of derailing the economic progress attained by Bangladesh over the last couple of decades. However, Bangladesh has still been recommended by the Committee for Development Policy (CDP) of the United Nations to graduate from the category of the least developed countries (LDCs). Bangladesh met the criteria for graduation for the second time on March 2021.

Bangladesh first met the criteria for graduation from being an LDC in 2018, following an assessment at the Triennial Review, that is conducted by the CDP of the United Nations Economic and Social Council (ECOSOC). Having met the criteria again on the second consecutive review in 2021, Bangladesh should have been well on course to graduate from the LDC category in 2024. However, this was before the onslaught of the COVID-19 pandemic. To help Bangladesh bolster its economic standing before graduation, the government has negotiated for the graduation to be delayed till 2026.

But what significance does the LDC tag hold for Bangladesh? And in particular, what does LDC graduation mean for the RMG industry of Bangladesh? Bangladesh has the luxury to enjoy a multitude of privileges, including special and differential treatments formulated explicitly for LDCs. To highlight a few, these include development partners' various concessions, special attention and commitments to support LDCs with development finance, trade preferences and technical assistance. The Everything But Arms (EBA) initiative with the European Union, allows Bangladesh tariff-free access in the EU. Upon LDC graduation, this privilege would get rescinded, following a 3-year transition (grace) period. The EU and North America are the market for approximately 80% of all RMG exports from Bangladesh. Therefore, one need not connect the dots to comprehend the ramifications of the erosion of the preferences received as an LDC.

The RMG industry in Bangladesh has played a salient role in creating millions of jobs, bringing 4 million workers under its umbrella, and perhaps more significantly, the majority of them being women. There is a huge potential to enhance RMG exports further and for industrial upgradation in the sector, generating higher value-added products and moving up the value chain. The loss of preferences in the EU could thus come at a critical juncture of this transformation, potentially weakening Bangladesh's competitiveness.

The objective of this paper is to assess the likely impact of the loss of preferences as an LDC on Bangladesh's RMG exports. Additionally, the paper will isolate and examine the effect of LDC graduation on woven garments and knitwear exports in particular. The paper will analyze possible existing fault-lines within the RMG industry and also attempt to identify possible opportunities that might arise after LDC graduation. Experts with knowledge pertaining to LDC graduation and the idiosyncrasies of the RMG industry have been consulted with, to arrive at robust coping strategies to pave the way forward upon LDC graduation. The paper uses solely qualitative judgement from economists, policy analysts and RMG experts to formulate possible strategies to ease into LDC graduation for Bangladesh.

The export-orientation of its economy poses both challenges and opportunities for Bangladesh in the context of a fast-changing world. Global markets are becoming increasingly competitive. On the other hand, if Bangladesh is able to translate her comparative and strategic advantages into a competitive advantage, the potential benefits originating from the opportunities of strengthened global integration could be substantial. Trading out of poverty, from this vantage point, has important significance for Bangladesh.

II. LITERATURE REVIEW

Bhattacharya (2020) posits that the government of Bangladesh should formulate graduation strategies immediately to curtail the negative outcomes of the erosion of the LDC status. According to him, the government should focus on international trade and cooperation, sustainable development and inclusive growth instead of solely focusing on the negative ramifications of LDC graduation. He further stipulates that the improved image Bangladesh will enjoy following graduation should be leveraged in attaining international loans at lower rates, along with attracting FDI in Bangladesh. Other concerns he raised include the need for the government to emphasize employment generation and the diversification of markets and export basket.

Rahman (2019) asserts that the RMG sector in Bangladesh will be affected the most due to Bangladesh's LDC graduation. He states that this will be due to the heavy concentration of RMG in Bangladesh's export basket and also due to the nature of "tariff-peaks" in the key markets of Bangladesh. According to a research conducted by CPD, it is estimated that Bangladesh will incur an incremental tariff on average of 6.5%, once the existing duty free-quota free privileges are eroded. Similarly, Bangladesh will face incremental tariffs in EU, non-EU and Canada to the tune of 8.7%, 3.9% and 7.3% respectively.

Rahman (2019) also notes that in addition to the direct impact of graduation, Bangladesh will face a multitude of indirect effects as well. LDCs are granted a more relaxed compliance requirements under the trade-related intellectual property rights (TRIPS) of the WTO. Upon graduation, Bangladesh will be subject to a more stringent compliance requirement. Furthermore, Bangladesh will also lose the technical assistance and capacity building support it currently receives.

Razzaque and Rahman (2019) highlight the benefit of duty-free quota-free market access under the EBA. They emphasize that tariff reduction in such initiatives provide Bangladesh with an immense competitive advantage due to the reduction in cost. Upon graduation, such privileges will be rescinded and Bangladesh will have to pay the GSP rates.

According to a model developed by the Commonwealth Secretariat (2018), it is estimated that the loss of the DFQF access to the EU will result in an USD 1.6 billion loss of export earnings for Bangladesh, which is equivalent to approximately 10% of total export revenues from the EU. The model also specifies how the impact would be greater on knitwear than on woven garments. It states how under standard GSP, the loss in export earnings from woven garments will be approximately USD 700 million, while the loss in knitwear will be approximately USD 1 billion. The higher incidence of average tariff rate on knitwear is the cause of such disparity in the loss incurred. The model also highlights how the loss in knitted or crocheted T-shirts alone could be USD300 million.

Razzaque and Rahman (2019) propose that FDI can aid Bangladesh boost exports following LDC graduation and for effective integration with global value chains. FDI can assist Bangladesh in helping local firms by facilitating their industrial upgradation and enhanced participation in the global arena. Moazzem and Sehrin (2016) state that in order to flourish in an international setting, complying with all the regulations that is expected from a credible supplier will significantly help in soliciting global consumers.

It is evident that LDC graduation will have a profound impact on the economy with the loss of preferential treatment. Furthermore, Bangladesh would also be stripped of other support measures it currently enjoys under its regional agreements (CDP, 2019). To add further salt to the wound, Bangladesh would also no longer be able to avail LDC-specific provisions under the South Asian Free Trade Agreement (SAFTA). LDCs will also lose preference margin and also favorable rules of origin conditions upon graduation. This will severely affect Bangladesh since RMGs were previously subject to only a "single stage transformation" under the EBA initiative in the EU. After graduation, this will fall under the standard GSP which will dramatically affect Bangladesh's RMG exports (WTO, 2018).

III. METHODOLOGY

This research will be a blend of a descriptive and explanatory research. The aim will be to arrive at actionable strategies the government of Bangladesh need to implement to ease the transition during graduation from the LDC category.

Primary data collection

The possible implications of graduation and the ways of shielding the economy from it requires the opinion of experts in these fields. Hence, expert opinion has been gathered from interviews of representatives from the Ministry of Commerce, United Nations Development Programme, Economic Relations Division and Bangladesh Garments Manufacturers and Exporters Association and eminent economists.

Secondary data collection

To complement the findings of the interviews, data pertaining to the economy of Bangladesh have been gathered from Bangladesh Bank (BB), Export Promotion Bureau (EPB), Ministry of Finance (MoF), Bangladesh Bureau of Statistics (BBS) and other leading national dailies. Furthermore, prior reports covering the effect of graduation on the RMG industry of Bangladesh have been consulted to outline a robust coping strategy.

IV. RESULTS

RMG Industry Overview

The RMG sector in Bangladesh has been an invaluable asset in propelling the economy forward. It has helped Bangladesh gain a global footing, locking horns with the giants of the RMG world. Not only does this sector generate approximately 4 million jobs through direct employment, it also cultivates millions of other jobs indirectly. The contribution of RMG to the export basket of Bangladesh is profound, amounting to approximately 85% **(See Figure 1: Bangladesh RMG contribution to total export).** A study by CPD found that the RMG sector, through its multiplier impact, accounts for approximately 7% of the GDP of Bangladesh. Not only does the RMG sector provide employment, it also allows more female participation in the workforce, through which they are able to make contribution for house rents and school fees for their children/ family members. A survey by Bhattacharya (1997) showed that female garment workers were able to make equivalent monetary contributions equal to their male counterparts for the education of their family members. Hence, the RMG sector is clearly helping Bangladesh work towards the SDG targets of attaining full employment and equal participation in the workforce.

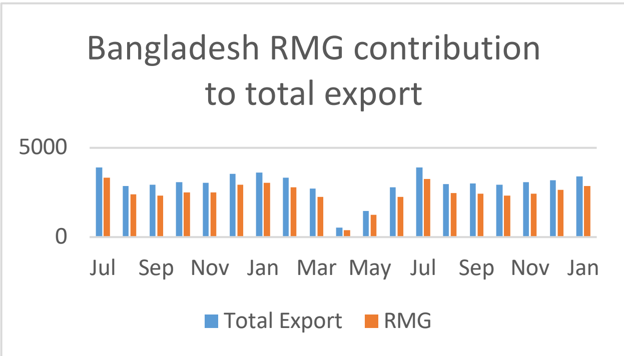

Figure 1: Bangladesh RMG contribution to total export[1]

Figure 2: Bangladesh export composition as at January 2021[2]

Importance of LDC status

The LDC status brings with it a plethora of preferential treatments and incentives that aid the economies of the LDCs in fostering their economic growth and development. In the EU market, Bangladesh enjoys duty-free and tariff-free access under the "Everything but Arms" (EBA) initiative, and, in Canada, Japan and the US, under their respective GSP schemes. To highlight the importance of these incentives, it should be noted that these markets are the final destination of approximately 80% of the RMG exports from Bangladesh. Additionally, Bangladesh also enjoys preferential market access in developed countries as Australia and in some developing countries, such as China, India and the Republic of Korea, under regional trade agreements and bilateral initiatives. The purpose of this report is to assess the implications of LDC graduation on the RMG industry. To assess this properly, a detailed analysis needs to be carried out to understand the extent of the preferential treatment Bangladesh currently enjoys. This has been carried out in the following sections.

Implications of graduation

The ramifications of LDC graduation depend on the products Bangladesh exports and the destination of said exports. Furthermore, the actual utilization of LDC-specific schemes is crucial to the discussion. The United Nations Conference on Trade and Development (UNCTAD), hypothesize an estimated loss of exports to the tune of 7% after graduation. This is due to the incremental tariffs, 6.7% on average, from the erosion of the privileges as an LDC. This would potentially lead to a projected loss of USD 2.7 billion of exports. To put this into perspective, this loss will be equivalent to 8.7% of Bangladesh's exports for the fiscal year 2014-15.

According to a model developed by the Commonwealth Secretariat (2018), it is estimated that the loss of the DFQF

[1] Figures taken from Export Promotion Bureau. Period ranging July 2019- January 2021

[2] Figures taken from Export Promotion Bureau and Bangladesh Bank publications

access to the EU will result in a USD 1.6 billion loss of export earnings for Bangladesh, which is equivalent to approximately 10% of total export revenues from the EU. The model also specifies how the impact would be greater on knitwear than on woven garments. It states how under standard GSP, the loss in export earnings from woven garments will be approximately USD700 million, while the loss in knitwear will be approximately USD 1 billion. The higher incidence of average tariff rate on knitwear is the cause of such disparity in the loss incurred. The model also highlights how knitted or crocheted T-shirts sector alone could lose close to USD 300 million. 97.8% of Bangladesh's exports enter DFQF in the EU due to the EBA initiative. After graduation, standard GSP measures will be applicable.

Another significant impact on the apparels export of Bangladesh will be the loss of favorable Rules of Origin (RoO) for preferential access. RMG exports from Bangladesh are subject to a only a single stage conversion requirement in the EU and similar privileges in other developing countries. Upon graduation, these rules will get even more stringent leading to higher cost, which will ultimately erode the competitive advantage of Bangladesh RMG. It is evident that LDC graduation will have a profound impact on the economy with the loss of preferential treatment. The table below summarizes the schemes Bangladesh currently enjoys as an LDC, and the tariffs it will be subject to upon graduation.

Country/Market	***Tariffs after graduation***	***Provision for smooth transition***
European Union	Eligible for DFQF 3 years after graduation. Bangladesh could also apply for the Special Arrangement for Sustainable Development and Good Governance (GSP+), which grants duty free access to most of the products covered by the GSP.	*3 years after graduation*
United States	If conditions for eligibility are met, Bangladesh could export under the US standard GSP	*No provision*
Canada	General preferential tariff (standard GSP)	*No provision*

Table 1: Loss of preferential treatment

Country/Market	***Tariffs after graduation***	***Provision for smooth transition***
India	Preferential tariffs under APTA and SAFTA (lower coverage and margin than for LDCs) or MFN	*No provision*
Japan	Standard GSP	*No provision*
Turkey	Tariff duties equivalent to the EU GSP.	*No provision*
Australia	Standard GSP	*No provision*

Table 2: Loss of preferential treatment

The table above clearly highlights how important the LDC tag has been to the growth of Bangladesh's RMG exports. Furthermore, it is of note that only the EU will grant Bangladesh a 3-year provision for transition. Although the EU accounts for a significant portion of RMG export, Bangladesh should negotiate similar transition periods with other developed countries as well in order to make the transition easier.

Implications on the Woven garments and Knitwear Industries

The table on the right summarizes the specific impact LDC graduation will have on woven garments exports. The Commonwealth Secretariat (2018) model, it shows how, under standard GSP, the loss in export earnings from woven garments will be approximately USD 700 million.

The Commonwealth Secretariat model predicts that the loss of privileges as an LDC will lead to a loss of approximately USD 1 billion from knitwear exports. The table below summarizes the impact on knitwear from its key markets

Woven Garments

Importer	As an LDC	After graduation
EU	0%	All products are covered by GSP and will face tariffs ranging from 5.0% t 9.6%. The tariff is 9.6% for most products, or 12% under MFN. Tariffs o all products in this chapter are 0% under GSP+.
Canada	0%	Most products (including most tariff lines in 6203, 6204, 6205, 6210, whic account for 75% of exports in this group) will face import tariffs of 17% 18% under MFN. For a small number of products, tariffs will be 0%-10% under GSP or 0% under MFN.
Japan	0%	Most products (including 6203, 6204 and 6205) will face MFN tariffs o 7.4%-12.8%. The full range of applicable tariffsis 0%-13.4%.
Turkey	0%	All products are covered by GSP and will face tariffs ranging from 5.0% t 9.6%. The tariff is 9.6% for most products, or 12% under MFN. Tariffs on all products in this chapter are 0% under GSP+.

Table 4: Effect of LDC graduation on Woven Garments

Knitwear

Importer	As an LDC	After graduation
EU	0%	All products are covered by GSP and will face tariffs of 6.4%-9.6%. The tariff is 9.6% for most products under the GSP, or 12% under MFN Tariffs on all products in this chapter are 0% under GSP+.
Canada	0%	Some products are covered by GSP, with tariffs between 5% and 16.5% Others would be subject to MFN tariffs of up to 18%. Tariffs on mos products would be 16%-18% under MFN: 16 or 18% in 6110 (29% o exports in this group) and 18% for 6109, 6104, 6108, 6107 (together, 51% of exports in this group)
Australia	0%	Not covered under GSP (assuming Bangladesh will be included in Part 4 o Schedule 1 after graduation). MFN tariffs are 0% or 5%.
Japan	0%	A very small number of products are covered by GSP and the tariff is 0%. Tariff on most products imported by Japan from Bangladesh under thi chapter are 7.4%- 10.9% under MFN

Table 5: Effect of LDC graduation on Knitwear

Table 3: Effect of LDC graduation on Woven Garments

Identifying fault-lines

In order to arrive at implementable measures to ease the graduation for Bangladesh, it is imperative to do a meticulous self-assessment in an attempt to identify aspects of the economy at large and the RMG sector that needs an upheaval. The following section outlines the "Achilles' heel" of the Bangladesh's RMG industry, and also, the economy itself.

Market concentration

Bangladesh has attained the status of being a powerhouse in the global market for RMG. Leveraging its LDC status, Bangladesh has earned its footing amongst key players, such as India, China, and Turkey, to name a few. The figure below shows Bangladesh's RMG exports for the fiscal year ended 2019.

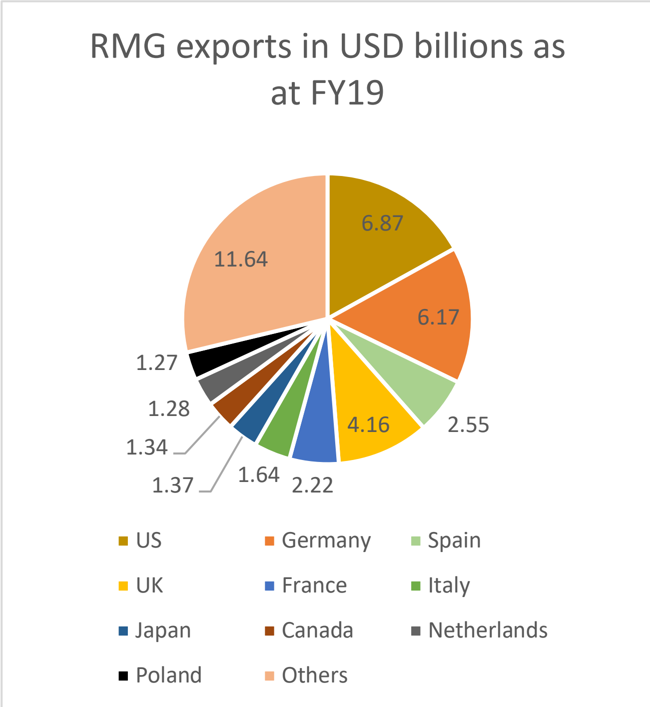

Figure 3: Bangladesh's RMG export market concentration[3]

The EBA initiative has helped Bangladesh attain a considerable market share in the EU and North American markets. However, this heavy concentration comes with the imminent pitfall of losing its competitiveness once the privileges are rescinded. Hence, this overdependence puts the livelihoods of millions of RMG workers at stake whose jobs might be at risk following LDC graduation. Therefore, Bangladesh needs to **revise and diversify its export destinations** to take advantage of graduation.

Product concentration

The susceptibility of a business ultimately boils down to its product/service offering and its client base. The paper already highlights how narrowly defined Bangladesh's RMG exports are. Therefore, Bangladesh is left exposed to

[3] Figure based on data collected from Export Promotion Bureau and Bangladesh Bank

the standard GSP/MFN tariff rates that will apply upon graduation. This is coupled with Bangladesh's significant concentration in product offerings as well. The figure below shows how just 5 products account for 73% of total RMG exports for Bangladesh.

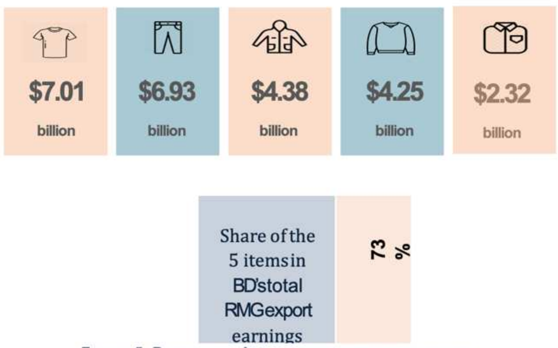

FIGURE 5: BANGLADESH'S RMG PRODUCT CONCENTRATION

This dependence on only 5 products might bring fluctuation in demand for each item, owing to seasonal demand. Hence, this concentration in only 5 products is also a salient issue Bangladesh should consider prior to graduation in an attempt to **widen its portfolio.**

Raw materials concentration

The competitive advantage Bangladesh possesses in the global RMG arena is primarily due to the availability of cheap labor, which essentially allows it to sell at a much lower price than its competitors, coupled with the LDC privileges. Upon graduation, Bangladesh needs to re-evaluate its stance on every aspect of the RMG value chain. For decades it possessed the luxury to turn a blind eye to the growing trends of the time, namely, man-made fabrics. While the world was heading towards incorporating man-made fabrics into their products, Bangladesh doubled down on its position using cotton in its exports. The figure below shows that as of FY19, approximately 74% of all RMG exports were made with cotton.

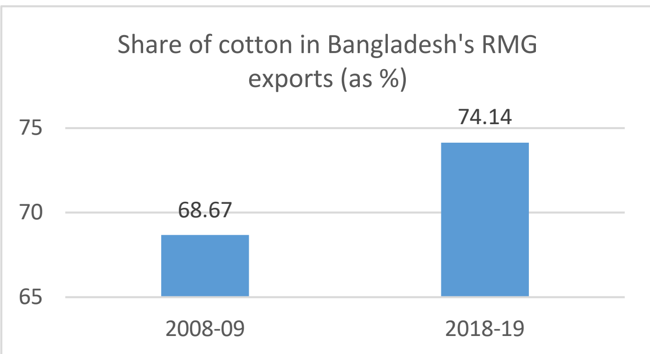

Figure 4: Share of cotton in Bangladesh's RMG exports (as %)[4]

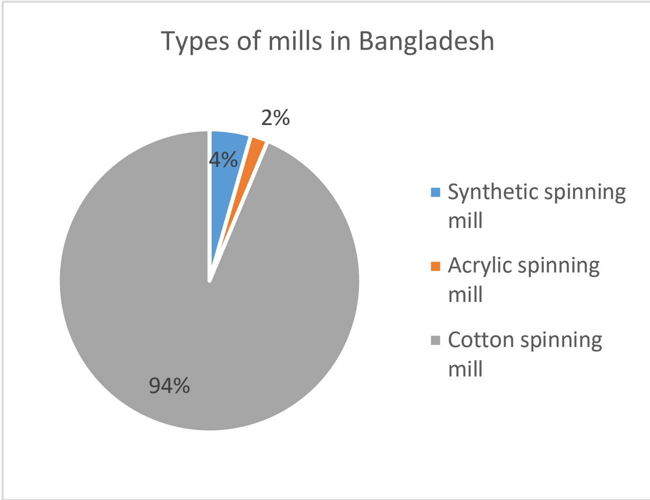

Figure 5: Types of spinning mills in Bangladesh[5]

Bangladesh currently has 403 cotton spinning mills and only 19 synthetic spinning mills. With man-made fabrics being generally cheaper than cotton, owing to the scale of production, Bangladesh should consider in aligning with the global trend and invest in the production of synthetic fabrics. This will ultimately help keep costs down, which will be crucial once graduation is attained.

Low Global competitiveness

The harrowing Rana Plaza tragedy brought Bangladesh under a microscope held by all of its major buyers. Following this, Bangladesh lost its eligibility to export to the United States under their standard GSP, i.e., lost its credibility as a responsible supplier.

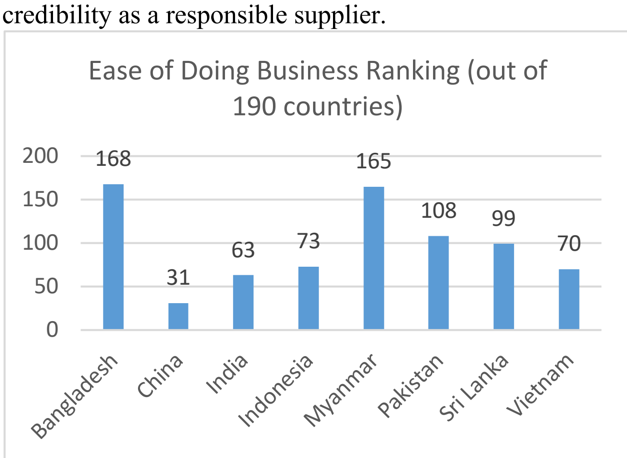

Figure 6: Ease of doing business ranking[6]

[4] Figure based on data collected from Policy Research Institute of Bangladesh

[5] Figure based on data collected from Policy Research Institute of Bangladesh

[6] Table based on data collected from Ease of Doing Business 2020 rankings, World Economic Forum

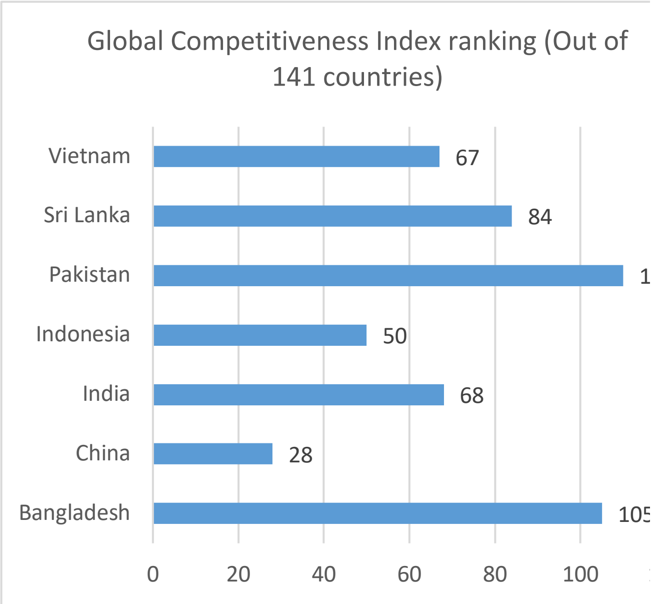

Figure 7: Global competitiveness ranking[7]

	Bangladesh		Vietnam		China	
	Score	**Rank**	**Score**	**Rank**	**Score**	**Rank**
Institutions	45.9	109	49.8	89	56.8	58
Infrastructure	51.1	114	65.9	77	77.9	36
ICT Adoption	39.1	108	69	41	78.5	18
Skills	46.1	117	57	93	64.1	64
Product Market	47	119	54	79	57.6	54
Business Dynamism	49.9	121	56.5	89	66.4	36

TABLE 6: EASE OF DOING BUSINESS SPECIFICS

Table 4: Ease of doing business specifics

With graduation, Bangladesh will need to attract FDI in order to improve its standing in the global RMG industry. This boils down to attracting suitors to invest in infrastructure, technology and backward linkages. Investing in backward linkages will assist Bangladesh in reducing its imports of raw materials which will help the RMG industry flourish. However, Bangladesh ranks 105th out of 141 countries according to the Global Competitiveness Index. Additionally, Bangladesh ranks 168th out of 190 countries in the World Bank's Ease of Doing Business index. China and Vietnam are the two countries that compete significantly with Bangladesh for global RMG orders. The table above shows how Bangladesh ranks behind both of the countries on all accounts. Such lackluster standings in these metrics will significantly hurt Bangladesh's chances of attracting FDI. Therefore, Bangladesh must **improve its standing** by the time of graduation.

Coping Strategies

LDC graduation is a momentous occasion for the budding economy like Bangladesh. However, while celebrations are in order, they will have to be curtailed in order to brace for the reality of graduation. As the sections above clearly outline, the competitiveness of Bangladesh's exports, in particular its RMG exports, will definitely bear the brunt of LDC graduation. However, a delay in graduation till 2026 has offered Bangladesh a much-needed self-reflection period that they should utilize in adopting coping strategies that should both cushion the economy in the short run and propel the economy in the long run. A robust coping strategy requires policy level interventions coupled with stakeholder involvement at all steps of the process. However, this paper is geared towards proposing coping strategies through a "macro" lens, which the following sections are devoted to.

Enacting Trade-agreements

The loss of preferential market access and DFQF incentives will be the most detrimental aspect of LDC graduation. Table 2 shows how only the EU will provide a provision for Bangladesh to ensure a smooth transition. No other trade partners are yet to do anything similar. While a smooth transition will be an advantage for all stakeholders involved, the amount of international support available to ensure this is ambiguous.

Bangladesh will have DFQF access to the EU till 2029, as per the newly delayed graduation. This buys Bangladesh time to negotiate a more favorable scheme post-graduation. Bangladesh currently does not qualify for the GSP Plus. Therefore, Bangladesh should actively work with the European Commission in order to arrive at a GSP scheme that will be mutually beneficial. Bangladesh should leverage its thriving economy, which is expected to exceed USD 500 billion by 2025, for negotiating mutually beneficial deals. If negotiating a free trade agreement with the EU does not end up being fruitful, Bangladesh should at least be able to negotiate a preferential trade agreement (PTA).

According to the Ministry of Commerce, Bangladesh is in talks with 44 countries about negotiating PTAs. Furthermore, there are also negotiations in place to enact free trade agreements (FTA) with 11 countries. Bangladesh needs to ensure that these trade negotiations do not fall through. They will be crucial to increase Bangladesh's market access following graduation. Successful

[7] Table based on data collected from Ease of Doing Business 2020 rankings, World Economic Forum

negotiations in ensuring both bilateral and FTAs will also enable Bangladesh in attracting FDI. Bangladesh's biggest competitors in the RMG market have already ensured trade agreements. Vietnam has agreements with USA, Japan and China, to name a few. Therefore, Bangladesh needs to negotiate FTAs and/or PTAs in order to woo foreign investors into Bangladesh. Thailand and Bangladesh have agreed in principle to establish a free trade agreement (FTA), aiming to double bilateral trade to USD 2 billion by 2021. Indonesia and South Korea are also keen on improving trade relations. As Bangladesh is projected to become the 28th largest economy by 2030, as per PricewaterhouseCoopers estimates, it should be able to sell its growing economy to successfully negotiate bilateral agreements that will ensure an ideal transition.

Ensuring Product diversification

The global RMG industry is growing at a rate of 11.8 per cent and the industry is expected to have a value of USD 1182.9 billion by 2022. Bangladesh is the second largest exporter of RMG in the world with approximately 7% of global market share. The fast growth of the RMG sector leaves scope for Bangladesh to capitalize on increasing world demand.

At present, 73% of total RMG earnings for Bangladesh are generated from 5 of its products. This lack of diversity leaves Bangladesh susceptible to changing consumer demand. Additionally, there is an increasing shift towards producing eco-friendly products through sustainable and clean practices. A survey by McKinsey uncovered that 22% of the respondents agree to have made significant changes in their lifestyles in order to lessen their environmental impact. Furthermore, a study by KPMG finds that 64% of people support sustainable fashion. International buyers place a significant weight on such adherences. To this end, Bangladesh's performance is abysmal. The garments industry uses 1,500 billion liters of water a year to dye and wash the cotton and clothes, which in no capacity is sustainable.

Consumers worldwide prefer quality and comfort, which supports the global shift towards producing man-made and synthetic fibers. There has been a 44.53 per cent growth in the production of women's winter clothing using man-made fiber worldwide. In this regard, Bangladesh is severely lacking with only 4 synthetic spinning mills out of 418.

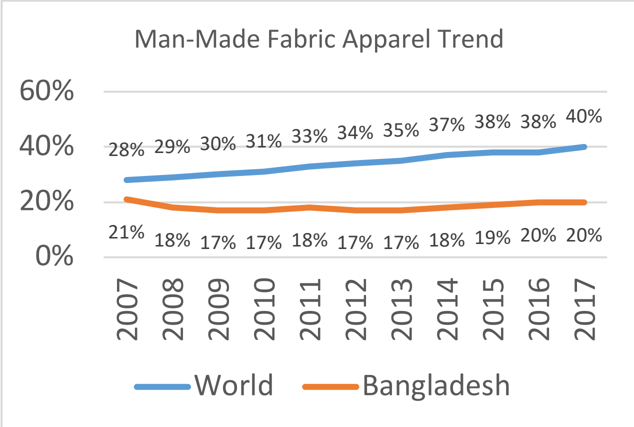

Figure 8: Man-made fabric trend[8]

Bangladesh should therefore invest heavily in the production of synthetic fiber-based products and move towards producing high-tech garments. To this end, existing garments owners should be subsidized to produce synthetic man-made fiber. A robust stakeholder consultation led by the government should make the garment owners aware of the global market for man-made fiber products.

Higher Market penetration & diversification

The need for market diversification is dire given Bangladesh's overreliance on a few markets for a lion's share of its RMG export earnings **(See Market concentration).** LDC graduation should be the catalyst for Bangladesh increasing exports to other untapped markets. The global demand for RMG worldwide has been increasing steadily, an opportunity that Bangladesh has largely slept on. Therefore, Bangladesh should expand its export destination so as to neutralize the incidence of higher tariffs following graduation. Razzaque and Rahman (2019) find that diversification of RMG exports has the potential of generating USD 17.4 billion, which is half the current RMG export earnings for Bangladesh. They also find that 34 per cent of the potential exports in EU is left untapped. Even though USA accounts for roughly 17% of Bangladesh's RMG exports, the vast potential of reaping the rewards of USA through thorough market penetration lies unutilized. The authors quantify this untapped market to be USD 1.9 billion. To add to the list, only 21.4 percent and 60 per cent of total potential exports to China and India respectively are being utilized by Bangladesh. The tables below show further markets where Bangladesh currently lacks presence of any significance.

Country	*RMG import from world in 2018 (in Million $US)*	*Bangladesh's Share*

[8] Figure based on data collected from Policy Research Institute of Bangladesh

Brazil	1794	9.0%
Argentina	504	3.1%
Paraguay	130	0.8%
Uruguay	264	6.0%
Peru	648	9.1%
Colombia	586	7.5%
Ecuador	187	0.3%
Mexico	3,775	5.4%
Panama	1,511	0.9%
Costa Rica	286	0.2%
Venezuela	146	0.1%

Table 5: RMG export market in south america

Country	*RMG import from world in 2018 (in Million $US)*	*Bangladesh's Share*
Russian Federation	7,062	6.9%
Kazakhstan	466	0.5%
Ukraine	374	3.3%
Armenia	131	0.0%
China	35,438	1.5%
Thailand	1,313	2.1%
Indonesia	521	5.7%
Philippines	413	9.9%

Table 6: RMG export market in asia

Tables 7 and 8 show a clear opportunity for Bangladesh to capitalize upon LDC graduation. Brazil is the 12th largest economy in the world in terms of nominal GDP and 8th in terms of purchasing power parity. Bangladesh only caters to 9% of the total demand for RMG exports for Brazil. Furthermore, Mexico accounted for USD 3775 millions of RMG imports from the world, of which Bangladesh supplied a meagre 5%. China imported USD 35,438 million worth of RMG from the world, of which Bangladesh supplied 1.5%. The scope for market expansion and penetration is vast. China, Turkey, India, Vietnam etc. are some countries that stand to usurp Bangladesh's buyers. Therefore, it is crucial for Bangladesh to undertake and negotiate FTAs/PTAs with as many of the aforementioned countries as possible in order to minimize LDC graduation turbulence.

Attracting FDI for backward linkage

The production of RMG in Bangladesh is sustained through a robust global value chain that adds incremental value at each step of the process. While LDC graduation will undoubtedly affect the RMG sector, the impact on Bangladesh's imports has to be taken into account as well. A holistic evaluation of Bangladesh's balance of payments activities needs to be undertaken to find stress points that can be minimized to regain the competitive advantage being stripped away due to LDC graduation.

Currently, Bangladesh imports 60% woven fabrics, 15-20% knit fabrics and 80-85% dying chemicals and accessories from China to use for RMG exports. This is a significant leakage from Bangladesh that can be stopped. Bangladesh can invite foreign investors to invest in the backward linkage industries for the RMG sector such as spinning, fabric, chemicals etc., that are currently imported. The lackluster condition of spinning mills has been highlighted in prior sections **(See Raw materials** *concentration***).**

The Bangladesh RMG sector needs backward linkage industries in areas such as MMF (spinning and fabric), chemicals used in RMG industries, and spare parts to support the massive RMG industrial base. The figure below shows the extent to which Bangladesh is importing raw materials for the production of RMG exports.

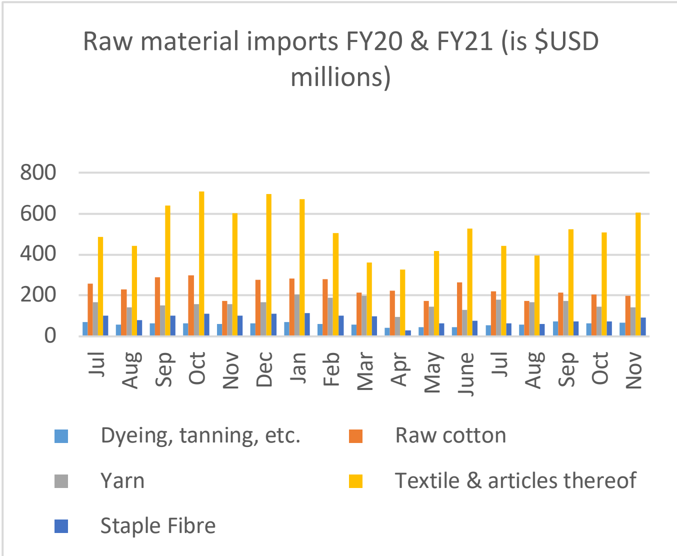

Figure 9: Raw material imports[9]

This leaves scope for Bangladesh to develop backward linkage industries that can help retain the millions that is leaking out of the economy. To do this, Bangladesh needs massive amounts of investment. For the FY19, spare parts were imported to the tune of USD 1.6 billion, and imports of textile chemicals are expected to grow to USD 1.38 billion by FY24. Therefore, investors will greatly benefit from investing in backward linkage industries.

Not only will FDI help retain money in Bangladesh, FDI can lead to export growth and effective integration in global value chains. Other spillover effects such as skill upgrading, productivity improvement and knowledge dissemination are some of the benefits FDI can help to generate.

[9] Figure based on data collected from Bangladesh Bank monthly publications

Boosting domestic export competitiveness and global indicators

The abysmal rankings in global indicators are a strong deterrent of FDI flowing into Bangladesh. The figure below shows the sluggish improvement in FDI over the last decade. However, there was a significant increase in FY19, which the pandemic nullified the following year.

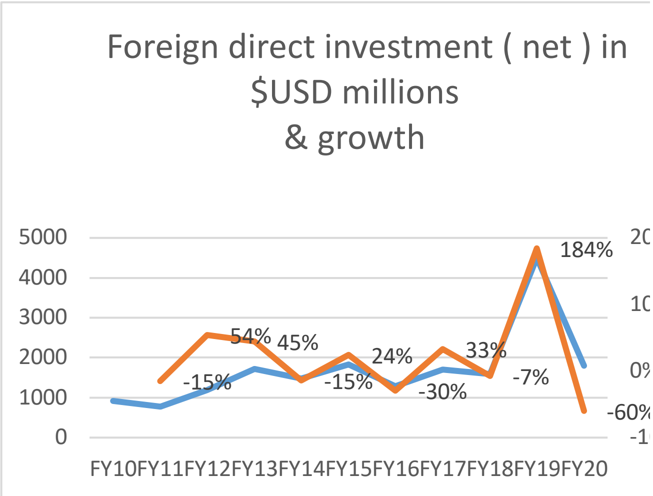

Figure 10: Net FDI and growth

Ease of Doing Business 2020		
	Bangladesh	**Vietnam**
Starting a business (Rank)	131	115
Procedure (number)	9	8
Time (days)	19.5	16
Cost (number)	8.7	5.6
Getting Credit (rank)	119	25
Protecting Minority investors(rank)	72	97
Trading across Borders (rank)	176	104
Time to export- border and documentary compliance (hours)	315	105
Cost to export	265	429
Time to import	360	132
Cost to import	1270	556
Enforcing Contracts	189	68
Time(days)	1442	400
Cost(% of claim)	66.8	29
Getting Electricity(rank)	176	27
Registering Property(rank)	184	64

TABLE 9: EASE OF DOING BUSINESS SPECIFICS

Table 7: ease of doing business specifics

The table above clearly shows the aspects on which Bangladesh can work on. It lags behind Vietnam on almost all indicators of the Ease of Doing Business rankings for the year 2020. However, despite all this, Bangladesh is ahead of Vietnam in terms of total RMG exports to the world. This lacking gives scope for Bangladesh to increase its share in the global market by improving its domestic business climate. Excessive cost of doing business is a hindrance for export competitiveness and FDI into Bangladesh. Furthermore, a lackluster and inadequate infrastructure coupled with dilapidated inland road transportation increases cost of doing business and erodes export competitiveness for Bangladesh.

The establishment of the Padma bridge and other major infrastructure projects will address this pressing issue. However, Bangladesh should still work towards improving its “trading across borders”, “time to import”, “cost to import” and “enforcing contracts” metrics. There are certain areas in which Bangladesh can transform its current challenges into opportunities to boost external competitiveness. It takes on average 315 hours for border and documentary compliance in Bangladesh to export, whereas it takes only 105 hours in Vietnam. These intricate customs processes add to trading costs and erode export competitiveness. It is crucial for Bangladesh to reduce the cost of doing business in order to boost competitiveness following the expiration of LDC privileges. Addressing the cost and the relative ease of doing business will not only boost competitiveness, but also usher in FDI into Bangladesh.

Summary

- The United Nations Conference on Trade and Development (UNCTAD), hypothesize an estimated loss of exports to the tune of **7%** after graduation. This is due to the incremental tariffs, **6.7%** on average, from the erosion of the privileges as an LDC. This would potentially lead to a projected loss of **USD 2.7 billion** of exports. To put this into perspective, this loss will be equivalent to 8.7% of Bangladesh’s exports for the fiscal year 2014-15.
- According to the Commonwealth Secretariat (2018) model, it shows how under standard GSP, the loss in export earnings from **woven garments** will be approximately **USD 700 million.**
- The Commonwealth Secretariat model predicts the loss of privileges as an LDC will lead to a loss of approximately USD 1 billion from knitwear exports. The table below summarizes the impact on knitwear from its key markets.
- The EU and North American markets account for **80%** of Bangladesh’s RMG exports, of which **73%** is concentrated in 5 basic products.

Additionally, Bangladesh is reliant on cotton, with **74%** of RMG exports being made with cotton. Bangladesh's global competitiveness is abysmal, ranking **105th** out of 140 countries, according to the global competitiveness index.

- According to the ministry of commerce, Bangladesh is in talks with 44 countries about negotiating PTAs. Furthermore, there are also negotiations in place to enact free trade agreements (FTA) with 11 countries. It is crucial to increase Bangladesh's market access following graduation. With a growing shift towards Man-Made Fabrics, Bangladesh should invest heavily in the production of synthetic fiber-based products.
- The scope for market expansion and penetration is vast. LDC graduation would leave Bangladesh's incumbent buyers to be eligible to be wooed. China, Turkey, India, Vietnam etc. are some countries that stand to usurp Bangladesh's buyers. Therefore, it is crucial for Bangladesh to undertake and negotiate FTAs/PTAs with the maximum number of aforementioned countries in order to minimize LDC graduation turbulence.
- Bangladesh RMG sector needs backward linkage industries in areas such as MMF (spinning and fabric), chemicals used in RMG industries, and spare parts to support the massive RMG industrial base. For the FY19, spare parts were imported to the tune of USD 1.6 billion, and imports of textile chemicals are expected to grow to USD 1.38 billion by FY24. Therefore, investors will greatly benefit from investing in the backward linkage industries.
- Excessive cost of doing business is a hindrance for export competitiveness and FDI into Bangladesh. Furthermore, a lackluster and inadequate infrastructure coupled with dilapidated inland road transportation increases cost of doing business and erodes export competitiveness for Bangladesh. Bangladesh should work towards improving its "trading across border", "time to import", "cost to import" and "enforcing contracts" metrics. There are certain areas in which Bangladesh can transform its current challenges into opportunities to boost external competitiveness.

VI. CONCLUSION

LDC graduation promises to be one of the greatest challenges the incumbent government has faced till now. Formulating coping strategies for the transition from LDC status needs to be given the highest level of importance. Bangladesh needs all hands-on deck to maneuver in an appropriate fashion.

The erosion of LDC concessions, privileges and preferential agreements was imminent for Bangladesh. Bangladesh has been able to properly utilize these said privileges by leveraging its competitive advantage in RMG. However, upon graduation, Bangladesh needs to reassess its position and take steps to attract FDI into Bangladesh and establish a strong backward linkage industry to support the huge RMG base. Furthermore, promoting domestic competitiveness and harboring a business-friendly climate will allow RMG firms to flourish and to keep costs to a minimum.

There needs to be more quantitative and analytical studies that will pinpoint the stress points of the RMG sector in Bangladesh in order to arrive at feasible measures for coping with LDC graduation. This requires informed policymaking integration with suppliers and importers in Bangladesh.

REFERENCES

Bhattacharya, D. (2021, February 26). *Bangladesh qualifies for LDC graduation: The beginning of the end.* https://www.thedailystar.net/business/news/bangladesh-qualifies-ldc-graduation-the-beginning-the-end-2051333

Bangladesh to receive final recommendation on graduation from LDC. (2021, February 26). *The Financial Express*. https://thefinancialexpress.com.bd/economy/bangladesh- to-receive-final-recommendation-on-graduation-from-ldc-1614335721

Chowdhury, T. (n.d.). *Graduation of Bangladesh as Least Developed Countries (LDC).* https://www.unescap.org/sites/default/files/1%29%20Bangladesh%20- %20Tahreen.pdf

Rahman, M. (2014). Trade Benefits for Least Developed Countries: The Bangladesh Case. *Department of Economic & Social Affairs, CDP Background Paper No. 18.* https://www.un.org/en/development/desa/policy/cdp/cdp_background_papers/bp2014 _18.pdf

Razzaque, M., & Rahman, J. (2019). Bangladesh's Apparel Exports to the EU: Adapting to Competitiveness Challenges Following Graduation from Least Developed Country Status. *Commonwealth Secretariat.* https://www.researchgate.net/profile/Jillur-Rahman/publication/333092701_Bangladesh%27s_Apparel_Exports_to_the_EU_Adapting_to_Competitiveness_Challenges_Following_Graduation_from_Least_Developed_Country_Status/links/5cdb239a299bf14d95986c52/Bangladeshs-Apparel-Exports- to-the-EU-Adapting-to-Competitiveness-Challenges-Following-Graduation-from- Least-Developed-Country-Status.pdf

Razzaque, M. (2020, December). Future of export hinges on continuity of EU duty benefit PRI study says. *The Daily Star.* https://www.thedailystar.net/business/news/future- export-hinges-continuity-eu-duty-benefit-pri-study-says-2014765

Ahmed, N. (2019, April). *Life After LDC.* https://bids.org.bd/uploads/events/cc2019/D1_S3_NZ.pdf

Secretariat of the Committee for Development Policy. (2019). Ex ante assessment of the possible impacts of the graduation of Bangladesh from the category of Least Developed Countries (LDCs). *United Nations Department for Economic and Social Affairs*. https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/IA- Bangladesh-2019.pdf

World Trade Organization. (2017). Trade impacts of LDC graduation. *Enhanced Integrated Framework*. https://www.wto.org/english/news_e/news20_e/rese_08may20_e.pdf