Roundtable Discussion Report

# LDC Graduation – The Prospect of **Bangladesh's Ready Made Garment (RMG) Sector**

17 March 2025 | 2:00pm - 4:00pm

H&M

EuroCham BANGLADESH

# Introduction:

This was a closed-door meeting conducted under the Chatham House Rule. This roundtable provided an opportunity for representatives from the Government, UN Agencies, Development Partners, Think Tanks, Brands, Associations, and Manufacturers to share their insights and opinions regarding the country's readiness for graduation, the need for GSP+, the automatic safeguards, and recommendations on actions for a smooth transition.

The event was moderated by Mr. Ziaur Rahman, Regional Country Manager, Production, H&M Group, who initiated with welcome remarks. This was followed by a keynote presentation by Ms. Sarah Negro, Head of Public Affairs Supply Chain at H&M Group, who set the context for the discussion regarding LDC graduation, GSP and automatic safeguards clause. The floor was then opened for the participants for the roundtable discussion.

## Participant Profile:

### Government Officials

- Khandaker Masudul Alam (Ambassador of Bangladesh to the EU and Belgium)
- Anwar Hossain (Vice Chairman, EPB & Administrator, BGMEA)

### UN Agencies:

- Tuomo Poutiainen (Country Director, ILO Bangladesh),
- Owais Parray (Senior Economic Advisor, UNDP Bangladesh),
- Mehruna Chowdhury (Business and Human Rights Specialist, UNDP Bangladesh)

### Development Partners

- Dr. Bernd Spanier (Deputy Head, EU Delegation to Bangladesh)

### Global Brands:

- Javier Carlos Santonja Olcina (Regional Head, Inditex)
- Achutha Kumar (Lead, C&A)
- Brunhilde Descamps (Country Manager, Auchan South Asia)
- Sarah Negro (Global Public Affair Manager, H&M)
- Nesli Al Mufti, Public Affairs Lead, H&M Group

### Associations/Manufacturers

- Kihak Sung (Chairman, Youngone Corporation)
- Rubana Huq (Vice Chancellor, Asian University for Women & Former President, BGMEA)
- Miran Ali (Managing Director, Bitopi Group & Former Vice President, BGMEA)
- Nuria Lopez (Managing Director, Zalo Knitting Limited & Chairperson, EuroCham Bangladesh)
- Mostafiz Uddin (Founder & CEO, Bangladesh Apparel Exchange & Managing Director, Denim Expert Limited)

### Think Tanks

- Farooq Sobhan (Distinguished Fellow & Board Member, Bangladesh Enterprise Institute)
- Dr. Debapriya Bhattacharya (Member, CPD Board of Trustees and Distinguished Fellow, CPD)
- Prof. Mostafizur Rahman (Distinguished Fellow, CPD), Pallavi Roy (Professor in Political Economy, SOAS, University of London)
- Pallavi Roy (Connected via Microsoft teams), Professor in Political Economy Centre for International Studies and Diplomacy, SOAS, University of London

# Discussion:

On LDC graduation, there were constructive discussions regarding the country's readiness and timing of graduation, which highlighted positive and negative consequences in both scenarios - postponement and graduation in 2026.

**Some points made in support of postponement include:**

- Timing:

  Participants highlighted challenges that have arisen in recent times, including political instability, economic slowdown, geopolitical dynamics, energy challenges, higher cost of doing business, low attraction for FDI, and upcoming elections. They expressed concerns over Bangladesh already navigating several pressing challenges.

- Impact on Industry:

  Participants raised concerns over the impact on the RMG industry, especially the labor force, which has been predominantly female. As exports still rely significantly on the RMG industry, some participants anticipate a catastrophic impact on the country's economy.

- Global Competitiveness:

  Bangladesh will risk losing its price competitiveness as compared with Vietnam, which has secured a free trade agreement with the EU. Meanwhile, Bangladesh remains behind in FTA negotiations.

- Lack of Tangible Steps Taken for Transition:

  Some participants claimed that the lack of initiatives aimed at preparing the country and the industry makes it necessary to postpone the graduation. Some examples included insufficient steps taken towards strengthening the supply chain for the production of higher-value products.

**On the flip side, there were also constructive arguments in favor of graduation in 2026:**

- Graduation Criteria:

  From a data point of view, some participants highlighted that Bangladesh is well ahead of the graduation threshold in all 3 of the criteria, including Gross National Income (GNI) per capita, Human Assets Index (HAI), and Economic and Environmental Vulnerability Index (EVI).

- Positive Outlook:

  Some participants argued that the 3-year transition period will act as a catalyst, which will result in the industry responding to changes more decisively, as has been seen historically in times such as Covid-19 and the global financial crisis in 2008.

- Postponement Would only Delay the Problem:

  With the world heading towards stricter regulations, specifically through legislations from the EU, labor reforms and carbon emission targets will in any way become a requirement, irrespective of the graduation timeline.

**Overall, there was a general agreement regarding the need for a proper strategic roadmap for transition, regardless of when the country graduates. Some of the points include:**

- Transition Roadmap:

  Participants echoed the need for a strategic roadmap, stating that the interim government should set up the grounds for transition, which the elected government must implement.

- Financial Assistance:

  Highlighting the high cost of the reform initiatives, participants expressed the need for proper financial assistance.

- Developments within Industry:

  Participants shared their views on the need for developments within the industry, such as manufacturing high-end products and man-made fabrics, and infrastructural developments, such as capacity building of customs to streamline processes and reduce lead times.

- International Support:

  Some participants shared the need for benchmarking support on changes required for smooth transition, particularly from international organizations like the UN.

**The discussion then shifted towards the need for GSP+, Bangladesh's eligibility, and the automatic safeguard clauses. Regarding the need for GSP+, there was a consensus among the participants that it is required to retain the industry's competitiveness. However, the main concern was the country's eligibility to obtain GSP+. The following points were highlighted:**

- Labor Reform is Key:

  For long, Bangladesh has had an ongoing complaint filed against it for violation of ILO conventions under freedom of association, collective bargaining, and labor inspection. In the 353rd ILO Governing Body (GB) meeting held in Geneva in March 2025, Bangladesh showcased significant progress in line with the Bangladesh Labor Act (BLA) amendment, including trade union formation, increased penalties for child and unfair labor practices, and provisions on collective bargaining. However, the proper implementation and continuation of labor reforms even after the elected government comes to power remains a crucial concern. The labor law amendment, proper minimum wage setting mechanism, and the nationalization of the social protection scheme, which is currently in the form of an Employment Injury Scheme (EIS) Pilot set to transition into a legal reform by 2027, were discussed to be key areas of work. Some participants highlighted that the labor reform is not only important for GSP+, rather it is more urgently required to retain the Everything but Arms (EBA) benefit throughout the transition period. Moreover, it was highlighted that the LDC graduation will impact not only exports to the EU but also to other markets like the UK, China, and Canada. The labor reform is necessary to secure other schemes offering post-graduation preferential treatment. With all being said, the government needs to make sufficient progress in labor reforms by the end of 2025 since the ILO Governing Body is set to review the country once again in March 2026.

- Diversification:

  With Bangladesh still being heavily reliant on the RMG industry, the country needs to work towards diversifying its exports and strengthening other industries going forward. The EU has formally requested Bangladesh to diversify its economy however, the country is yet to respond with a substantial way forward.

**To enable the country to fully utilize the benefits of GSP+, participants highlighted some key steps to be taken**:

- Rules of Origin:

  Since double transformation products benefit from zero-duty under GSP+, some highlighted the need to strengthen backward linkage by manufacturing fabric and sourcing raw materials from within the country.

- Automatic Safeguards Clause:

  Some participants urged the government to start lobbying in Brussels for adjustments in the threshold for the automatic safeguards and showcase the consequences it would have on job loss in the country.

## Common Outcomes & Way Forward

**The key takeaways from the discussion included**:

- Regardless of the timing of the graduation, a timely labor reform is crucial for the country to not only secure eligibility for the GSP+, but for several other reasons including- securing EBA during the 3-year transition period, securing trade benefits in other countries including UK, China and Canada, and ensuring market access to the EU.
- For a smooth transition, it is crucial for the country to prepare itself with a strategic roadmap for the 3-year transition period.
- Bangladesh requires the GSP+ to retain global competitiveness.
- It is important for the Bangladesh government to lobby in Brussels for the adjustments in the automatic safeguards clause and explain the catastrophic impact it will have on the country, primarily in terms of huge job losses.

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