The Daily Star

FOUNDER EDITOR
LATE S. M. ALI

DHAKA MONDAY MARCH 1, 2021, *FALGUN 16, 1427 BS*

A milestone in our journey as a nation

Bangladesh's imminent graduation from LDC to developing nation is a victory for us all

WHEN Bangladesh was included in the Least Developed Country (LDC) group in 1975—at a time when the country and its economy was still recovering from the devastating Liberation War and the genocide that was committed against its people, and was about to fall into the clasps of one military dictatorship after the other—83 percent of the population was living in poverty. By 1982, this figure still stood at a formidable 74 percent. However, by 2019, the poverty rate in Bangladesh had fallen to 20.5 percent.

On Friday, this same country was given the green light by the United Nations Committee for Development Policy to graduate into a developing nation from an LDC after confidently meeting the eligibility criteria in terms of income per capita, human assets index (HAI), and economic and environmental vulnerability index (EVI). This is nothing short of a momentous occasion for us as a nation—a vindication of our pledges from the Liberation War while we prepare to celebrate the golden jubilee of independence next month—and we extend our heartiest congratulations to the prime minister and the government of Bangladesh for this achievement.

As the PM herself said at her most recent virtual press conference, it is the people of this country who have made this possible. From the farmers who have toiled on our fields to ensure that the country's food requirements are met to the migrant workers who have propped up our economy with their remittances, and all other labourers, workers and businesses, big and small, who have contributed to bringing us this far in our journey as a nation—this victory belongs to them all. As of now, Bangladesh is scheduled to officially become a developing country by 2026, which gives us five years to prepare for the transition and deal with the impacts of Covid-19 on our economy. Going forward, we must also have concrete economic policies in place for when we lose the trade benefits that we are currently enjoying. We have full confidence that with good governance and efficient planning and its characteristic resilience, Bangladesh can continue this positive trend and become a higher middle-income country by 2031 and a developed country by 2041.

Schools will reopen at last!

Health guidelines must be enforced and facilitated

LIKE with many other aspects of our life, the pandemic has dealt a serious blow on the education sector as well. The government has been mulling over the idea for some time and finally announced that all schools and colleges will be reopening on March 30, after a gap of more than a year. We believe it could have come sooner, but we presume that the government had its own justification and supporting facts for keeping the educational institutions closed for as long as it did.

After all, our education institutions do not impart class-room oriented teachings only. Many of them are the only place where the students can participate in games and sports, given the paucity of playing fields in the residential areas. It is obvious that being cooped up in one's house for even a short period of time can be very off putting for young children; but to be restricted to one's house without the chance to meet one's school friends for as long as a year can take its toll on the psyche of young students. Moreover, as far as learning goes, online classes have their limitations apart from the reality that only a small percentage of students, particularly at the secondary level in outlying districts, have access to it. However, we wonder why in person classes at the primary, secondary, and higher secondary levels will commence in phases. But if it has to do with reasons of health safety, that should take priority. We expect all precautions would be adopted to ensure that attending classes will be safe as well as beneficial. We would also like to believe that like the front-line workers, who were given priority for Covid-19 vaccination, the teachers and other employees of the educational institutions would be vaccinated on priority basis before the schools open.

LETTERS TO THE EDITOR

letters@thedailystar.net

Vaccination could help universities reopen

The pandemic has resulted in students losing out on an entire academic year. The authorities should take urgent steps to ensure that university students are now able to return to their studies.

It might be necessary to vaccinate students on a priority basis, especially those residing on campus. In that regard, vaccines allocated for those who have voluntarily opted out of taking the vaccine can be reallocated for students. Hopefully, once there is adequate supply, such rationing will no longer be necessary.

Dr Syed Salahuddin, *via email*

Making Bangladesh's LDC graduation smooth and sustainable

MACRO MIRROR

FAHMIDA KHATUN

AS Bangladesh celebrates the golden jubilee of its independence, the country has achieved another important milestone in its pursuit of development.

At the second triennial review by the Committee for Development Policy of the United Nations (UN-CDP) held during February 22-26, 2021, Bangladesh received the final recommendation to graduate from the least developed country (LDC) category. The country has once again met all three criteria to graduate from the LDC group. These are per capita gross national income (GNI), human assets index (HAI) and economic vulnerability (EVI) index. Now, if everything goes well, Bangladesh will graduate in 2026.

Earlier, in March 2018, Bangladesh first met all three criteria for graduating from an LDC to a developing country. According to the UN, an LDC needs to fulfil at least two criteria for graduation. Bangladesh is the only country to meet all three criteria, so far. Once a country meets the LDC graduation criteria, it has to maintain this during two successive triennial reviews by the UN-CDP. Bangladesh's per capita GNI was USD 1,827 in 2019 which is way above the UN threshold of USD 1,222. In case of HAI, Bangladesh has scored 75.3, higher than the UN threshold level of 66. On the EVI, Bangladesh scored 27.3, which has to be below 32.

For all LDCs, graduation brings a mixed set of new realities. But countries have to prepare well and make special efforts to make their graduation meaningful.

Opportunities that come along the way

Bangladesh's new identity as a developing country indicates its strength and capacity. A graduated country holds an improved image and branding in the global landscape. This helps to pull investors into the country. Global lending agencies feel reassured on the ability of the country to pay back loans. So, its credit worthiness is expected to improve, and its credit rating will be better. Bangladesh will have more opportunities for taking commercial loans from the international market at a competitive interest rate. Better branding will help the country to mobilise resources from the global market through sovereign bonds. The difficulties faced by the private sector in generating capital from the global financial market is expected to be less in the coming days.

Challenges from losing international support measures

The major challenges for graduating LDCs come in the form of losing various international support measures (ISMs).

For Bangladesh, trade preference is considered to be the most useful ISM. Bangladesh has so far quite successfully utilised some of the ISMs compared to the other LDCs. The Generalised System of Preferences (GSP) by several countries provided duty-free quota-free (DFQF) market access for Bangladeshi exports. Under the "Everything But Arms" (EBA) initiative, the EU, which is the largest market for Bangladesh's apparel export, grants DFQF. Therefore, the loss of DFQF market access will have negative effects on Bangladesh's exports.

Bangladesh also benefits from LDC-specific special and differential treatment (S&DT) under the agreements of the World Trade Organisation (WTO). Trade Related Intellectual Property Rights (TRIPS) is one such agreement which provides a general waiver for LDCs till the end of June 2021. This provides a number of benefits to Bangladesh including cheaper textbooks and other patent related flexibilities. TRIPS pharmaceuticals waiver will be available for LDCs until the end of 2032. With graduation, Bangladesh will no longer have access to such waiver. Bangladesh exports its pharmaceutical products to more than 100 countries, of which one-third are LDCs. So, the loss of LDC-specific S&DT under the WTO's TRIPS agreement may hinder the development of the pharmaceutical industry in Bangladesh.

Among the LDC specific funds, Green Climate Fund (GCF) is specifically important for Bangladesh as the country is vulnerable to the impact of climate change. Despite being a negligible emitter of greenhouse gases, Bangladesh bears a heavy brunt from the impacts of climate change, and the unavailability of GCF could hamper its adaptation measures.

Due to the cessation of access to concessional finance for the LDCs, the cost of development finance and debt servicing liabilities will increase. Additionally, membership of the LDC group in negotiations and in international meetings, overseas development assistance, trade-related technical assistance, scholarships, reduced budgetary contribution to the UN, and tickets to General Assembly and other UN meetings are among the other ISMs which will be gone after the graduation.

A view of the Dhaka River Port located on the banks of the Buriganga river. PHOTO: MUNIR UZ ZAMAN/AFP

Preparing for smooth and sustainable graduation

During the next five years, Bangladesh needs to prepare for a smooth graduation by taking into account a number of issues.

First, the overall capability of the economy has to be improved. Diversification of the economy, technological upgradation, skill development and institutional strengthening should be prioritised. Foreign investment goes where there is enabling environment, which includes advanced infrastructure, skilled human resources and political stability.

Second, in the post-graduation period, Bangladesh will still be eligible for "GSP-plus" benefits for market access. In order to access this, 27 international conventions on labour rights, human rights, environmental protection and good governance have to be ratified and implemented by the country. However, it must also be borne in mind that both GSP and GSP-plus cover only two-thirds of tariff lines, so some products which previously benefitted from partial or full tariff reduction under the EBA initiative will no longer receive such benefits under GSP or GSP-plus.

Third, in order to make up for the loss due to the cessation of various ISMs, export competitiveness and diversification of both products and markets are necessary. Bangladesh also has to play a proactive role at the regional and sub-regional initiatives, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and attempt to be a part of various comprehensive economic partnerships. It should try to be an observer member of larger blocks such as the Association of Southeast Asian Nations (Asean) to benefit from those and become a member of economic partnerships. At the same time, it should remain active in the WTO to realise any potential benefit.

Fourth, after graduation, Bangladesh will have to go for blended finance that includes loans from the development institutions and other sources with a high interest rate and shorter repayment period. However, Bangladesh should also explore more resources from institutions such as the Asian Infrastructure Investment Bank (AIIB), New Development Bank (NDB) and other commercial sources. Though it may be a bit costly, it will be useful for Bangladesh to become a member of the NDB.

Fifth, Bangladesh should continue its negotiation with its trade partners for concessions and trade preferences for some time even after graduation so that it can prepare well for the transition. There are examples of post-graduation support measures for other LDCs. So, Bangladesh should strengthen its economic diplomacy.

Finally, the strength and resilience of Bangladesh's economy have been proven time and again. Bangladesh's strive towards economic and social progress during the last five decades has been remarkable. In recent times, the economy has exhibited its resilience despite being devasted by the ongoing Covid-19 pandemic and performed better than most countries in terms of growth. However, it has to work harder for economic recovery from the fallout of the pandemic in the next few years. Parallelly, the country needs to prepare for smooth graduation so that this achievement can be consolidated, sustained and translated into the development and welfare of its citizens.

Dr Fahmida Khatun is the Executive Director at the Centre for Policy Dialogue.
Views expressed in this article are those of the author and do not necessarily reflect the position of her organisation.

'Bouncing back better' will come at a price

RMG NOTES

MOSTAFIZ UDDIN

IT has been around one year since the coronavirus pandemic began to bring about sweeping changes in our industry. It was February-March in 2020 when we first began to see fashion brands cancelling orders with their suppliers in Asia after concerns were raised that a novel virus from China could have major global significance.

A slow trickle of cancelled orders soon turned into an avalanche. Through spring and summer, orders dried up for many suppliers as global lockdowns in our key markets such as Europe and the US turned the tap off the demand for our key export—clothing.

There was a brief period where orders did pick up but, overall, the past 12-months have been as tough a period of trading as I—or any of my contemporaries—will ever encounter. The past year places the impact of the 2008 financial crash truly in the shade. These are unprecedented times.

The question is, what next? As I write this, we are no longer seeing the issue of cancelled orders (certainly not on the scale that we saw before). The issues now are smaller orders (perfectly understandable in the circumstances) and reduced unit prices (less acceptable). A shrunken market means more and more suppliers are fighting for the same orders, placing more downward pressure on prices.

I estimate that unit prices for RMG exporters in Bangladesh have fallen by around 5 percent in recent months. This is a huge drop in any industry, but in a sector where suppliers have already been struggling to pay the bills, it is potentially catastrophic.

None of this is sustainable. Early on in this pandemic, there was much talk among major brands of "building back better". Well now is the time to put these words into action, and to do this we must start with suppliers.

We cannot build back better with a supply chain that is still being decimated more than a year after the pandemic began. As suppliers, we all want to build back better. By building back better, I mean paying workers fairer wages and upgrading our factories to reduce their burden on the environment while supporting our customers with their climate commitments. That's what we want as suppliers, and I believe most of the industry shares our aspirations, if their public pronouncements are anything to go by.

So, what do we need to do to make this happen? What do we need to do to build back towards a fairer, more resilient and environmentally progressive industry?

The short answer to this is: money. Another phrase I have heard a lot in the past 12 months is that we need an industry "reset". That is all well and good but how will this reset happen and what will it entail? Any reset, as we all know, needs to be focused on sustainability. And for me, a key aspect of sustainability is partnerships. We as suppliers cannot reset the industry on our own. Suppliers and brands have to work together to develop and implement the tools and practices that will reset the industry on a more sustainable footing.

I reiterate—all of these cost money and money is the one thing suppliers simply do not have at the moment. Many suppliers in Bangladesh only survived the past 12 months because they received special protections from the government. Now that these bailouts have stopped, what will happen?

Already, we are seeing signs that our supply base is teetering on the brink. Recent reports in the media show that small and medium-sized garment factories across Bangladesh are struggling to stay afloat as orders dropped by about 30 percent. Moreover, this story is being replicated across the world—in China, Vietnam, Cambodia, Ethiopia, Indonesia, Sri Lanka and beyond.

In many cases, factories have not closed but they are only operating at 60 percent capacity or even less. Hence, thousands upon thousands of jobs are facing an extremely uncertain future.

In many cases, smaller and medium sized factories are being disproportionately affected by the impacts of the Covid-19 pandemic because they do not have the financial solvency of the big factories and also because many brands are opting to provide new orders to large factories which are better placed.

The thing to note here is that this may well be our new normal. There are no guarantees at all that our industry will return to the days of huge orders and the stability that such orders brought for factory owners. Many brands are scared to leave themselves exposed to the issues they faced previously when they had to cancel massive orders in the face of the pandemic. Shorter, more regular orders give them more flexibility but they bring their own challenges for suppliers.

In all of this, I keep coming back to the question: where is the money for our industry to bounce back better? Who will fund the necessary sustainability overhaul our industry so badly needs to make (and I am talking about both social and environmental sustainability here)? We know factories cannot afford it. We know that, in many cases, Asian governments cannot afford it, or are unable to commit more money to struggling businesses. So where will the money come from?

It could take years for our industry to recover from this pandemic. During these years, what will happen to sustainability issues? Can we keep kicking them down the road? Can we afford to keep doing that as our planet gets warmer?

Likewise, what will happen to our garment workers as we see more and more pressure being placed on downward prices? At what point are we going to bite the bullet of worker wages and when will we begin to move towards an industry that provides more security for workers so they can better navigate times of crisis like now?

Normally I like to offer solutions to the issues raised but, at present, it is not easy to see the light at the end of the tunnel. From a manufacturer's perspective, it has become clear to me that we all need to adapt to survive right now. With less

Recent reports in the media show that small and medium-sized garment factories across Bangladesh are struggling to stay afloat as orders dropped by about 30 percent. PHOTO: STAR

orders, we may need to place more focus on areas of added value such as quality control, decreased through-time, increased flexibility and vastly reduced rejection rates.

Partnerships are also critical. The adversarial approach between brands and suppliers does not work, and this pandemic has highlighted that.

The only way forward I see is for brands and their suppliers working in partnership to decide on the industry they truly want to see over the next few years and the steps we all need to take in order to get there.

Some difficult but necessary conversations lie ahead.

Mostafiz Uddin is the Managing Director of Denim Expert Limited. He is also the Founder and CEO of Bangladesh Apparel Exchange (BAE).