

Costs of LDC Graduation on Market Access: Evidence from Emerging Bangladesh

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Abstract

Graduation from the least developed country (LDC) status to a developing country is a critical policy choice for many emerging economies as they will lose preferential market access in the most developed markets. Bangladesh is an important case study of an emerging trading nation that will graduate from the LDC status to a developing country by 2026. Against this background, we empirically estimate the costs of LDC graduation on market access using a computable general equilibrium modelling framework. The findings show that if developed countries impose a standard generalized system of preferences (GSP) tariff while importing from Bangladesh and at the same time if Bangladesh eliminates its export subsidies, Bangladesh's real gross domestic product (GDP) may drop by about 0.38 per cent and exports could fall by about six percent. The

ready-made garment sector could be affected severely, and export may decline by about 14 percent. The analysis indicates that the income of urban households could decrease by three percent, and household consumption may shrink by about four percent. To minimize this adverse impact, Bangladesh should ensure its market access either under the GSP plus to the EU market or by signing a preferential or free trade agreement with the EU and other leading trading partners. Bangladesh needs to play an active role in the WTO to ensure its market access after graduation. Streamline subsidy policy, enhanced domestic productivity, competitiveness and export diversification are also the keys for smooth LDC graduation.

Key Words: LDC Graduation; Bangladesh; RMG Sector; Income Distribution; CGE.

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