LDC Graduation of Bangladesh:

Challenges and Opportunities for SMEs

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Disclaimer

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Table of Contents

List of Tables

List of Figures

Executive Summary

SMEs play a key role in international trade for countries that adopt the export-led growth strategy (ELG). After the independence in 1971, the policymakers of Bangladesh emphasised the development and growth of SMEs in the First Five Year Plan 1973-78, stating, "export-oriented industries, as well as efficiently selected import-substitution industries which contribute to diminishing strains on the balance of payments, deserve special consideration". Since then, SMEs have become a priority in Bangladesh's development strategy. Bangladesh plans to increase SME contribution to Gross Domestic Product (GDP) by more than 35 percent by 2030 to accelerate economic growth.

Export-oriented and import-substituting SMEs in Bangladesh enjoy many privileges in local and international markets because of special and differential treatment (SDT) endowed to least-developed countries (LDC). The SDT is a central General Agreement on Tariffs and Trade (GATT) system feature that encourages export-oriented growth in developing countries. However, Bangladesh awaits to graduate from the least developed to developing country status, called LDC graduation 2026. After graduation, it will cease to enjoy the privileges of SDTs designed explicitly for LDCs. As a result, a paradigm shift is expected in Bangladesh's economic and foreign trade environment after 2026, and Bangladeshi SMEs will face growing challenges to be competitive in the international market. In this context, the broad objective of this study is to evaluate the challenges and opportunities for SMEs in Bangladesh associated with LDC graduation. This paper analysed five issues: first, to identify potential impacts on SMEs because of LDC graduation; second, to perceive the challenges and opportunities for SMEs that may arise due to the implications of LDC graduation; third, to discuss the existing business environment and determinants of the successes of SMEs; fourth, to evaluate the experiences of other countries that had achieved LDC graduation earlier; and fifth, to suggest the intervention scope and policy recommendations for concerned policymakers. The scope of this study is limited to the performance of Bangladeshi SMEs in the export market.

The five-year plans are the development strategies for Bangladesh, where SMEs were identified as key players in international trade. The expected roles of SMEs in Bangladesh are increased export volume, diversification of the export portfolio, employment creation, optimal and innovative use of indigenous resources, and import substitution. Article XI (2) of the World Trade Organization (WTO) Agreement provides trade privileges for Bangladesh. The Article provided exemptions to LDCs, stating, "The least-developed countries recognised as such by the United Nations will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities." Most LDC-specific privileges are related to Article III (Internal Taxation), Article VIII (Fees and Formalities), Article XI (Quantitative Restriction), Article XVI (Subsidy) and Article XVIII (Infant Industry) of the GATT Agreement. The competitive advantages of SMEs in Bangladesh largely depend on LDC-specific privileges. In addition to endowments in the GATT agreement, some provisions of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), Agreement on Rules of Origin (RoO), Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, and Agreement on Technical Barriers to Trade (TBT) shall have an impact on SMEs after LDC graduation of Bangladesh. However, once LDCs graduate, all LDC-specific preferential treatment for SMEs will cease, and they will lose competitive advantage in international trade.

Bangladeshi SMEs produce and export their products to various foreign markets. They also drive domestic productivity and export revenues through partnerships with global value chains (GVCs). Bangladeshi goods are in high demand by the Bangladeshi diaspora living abroad as these are linked to their heritage. SME owners acknowledged that although they foresee the demand for their products in the world market, they could not grab this opportunity due to a deficiency in standards, infrastructure, and skilled labour. Other weaknesses of SMEs are that they are less price competitive, cannot guarantee the required product quality, and cannot get market information on time.

The privileges provided by the Bangladesh Government under the "special and differential treatment" provisions of the WTO are determinants of the success of SMEs in international trade. Bangladesh uses infant industry protection by following a top customs duty (CD), also known as "tariff peak", at a rate of 25 per cent since 2005, complemented by other duties (e.g., supplementary and regulatory duties (SD, RD) on imports. All these taxes, termed 'para-tariff', are used to bolster SME protection. Export subsidies from the government make the SMEs' prices competitive in the international market. In addition, the government is making the SME sector sustainable by offering financial and cash incentives. The success story at the entrepreneur level is all for the direct cash subsidy from the government.

Bangladesh currently has simple procedures for maintaining TRIPS requirements, and the SME sector mostly designs and produces its products without maintaining TRIPS requirements. Preferential rules of origin are specified to allow LDCs to benefit from less value addition to their products. They can claim lower value-added products to better use the market access opportunities through preferential rules of origin to export goods to the international market. The WTO sets out preferential arrangements to ensure SPS requirements for LDCs by encouraging importing countries to help LDCs comply with SPS requirements. Bangladesh is exempted from maintaining the TBT regulations and requirements as an LDC and gets technical assistance.

Bangladeshi SMEs have a robust entrepreneurial mindset and can create international market demand. They can link them with the global value chain. Having equal status in the global economy, the strengths may help them win business opportunities. Upgradation of indigenous technology may be possible through technology transfer from developed countries. Moreover, the lack of modern technology and patent protection may motivate foreign patent holders to establish their production facilities in Bangladesh. The ability to operate with low profits may make Bangladeshi SMEs competitive in international trade.

SMEs' comparative advantage depends on the privileges available as an LDC. Therefore, Bangladeshi SMEs will likely lose their comparative advantages as partners of equal status in the global economy. The export competitiveness of SMEs will diminish, and they will face intense competition in the international and domestic markets because of restrictions on the quantitative and tariff protection for import-substituting and exporting SMEs. Moreover, the lack of skilled workers will be a discouraging force for local investors. It will increase their investment cost in this country because they must create skilled human resources for their businesses. Without local technological capabilities, foreign companies with advanced technologies might feel motivated to invest in the local market and limit the SMEs' role of import substitution and sub-contracting in global supply chains.

Restrictions on export subsidies will reduce the profit margin because it will raise relative production costs. Therefore, SMEs' willingness to operate at a very low-profit margin will be vital to succeed in global markets. Furthermore, restrictions on tariff protection on raw materials and import substitution and production costs will increase and reduce competitiveness in the domestic market. It will also limit the opportunities for SMEs to survive by trading in the internal market. In addition, strict requirements for adherence to SPS measures and TBT standards of importing countries may make the link with the global value chain vulnerable. Furthermore, indigenous technologies may face patent infringement obstructions if designed by reverse engineering or copying technologies of others.

Export subsidies, tariff protection of raw materials and import substitution, as well as quantitative restrictions to the benefit of the market for enterprises, are all evidence of the economic inefficiencies of enterprises. Essentially, these inefficiencies constitute the comparative advantage of SMEs in international trade. Restrictions on subsidies, tariff protection and quantitative protection for domestic producers may adversely impact SMEs' performance in global trade. Higher production costs, shrinking profits or losses from the sale, and declining market access with poor quality products will push them under challenging realities. Without active support from the government to enhance their capabilities quickly, many SMEs may have to cease operations. The inefficiency of SMEs may encourage large multinational companies and other organisations to invest in Bangladesh and dominate the domestic market. In addition, the failure of SMEs may increase imports and dependence on foreign goods. Modernisation of technology, protection of intellectual property, creation of quality assurance system, and maintaining SPS measures of other countries need investment and skilled workforce. However, SMEs suffer from financial and experience human resources scarcity. Moreover, many SMEs, especially those engaged in fabrication or assembly processes using imported raw materials, may lose economic nationality for their products in case of failure to at least 50 per cent value addition from domestic sources. In these situations, they may face higher tariffs in international trade for re-exporting products.

Botswana graduated from the least developed country in 1994 and the Maldives in 2011. These countries did not depend on manufacturing sectors for their economic growth. They did not use privileges available for LDCs, and their financial impact was insignificant. The Maldives and Botswana made substantial progress towards graduation through improved human resources. They also focused on tourism and natural resource-based activities such as forestry, mining or hydroelectricity generation. Other countries that graduated are small countries like Cape Verde (2007), Samoa (2014) and Equatorial Guinea (2017), which primarily achieved economic growth through tourism and agricultural outputs. They also did not use LDC-specific privileges. Hence, after graduation, the impact was minimal. However, the effect of graduation could be substantial for countries with larger manufacturing sectors. For example, 90 percent of Bangladesh's exports come from manufactured goods. As a result, Bangladesh will face significant trade barriers after graduation because it has been using LDC privileges meaningfully and extensively. The impact on its economy can be profound.

Bangladesh's LDC graduation would have many challenges, with few opportunities for SMEs. Market inefficiency poses a challenge, requiring a shift from short-term interventions to sustained, long-term strategies. The government should invest in human resource development and upgrading training institutes for post-graduation demands. Training programs, especially in technology and production management, are vital for SME owners and managers who need more skills. Reduction of export subsidies, tariff rationalization, and upgrades to the Bangladesh Standards and Testing Institution (BSTI) are essential.

Simultaneously, establishing laboratories for accessible SPS Measures-related services and a national SPS standard is crucial. Recognizing SMEs' limited awareness of intellectual property, the government should establish an agency for intellectual property-related services. Stricter rules of origin post-graduation necessitate R&D programs to increase local value addition. To address the shortage of skilled workers, the government should integrate TVET into the education system and promote workplace apprenticeship initiatives. Collaboration between educational institutions, industry stakeholders, and SMEs is crucial for seamless implementation. This comprehensive strategy not only bridges the skills gap but also contributes significantly to SME growth and sustainability, aligning with the evolving demands of the economy.

CHAPTER **1**

The Perspective of the Study

A professor at Harvard University and one of the most influential economists of the early 20th century who served as the finance minister of Germany, Joseph Schumpeter, in his famous book Theory of Economic Development, mentioned that entrepreneurs are those people who speed up economic development by innovating new combination of already existing materials to introduce new goods, new methods of production, find out new markets for existing goods and explore new sources of inputs (Schumpeter, 1934). Small and Medium Enterprises (SMEs) are entrepreneurial ventures. According to the World Bank, SMEs represent about 90% of businesses, more than 50% of employment worldwide, and up to 40% of the Gross Domestic Product (GDP) in emerging economies (World Bank, 2022). In industrialised developed countries, large-scale enterprises or multinationals are not the largest employers; SMEs are the largest employers (Millinuex, 1997). In the United States, SMEs create nearly two-thirds of net new private sector jobs every year, and the SMEs engaged in exports tend to grow even faster, create more jobs, and pay higher wages (USTR, 2022). Small and medium-sized businesses are the backbone of the US and European economies. Therefore, establishing and sustaining SMEs is critical, both in advanced economies and developing countries, for economic growth, creating new jobs and increasing production capacity.

Export-led growth (ELG) is the dominant development strategy across countries in the present era of the global economy, in which a government seeks to develop its economy through openness to international trade. SMEs can play a critical role in the international trade of countries adopting the ELG strategy. China has succeeded in the ELG by effectively developing SMEs and utilising SMEs' unique natures – small investment, fast yield, flexible operation and quick adaptability to market changes (Chen J. , 2006). The European Union (EU) improved the competitiveness in international trade by formulating policies to support the creation and growth of SMEs (Floyd & McManus, 2005). SMEs play a significant role in foreign trade in poor and politically unstable countries of Afghanistan, Kyrgyzstan, and Tajikistan (Neufeld & Earle, 2014). In these countries, the SMEs export readymade garments and some traditional items to earn foreign exchange.

Realising the importance of SMEs in developing and scaling up exports, the policymakers in Bangladesh emphasised the development and growth of these small and medium enterprises immediately after the independence in 1971. At that stage, the Government of Bangladesh, led by the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman, drafted the First Five Year Plan 1973-78 (FYP 1973-78) for economic development. Accordingly, policymakers assigned the primary responsibility of the manufacturing sector to small industries along with rural and cottage industries in the FFYP, stating, "export-oriented industries as well as efficiently selected import-substitution industries which contribute to diminishing strains on the balance of payments deserve special consideration" (Planning Commission [1], 1973). SMEs have always received priority in Bangladesh's development strategy. Data from the Bangladesh Ministry of Planning revealed that the SME sector created 1.5 million new jobs in the country, 80 percent of the total industrial employment and about 25 per cent of the total labour force (Odonkor, 2021). A study by the International Cooperation Organisation for Small and Medium Enterprises in Asia (ICOSA), Japan, reports that the proportion of SMEs to all business enterprises is 80.0 per cent in Bangladesh, 97.6 per cent in India, 99.0 per cent in China, and 99.7 per cent in Japan (The Daily Star, 2019). The study also reveals that SMEs' contribution to the GDP is only 20.3 per cent in Bangladesh, compared to 80.0 per cent in India, 60.0 percent in China and 69.5 per cent in Japan. SMEs' contribution to Bangladesh's total export earnings is about 75 percent, and thus, it is the country's prime mover in outward international trade. Although they had priority as economic agents of production and became the most significant contributor to export earnings, SMEs' share in the GDP is low in Bangladesh compared to many other countries.

According to the UN General Assembly (UNGA) resolution "A/76/L.6/Rev.1", Bangladesh achieved lower-middle-income status on 21 November 2021, along with Lao People's Democratic Republic and Nepal. This decision of the UNGA is a recognition of Bangladesh's success in achieving significant economic growth and improving the quality of life of its citizens. Bangladesh is scheduled to graduate from the status of a least developed country (LDC) to the status of a developing country (DC) in the WTO membership category on 24 November 2026[1]. The membership status change from LDC to DC in the WTO is known as LDC graduation. The LDC graduation ceases an LDC country's right of access to LDC-specific support measures. LDC members of the WTO benefit from five special and differential treatment (SDT) provisions[2]. The SDT provisions include less restricted trade opportunities, safeguarding the economic interests of LDCs, flexibility in commitment actions, a more extended transitional period, and technical assistance (TA). However, the WTO's LDC graduation rule has a "smooth transition" provision that allows new developing countries access to LDC-specific support measures for an additional three years from graduation.[3]. SDT for the least-developed and new countries is a central feature of the GATT/WTO system to encourage export-oriented growth in those countries (Ornelas, 2016).

A large portion of Bangladesh's SMEs are export-oriented firms and have the lion's share of the country's export earnings. As enterprises of an LDC, Bangladeshi SMEs have enjoyed STD privileges in local and international markets. They built their competitive and comparative advantages under the STD-induced liberalised trade regime of the WTO. However, these LDC-specific support measures will remain effective until 24 November 2029. A paradigm shift is expected in Bangladesh's economic and foreign trade environment after 2026 (specifically after 2029).

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1 **Bangladesh graduation status.** https://www.un.org/ldcportal/content/bangladesh-graduation-status

2 **Special treatment regarding obligations and flexibilities under WTO rules**. https://www.un.org/ldcportal/content/special-treatment-regarding-obligations-and-flexibilities-under-wto-rules#:~:text=Below%20is%20an%20overview%20of%20LDC-specific%20provisions%20available,of%20LDC-specific%20provisions%20contained%20in%20different%20WTO%20Agreements.

3 **After the graduation date: the transition period**. https://www.un.org/ldcportal/content/how-prepare-for-graduation

Graduation from the LDC group brings both challenges and opportunities to a country. It will enhance the country's confidence in dealing with international financial bodies, improve its credit rating and attract higher foreign direct investment (FDI) flow. In contrast, graduation will affect official development assistance and concessional loans, including specific preferential treatments in trade, subsidies to agriculture and infant industries, and access to some LDC-specific funds. Following completing the LDC graduation process in 2029, Bangladeshi SMEs are expected to face growing challenges to compete in the international market without specific support for LDCs. Bangladesh plans to raise SMEs' contribution to the GDP to more than 35 per cent by 2030 and more afterwards to accelerate economic growth (Shishir, 2022). The plan to scale up the contribution of SMEs in GDP to more than 35 per cent may become a problematic strategic option upon the LDC graduation.

In this context, the broad objective of this study is to evaluate the challenges and opportunities for SMEs in Bangladesh associated with LDC graduation. Specifically, it has analysed five issues. First, understanding the experiences of other countries that had achieved LDC graduation earlier. Second, identifying potential impacts on SMEs because of LDC graduation. Third, perceiving challenges and opportunities for SMEs that may arise due to the implications of LDC graduation. Fourth, discussing appropriate policies/strategies to cope with the economic transition for SMEs. Finally, suggesting intervention scopes and policy recommendations for concerned policymakers. The scope of this study is limited to the performance of Bangladeshi SMEs in the export market. Hence, the challenges and opportunities in international trade associated with LDC graduation are analysed.

CHAPTER **2**

Method of Analysis

This study aims to explore challenges and opportunities that Bangladeshi SMEs may face due to the potential effect of LDC graduation on the DC status of the country and identify policy options for supporting the growth and success of SMEs in international trade. The SWOT Analysis is considered an appropriate tool for environmental scanning for evaluation of effects, exploring critical failure (challenge) and success (opportunity) factors, defining strategic issues and developing new strategies (Chen & Bruneski, 2007). Furthermore, SWOT Analysis is a simple and effective methodology for focusing on critical issues that may affect the development and growth of any organisation and identifying the factors that may demand strategic interventions (Pickton & Wright, 1998). Therefore, we have selected the SWOT Analysis to achieve the goal of this study because it is an appropriate analytical framework for evaluating this type of scenario.

Methodology Workflow

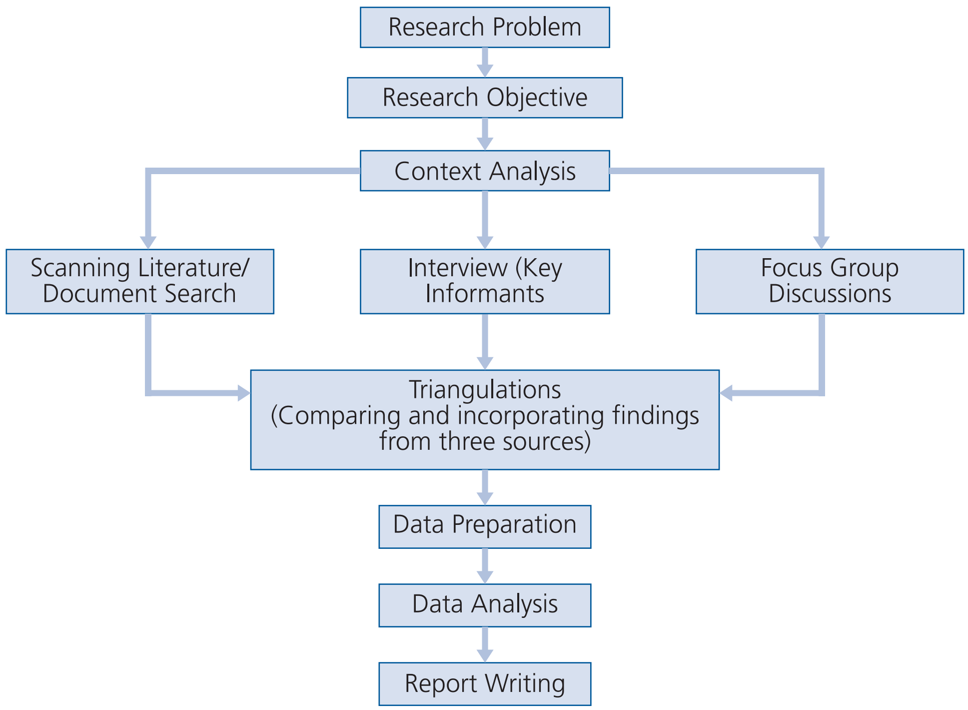
The study presented an in-depth context analysis of the research problem and objectives. It adopted the qualitative methodology to identify potential challenges and opportunities for SMEs associated with Bangladesh's LDC graduation. However, there is no attempt to quantify the magnitude of challenges or opportunities because the future situation is uncertain and depends on many "what-ifs" and negotiation capacity. Hence, opinions and descriptions are collected through literature review, key informant interviews (KII) and focus group discussions (FGD). After data triangulation from three sources, data were arranged in a SWOT matrix and analysed as scenarios in the SWOT analysis methodology. The flow is presented in Figure 1: Research Workflow Methodology.

SWOT Analysis Framework

The SWOT is the abridgement of "Strengths (S)," "Weaknesses (W)," "Opportunities (O)," and "Threats (T)." Any SWOT analysis aims to identify key internal and external factors to reach the goal. These factors are part of an organisation's value chain. The SWOT analysis groups key factors into two main categories: internal and external factors. Figure 2 shows the structure of the SWOT matrix.

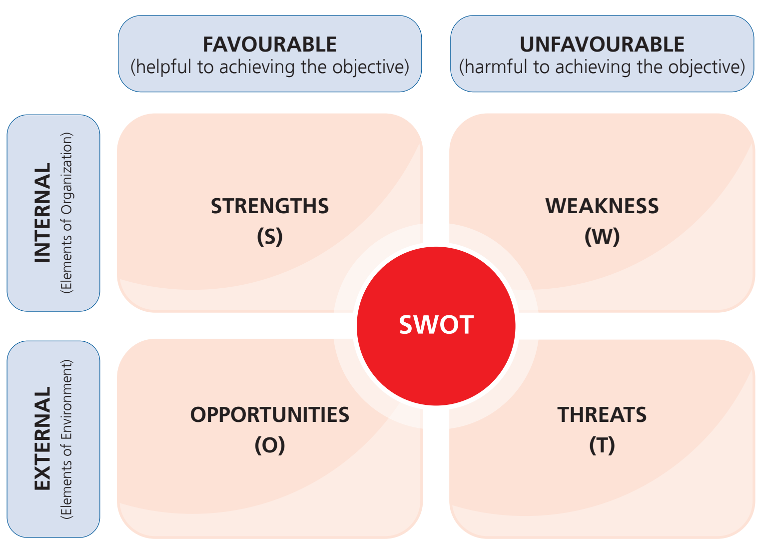
The internal factors are the organisation's attributes or characteristics that it can control. It can change the condition of these attributes by adopting appropriate actions. Internal factors can be perceived as strengths or weaknesses based on their impact on organisational goals. Strengths contribute to achieving the organisation's purpose, while weaknesses detract from the achievements. External factors are attributes outside the organisation's control and influence its efforts to achieve the objective. These factors may be opportunities or threats depending on their impact on organisational performance.

Figure 1: Research Workflow Methodology



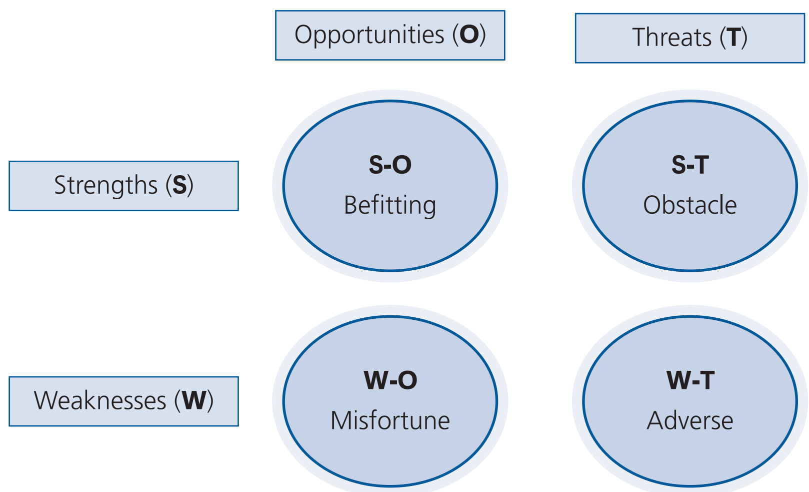
Opportunities facilitate the organisation's efforts to reach the objective, whereas threats are obstacles to reaching the objective. Researchers gather information on the organisation and outside environment using literature review, KIIs, FGDs and field surveys. Internal information is then grouped into strengths or weaknesses. Similarly, external information is grouped into opportunities and threats.

Figure 2: The SWOT Matrix



Researchers match each of the strengths and weaknesses with opportunities and threats to ascertain the impact of each pair on the efforts to achieve the organisation's objective. This analysis takes place from an organisational perspective. Figure 3 presents the SWOT Analysis framework. This analysis develops four situations relevant to achieving the objective. First, the strength-opportunity (S-O) situation is a befitting one because it positively impacts the organisation's performance and helps achieve the objective. Second, the strength-threat (S-T) situation is an obstacle to achieving the purpose because the organisation's strengths are weakened and may have to be modified to overcome the threats. The third is weakness-opportunity (W-O), where the organisation fails to utilise opportunities for its internal weaknesses and suffers misfortune. Last is the weakness-threat (W-T) situation that adversely affects the organisation achieving its objective. The organisation may require significant modification or rebuilding of its operations process to overcome this situation.

Figure 3: The SWOT Analysis Framework



Data Collection

This research combines secondary and primary data to identify the Strengths, Weaknesses, Opportunities, and Threats (SWOT) that SMEs will face after the LDC graduation (Rossman & Wilson, 1985). The study has three segments – review of documents and other secondary sources, KIIs, and FGDs to collect qualitative data.

Review of Documents and Secondary Sources

The document review is a qualitative research method. Documents and records available from various sources have been used for document review in this study. The document review triangulates data to integrate information from different sources in the same event to ensure the credibility of the evidence (Patton, 1990). This qualitative study follows the critical social research approach (Harvey, 1990) to locate historical documents and explore how the contents of documents reveal the information related to the objectives of this study. Critical social research is supported by a critical-dialectical perspective, which has attempted to dig beneath the surface of historically specific social structures. The study began with identifying the documents related to the objectives of this study. It is relevant here because the ultimate purpose of this study is to examine documents to understand the meaning and significance of what the documents contain (Scott, 1990) regarding challenges and opportunities for SMEs for LDC graduation in Bangladesh. Once documents and data were identified, the researcher(s) collected the documents with the help of investigators. Next, the documents were reviewed and summarised. Finally, researchers arranged the information to describe the objectives. Content analysis is the method used in this descriptive approach. The study uses sequential descriptions, qualitative reasoning, and flow diagrams as analytical tools for data analysis.

Key Informant Interviews (KII)

The second stage of the survey consists of in-depth interviews (IDI) and key informant interviews (KII). The interviewees are government officials, professional association members, academics, and experts.

Focus Group Discussion (FGD)

The third component of data collection is FGDs. Two FGDs were organised. The owners and entrepreneurs of SMEs participated in the first FGD, the purpose of which was to know the strengths and weaknesses of SMEs. In addition, participants provided valuable information about the internal factors of their respective organisations. Government officials, academics and experts participated in the second FGD, which successfully obtained information on opportunities and threats to SMEs after LDC graduation.

Quality Control Mechanism

The Team Leader and other researchers constantly communicated with the Field Supervisors and test administrators to maintain the data quality. In addition, the research team was engaged to ensure the overall output quality of the project, including reporting.

Analytical Method - Scenario Analysis

This research analyses the data using the SWOT analysis and develops a scenario of LDC graduation for SMEs. This technique offers a rational and structured way to analyse the future. Scenario Analysis is a process of ascertaining and analysing possible future events.[4] It is effective for analysing other issues, as the study focuses on understanding an event's future impact. Scenario analysis provides the analyst with a thorough review of all potential outcomes. The analytical steps are following.

1. Define the event and objective: Description of LDC graduation and its possible effects on SMEs in Bangladesh.
2. Gather data and identify key factors, trends, and uncertainties that may affect the event: Integrate data collected through content analysis, survey, KII, and FGD.
3. Developing scenario planning: Grouping of collected information using SWOT (strength, weakness, opportunities and threats).
4. Development of scenarios: Develop base, worst and best-case scenarios, plus others if desired.
5. Evaluation of the scenarios: Analysis of the potential impact of each scenario.
6. Strategy setting: Use of the scenarios to evaluate the most likely risks and rewards.

4 What is 'Scenario Analysis'. The Economic Times https://economictimes.indiatimes.com/definition/scenario-analysis

CHAPTER **3**

SMEs' Expected Role, LDC-specific Privileges and Erosion of Trade Preference

After independence, Bangladesh initiated its economic development efforts through five-year plans (FYP). The poorest country in the world in the 70s is now often seen as a success story in terms of economic development. The development plans set out the path and strategies for this success story of economic growth. FYPs also explained the role of SMEs in economic development efforts. However, we must recognise that all eight FYPs were prepared from the point of view of an LDC. An LDC's international economic relationship and commercial reality are very different from those of a developing country in the WTO trade regime. LDCs enjoy many exemptions regarding intellectual property (IP), sanitary and phytosanitary (SPS) standards, technical trade barriers (TBT), and rules of origin (ROR). They get preferential tariff facilities in international trade. However, developing countries are only eligible for some preferential treatment in global trade. As a result, Bangladesh will experience a significant erosion in trade preferences. The following sections examined the Government's plan for the industrial sector and the expected erosion of trade preferences.

Expected Role of SMEs in Five-year Plans

The First Five Year Plan 1973-78 (FYP 1973-78) emphasised self-reliance to reduce dependence on foreign aid (Planning Commission [1], 1973). This plan sets strategies to expand and diversify exports and develop efficient patterns of import substitution to reduce the foreign exchange gap. However, it limited import substitution in the critical and intermediate sectors like fertiliser, cement, and steel, stating that "indiscriminate import-substitution leading to the sub-optimum allocation of resources should be avoided". This plan expected that SMEs would primarily expand and diversify exports, create jobs, and facilitate efficient resource utilisation. Hence, the FYP 1973-78 assigned the role of exports to SMEs.

The Second Five Year Plan 1980-85 (FYP 1980-85) emphasised self-reliance and agricultural development more (Planning Commission [2], 1983). The plan stated, "The Second Five Year Plan will initiate the development of a chain of rural industries and service centres supporting the rural sector. These industries will provide inputs and services to agriculture process, agricultural materials, and manufacture goods to meet the demand of rural households". The primary objective of the industrial strategy was employment generation through labour-intensive manufacturing. It acknowledged the need for an outward-looking industrial system but set it as a future target. However, this plan prioritised export-oriented industries in the private sector and suggested that the SMEs' primary role should be to support the rural sector to ensure agricultural development. This plan realised that export diversification was essential but simultaneously observed it as difficult to attain. Uncertainty related to changing consumer needs in the international market, the need for goods of higher quality and standards, and the shortage of capital and skills were why the plan did not encourage SMEs to participate in expanding and diversifying exports.

Among the primary objectives of the Third Five Year Plan 1985-90 (FYP 1985-90), four were the expansion of productive employment, creation of a technological base for bringing long-term structural change, acceleration of economic growth, and promotion of self-reliance (Planning Commission [3], 1985). The FYP 1985-90 planned to expand productive agricultural employment by upgrading agrarian technologies in the SMEs and cottage industries. It emphasised the use of labour-intensive production methods for SMEs, and economic growth was planned by increasing agrarian outputs and agriculturally based industrialisation. This plan set the primary objective of industrialisation to support the agriculture sector, meet people's basic needs and strengthen the balance of payment positions through establishing export-oriented and import-substitution industries. Though the FYP 1985-90 focused on the importance of SMEs in employment generation and the ability to scale up industrial output, it failed to formulate effective supporting policies for this sector. Instead, this plan established export processing zones to attract large-scale foreign investments to utilise the country's cheap and abundant labour, low-cost energy and reasonably developed infrastructure and shipping facilities.

The Fourth Five Year Plan 1990-95 (FYP 1990-95) initiated a fundamental change in the development strategy by emphasising the export-led growth (ELG) strategy (Planning Commission [4], 1995). However, the interesting fact about this plan is that it was made public in the last year of the planning period. Like previous FYPs, it also emphasised agricultural development and self-reliance. Nevertheless, this plan recognised that ELG made possible faster economic growth, employment generation and poverty alleviation. The plan stated, "The export-led growth strategy aims at massive employment generation, poverty alleviation and bridging the trade deficits. Because of limited domestic markets for generations of productive employment, the export-led growth strategy will lead to the expansion of competitive labour-absorptive export industries, particularly electronics, leather, textile, food processing, etc, side by side with the expansion of existing non-traditional export products such as garments, fish processing, etc". During this plan, progress had been made in establishing a linkage between large and small industries through sub-contracting for the growth of SMEs. The FYP 1990-95 introduced five strategies for the growth and development of the industrial sector, specifically for small industries – first, adopt policies to change the licensing system to benefit small-scale enterprises; second, reform exchange rate and tariff policies to facilitate the operations of small industries; third, high priority to the investment programs in small, cottage and rural sectors; fourth, tailor policies to encourage agriculture-based industries for export markets; and fifth, incentives and industrial assistance introduced to backward linkage in readymade garments (RMG) and forward linkage in leather goods industries for higher value addition.

The World Trade Organisation (WTO) was established in 1995 to promote rule-based free and fair trade and economic opportunities for all member countries. The Government of Bangladesh prepared and effected the Fifth Five Year Plan 1997-2002 (FYP 1997-2002) in 1998. From the new world order perspective, the FYP 1997-2002 adopted an export-led industrialisation strategy, accepting the private sector's pivotal role in industrialisation (Planning Commission [5], 1998). To ensure sustained export growth, the Government shifted the regulated economy into a fully functioning market economy. This reform included significant policy changes that were essential to export-led growth. Importation procedures were liberalised and simplified. Tariffs were streamlined, and levels were reduced. The quantitative restrictions were removed as far as possible. The plan adopted a market-oriented flexible exchange rate policy and more effective and transparent export promotion measures. A considerable increase in employment generation was planned through rapid industrialisation, increasing cropping intensity, and expanding high-yielding varieties of labour-intensive crops. The Government recognised the critical role of small industries in employment generation and GDP growth because of the inability of the agriculture sector and large-scale enterprises to offer large-scale employment and economic growth in the long run. The FYP 1997-2002 set a policy framework to support small and cottage industries so that this sector could reduce unemployment, increase income by providing self-employment through indigenous resources and technologies, foster entrepreneurial skills, produce export-oriented and import-substitute products, and ensure geographical dispersal of industries. Hence, the government adopted strategies for the speedy growth of SMEs and cottage industries to become effective organisations and make the export-led growth strategy successful.

The central planning was temporarily discontinued after the FYP 1997-2002 and reintroduced in 2011 as a policy guideline for economic activities. The Sixth Five Year Plan 2011-2015 (FYP 2011-2015) emphasised high productivity, dynamism, more investment, more excellent outward orientation, and the enhanced role of SMEs in the industrial sector for faster economic growth in Bangladesh (Planning Commission [6], 2011). The FYP 2011-2015 formulated four strategies for the industrial sector. First, reliance on manufacturing and organised service sectors for many productive employments, as the low-income elasticity of essential food items, land constraints, and difficulties penetrating the world agricultural export markets limit the ability of agriculture to grow at the same pace as manufacturing. Second, a labour-intensive manufacturing sector based on domestic and export markets. Third, more excellent outward orientation and access to international markets provide dynamism in the manufacturing sector and expand exports from the country. Fourth, small industries' critical role is to reduce poverty, create employment and increase manufacturing capacity. The plan observed that the RMG products became the country's largest export and concentrated in a few countries. Hence, this plan-initiated policy interventions to diversify product, geographical quality, goods-to-service[5], and intermediate goods. The FYP 2011-2015 focused on developing SMEs and micro and cottage industries to diversify the export portfolio and increase export volume. The Government adopted wide-ranging fiscal incentives, preferential access to finance, favourable trade policy, provisioning of land and site services, and the facilitation of technological and marketing support for the development of SMEs. Fostering exports became one dominant trend in Bangladesh's industrialisation strategy. The Government decided to take full advantage of its time waiver on the onset of the compliance with the rule book of such globalist agreements as associated with the WTO, Trade-related Investment Measures (TRIMS), Trade-Related Aspects of Intellectual Property Rights (TRIPS), and General Agreement on Trade in Services (GATS) for the success of export-led growth strategy.

The Seventh Five-Year Plan 2015/16-2019/20 (FYP 2015/16-2019/20) inherited all policies and objectives of the Sixth Five-Year Plan 2011-2015 (Planning Commission [7], 2016). This plan assumed that the exemption of Bangladesh from many requirements of WTO agreements as an LDC would facilitate its export-led growth strategy. Bangladesh could expand and diversify its exports by taking advantage of relaxed trade rules concerning tariff, non-tariff, and technical barriers for LDCs. Bangladesh has enjoyed the Generalised System of Preferences (GSP) in 38 countries for exporting items. GSP is a system of preferential tariffs that developed countries apply to developing countries. However, FYP 2015/16-2019/20 highlighted SMEs' critical role in export-driven growth. The plan identified SMEs as the correct enterprises to expand and diversify exports under the liberal foreign trade regime. Therefore,

5 Expansion of non-merchandise exports.

various actions have been planned to help SMEs meet their needs for financing, developing human resources, and developing management and technology skills. In addition, a separate tax system was recommended for SMEs to provide hassle-free indirect tax services concerning export and import.

The Eighth Five Year Plan (FYP 2020-2025) is prepared when Bangladesh has reached the 50th year of its independence and is set to graduate from the WTO's LDC country to developing country status in 2026. The Government is committed to accepting graduation and preparing for the challenges that can be expected, primarily because of the "erosion of trade preferences" process. However, facing impending challenges requires a trade and industrial policy redesign during the FYP 2020-2025. In keeping with the tradition of the country's development process, FYP 2020-2025 established export promotion and import substitution targets for the industrial sector (Planning Commission [8] 2020). Thus, Bangladesh has two contradictory strategies: comparative advantage following (CAF) export-led growth and comparative advantage defying (CAD) self-reliance in a situation where the country is gradually progressing to graduation from LDC in 2026. Export-oriented and import-substitution industries benefit from a high level of protection because exemptions are granted to LDCs. The future success of these industries also depends on high-level support from export-oriented sectors through subsidies and tariffs and quantitative protection from import-substitution industries. After graduation, the CAD may be problematic because protecting national industries may be challenging, and the CAF may face obstacles due to the erosion of preferences. Such measures will be fiscally unsustainable and will also violate WTO rules. In this situation, the FYP 2020-2025 has adopted the following strategies for the industrial sector.

1. Export-oriented industrialisation and promoting domestic market demand will stimulate growth. However, the private sector will continue to be the engine of growth.
2. Increase exports to global markets using the huge enabling effect of a rapidly integrating global economy. Moreover, the flow of knowledge, technology, and learning is available through FDI or cooperation.
3. Enhancing productivity over the next five years will prepare the country to face unrestrained competition in the global marketplace, as significant "preference erosion" will occur by then.
4. Aspire to promote export and competitiveness diversification in the industrial sector.

The objectives for the industry and the expected role of SMEs are summarised in Table 1 below. SMEs were seen as enterprises to respond to local consumer needs and support industrial development until the end of the third FYP. The fourth FYP initially assigned some role to SMEs in increasing exports. However, the ultimate responsibility was to ensure self-reliance and meet citizens' basic needs. The fifth and sixth FYPs assigned broad responsibilities to SMEs to expand and diversify the country's exports, support the agricultural sector and meet citizens' basic needs. Thus, SMEs have become critical economic agents of development and growth. During the seventh FYP period, SMEs were identified as the preferred form of organisation to lead the country's export-led economic growth strategy. The role of SMEs has become even more crucial in the eighth FYP.

Table 1: Objectives and Expected Roles of SMEs in the Five-Year Plans of Bangladesh

Role of SMEs in the Economy	Expected Outcome
First Five-Year Plan (FFYP): 1973-1978	
1. Expansion and diversification of exports 2. Support the country's self-sufficiency by efficient substitution patterns to reduce the foreign exchange gap. 3. Avoid indiscriminate import-substitution leading to the sub-optimum allocation of resources.	• Scale-up export • Job creation • Diversification of exports • Import substitution in the critical and intermediate sectors like fertiliser, cement, and steel.
Second Five-Year Plan (SFYP): 1980-1985	
1. Self-reliance through import substitution. 2. Support agricultural and rural development. 3. Production of goods to satisfy the needs of consumers in Bangladesh. 4. Employment generation by utilising labour-intensive manufacturing processes. 5. Limited participation of SMEs in the expansion and diversification of exports because of changing consumer needs in the international market, the need for goods of higher quality and standards, and the need for more capital and skills.	• Import substitution. • Enhanced agricultural supply chain and rural development. • Job creation, especially in rural areas. • Expansion of production to meet internal consumer demand. • Restricted participation in international trade. • The utilisation of the country's resources for the welfare of its citizens.
Third Five-Year Plan (TFYP): 1985-1990	
1. Expansion of productive agricultural employment by upgrading agro-technologies in the SMEs and cottage industries. 2. Labour-intensive production methods for SMEs and agro-based industrialisation should increase agricultural output to support economic growth. 3. Satisfying the basic needs of citizens 4. Strengthening the balance of payment positions by establishing export-oriented and import-substitution industries.	• Rural development. • Enhanced agricultural supply chain and rural development. • Job creation, especially in rural areas. • Reduction of the balance of payment gap by reducing imports and increasing exports.
Fourth Five-Year Plan (FFYP): 1990-1995	
1. Agricultural development and self-reliance.. 2. Essential players in the export-led growth (ELG) strategy of the country. 3. Expansion of agro-based product exports. 4. Sub-contracting role in upstream of global readymade garments (RMG) supply chain.	• Rural development. • Expansion of agro-based product export. • Value addition in the global value chain of RMG. • Expansion of production, diversification and export in leather products.

Role of SMEs in the Economy	Expected Outcome
5. Productive role in the downstream of the leather industry of Bangladesh	
Fifth Five-Year Plan (5FYP): 1997-2002	
1. SMEs to provide self-employment through indigenous resources and technology. 2. SMEs are primary producers of export-oriented and import-substitute products. 3. Geographical dispersal of manufacturing by SMEs. 4. The Government adopted strategies for the speedy growth of SMEs and cottage industries to become effective organisations to make the export-led growth strategy successful.	• Faster economic and employment growth. • Development and use of entrepreneurial and innovative abilities of people. • Expansion and diversification of exports.
Sixth Five-Year Plan (6FYP): 2011-2015	
1. Enhanced role of SMEs in the economy for high productivity, dynamism, more investment, more outward orientation. 2. SMEs to reduce poverty, create employment and increase manufacturing capacity. 3. Formation of a vibrant SME sector and using them as a necessary economic entity for ELG strategy by taking full advantage of preferential trade regime for LDCs in the WTO agreements.	• Faster growth of the manufacturing sector. • Expansion and diversification of exports. • Higher rate of economic growth and prosperity.
Seventh Five-Year Plan (7FYP): 2015/16 – 2019/20	
1. SMEs are appropriate enterprises to expand and diversify exports under the liberal foreign trade regime. 2. Faster expansion of export by SMEs taking advantage of Bangladesh's Generalised System of Preferences (GSP) in 38 countries on its export items.	• Expansion and diversification of exports. • Higher rate of economic growth and prosperity.
Eighth Five-Year Plan (8FYP): 2020-2025	
1. Comparative advantage following (CAF) for export-led growth. 2. Comparative advantage defying (CAD) for self-reliance. 3. Enhancing productivity to face significant "preference during post-LDC graduation.	• Sustainable growth of SMEs during post-LDC graduation.

Source: Compiled from the eight five-year plan documents of the Government of the People's Republic of Bangladesh

Erosion of Trade Preferences

According to Article XI (2) of the World Trade Organization Agreement, LDCs obtained special and differential treatment. The Article provided exemptions to LDCs, stating, "The least-developed countries recognised as such by the United Nations will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities". Bangladesh, as an LDC, enjoys preferential treatment for the export of its agricultural and manufactured goods to developed countries. Preferential tariff treatment for the LDCs was adopted on 15 June 1999, following the decision-making procedures provided for in Articles IX and XII of the WTO to ensure their participation in the growth of international trade in proportion to the requirements of their economic development. It was decided that preferential tariff treatment must be granted on a generalised, non-reciprocal and non-discriminatory basis and should be designed to facilitate and promote trade of LDCs. However, it must not raise barriers or create undue difficulties for the trade of any other member. Furthermore, it should not create an obstacle to dropping or removing tariffs on a most-favoured nation (MFN) basis.

Bangladesh will be denied many preferential treatments upon graduating from LDCs. In particular, MFN tariff reductions coordinated through the WTO agreement could cause severe preference erosions. The MFN principle of the WTO agreement is about treating other countries equally. Generally, a WTO member may not discriminate among its trading partners. Therefore, giving someone a special favour, like a lower tariff on one of their products, is not allowed. If a country grants a special privilege to a country, it must do the same for every other member of the WTO. However, this MFN principle is not generally applied to LDCs to encourage them to create external trade. Preference erosion refers to the diminishing competitive advantage of certain exporters in foreign markets due to the withdrawal of preferential trade treatment (Alexandraki & Lankes, 2004). Since Bangladesh's comparative advantage in international trade is greatly dependent on preferential treatments, upon LDC graduation, it will experience the erosion of export trade because exports have to be sent on an MFN basis. In addition, some of the General Agreement on Tariffs and Trade (GATT) regulations may hinder Bangladesh's ability to support import substitution through tariff protections and discrimination against imported goods. Table 2 summarises relevant GATT rules applicable to countries acting under the MFN principle but relaxed for LDCs.

Table 2: Trade Erosion -Articles of the GATT Agreement and impacts on SMEs after Bangladesh's LDC graduation

GATT Article Number	The Rule for Countries Operating on MFN Principal	Impact on SMEs in Bangladesh After LDC Graduation
Article III: Internal Taxation	Must abide by the national treatment principle on internal taxation and regulation. Internal taxation on local and imported goods should be the same. No discrimination is allowed between local and imported goods.	Must abide by the national treatment principle on internal taxation and regulation. Internal taxation on local and imported goods should be the same. No discrimination is allowed between local and imported goods.
Article VIII: Fees and Formalities	No direct or indirect protection for domestic producers through fees and formalities connected with importation and exportation	No direct or indirect protection for domestic producers through fees and formalities connected with importation and exportation

GATT Article Number	The Rule for Countries Operating on MFN Principal	Impact on SMEs in Bangladesh After LDC Graduation
Article XI: Quantitative Restriction	Must abide by the general elimination of quantitative restrictions. Member cannot give privilege through quotas, import or export licenses, or other measures to domestic and foreign producers of a country to whom the MFN principle applies.	Must abide by the general elimination of quantitative restrictions. Member cannot give privilege through quotas, import or export licenses, or other measures to domestic and foreign producers of a country to whom the MFN principle applies.
Article XVI: Subsidy	Subsidies in the form of income or price support which increase or reduce exports or imports, directly or indirectly, are not allowed.	Subsidies in the form of income or price support which increase or reduce exports or imports, directly or indirectly, are not allowed.
Article XVIII: Infant Industry	Governmental assistance to economic development is allowed.	Governmental assistance to economic development is allowed.

Article III of the GATT limits the protection of national products against imported products. Domestic taxes, other charges, laws and regulations, and requirements should not apply to imported and domestic products in the way they can create protection for domestic products. This restriction is applicable for domestic sales, sales offers, purchases, transportation, distribution, or use of products, as well as domestic quantitative regulations necessitating the blend, processing, or product use in specified amounts or proportions. Internal taxes and other charges applied directly or indirectly on imported products should not be more than those applied to domestic products. Article VIII requires that any fees and charges, except those permitted in Article III, imposed by a country in connection with import or export shall equal the cost of services provided and shall not provide any direct or indirect protection for domestic products. Article XI limits all types of quantitative restrictions. Restriction through quotas, import or export licenses, or other measures are not allowed on import or export by a member country. However, this article allows quantitative restriction to some extent in case of emergencies, protection of human and plant health, for the standard of the product, or to reduce the temporary surplus of domestic products.

Article XVI described the regulations related to subsidies. Generally, subsidies in the form of income or price support which increase or reduce exports or imports, directly or indirectly, are not allowed. However, if a country needs subsidies, it can do so with the authorisation of the WTO after making sure that it does not harm the interests of any other member country. A member country may grant an export subsidy for primary products from its territory if that country does not obtain more than a fair share of the world market. Export subsidies are not permitted on products other than primary products if they reduce the country's product price in another country compared to the standard price in the world market. Article XVIII gives certain favours to countries with a lower standard of living and an early stage of economic development. The GATT gives developing countries the right to take protective or other import measures to secure economic growth. They are allowed for two specific purposes. First, uphold enough flexibility of tariff structure to afford the tariff protection necessary to establish a particular industry. It is often known as infant industry protection. Second, the implementation of quantitative restrictions for balance of payments purposes. This option could help developing countries maintain adequate foreign currency reserves by reducing essential imports. It will allow these countries to import the products necessary for economic development projects and to meet a strong demand for imports of essential products.

Withdrawal of Privileges for LDC Status in International Trade

In addition to the endowments in the GATT, some provisions of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), Agreement on Rules of Origin (RoO), Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, and Agreement on Technical Barriers to Trade (TBT) shall have an impact on SMEs after LDC graduation of Bangladesh. Table 3 presents the effects of the above agreements on SMEs after LDC graduation.

Article 65 of the TRIPS Agreement provides a one-year transition period to enable countries to apply the TRIPS provisions after joining the WTO. Developing country members have four years and a year as a transition period. Article 66 of the TRIPS Agreement gives the least-developed country members more flexibility in applying the agreement. This flexibility is granted because of the economic, financial and administrative constraints of LDCs and to reinforce their capacity to create a viable technological base for ten years from becoming a member of the WTO. Upon appropriately substantiated request by an LDC member, the TRIPS Council may extend that period further. The TRIPS Council has advised developed country members to motivate the organisations in their countries to transfer technology to LDCs to create a viable technology infrastructure in those countries. Article 67 requires developed countries to provide technical assistance to LDCs in developing laws and regulations on protecting, enforcing and preventing abuses of intellectual property. Following graduation from LDCs, Bangladesh will lose the benefits of Articles 65, 66 and 67 of the TRIPS Agreement.

Table 3: Impact of TRIPS, RoO, SPS and TBT on SMEs after Bangladesh's LDC graduation

Agreement	Article Number	Privileges in the Rules for LDC Countries	Impact on SMEs of Bangladesh After LDC Graduation
Agreement on TRIPS	Article 65	Transitional Arrangements	Must abide by all requirements of the TRIPS agreement. They must use the technology of other firms under license. Products produced through reverse engineering or copying cannot be exported.
	Article 66	Least-Developed Country Members	
	Article 67	Technical Cooperation	
Agreement on ROO	Article 1	Rules of Origin	Countries other than LDCs require at least 50 per cent local value addition to claim a product's economic rationality. Hence, SMEs with less local value addition than the minimum required may face higher tariff rates in the export market. As a result, they may not get GSP opportunities as well.
	Article 5	Information and Procedures for Modification and Introduction of New Rules of Origin	

Agreement	Article Number	Privileges in the Rules for LDC Countries	Impact on SMEs of Bangladesh After LDC Graduation
The Application of SPS Measures	Article 4	Equivalence	Must meet the SPS standard of the importing countries. They cannot expect technical and financial assistance from importing countries to acquire knowledge and processes for meeting higher SPS measures.
	Article 9	Technical assistance	
	Article 10	Special and differential treatment	
Agreement on TBT	Article 1	General Provisions	Technical and financial assistance from importing countries is unavailable. Therefore, one must follow the technical regulations of other countries. The requirement to meet other countries' technical regulations may increase production costs.
	Article 12	Special and Differential Treatment of Developing Country Members	

The ROO provisions will significantly impact SMEs in Bangladesh after LDC graduation. Rules of origin are the rules by which a country of origin is allocated to a product to establish its "economic nationality" (Brenton, 2013). Calculating tariffs on a product, quotas, trade remedies, and provision of generalised specialised treatments (GSP) depends on the rule of origin. The Agreement on ROO or other agreements did not provide any specific rule for determining the economic nationality of a product. Article 1(2) allows rules of origin to be used as non-preferential trade policy instruments. It includes MFN treatment, anti-dumping and countervailing duties, safeguard measures and origin marking requirements. However, the MFN principle is not strictly applicable to LDCs. Hence, Article 5 of the Agreement on ROO presents opportunities for member countries to grant preferential treatments to LDCs. The flexibility introduced into the ROO appeared to be a significant gain for LDCs. The 10th WTO ministerial conference in Nairobi granted preferential market access for LDCs' products if they contain 25% value addition from local sources (WTO, Preferential Rules of Origin for Least Developed Countries, 2015). The rule of origin for non-LDC countries is at least 50% value addition from local sources. A significant portion of manufactured export goods from Bangladesh is dependent on imported primary or intermediate inputs and used to have a value-added of less than 50%.

The rules of SPS measures are related to the health and hygiene standard of importing countries and has a significant direct and indirect impact on international trade – both direct and indirect. Article 5 makes it mandatory for the exporting country to accept the SPS measure of an importing country if that standard is higher and different from the exporting country and other importing countries. In case of failure to attain the SPS standard of importing country by exporting country, the importing country has the right to refuse entry of goods inside its territory. The SPS standard in developed countries is generally higher than in the LDC countries. The LDC often cannot achieve the higher SPS standards equivalent to developed countries for lack of technical skills and financial ability. This failure often becomes a critical barrier for exporting LDCs to developed countries. Hence, Article 9 states that developed importing countries should provide technical assistance to LDCs exporting to them so that LDCs can improve their SPS standard. If necessary, developed countries should help LDCs financially to upgrade SPS standards. Article 10 allows special and differential treatment for LDC countries because of the special needs of the

LDCs. The LDCs should get a phased introduction and longer time-frames for introducing new sanitary or phytosanitary measures. As a developing country, Bangladeshi SMEs will be deprived of preferential treatment in the SPS measures and may face non-tariff barriers in international trade.

Standard and technical regulations create barriers in international trade. This phenomenon is known as technical barriers to trade. The standard is the rules, guidelines or characteristics of products, related processes and production methods that are not mandatory. Technical regulation means a document that defines the characteristics of the products or their related production processes and methods, including the applicable administrative provisions, whose conformity is mandatory. Standard and technical regulations may also include or address exclusively the terminology, symbol, packaging, marking or labelling requirements applicable to a product, process or production method. Following Article 2 of the TBT Agreement, countries should use international standards to formulate their respective technical regulations and develop voluntary national standards when appropriate and possible. The TBT allows countries to adopt conformity assessment procedures not based primarily on internationally agreed guidelines. In addition, the TBT agreement includes a non-discrimination provision, incorporating MFN principles concerning technical regulations. TBT rules are mandatory for countries to which MFN applies. A country needs technical expertise and substantial financial investments to establish technical regulations and standards for its products. However, without a national technical regulation system and standards, a country faces barriers to market access. Assuming this bottleneck, Article 12 of the TBT agreement grants special and differential treatment to LDC members. It states that applying technical regulations, standards, and conformity assessment procedures should not create unnecessary obstacles to exports from LDC countries. Members should not expect LDCs to use international standards as the basis for their technical regulations or standards that are not tailored to their development, financial and business needs. Following Article 11, members shall provide technical assistance to LDC countries. Even being an LDC, Bangladesh's firms experience trade barriers because of failure to comply with the binding effects of TBT and SPS (Rahman M. , 2002). It is expected that it will increase after graduation from LDCs.

CHAPTER **4**

SMEs in International Trade and LDC-specific Privileges

Utilising the SMEs' full potential in international trade is critical for achieving faster economic growth and sustainable development goals (SDGs). Therefore, identifying the forces that can trigger or hold back SMEs' participation in international trade is crucial for unlocking the full potential of an economy. This chapter identifies the factors influencing SMEs' operations pre-LDC graduation and how those may switch during post-LDC graduation. It specifically focuses on the current situations, foreign market demands, and preferential treatments that SMEs are experiencing as firms from an LDC. This discussion is based on information from FGDs and KIIs.

SMEs in International Trade

SMEs' participation in international trade is essential for economic growth and the improvement of the quality of life of citizens. Therefore, Bangladesh's Export Policy 2021-2024 has set a target to scale export earnings from $45 billion to $80 billion by the end of 2024 through export diversification, particularly of non-traditional and labour-intensive product items, emphasising the role of SMEs[6]. The SME Policy 2019 of Bangladesh has formulated policies to bring export momentum, enhance trade capacity, consolidate Bangladesh's position in world trade, and make the country's economic activities sustainable by building a vibrant and resilient SME sector.[7]. SMEs have the potential to play an essential role because many of them earn 75% to 80% of their revenue from exports to other countries. In Bangladesh, SMEs account for about 80% of total enterprises, 40% per cent of the total employment, 22.5% of gross value added and 11.3% of total exports (Islam, 2020). Based on a sample of 75 firms, a recent study observes that 46.7% of firms export to more than ten countries (Faruk & Subudhi, 2022). It observes that 46.7% of firms export to more than ten countries. The ratio of firms exporting to Europe, North America, Asia, Africa and South America are 68%, 62.7%, 54.7%, 33.3% and 30.7%, respectively. Forty-one point three per cent (41.3%) of the firms export less than five products. About 83% of the firms export consumer goods, 9.3% export industrial goods and 8% export both categories. Among the SMEs active in export, 76% produce goods for international and local markets, and the rest produce goods only for export. The export intensities[8] 81%—100% for 36%, 21%—80% for 60%, and less than 20% for 4% of firms. Sixteen percent of the firms export directly, 24% use agents, whereas 60% use both export methods.

6 Export Policy Order 2021-2024, Ministry of Commerce, The Government of the Peoples Republic of Bangladesh. March 24, 2022.

7 SME Policy 2019, Ministry of Industries, The Government of the Peoples Republic of Bangladesh.

8 Export Intensity=(Average Export Sales ÷Total Sales)×100

Consumers of SME Products Abroad

The demand for SME products is increasing worldwide. Bangladeshi SMEs produce and export self-designed products to various foreign markets. Besides, they boost our national productivity and export earnings by partnering with global value chains (GVCs). Regarding the type and composition of foreign market demand for SME products, the following statement of an SME entrepreneur is relevant.

> "Although most of the SMEs established and operating in Bangladesh still focus on meeting the local demands, slowly they are moving towards meeting foreign markets' demands as they are getting order directly through participating in trade fairs or through intermediaries."

Furthermore, one of the FGD participants asked whether the customers of their products are only the Bangladeshi diaspora or whether their customers include foreign customers.

> "Going to a market in China, I discovered that Bangladeshi people are buying Hilsha fish, tea, and other Bangladeshi products much more than foreigners. Bangladeshis there actively seek local Bangladeshi products. Bangladeshis in foreign lands look for foodstuffs much more than showpieces, Jamdani sarees."

Bangladeshi diaspora living in foreign countries demand Bangladeshi SMEs' products connected to their heritage. However, they are not only customers of Bangladeshi goods. An owner of an SME working in the leather sector expressed her opinion regarding the demand for leather goods in the foreign market as follows,

> "In the leather industry, the primary buyers are foreigners, as original leather-made products are costly. Bangladeshis do not buy original leather products due to their high price tag."

This comment reflects that not only the Bangladeshi diaspora want our SME products, but foreigners also prefer SME products from Bangladesh. The SME sector, such as leather and jute, mainly targets foreign clients to develop their business in the global market. However, SME owners acknowledged that although they foresee the demand for their products in the world market, they could not grab this opportunity due to the voids in our business environment. For instance, one of the FGD participants expressed the disadvantaged position in using the opportunity in international trade as follows:

> "Becoming the world's manufacturing hub is a lucrative option for Bangladesh as China is moving away from that position due to increased income and political controversy. Nevertheless, in terms of standards, infrastructure, and skilled labour, we are not ready for that".

Weaknesses of SMEs in the Export Market

Participants in the FGD informed us that they face a disadvantaged position in international trade due to being less price competitive, a lack of assurance of required product quality, a lack of an established database, and a lack of trained or skilled employee acquisition and retention. For example, one of the participants expressed:

> "They (large firms) use import additives, buckles and others under bond license. This is how they do not have to pay taxes. They are making more profits but paying fewer taxes than me and supplying products cheaply. They are providing at a more competitive price because we do not have bond licenses".

The SME entrepreneurs identified three additional weaknesses of SMEs, i.e., lack of quality, lack of information about the source of raw materials, and lack of trained employees. Table 4 presents the comments of the entrepreneurs regarding quality, raw materials and skilled employees. SMEs often fail to maintain quality standards in international markets because they cannot produce as per the standard or collect raw materials of appropriate quality from the local market. In addition, no database or source is available in the country to know the actual price and source of raw materials imported from abroad. Furthermore, job switching of SME employees is widespread. SMEs are reluctant to create skilled employees because as soon as they train an employee, s/he migrates to another firm for a higher salary. Hence, the SMEs try to create loyal employees rather than skilled ones. As a result, they need more experienced workers and are often unable to produce goods according to the requirements of international markets. Although SMEs have massive potential in international trade, they must prepare to compete in the global market to harness the benefit of SME internationalisation.

Table 4: Comments of Entrepreneurs on SMEs Weaknesses

Barriers	Comments of Entrepreneurs
Quality	• "When we started to produce certified masks, we could not uphold the quality standard, and we lost the market". • "Some accessories required to make export quality products are not available in the local market in the required quality needed to be imported from other countries".
Source of Raw Materials	• "There is no circular by the Bangladesh Bank on how much raw materials are imported each month". • "Whenever the price of raw materials fluctuates in the local market, the local manufacturers are the sufferers of the situation".
Trained Employees	• "In small industries, we are hiring faithful employees who will stay, not capable ones who can deliver".

SMEs' Dependence on LDC-specific Privileges in Global Trade

Being a member of least developed countries (LDC), Bangladeshi SMEs enjoy many trade privileges. Under the LDC-specific SDT framework provisions, SMEs are free from some WTO obligations to enjoy enhanced commercial opportunities in global trade. Such preferences give SMEs in Bangladesh considerable competitive advantages in cross-border trade. Based on the data collected from KIIs and FGDs, we identify the provisions/areas where SMEs from Bangladesh currently get preferences under the WTO's "special and differential treatment", which will cease after graduation from LDC.

Infant industry protection

The infant industry can be protected by imposing a tariff on imports. Such protection is used in developing countries to justify trade protection (Xu, 2006). Bangladesh follows a top customs duty (CD), also known as "tariff peak", at a rate of 25 per cent since 2005, complemented by other responsibilities (e.g., supplementary and regulatory duties (SD, RD) on imports (Sattar, 2022). All these taxes, termed 'para-tariff', are used to bolster protection. Promising SME sectors with export potential, such as footwear and leather products, agro-food processing, electrical gadgets, plastics and ceramics, are safeguarded by high tariff protection, making domestic sales more lucrative and discouraging exports. Other emerging industries like air conditioners and refrigerators, bicycles, mobile phones and motorcycles, still considered as infant industries, must be supported with tariffs and other incentive measures available (Sattar, 2020). In a focus group discussion with SME owners, the participants were asked about the tariff protection they enjoy in protecting their firms' interests. One of the participants claimed that large firms mainly enjoy the benefits of such protection. She explained,

> "They import additives, buckles and others under bond license. This is how they (large firms) do not have to pay taxes. They are making more profits but paying fewer taxes than me and supplying products at a low cost".

Subsidy on Export Goods

The WTO Agreement on Subsidies and Countervailing Measures (SCM) regulates the use of subsidies and the actions a country can take to counter the effects of the unlawful use of subsidies. Under this provision, a country can seek assistance to withdraw the subsidy or remove its adverse effects in case of dispute settlement. Moreover, a country can charge countervailing duty on subsidised imports that are found to be hurting domestic producers. As an LDC, Bangladesh currently enjoys preferential procedures for providing subsidies and export incentives to SMEs or other infant industries. Under Article 27.2 and Annex VII(a) of the SCM Agreement, LDCs can use export subsidies. However, after graduation, export subsidies will be strictly prohibited. According to WTO, "The requirements to reduce budgetary outlays for export subsidies, and the quantities benefitting from such subsidies are 24 and 14 per cent respectively, as against the requirements for the developed countries to reduce by 36 and 21 per cent, respectively".

The entrepreneurs feel subsidies and other financial incentives are essential for their sustained success in international trade. Table 5 shows the opinions of the entrepreneurs and policymakers regarding financial incentives and competitive advantage in the export market. In the FGD, the entrepreneurs acknowledged that without subsidies, they might not sustain their success in international trade. Government officials and other experts confirmed the policy to ensure SMEs' success through financial incentives, though they knew it might not be possible in post-LDC graduation.

Table 5: Subsidies and Financial Incentives for Competitive Advantage of SMEs

Group	Comments/Opinion
SME Entrepre-neurs	• "We get a Duty Drawback, incentives, and a Bond license when we export goods. These facilities create cost advantages for us". • "The success story at the entrepreneur level is all for the direct cash subsidy from the Government".
Government Officials/ Experts	• "We are providing cash incentives to our 42 export sectors- more than 20% cash incentives to the jute sector". • "We are making these SME sectors sustainable by offering financial and cash incentives. As a result, they (SME sectors) will suffer a substantial economic downturn when financial incentives disappear after graduation from LDCs".

Source: Compiled from discussion in FGDs and KIIs

Intellectual Property (IP)

The TRIPS Agreement is the most comprehensive multilateral agreement on intellectual property (IP) to protect and trade in intellectual property across countries. This agreement frames the IP system regarding innovation, technology transfer, and public welfare. Under the TRIPS Agreement, copyright, trademarks, geographical indications, industrial design, patents, integrated circuits design, undisclosed information and trade secrets are reserved in international trade. As a member of LDCs, Bangladesh is currently exempt from maintaining TRIPS requirements. For example, Bangladesh is exempted from providing patent protection for pharmaceutical products until 1 June 2033 (Rahman & Bhattacharya, 2019). The SME sector has been enjoying LDC-specific TRIPS exemptions in exceptions when designing and producing their products.

SME owners must know the importance of intellectual property protection in international trade. Table 6 shows comments and perceptions of SME owners and opinions of experts received from FGDs and KIIs. In the FGD, SME owners said they sometimes copy the ideas from others without considering copyright, trademark and patent protection. In the case of their in-house designs, they also do not know how to protect their industrial design or copyright in the international market. One participant claimed it is difficult to register their patents, copyrights and industrial design as they produce various products. They added that, in some cases, designing a new product is a continuous process and protecting all the designs would not be cost-effective for them. They consider the registration process of patents, copyrights, industrial designs and trademarks very complex and unnecessary. They consider TRIPS requirements as hassles and feel they need more motivation to register their design and patents. However, after LDC graduation, SMEs must follow all the TRIPS requirements for producing and exporting their products in international trade. In an FGD with sector experts, the participants were asked about the current situation and how Bangladesh is preparing to face strict TRIPS requirements in boosting SME exports after graduation from LDC. However, they could not present any policy guidelines.

Table 6: Comments, Perceptions and Opinions Regarding Intellectual Property Protection in SMEs

Group	Comments/Perceptions/Opinion
SME Entrepreneurs	• "My designs are selling in Europe, but when the consumer orders my product, those design properties become his". • "When I send the products to them, they copy my products". • "When we approve a drawing on our website, we just say it is our original drawing, and you cannot copy it. In the local market, if someone copies our product, we cannot claim the originality of our product regarding the similarity of the product". • "I do not register designs because I continuously work on various types of products. If I want to register each item, it will quickly become time and resource-consuming. In addition, as an SME owner, working on various tasks simultaneously will add more complexity". • "I have been working for 17 years. We do not know how to register for intellectual property, and we have not been taught about the process". • "Getting approval for one document in our country is a hassle regarding these licenses and trademarks".

Group	Comments/Perceptions/Opinion
	• "They (the authorities) should make the whole process easier". • "The process of registering for intellectual property is not modernised. Still, we have to submit our design, logo, and trademark by printing them and attaching them, which can be subject to distortion". • "The registration is done through a personal mail account, which is risky for the applicants".
Government Officials/ Experts	• "We will lose the facilities of the TRIPS after the LDC graduation. As a result, we will not be able to supply products in the world market at the competitive prices we currently offer". • "We can use pirated software because we are LDC. We can produce pharmaceutical products by violating patents. After graduation, even if I produce a button with the designs of others, the design owner will claim his rights. Therefore, we must enforce fabric design, textile design, etc., in every sector. In this regard, we have to prepare these sectors".

Source: Compiled from discussion in FGDs and KIIs

Rule of Origin (RoO)

Under the "Rules of Origin" provision, the WTO uses criteria to define the economic nationality of the goods, precisely where a product was made. A set of laws, regulations and administrative decisions of general application are used to decide the country of origin of goods. Regarding LDCs, the WTO sets a preferential rule of origin. The WTO Secretariat may calculate the utilisation rates of preferential trade arrangements (PTAs) effected by WTO members for LDCs. According to the Rules of Origin Committee, "Very high rates of preference utilisation signal that exporters can meet origin requirements and effectively use preferential trade benefits. On the contrary, low levels of preference utilisation may indicate that preferential origin requirements cannot be met and that they could operate as a trade barrier". (WTO, 2016)

Preferential rules of origin are specified to allow LDCs to benefit from less restricted ROO and enable more comprehensive market access. As an LDC, Bangladesh uses preferential origin rules to export goods to the international market. After LDC graduation, rules of origin requirements should be followed strictly. However, SME owners need to be made aware of this provision of WTO. One of the participants in FGD expressed his understanding regarding this issue: "Even to say 'Made in Bangladesh', we need to ensure quality, price, and the outlook of the product, making it a complete package". This quote reveals that small business owners have a misleading view of the WTO rules of origin provisions because they overlooked the "value-added" requirement. They have limited knowledge about the procedure and the requirements they need to follow to comply with this provision.

Moreover, according to the expert opinions obtained from KIIs, Bangladesh will need help complying with the rules of origin requirements before graduation. However, it will be able to qualify for this provision gradually. For example, one of the key informants mentioned,

> "We have gained the value addition in knit products but not woven ones. A little progress has been possible on the denim side recently. However, other sectors (except wholly obtained) are in so much

trouble that it has become tough for us to add 30% domestic value in those sectors. Therefore, it becomes tougher to add 20% more value in the cumulation system (SAFTA agreement)**"**.

Sanitary and Phytosanitary (SPS) Requirements

The Agreement on Sanitary and Phytosanitary (SPS) Measures allows WTO members to set their standards on food safety and animal and plant health. Members are encouraged to utilise international standards, guidance and recommendations. However, they may adopt higher levels of protection if there is scientific justification or if they are based on an appropriate risk assessment. Under the SPS Agreement, WTO member countries can set their standard to use different control methods, inspection and approval procedures to verify compliance with adopted standards. Hence, it works as a trade barrier. To avoid this barrier, transparency regarding governments' SPS regulations is crucial. However, for LDCs and developing countries, WTO sets out preferential arrangements to ensure SPS requirements by encouraging importing countries to help LDCs prepare them to comply with SPS requirements.

This particular arrangement benefits Bangladesh as an LDC. However, after graduation, Bangladesh will not be exempt from complying with SPS measures. However, SME owners in Bangladesh face difficulties in getting the required documents to ensure the SPS requirements. SME owners in the FGD expressed their experiences to highlight the difficulties and complexities they face in getting the document to confirm SPS measures,

"The large number of documents required for a single certificate is simply a hassle. Many of us do not know why this SPS certificate is necessary. We got a certificate for fumigation from the Court and an SPS certificate from Farmgate, which does not even check my SPS and standards. Unless the SPS regulation is installed in our country's regulations, we cannot reduce this risk of cancellation by the importing country**"**.

She added that acquiring such certificates is costly to SME owners as they are small in capital base, and export earnings are insufficient to cover the cost. Further, she said,

"All the chemical testing labs in Bangladesh are private-owned, including – SGS Bangladesh (Société et al.), ITS Lab Test Bangladesh Ltd. (Intertek et al.), etc. We must pay much to private chemical testing laboratories, even on simple issues like pH and formaldehyde identification. Six to seven normal issues can be tested in any lab. The report will not justify any pass-fail, just parameters. For this parameter, I must pay USD 50 (according to international standards) or BDT 3,500 (BDT 4,000, including tax and VAT). However, I believe that if these tests are reported from BSTI or similar state-owned labs, the fee will be USD 10 or BDT 800-1,000**"**.

Exporting agriculture products from Bangladesh suffers from a lack of grading, standardisation, quality and proper packaging. Consequently, Bangladesh cannot attract foreign customers like our neighbouring countries, even though the quality of the product is better than theirs. One of the key informants added his opinions regarding this:

"Whereas India and Pakistan package their Mangos very well with proper standardisation and maintenance of colour, size and look, and send those for export, we send them in used cartons, leftovers from the Garments Industries, tie the whole thing with a rope haphazardly and send that as export**"**.

Technical Barriers to Trade (TBT)

The Agreement on Technical Barriers to Trade (TBT) ensures that all member states have technical regulations, standards and conformity assessment procedures to facilitate trade. Furthermore, the agreement confirms that the application of the agreement is non-discriminatory and does not create unnecessary trade obstacles. The TBT Agreement strongly persuades members to base their actions on international standards and maintain transparency provisions to create a predictable business environment. In addition, the WTO encourages other member countries to consider the particular development, finance and trade needs of LDCs. Consequently, the WTO relaxes this provision for developing countries and LDC as: "Developing country Members are not to be expected to use international standards as a basis for their technical regulations or standards, including test methods, which are not appropriate to their development, financial and trade needs" (WTO).

The SME sector of Bangladesh suffers in various areas of technical regulations, standards and conformity assessment procedures as set out by the WTO. Evidence from the FGD conducted with SME owners confirms such weaknesses in maintaining health and safety measures for their employees, minimum salary provision, and, in some cases, in failing to protect the environment. In addition, participants claimed they failed to comply with TBT measures due to systematic barriers, a lack of sufficient information, and non-cooperation from responsible authorities and institutions. Participants expressed their problems as follows:

1. "We do not even know whether any authority exists. So many entrepreneurs do not know that SME Foundation is there to support them".
2. "When I started producing masks, I had to apply for the same environment safety certificate twice, which I got approved after waiting five months."
3. "Unable to define the scale, they enlisted SME employee's pay scale on Tk 3,000 by defining it as unskilled employees who can work in agriculture and handicrafts".
4. "We also harvest the rainwater. Our factory has a system for it. However, it has a technical standard issue. It lacks minerals, and the nitrogen level is very high".

However, Bangladesh is exempted from maintaining the TBT regulations and requirements as an LDC. Instead, it gets technical assistance in the Agreement on SPS Measures, the Agreement on TBT, the Agreement on Implementation of Article VII (Customs Valuation) and the Agreement on TRIPs, either directly from developed importing countries or under the technical cooperation programme of the WTO Secretariat. Therefore, all such preferential assistance will have vanished after graduation from LDC status.

CHAPTER **5**

SWOT Matrix and Emerging Scenarios

Accession to the status of the developing country from the least developed country is a significant achievement for an LDC in world trading systems. However, this milestone and the development path disqualify the country's privileged status within the global trading system. As a result, the newly developed country is experiencing a new economic reality, as it needs to restructure many policies related to subsidies, tariffs, internal taxation, and the protection of business enterprises. Accordingly, firms engaged in export trade, import substitution, and other manufacturing and service activities must restructure their business processes. This research analysis anticipates the expected impact of Bangladesh's LDC graduation on SMEs through a gender-sensitive lens. For that reason, a SWOT matrix is crafted to generate insights into the expected operational scenario for SMEs during post LDC graduation. The data encompassing strengths (S), weaknesses (W), opportunities (O) and threats (T) is methodically gathered through FGDs, KIIs, document review and content analysis with a keen awareness of gender-related distinctions and considerations.

Strengths (S)

Strength is an internal attribute of a firm and generates its capacity to succeed in the market. It is interesting to observe that almost no research has been done to identify the strengths of Bangladeshi SMEs. All have discussed SMEs' benefits and potential contributions to the economy, but none have explained how and why SMEs perform in the market. Hence, this research tries to identify the strengths from discussions in two FGDs and KIIs. The strengths observed include a robust entrepreneurial mindset, the ability to create demand in the international market through self-efforts, understanding the global value chain and partnering, operating business at a low-profit margin in the international market, and developing Indigenous technologies for manufacturing and services.

SME owners have expressed their desire to manage their businesses in the face of every challenge. They are prepared to develop new management and technology skills to succeed in their operations. They informed their efforts about how they create demand for their products in international markets by travelling across countries. They routinely look at global value chains and identify potential niches where they can contribute by adding value. They then establish relationships with other participants and contribute to the value chain. The excellent performance of SMEs in the leather goods, craft and small component industries is an example of their successful participation in global value chains. SMEs frequently operate with lower profit margins to gain a comparative advantage in international trade.

They focus on the total profit of the volume of activity and do not attempt to maximise the profit for each production unit. Lower price and more demand are their business strategy. SMEs create new technologies and processes indigenously to produce their goods. They often do not have enough money to invest in modern equipment or to buy production processes protected by patents and copyrights. As a result, they are primarily dependent upon indigenous technologies and transformation processes. However, they are under-supported by government agencies in these initiatives.

Weaknesses (W)

The SMEs need some fundamental areas for improvement in their operations process that may disrupt their efforts to perform in international trade. It is realised from the discussion in the FGDs that the SME owners are unaware of changes in the system of privileges upon LDC graduation. Subsidies for export, lower tariffs in the export market, tariff protection on raw materials and import substitution, and low-value addition from local sources are necessary elements of the business process of Bangladeshi SMEs' success in international trade. Most SME owners are unaware these privileges will be unavailable after LDC graduation. They do not have adequate knowledge about intellectual property and its protection for success in international trade. In addition, some critical weaknesses of SMEs are poor quality due to lack of quality assurance, resource scarcity, lack of skilled workers, unavailability of modern technology, and lack of training in modern managerial skills among owners and managers (Alauddin & Chowdhury, 2015).

Bangladeshi SMEs set the price of their product for the international market, including subsidies and other price supports offered by the government. They also frequently obtain tariff cuts on raw materials used to produce goods for global and local markets. These rate protections reduce their production costs. Due to the Rule of Origin privilege, SMEs often benefit from low customs duties in importing countries. A local added value of 25% qualifies Bangladeshi products as 'Made in Bangladesh', whereas it is at least 50% for developing countries. Import-dependent exporting SMEs often have a local value-added below 50%. These small firms suffer from resource scarcity because of inadequate financing for investment and working capital (Rahman & Khondkar, 2020). SMEs are experiencing a shortage of skilled workers due to insufficient technical institutes in the country and the high turnover rate among workers. It is difficult for SMEs to find skilled workers with the required training. Accordingly, they often develop qualified workers through in-house training. After becoming skilled technicians, these employees leave the organisation for a higher salary in another organisation. Given the scarcity of resources, SMEs cannot afford modern technologies and trained professional managers. Consequently, they lack modern managerial expertise.

Bangladesh does not have domestic quality regulations and procedures. SMEs are, therefore, unfamiliar with quality assurance procedures and standards. In the absence of expertise in quality control procedures and the unavailability of Bangladesh's national quality standard, the quality of SME products is poor. Moreover, SMEs fail to achieve sanitary and phytosanitary standards in other countries without adequate testing facilities and clearly defined SPS measures.

Entrepreneurs need to learn how important intellectual property is to the global marketplace. They are not registering patents on their technology or production process. SMEs are not registering industrial designs and copyrights on their software or other creative products. The only intellectual property that small and medium-sized enterprises use is a trademark. They need to learn how valuable geographical indications are.

Opportunities (O)

LDC graduation implies that a country has to operate under the MFN principle in the global market. MFN treatment is considered as 'permanent normal trade relations' in the trade-related laws of the United States (Government of the United States of America, 2005). As a result, MFN countries take part in international trade on similar terms. The privileges specific to LDCs create trade diversions because they take away economic opportunities for others who may be more efficient producers. Thus, graduation from LDCs will make Bangladesh an equal partner with other WTO member countries, other than LDCs, in international trade systems. As a result, Bangladesh may get more investment from developed countries (Hossain , 2019). Because of intellectual property protection, SMEs can get state-of-the-art technology from the original owners. Establishing TBT and SPS standards will make it easier for SMEs to access the international marketplace.

Threats (T)

The common threats are discussed in earlier chapters in detail. After LDC graduation, Bangladesh will be deprived of greater market access opportunities, flexibility in implementing WTO rules, and assistance to strengthen its capacity to trade (WTO Secretariat and EIF, 2022). The threats include equal opportunity for local and foreign firms in the domestic market through no discrimination on internal taxation, discontinuation of export subsidies, tariff protection on raw material imports and local production, elimination of all quantitative restrictions, and no technical barriers to trade. In addition, there will be higher local value addition, intellectual property protection to foreign owners, strict rules of origin for tariffs, and adherence to SPS and TBT standards of other countries.

SWOT Matrix for SMEs

Figure 5 summarises SMEs' strengths, weaknesses, opportunities, and threats after Bangladesh's LDC graduation. Unfavourable factors have a strong impact on SMEs after graduation, as more factors are concentrated on that side. On the other hand, the opportunities available are scarce and probably

Figure 4: SWOT Matrix of SMEs upon LDC graduation from Bangladesh

	FAVOURABLE (helpful to achieving the objective)	**UNFAVOURABLE** (harmful to achieving the objective)
INTERNAL (Elements of Organization)	**STRENGTHS (S)** Robust entrepreurial mindset Self-developed international market demand Link with global value chain Low profit margin exports Indegenous technology	**WEAKNESSES (W)** Export subsidies Special low tariff in importing country Tariff protecction on raw materials Low value addition for rule of origin Low quality products Resource scarcity Lack of skilled workers Lack of modern technology lake of managerial skills
EXTERNAL (Elements of Environment)	**OPPORTUNITIES (O)** Equal status in international trade Technology transfer More foreign investment	**THREATS (T)** Equal international taxation for local and foreign firms in domestic market Restriction of export subsidies Restriction on tariff protection on raw materials Elemination of quantative restrictions Protechtion of intellectual property Strict rule of origin Adherence to SPS and TBT standards of importing countries

uncertain, as they are mostly assumptions. The following section discusses the emerging scenarios of Bangladesh's LDC graduation on SMEs.

Scenario Analysis

The scenario analysis matches internal factors against external factors to understand their interaction and consequent impacts. It will explain why and how the working environment of SMEs could change in Bangladesh after LDC graduation and show the direction of the changes.

Benefiting Scenario (S-O)

Bangladeshi SMEs have a robust entrepreneurial mindset and can create international market demand. They can link them with the global value chain. As equal status in the global economy, the strengths may help them win business opportunities. Upgradation of indigenous technology may be possible through technology transfer from other countries. The ability to operate at a low profit may make Bangladeshi SMEs competitive in international trade.

Misfortune Scenario (W-O)

SMEs' comparative advantage depends on the LDC-specific privileges. That is why, as an equal partner in the world economy, Bangladeshi SMEs will lose their comparative advantages. The export capacity of SMEs is going to decrease. They should face intense competition in the internal market due to restrictions on quantitative and tariff protection for import substitution industries. This weakness may attract more investment from large multinationals in Bangladesh and lay off local SMEs. The lack of modern technology may encourage foreign patent holders to set up production facilities in Bangladesh and beat local SMEs in market competition. However, the lack of skilled labour will disincentive foreign investment. This will increase the capital costs for the country because they have to create human resources for their companies. As a result, uncertainty exists regarding large-scale foreign direct investment (FDI) without qualified human resources.

Obstacle Scenario (S-T)

A robust entrepreneurial mindset, the ability to create demand in the international market, and the willingness to export at a low profit margin may be positive forces for SMEs to overcome the threats of removing LDC-specific privileges. However, this ability may meet sufficient conditions to be successful during post-LDC graduation international trade, but it does not meet the necessary conditions. SMEs must develop additional capacities to maintain their success in international trade. Restrictions on export subsidies must increase production costs, and exporting at a minimal profit margin should be problematic. Furthermore, restrictions on tariff protection of raw materials and import substitution production will increase production costs and reduce competitiveness in the domestic market. It will also limit the chances of SMEs surviving on trade in the internal market. Hence, the reduction in profit due to the elimination of subsidies and the increase in cost due to the elimination of tariffs and quantitative protection for domestic firms may risk the sustainability of SMEs. Furthermore, strict adherence requirements to importing countries' SPS measures and TBT standards may make the link to the global value chain vulnerable. If designed by reverse engineering or other copying technologies, indigenous technologies can be subject to patent infringement restrictions.

Adverse Situation (W-T)

The SMEs of Bangladesh are blessed with government endowments of export subsidies, long-term infant industry protection, quantitative restrictions, tax waivers on imported raw materials, and other financial incentives and policy supports. Because of cost advantages, these state endowments generate inefficiency in the firms' operations (Murray & Walter, 1975). These inefficiencies give SMEs a comparative advantage in Bangladesh's international trade. Following LDC graduation, the government will face restrictions in the international trading system in providing these endowments to SMEs. Withdrawing subsidies, tariff support measures, quantitative protection, and other financial incentives for domestic producers could harm SMEs' performance in international trade. The government did not develop a national quality policy, did not provide satisfactory support systems and could not establish a national quality certification authority. Consequently, SMEs in Bangladesh have been unable to ensure the quality of their products and services in the local and international markets. Technical regulations, standards, and conformity assessment procedures for quality assurance are mandatory for a country that trades internationally on an MFN basis. There is also no effective SPS certification system in Bangladesh. The lack of TBT and SPS standards will reduce market access for Bangladeshi products worldwide. Protection of intellectual property rights can create another barrier for SMEs unaware of intellectual property infringement. Using pirated technologies and software can lead to large fines and even sanctions for SMEs. Industrial design, copyright, patent and trademark registrations are essential for the success of international trade transactions. Most entrepreneurs are unfamiliar with or reluctant to use these procedures as they have financial and technical implications.

Modernisation of technology, protection of intellectual property, creation of a quality assurance system and compliance with SPS and TBT standards of importing countries require investment and a skilled workforce. However, SMEs face a shortage of financial and qualified human resources. It can, therefore, be difficult for SMEs to continue to succeed in international trade after obtaining the LDC graduation. Moreover, many SMEs, especially those engaged in fabrication or assembly processes using imported raw materials, may lose economic nationality for their products in case of failure to at least 50 per cent value addition from domestic sources. In these situations, they can face higher tariffs in international trade for re-exported goods.

Emerging Scenario of Post-LDC Graduation for SMEs

Compared to the current business process, the post-graduation international business environment may not be very favourable for SMEs. Bangladesh is being touted as an export-led manufacturing miracle for its success in ready-made garments (RMG) exports, now second only to China, which helped propel the country to lower middle-income status in 2015. A recent study by the World Bank (WB) suggests that productivity improvement, diversification of the export base, strengthening innovations, technology adoption, capabilities of managers and workers, connectivity to international markets, and complementary markets and institutions are essential for sustained export-led growth of Bangladesh (Gu, Nayyar, & Sharma, 2021). The determinants of future success identified in the World Bank report for Export Led Growth (ELD) ELDs are concerns in this paper. The culture of cost reduction based on government financial support and favourable quantitative restrictions continues to undermine the incentive to increase productivity. Being indifferent to protecting the IP of others and the individual makes innovation and adoption of technology challenging. The lack of an effective industrial human resource development system limits the supply of competent managers and workers. As a result, the impact of LDC graduation in Bangladesh on SMEs could harm the sustainable success of SMEs in international trade. Consequently, it is now possible to assume and explain the three relevant issues related to the expected negative impact of LDC graduation on SMEs – why, how and what.

Why can LDC graduation harm SMEs?

In Bangladesh, SMEs have improved their international trade and domestic market performance based on the privileges accorded to the LDCs by the WTO. The government supported them with subsidies and other safeguards for quick success without trying to make them competitive under the MFN principle. Therefore, after the imminent removal of privileges, SMEs will face severe and hostile impacts on international trade and domestic operations.

How can LDC graduation harm SMEs?

SMEs will lose their comparative advantage in international trade and their dominant position in the internal market. Higher production costs, lower profits or losses from sales, and reduced market access with poor-quality products may reduce their competitive advantage in international trade. Many SMEs may have to shut down without active government support to upgrade their capabilities quickly.

What could be a scenario that could harm SMEs?

The Bangladesh government's development plans saw SMEs as key economic agents for export expansion and diversification, job creation, acceleration of economic growth and self-sufficiency. However, SMEs may not function as expected after LDC graduation. As a result, the volume of exports from Bangladesh may decline. Inefficient SMEs can encourage large multinational and local companies to invest in Bangladesh and dominate the internal market. Moreover, the failure of SMEs can increase imports and dependency on foreign goods.

Gender analysis

Women and other forms of gender orientation-owned SMEs in Bangladesh encounter a nuanced landscape of challenges and opportunities as the country undergoes LDC graduation. The positive aspect includes the potential to access a more competitive global market, providing women entrepreneurs with opportunities to expand and diversify their businesses. However, the flip side involves heightened competition and alterations in trade agreements, potentially placing additional barriers on women-owned SMEs' access to resources, markets, and opportunities.

Recognising women entrepreneurs' unique challenges, a targeted policy approach becomes imperative. Empowering women through specialised training, financial support, and mentorship programs becomes crucial in overcoming gender-specific hurdles in the business environment. Inclusive policies emphasising gender equality contribute to establishing a climate where women actively participate in decision-making processes and access resources on par with their male counterparts.

Furthermore, collaborative efforts with international organisations and businesses committed to gender diversity underscore a dedication to nurturing a supportive ecosystem for women-owned SMEs. This collaboration can alleviate gender-based disparities, fostering a more equitable playing field for women entrepreneurs during and after the LDC graduation process.

In conclusion, Bangladesh's LDC graduation unfolds both opportunities and challenges for women-owned SMEs. A gender-focused policy approach emerges as indispensable, ensuring that women entrepreneurs can effectively leverage opportunities and surmount challenges in an inclusive and equitable manner.

CHAPTER **6**

Effect of LDC Graduation on other Countries and Policy for Smooth Transition for Bangladesh

Graduating from the LDC status has challenges and opportunities, like any other changes in systems and organisations. The impact on global supply chains, especially in sectors where Bangladesh plays a significant role, could influence international trade patterns. The WTO assumes that LDC graduation will have varying impacts on countries depending on their use of flexibility in implementing WTO rules and assistance to strengthen their capacity to trade and appropriate domestic policies in place (WTO Secretariat and EIF, 2022). Hence, seeing how LDC graduation impacted other countries may be worthwhile.

Countries that Achieved LDC Graduation Prior to Bangladesh

Botswana graduated from the LDC status in 1994 and the Maldives in 2011. These countries did not depend on manufacturing sectors for their economic growth. They did not use privileges granted to LDCs. As a result, both countries did not experience any significant harm to their economy and international trade (Zada, Zada, & Yousofi, 2019). The Maldives and Botswana have made substantial progress toward graduation through improved human resources. They also focused on tourism and resource-based activities such as forestry, mining or hydroelectricity generation. Other countries that graduated are Cape Verde (2007), Samoa (2014) and Equatorial Guinea (2017). These small countries primarily achieved economic growth through tourism and agricultural outputs. They also did not use LDC-specific privileges. Hence, after graduation, the impact was minimal. However, the effect of graduation could be substantial for countries with larger manufacturing sectors. For example, 90 per cent of Bangladesh's export items come from the manufacturing sector. As a result, Bangladesh will face significant trade barriers after graduation because it uses LDC privileges meaningfully and extensively (Kimberly, 2019). As the SMEs in Bangladesh are engaged in manufacturing, the impact on the operation of SMEs may be acute.

Policy Recommendations

Bangladesh's LDC graduation will create many challenges and few opportunities for SMEs. The challenges to SMEs emerge from their market inefficiency. The government has used the LDC privileges extensively to improve the performance of SMEs and other industries in international trade. However, subsidies and protection reduce the efficiency of firms and make them vulnerable to market competition. Therefore, the government should gradually discontinue its short-term and short-sighted policy intervention to support SMEs by providing price and tariff support. Hence, long-term intervention is expected from government agencies to create capabilities in SMEs so that they can compete in the global market under the MFN principle. Policy recommendations for sustainability and the long-run performance of SMEs are discussed below.

1. SMEs grapple with a crucial shortage of skilled workers, demanding urgent government intervention. To cultivate a skilled workforce, the government should invest in tailored human resource development, upgrading existing training institutes and establishing new ones if needed. Following successful models like Vietnam, this approach focuses on creating a skilled workforce, which is crucial for sustained economic growth. Simultaneously, upgrading university curricula to meet SME requirements and targeted training programs for owners and managers in technology and production management are essential. Addressing the skills gap among managerial and technical personnel is paramount for SMEs to enhance productivity and competitiveness.

   The government should integrate Technical and Vocational Education and Training (TVET) into the education system and promote workplace apprenticeship initiatives. This practical approach aligns graduates' skills with SME needs, fostering a competent workforce. Encouraging collaborations between educational institutions, industry stakeholders, and SMEs is crucial for seamless implementation, ensuring students transition into the workforce effectively.

   This comprehensive strategy not only bridges the skills gap but also contributes significantly to SME growth and sustainability, aligning with the evolving demands of the economy.

2. An adequate quantity of laboratories should be established to provide SMEs with easy-to-access and inexpensive testing procedures for SPS Measures-related services. Simultaneously, a national SPS standard must be developed. Recognising that individuals associated with SMEs often need more awareness of the importance of intellectual property, infringements, and registration procedures, the government should establish an agency to support SMEs in intellectual property-related services. Furthermore, the government should promptly reduce export subsidies and other financial incentives to encourage SMEs to enhance production efficiency and reduce costs. Rationalising tariff reductions on imported raw materials and addressing quantitative restrictions will improve the internal market's allocative efficiency.

3. More research should be conducted on the potential impacts of LDC graduation. Additionally, all future policies, strategies, and interventions for developing the SME sector must be evidence-based. The rules of origin will become stricter after LDC graduation. Many SMEs may only qualify as original Bangladeshi producers with increased local value addition. Therefore, the government should organise research and development (R&D) programs to enhance local value addition.

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The Small & Medium Enterprise Foundation, widely known as the SME Foundation, was established by the government of Bangladesh through the Ministry of Industries as an apex institution for SME development in the country. The major activities of the SME Foundation are the implementation of SME Policy Strategies adopted by the government, policy advocacy and research to design the intervention plan for the growth of SMEs, facilitating financial support for SMEs, providing skill development and capacity building supports, facilitating adaptation with appropriate technologies and access to ICT, providing business support services and market linkage for SMEs, Women entrepreneurship development, SME Cluster development, etc.