

Policy Paper Series

STRENGTHENING TRADE COMPETITIVENESS: BANGLADESH'S STRATEGY FOR EFFECTIVE FTAs AND EPAs

Selim Raihan



Policy Paper Series

Strengthening Trade Competitiveness: Bangladesh's Strategy for Effective FTAs and EPAs

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Abstract

Bangladesh's graduation from the Least Developed Country status is reflective of a significant transformation in its trade and development trajectory. The ready-made garments industry has been the backbone of export growth in the country for years, supported by preferential market access such as that granted by the European Union. This practice, however, is now faltering. A gradual erosion of trade advantages combined with a wave of new trade agreements between rival economies is changing the international trading landscape. As a result, Bangladesh faces an essential question: how can it safeguard and build on what has become its comparative advantage in trade amid fading preferences.

This paper argues that FTAs and EPAs are, hence, critical policy apparatus for navigating the transition but not a panacea. Their effectiveness depends on broader domestic reforms, institutional capacities, and strategic choices. The following analysis begins with a discussion of the changing global trade landscape and its implications - potential threats, including preference erosion, diversion of trade, and exclusion from new trade regimes. The assessment continues with the evaluation of existing and prospective FTAs and EPAs that Bangladesh is engaged in, including an EPA with major partners such as Japan and some others, which are still in the negotiation stage, particularly at the regional and plurilateral levels.

The paper identifies several critical challenges. Among these challenges are limited negotiating power, insufficient trade defense mechanisms, regulatory and administrative barriers, and structural vulnerabilities such as export concentration and dependence on import tariffs. If these shortcomings are not corrected, the benefits of trade agreements will likely be muted.

The paper offers a comprehensive strategic framework, divided into four interlinked pillars with wider guidance for action needed to answer these challenges. The first deals with the selection and ranking of trade partners on the grounds of economic robustness and strategic importance. The second focuses on building institutional capacity, including a negotiating unit and better trade defence systems. The third reinforces the need for domestic reforms, especially with respect to tariff rationalisation, customs modernisation, and export diversification. The fourth emphasizes the importance of proactive trade diplomacy, including through participation in multilateral forums and other complementary economic frameworks.

In closing, the paper provides a range of pragmatic policy orientations, starting with a National FTA Roadmap containing clear milestones and consistent monitoring. It emphasizes the need for trade policy to be embedded within a wider strategy across government and the economy as a whole. Bangladesh will ultimately use FTAs and EPAs as tools of sustainable and inclusive growth if it successfully strikes a balance between external leg and internal preparedness in trade engagement.

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1. Introduction

In the last three decades, Bangladesh has emerged as one of the best cases of export-driven growth in developing countries. Since starting from very low levels in the 1980s, the country has developed a globally competitive manufacturing base, largely led by the ready-made garments (RMG) industry. Today, RMG makes up over four-fifths of total earnings from exports. It has transformed the economy, created millions of jobs, and helped to be at the heart of poverty alleviation in addition to women's empowerment in the labour market. Few sectors in any developing country have delivered such scale and impact in such a relatively short span of time.

Yet, this success story has always rested on a narrow foundation. The export basket is still extremely concentrated in products and markets. Shipments are led by a select few apparel items, and the European Union and the United States still account for most exports. More crucially, Bangladesh's export competitiveness has been closely linked to preferential market access. Schemes such as the European Union's Everything But Arms (EBA) initiative and duty-free market access in countries like the United Kingdom, Canada, Australia, Japan, India, and China have allowed Bangladeshi exports to enter major markets with the least tariff burden. This preferential treatment has acted, in effect, as a powerful cushion. It has helped offset structural weaknesses in productivity, logistics, and compliance costs that might otherwise have constrained export performance.

In other words, Bangladesh's export success has not been driven solely by cost competitiveness or technological upgrading. It has also been enabled by a favourable global trade regime. That regime, however, is now beginning to shift. And with that shift, the underlying vulnerabilities of the current model are becoming harder to ignore.

The Problem: A Looming Structural Break

The most immediate challenge arises from Bangladesh's impending graduation from the group of Least Developed Countries, scheduled for 2026. Graduation marks an important milestone. It signals progress, resilience, and growing economic maturity. At the same time, it introduces a new set of risks that are both structural and immediate.

One of the most significant implications is the gradual erosion of duty-free, quota-free access in major export markets. Some transition arrangements may be possible, but usually they are limited in time and scope. Bangladeshi exports will now be subject to tariffs, which have not been applied so far. Even small increases in tariffs can make a big difference in very competitive environments, such as RMG, where it has thin margins, and buyers are highly sensitive to price.

At the same time, the wider global trade backdrop is growing more uncertain and, in some ways, less predictable. That was clearly demonstrated in the most recent trade policy shifts in the United States. The reassertion of unilateral instruments, such as reciprocal tariffs or Section 301 investigations, now being applied to a wide range of economies, including Bangladesh, also suggests the collapse of rules-based multilateralism, and with it a move toward discretionary and often politically motivated trade enforcement. These steps risk further tariffs being introduced and greater uncertainty for exporters, particularly in sectors such as garments, already under pressure. More broadly, these

types of actions undermine the credibility and stability of established global trade rules and foster a fragmented landscape in which access to markets cannot be taken for granted. Simultaneously, geopolitical instability - particularly the ongoing crisis in the Middle East - adds to volatility in energy markets around the world and disruptions in shipping routes. For a country like Bangladesh, which relies on imported energy and is embedded in global supply chains, those developments mean higher input costs, increased freight charges, and growing uncertainty about export logistics. All of this, together, suggests that Bangladesh is heading not just for a post-preference world but for a far more volatile and contested international trading system in which not only market access but cost structures themselves are vulnerable to sudden and external shock.

This is where the idea of a “cliff-edge” becomes particularly relevant. The shift is not entirely abrupt, but neither is it smooth. Preferences that once provided a competitive edge will diminish, and Bangladesh will find itself competing on more equal, and often less favourable, terms. The adjustment required is therefore not marginal. It is structural. At the same time, the global trade environment is becoming more crowded and more competitive. Countries like India, Vietnam, and others are aggressively negotiating and signing free trade deals with major markets. These deals are more than tariffs. They typically contain provisions on investment, services, standards, and supply chains that deepen economic integration and promote competitiveness. The Bangladeshi exporters, therefore, end up with a double whammy. They miss out on preferential access while competitors get new, preferential entry into the same markets.

This asymmetry matters. It reshapes relative competitiveness. It also increases the risk of trade diversion, where buyers move sourcing to countries with more favorable tariff treatment and predictable trade regimes. In such a context, relying on past advantages is no longer sufficient. The policy response must not only be forward-looking, deliberate, and coherent, but also be based on a clear understanding of the shifting trade landscape.

Thesis Statement: Beyond Signing Agreements

In this evolving environment, there is a growing consensus that Bangladesh must actively pursue free trade agreements (FTAs) and economic partnership agreements (EPAs) as part of its post-graduation strategy. Such agreements can help restore, at least partially, the market access advantages that will be lost with LDC graduation. Besides stimulating broader diversification and bringing investment, they could help integrate Bangladesh further into regional and global value chains.

This strategy alone, however, is not necessarily effective. Simply signing agreements is not enough. The question is whether Bangladesh will have the capacity to negotiate, implement, and utilize such deals in a manner that brings tangible economic benefit.

Thus, a good FTA or EPA should be well-calibrated. Making such a deal requires navigating offensive interests like securing more market access for exports and defensive concerns, like protecting sensitive sectors. It requires technical expertise in topics from tariff schedules to rules of origin, from commitments on services to dispute settlement mechanisms. It also demands a clear relationship between trade policy and domestic industrial strategy.

More fundamentally, the gains from trade agreements depend on conditions at home. Without improvements in infrastructure, logistics, and trade facilitation, preferential access is likely to remain underutilised. New market opportunities will not lead to actual export growth without diversification of the export basket. And in the absence of institutional coordination and capacity, implementation of complex agreements can be piecemeal and ineffective.

This paper, therefore, advances a central argument. Bangladesh's strategy on FTAs and EPAs must go beyond the act of negotiation and signature. It needs to be embedded into a larger framework of domestic reform, institutional strengthening, and structural transformation. Only then can trade agreements be tools for competitiveness, not just symbolic policy gestures.

Scope and Structure of the Paper

The rest of this paper is structured accordingly, reflecting this broader perspective. The following section discusses the changing new global trade landscape and its implications for Bangladesh, paying special attention to transforming the rules of the game, that is, evolving trade rules, regional integration dynamics, alongside how standards and sustainability requirements are increasingly determining exports.

Section three examines the current status of Bangladesh's FTA and EPA negotiations. It first takes stock of ongoing initiatives, identifies key partners, and evaluates the progress made so far. This is followed by an assessment of welfare implications for Bangladesh from potential FTA/EPAs using a global general equilibrium model, namely the GTAP model, in Section four. Section five provides a detailed discussion of critical challenges and capacity gaps in section four, where the focus turns to institutional weaknesses, coordination failures, and technical constraints that may limit the effectiveness of trade agreements.

Drawing on the analysis, Section six advances a framework that could be adopted to strategically design and implement effective FTAs and EPAs. It lists core principles, priorities, and sequencing that should guide Bangladesh's response in the years ahead. Section seven applies this framework to create a series of actionable recommendations for policymakers, negotiators, and other relevant stakeholders.

Finally, the concluding section ends by highlighting the implications of Bangladesh's trade strategy for its broader post-graduation landscape. It highlights the importance of coherence, preparedness, and sustained commitment as the country traverses a more complicated and competition-driven global trading system.

Collectively, the paper attempts to shift the conversation away from short-term pressures and toward an expansive, strategic vision of trade competitiveness over the longer term. The stakes are high. The transition is already underway. What remains is to shape it in a way that secures Bangladesh's position in the global economy for the decades to come.

2. The Shifting Global Trade Landscape and Its Implications for Bangladesh

The global trading system that helped Bangladesh rise is no longer the same. It is becoming more layered, more competitive, and increasingly shaped by strategic considerations that go well beyond tariffs. Old certainties are fading. New rules are being made, often in piecemeal and overlapping fashion. For a country such as Bangladesh, whose export model has relied so heavily on access to strategic markets, these changes are not abstract. They are immediate, concrete, and consequential.

Two broad forces are particularly important. The first is the gradual erosion of unilateral trade preferences that once gave a clear advantage. The second is the reshaping of trade relationships through new agreements, partnerships, and rule-making platforms. And collectively, they are reworking the terrain on which Bangladesh must compete.

The End of Unilateral Preferences

For decades, unilateral trade preferences have functioned as a silent enabler of Bangladesh's export success. They reduced tariffs, lowered entry barriers, and created a margin of competitiveness that offset domestic constraints. In markets like the European Union, this advantage was enormous. Under preferential schemes, Bangladeshi garment exports received duty-free entry, but its rivals like China or India paid tariffs that often ranged from 9 to 12 percent. That difference mattered. It went straight to price competitiveness, market share, and buyers' decisions.

This margin is now under threat. The recently concluded India–EU free trade agreement, with meaningful tariff liberalisation for garments and textiles, has important implications for Bangladesh as the historical advantage enjoyed by Bangladesh will narrow sharply, if not disappear altogether. In effect, what was once a structural advantage becomes neutralised.

The implications are far-reaching. Bangladesh's competitiveness in the EU market is not derived only from productivity or technological sophistication. It has been bolstered by preferential access that enabled exporters to internalize inefficiencies in logistics, energy, and compliance. Without that cushion, the fundamental cost structure is more evident. Buyers, already extremely sensitive to price, will re-evaluate sourcing decisions. Even small differences in cost can trigger shifts in orders.

In addition, this problem is not limited to India. While other competitors are rushing to negotiate preferential agreements with the large markets. Vietnam, for example, already has a full-blown agreement with the EU. The gap narrows as more countries accrue similar access, and the relative position of Bangladesh deteriorates further. Preference erosion, therefore, is not a single event. It is a cumulative process.

Alongside this gradual erosion, there is also the more defined timeline associated with Bangladesh's LDC graduation. Although transition arrangements may preserve some benefits for a period of time, they do not reverse the long-term trend. In the European Union and in the United Kingdom, those transition periods will end by 2029. From then

on, Bangladeshi exports will be subject to normal tariff regimes unless some other arrangements are negotiated.

This creates what is often described as a “cliff-edge.” The term captures the sense of a sharp adjustment, though in practice the process is staggered. Still, the direction is clear. A system that once provided automatic, unilateral preferences will give way to a more negotiated and reciprocal framework. Access will no longer be granted by default. It will have to be secured, and often paid for, through trade agreements.

The challenge, then, is twofold. First, Bangladesh must prepare for a world in which its traditional advantages are diluted. Second, it must actively construct new forms of market access that can replace, or at least compensate for, what is being lost.

New Geoeconomic Realities

The broader architecture of global trade is undergoing a transformation that is as geopolitical as it is economic. Trade policy is increasingly being used as a strategic tool. Countries are not simply looking for access to markets; they are also positioning themselves in emerging supply chains, technological ecosystems, and geopolitical orientations.

Tangible expressions of this transition include what is commonly referred to as “competitive liberalisation.” Countries are seeking additional competitive advantages over competitors outside of the multilateral frameworks by conducting bilateral and regional agreements. These agreements are frequently targeted. They focus on key sectors, strategic partners, and long-term positioning.

For Bangladesh, this trend is a clear risk. As major economies sign agreements with their competitors, the relative attractiveness of Bangladesh as a sourcing destination diminishes. Consider the implications of an India–EU agreement or a Vietnam–EU agreement. Such arrangements can lower tariffs, ease regulatory requirements, and open up investment flows for those countries involved. The result is not just improved access. It is a reshaping of supply chains in favour of those inside the agreement.

Trade diversion becomes a real possibility. Buyers might move orders toward countries with more favorable terms. Investors might shift funds to places more connected to global trade networks. Such changes, over time, can add up and gradually undercut Bangladesh’s standing in important sectors.

But competitive liberalisation is not only a threat. It also indicates a wider dynamism in the global economy. By effectively engaging with this process, countries can win new opportunities, expand their export base, and deepen integration in global value chains. The question is whether Bangladesh can make the journey from passive observer to active participant.

Another important development is the rise of mega-regional trade blocs and new economic architectures beyond tariff lines, which have been another tectonic shift. The Regional Comprehensive Economic Partnership (RCEP), for instance, unites a diverse group of Asian economies under one umbrella when it comes to trade of goods and

services, investment, and rules of origin. Its scale is significant. It governs production networks, determines sourcing decisions, and fosters a more integrated regional market.

Similarly, initiatives such as the Indo-Pacific Economic Framework (IPEF) are redefining the scope of trade cooperation. While not always traditional free trade agreements, these frameworks address issues such as digital trade, supply chain resilience, clean energy, and governance standards. They reflect a shift toward rule-making in areas that are increasingly central to modern trade.

For Bangladesh, the developments are both a risk and an opportunity. The risk lies in exclusion. Should Bangladesh be outside of these emerging architectures, it risks a disadvantage with rules set without its engagement. Whatever standards are embraced in these blocs can become de facto global standards. Therefore, compliance then becomes a market access issue, even for non-members.

At the same time, there are opportunities for strategic engagement. Engaging, either completely or to a limited extent, opens new markets and delivers technology and investment flows. It could also assist Bangladesh in aligning its domestic policies with emerging global standards and improved competitiveness.

However, engagement is not automatic. It requires preparedness. It calls for a clarity of objectives, an ability to negotiate, and the coordination of institutions. It also demands the readiness to make domestic reforms that match the commitments agreed in these frameworks.

Beyond formal agreements, there is another layer of change that is shaping the global trade landscape. Issues such as sustainability, labour standards, and environmental compliance are becoming integral to trade policy. Measures like carbon border adjustments, due diligence requirements, and traceability standards are increasingly influencing market access. These are not peripheral concerns. They are central to how trade is conducted.

For Bangladesh's export sectors, particularly garments, this introduces a new dimension of competitiveness. It is no longer enough to produce at low cost. Firms must also show compliance with changing standards. This requires investment, capability, and institutional backing. It also highlights the need to harmonize trade policy with larger industrial and environmental policies.

At the same time, the broader global trade environment is becoming more uncertain and, in some respects, less predictable than at any point in recent decades. Recent changes to trade policy in the United States show this trend quite clearly. The resurgence in the use of unilateral tools on innovative and strategic sectors, led by Section 301 investigations, is a gradual, if not intended, move away from rules-based multilateralism toward discretionary and strategic enforcement. This shift matters. It creates a new layer of uncertainty that exporters have no means to foresee or hedge against. For countries such as Bangladesh, which rely on stable and predictable access to large markets, the ramifications are immediate.

The threat of new tariffs, unpredictable changes in policy, and trade actions based on politics makes buyers and investors skittish. In sectors like garments, where margins are thin and competition is intense, a marginal rise in uncertainty can impact sourcing decisions. In a larger sense, this trend erodes faith in the global trading system itself. When rules feel more negotiable than binding, smaller economies are often left in the tenths of a law, navigating a world that seems to be getting more fragmented and uneven.

In addition to these changes, geopolitical tensions are also complicating things further. A crisis in the Middle East, especially a confrontation involving Iran, has injected volatility in global energy markets and threatened important shipping routes. These effects are not abstract. They appear in more expensive fuel, increasing shipping costs, and slower delivery times. For Bangladesh, the ramifications are particularly acute. The economy is heavily dependent on imported energy, and its export sectors depend on effective and timely logistics. When oil prices rise and fall dramatically, or maritime routes are disrupted, production costs go up, and supply chains become less reliable. Exporters face delays, contracts become harder to fulfil, and competitiveness erodes at the margin. In simple words, the external environment is becoming more fragile. What this implies is that Bangladesh is not only transitioning out of a preference-based trade regime, but also entering a world where both market access and cost structures are increasingly shaped by forces beyond its control. In such a setting, resilience and adaptability become just as important as competitiveness itself.

For Bangladesh, the implications are obvious. The old model was effective but, in many ways, no longer appropriate. A different approach is required, one that is proactive, strategic, and rooted in a realistic review of opportunities and constraints. Trade policy can no longer be viewed as a narrow, technical domain. It needs to fit within a larger vision for economic transformation.

3. Current State of Bangladesh's FTA/EPA Negotiations

Bangladesh's participation in free trade agreements and economic partnership agreements has shifted from exploratory reluctance to a more forward-looking, even urgent, policy agenda. For many years, the country was focused on multilateral arrangements and unilateral preferences with little attention given to reciprocal trade agreements. That approach is no longer sufficient. The approaching post-LDC environment, combined with shifting global trade dynamics, has pushed Bangladesh to reconsider its stance.

What is emerging today is a diverse and evolving portfolio of negotiations. Some are advanced and detailed. Others remain exploratory. A few are driven by strategic necessity, while others are shaped by opportunity. In combination, they represent ambition and limitation. The challenge is not about signing agreements but rather understanding the huge implications of these agreements, and making sure they fit into an overall development vision for Bangladesh.

3.1. Bilateral Engagements

Japan EPA: Depth, Opportunity, and Complexity

Until the EPA with Japan, signed in February 2026, Bangladesh's only record of signing a bilateral preferential trade agreement (PTA) was the PTA on a limited number of products with Bhutan, signed in 2020.

The EPA with Japan stands out as the most comprehensive and ambitious. It signals a shift toward deeper integration, moving beyond tariffs to encompass services, investment, intellectual property, labour standards, and regulatory cooperation.

Japan is already a critical partner for Bangladesh. It is a major source of development finance, infrastructure investment, and technology transfer. It is also an important export destination, though still underutilised relative to its potential. To that end, the EPA would seek to deepen this relationship by putting in place a more predictable and more well-structured framework for economic engagement.

At first glance, the agreement presents big opportunities. It offers duty-free access to many products, claiming to include over seven thousand tariff lines. This provides Bangladesh an opportunity to diversify exports in the non-readymade garment sectors. It also opens greater opportunities for participation in Japanese supply chains, especially in sectors that hold high standards of precision, quality, and reliability.

But the rewards are no guarantee. The deal includes terms that merit careful consideration. Bangladesh will need to strengthen intellectual property laws, administrative capacity, and implementation capabilities to effectively utilise the agreement. Without improvements in production quality, domestic firms may face increased pressure under stricter rule-based systems. Export success will depend on meeting Japanese standards for quality, hygiene, and safety, which in turn requires upgrading regulatory and inspection systems. At the same time, persistent weaknesses in customs, including slow clearance, limited risk management, and low technology use,

could undermine credibility. Improving efficiency, transparency, and enforcement in customs will therefore be essential to sustain market access and build confidence among Japanese importers.

The Japan EPA, then, is both an opportunity and a test. It provides a route to deeper engagement with a high-income economy, but it also imposes a need for preparedness that goes beyond the normal trade policy agenda.

United States: Limited Gains, Strategic Trade-offs

The dynamics of engaging with the United States are different. The United States has not traditionally granted Bangladeshi exports broad-based preferential access, unlike Japan. Negotiations have thus centered on more specific arrangements, in part influenced by economic and geopolitical concerns.

The recent bilateral trade agreement framework illustrates this approach. It offers selective tariff relief rather than comprehensive liberalisation. It is complex and sectoral - zero-duty access for textile products that contain inputs from the United States, for example. Meanwhile, most products are still subject to a general tariff rate, limiting the overall effects on export competitiveness.

What is significant about this arrangement is the type of trade-offs that it entails. Bangladesh is likely to take a series of commitments in return for limited market access concessions. These involve zero-tariff access on a range of imports from the US, procurement decisions, such as aircraft and energy products purchases, and regulatory alignment in certain areas. As a result, there is an imbalance between benefits and obligations.

This raises the question strategically. For one, engagement with the United States has the potential to strengthen bilateral relations, attract investment in more direct forms of economic cooperation, and signal policy credibility. On the flip side, economic benefits in the form of expanded exports are likely to be limited. Such arrangements carry the danger of binding Bangladesh into commitments that it might not be fully convinced are in its long-term interests.

This does not mean engagement should be avoided. Instead, it highlights the necessity for careful negotiation and clear priorities. The goal has to be meaningful market access subject to commitments that are commercially relevant, but do not affect the internal development goal of the economy.

Other Partners: Expanding the Negotiation Horizon

Beyond Japan and the United States, Bangladesh is exploring a range of potential bilateral agreements with key partners. Among them are China, India, Korea, Canada, Malaysia, and Australia. Each of these relationships has different opportunities and challenges.

China, for example, is already a top trading partner and an important supplier of imports. A bilateral agreement may enable Bangladeshi exports to enjoy more access, particularly in sectors where China's market is large and growing. Nonetheless, the imbalance of

industrial capability is a worry factor for import surges and pressure on domestic industries.

India presents a different case. As a neighbouring economy with deep historical and economic linkages, India not only provides a large market but also opportunities for regional value chain integration. At the same time, however, trade relations have often been marked by disparities and non-tariff barriers. Any emulation would have to take these issues into account while involved in areas of complementarity.

Korea, Canada, Malaysia, and Australia also show potential promise in these markets, especially for diversification of exports. Many of these countries are advanced economies with significant purchasing power and open markets. But negotiating so many agreements at once strains institutional capacity.

What all this adds up to is a portrait of ramping involvement, but also rising complexity. There is no more frame of reference for Bangladesh. It is traversing a tangle of bilateral relationships, each with its own logic, priorities, and constraints.

3.2. Regional and Plurilateral Engagements

Bilateral agreements are still the principal means by which trade and investment relations are conducted, but there is increasing acknowledgment that regional and plurilateral frameworks can be important complementary instruments, and, in some cases, transformative ones. These frameworks often go beyond tariff cuts: They cover supply chains, digital trade, investment, and regulatory standards.

In this context, the Regional Comprehensive Economic Partnership (RCEP) is especially relevant. It effectively centers a multitude of Asian economies within a single framework, resulting in one of the world's most integrated production and trade networks. There are several benefits for Bangladesh if it becomes a member of RCEP. It would open access to an enormous regional market, meet participation in cross-border supply chains, and enable cumulated rules of origin. This final feature is particularly significant. It further enables companies to source inputs from different member states and remains eligible for preferential access, thus reducing production costs and improving competitiveness.

The issue is closely related to engagement with ASEAN. Although it is not a present member, strengthening economic integration with ASEAN economies is a key opportunity. Southeast Asia has become an increasingly dynamic centre of manufacturing and trade, with strong connections to world value chains. Closer relations with ASEAN would also buttress Bangladesh's efforts to diversify its exports, especially in sectors like agro-processing, light manufacturing, and intermediate goods. It could also be a tool to attract investment by placing Bangladesh as part of a broader regional production ecosystem.

However, both ASEAN-oriented integration and RCEP accession come with challenges. Obligations under these frameworks are broad and often strict. They need changes to tariffs, standards, and regulatory practices. Weaker domestic industries will face stiffer competition from other, more mature economies in the bloc. If implemented without proper preparation, the adjustment costs could be high.

And at the same time, those potential gains are hard to ignore. Engaging in frameworks like these is more than a means to enter markets. It is to be integrated into systems in which trade, investment, and production are becoming ever more connected. In this sense, the choice is not just whether to engage but how and when.

And beyond these, initiatives such as the Indo-Pacific Economic Framework for Prosperity add yet another layer to this evolving architecture of trade. And while they don't follow the traditional tariff-cutting models, they attach importance to supply chain resilience, clean energy, and governance standards. Investing in these areas can supplement market-access agreements by enhancing Bangladesh's institutional and regulatory capacity.

A further aspect of Bangladesh's trade strategy relates to its outreach into the Gulf Cooperation Council (GCC) states. Bangladesh's external economic relations stand out with these economies. They are both major destinations for migrant workers, a vital provider of remittance inflows, and markets with increasing demand for a multitude of goods and services. With this dual linkage, through labour mobility and trade, the opportunity is unique. Enhancing economic linkages with the GCC can also help in diversifying exports, especially into sectors that are emerging, where demand is growing rapidly, and competition is still a work in progress, such as processed foodstuffs, pharmaceuticals, and consumer goods. Additionally, a large Bangladeshi expatriate community supports these opportunities by establishing ready-made market niches and creating business networks that can be used for trade expansion.

But the potential extends well beyond traditional exports. The global halal economy is expanding, and new potential markets are emerging that can affect everything from food products to cosmetics and pharmaceuticals - the list goes on. Bangladesh is well-placed to capitalise on this space, but doing so needs more than supply capacity. This implies credible certification systems, compliant with international standards, and reliable supply chains that can live up to the expectations of these markets. But trade is rarely the sole driving factor behind engagement with the GCC. It is influenced by larger economic and political trends, like energy cooperation, migration regimes, or investment flows. This makes negotiation more complex. It thus requires a careful and calibrated approach that acknowledges the opportunities for diversification and integration, while navigating institutional and strategic constraints governing this relationship.

Together, these trends indicate that Bangladesh's trade strategy has to operate on multiple fronts. Bilateral deals can respond to the immediate market access needs. Long-term positioning can be framed by regional and plurilateral frameworks. Navigating these engagements in a sequencing that balances the opportunity with the readiness of their organization is where the challenge lies.

4. Welfare Implications for Bangladesh from Potential FTA/EPAs: A GTAP Modeling Exercise

4.1. Motivation and Analytical Framework

A central question runs through Bangladesh's current trade policy debate. What actually happens to the economy under different FTA pathways? Not in theory, but in terms of welfare, production, and jobs. This section answers that question using a GTAP (Global Trade Analysis Project)-based general equilibrium framework extended to examine not only bilateral FTAs but also deeper regional integration scenarios such as ASEAN, RCEP, and GCC.

The advantage of this approach is that it captures economy-wide effects. Trade agreements do not work in a vacuum. A tariff change in one sector changes input prices elsewhere. A new export opportunity reassigns labour and capital between sectors. Welfare, which we measure here through Equivalent Variation (EV), incorporates all of these adjustments. It reflects both gains from market access and efficiency improvements and structural changes. The analysis also reports changes in real GDP, exports, imports, and output across sectors.

By bringing ASEAN, RCEP, and GCC into the analysis, the exercise moves beyond a narrow bilateral lens. It allows us to compare two different strategic directions. One based on selective agreements. The other is based on integration into regional production systems.

Model Setup and Data

The simulations are based on the GTAP Version 12 database with a base year aligned to the latest global input-output structure. It aggregates regions to represent Bangladesh and its main trading partners: the European Union, India, China, Japan, Australia, South Korea, ASEAN, RCEP, GCC, the United States, and the rest of the world.

Sectoral aggregation focuses on areas of policy relevance. Original 65 GTAP sectors are aggregated into 10 sectors. These include Grains and Crops, Livestock and Meat Products, Mining and Extraction, Processed Food, Textiles and Clothing, Light Manufacturing, Heavy Manufacturing, Utilities and Construction, Transport and Communication, and Other Services. Such a level of disaggregation enables greater clarity when interpreting structural changes.

The model features a closure that allows flexible supply of labour in Bangladesh. Labour is differentiated between skilled and unskilled categories, while capital is assumed to be mobile across sectors within the economy.

The introduction of ASEAN and RCEP is particularly important. These are not just markets. They are production networks. Their inclusion allows the model to capture changes in sourcing patterns, input costs, and value chain participation.

Adding a Gulf Cooperation Council (GCC) FTA scenario is an important new dimension to the analysis. The strategy is not just about traditional manufacturing markets in Europe and East Asia. It is also about new opportunities in the Middle East, where demand

patterns, income levels, and diaspora linkages generate a type of trade potential that's different.

Scenario Design

Ten scenarios are simulated from a no-policy baseline to FTA and reform strategies.

1. **Baseline (post-LDC):** This scenario establishes a baseline in which Bangladesh graduates from LDC status and loses preferential market access, particularly in the European Union and the United Kingdom. This captures the “cliff-edge” effect.
2. **Japan-EPA:** This scenario simulates a Bangladesh–Japan EPA with tariff elimination throughout goods, improvements in market access in services, and enhanced investment flow from Japan.
3. **India-FTA:** This scenario considers an FTA with India.
4. **China-FTA:** This scenario considers an FTA with China.
5. **Australia-FTA:** This scenario considers an FTA with Australia.
6. **Korea-FTA:** This scenario considers an FTA with South Korea.
7. **ASEAN Integration:** This scenario models Bangladesh’s FTA with ASEAN.
8. **RCEP Accession:** This scenario considers Bangladesh’s accession to RCEP.
9. **GCC-FTA:** This scenario considers the FTA of Bangladesh with the GCC countries.
10. **Domestic Reform:** This scenario introduces complementary domestic reforms, represented through productivity improvements in trade-related services and manufacturing.

4.2. Simulation Results

Welfare Effects and Macroeconomic Outcomes

Table 1 presents the welfare effects and macroeconomic outcomes of ten scenarios.

Table 1: Macroeconomic and Welfare Impacts of Potential EPAs/FTAs (percentage change from baseline)

Scenario	EV (% of GDP)	Real GDP (%)	Exports (%)	Imports (%)
Baseline (post-LDC)	-2.4	-1.5	-8.7	-11.4
Japan-EPA	0.7	0.8	3.0	1.8
India-FTA	0.2	0.3	5.7	3.7
China-FTA	1.1	1.2	12.4	9.2
Australia-FTA	0.1	0.1	0.5	0.3
Korea-FTA	0.1	0.1	0.3	0.3
ASEAN Integration	0.3	0.4	5.9	4.2
RCEP Accession	1.3	1.4	14.8	11.6
GCC-FTA	0.2	0.2	1.7	1.7
Domestic Reform	3.3	3.6	11.3	8.4

Source: GTAP simulation

The post-LDC baseline presents the clearest starting point. Welfare declines by 2.4 percent of GDP, real GDP falls by 1.5 percent, exports contract by 8.7 percent, and imports drop by 11.4 percent. This pattern reflects a classic negative external shock. Once preferential access is withdrawn, especially in the EU and UK, Bangladesh’s export sectors lose price competitiveness. Production slows, income falls, and import demand weakens. The magnitude of the decline is not trivial. It underscores that the cost of inaction, or delayed adjustment, is substantial.

The Japan EPA generates positive and fairly even gains. Welfare increases by 0.7 percent of GDP, real GDP rises by 0.8 percent, while exports and imports are up 3.0 and 1.8 percent, respectively. All this refers to the fact that the agreement provides not just increased access to each other's markets, but some gains in efficiency too. The modest rise of imports suggests that the volume gains are not based exclusively on import expansion, but rather improved resource allocation and possibly better investment linkages. In other words, it seems that the Japan-EPA is welfare-enhancing in a conditionally stable and manageable manner.

The India-FTA has a different pattern. Exports rise 5.7 percent, but the gains for welfare and GDP are still modest at 0.1 percent and 0.2 percent, respectively. This divergence is important. The implication is that export growth alone may not ensure good welfare outcomes. Export gains may also be negated by higher imports, trade diversion, or limited value addition. It could also have something to do with the fact that India already gives duty-free or close-to-duty-free access for a high share of Bangladeshi exports. As a result, the incremental benefit of a formal FTA is smaller than the headline export numbers might suggest. The agreement may still be useful for reducing non-tariff barriers and improving logistics, but its tariff-related gains are inherently constrained.

The results for the China-FTA are much more pronounced and therefore require careful interpretation. Welfare increases by 1.1 percent of GDP, real GDP by 1.7 percent, exports by 12.4 percent, and imports by 9.2 percent. The large export response is driven by a combination of factors in the model. First, tariff liberalisation reduces the cost of imported intermediate goods from China, which improves competitiveness in export-oriented sectors. Second, access to the Chinese market expands, even though in reality, China already offers duty-free access to most Bangladeshi exports. This is an important caveat. The simulation assumes full tariff liberalisation on both sides, whereas in practice, the incremental market access gain for Bangladesh may be limited. What the model is capturing, therefore, is less about new tariff preferences and more about input cost effects and production restructuring.

However, this result must be treated with caution. A 12.4 percent increase in exports is large and reflects the strength of model assumptions, particularly full liberalisation and high responsiveness of production. In fact, and in practice, that outcome would be constrained on multiple levels. These barriers can include non-tariff measures, compliance with standards, lack of infrastructure, and firm-level capabilities. Additionally, the robust rise in imports indicates considerable competitive strain on domestic industries. Without sufficient safeguards, sectors lacking international competitiveness would suffer displacement. The simulation does not fully capture these adjustment costs.

The FTA with Australia results in a much smaller, but positive, welfare and macroeconomic effect for Bangladesh, suggesting that Bangladesh should also explore this FTA. While the gains may not be as pronounced as those seen with larger regional agreements or domestic reforms, the Australia FTA could still provide valuable diversification benefits. It may open up opportunities for Bangladeshi exports in sectors such as textiles, agriculture, and consumer goods, while supporting improved economic ties and facilitating access to new markets. Additionally, engagement with Australia could

help Bangladesh strengthen its trade relationships and build resilience against external shocks, complementing broader trade and reform strategies.

The FTA with South Korea also produces small but positive welfare and macroeconomic impacts, contributing to modest increases in exports, imports, and overall economic welfare.

The ASEAN integration case indicates only moderate but balanced benefits. Welfare increases by 0.3 percent, GDP by 0.4 percent, exports by 5.9 percent, and imports by 4.2 percent. This means that while ASEAN provides diversification opportunities, on its own, it does not significantly shift Bangladesh's economic structure. Most of the gains will be derived from entering new markets and sectors, although competition from more efficient producers in Southeast Asia may limit their overall effect.

The RCEP accession scenario produces the largest gains among the trade-only scenarios. Welfare increases by 1.3 percent of GDP, GDP by 1.4 percent, exports by 14.8 percent, and imports by 11.6 percent. The export response is large in scale due to the deep integration through a big regional bloc. RCEP also provides for broader market access, and importantly, cumulation of rules of origin so firms can purchase inputs from multiple member countries and still be eligible for preferences. Within a CGE framework, this can drastically reduce the costs of production and promote export growth.

Yet, here again, caution is essential. The simulation assumes full tariff liberalisation, whereas actual RCEP commitments involve phased reductions, sensitive lists, and varying degrees of openness across sectors. As a less developed economy, Bangladesh would likely liberalise with more gradualism and sectoral protection for strategic industries. This would reduce both the risks and the gains relative to the simulation. Furthermore, much like the China case, the large export increase should not be interpreted as a forecast. It reflects an upper-bound estimate under idealised conditions. But achieving such gains depended on Bangladesh's ability to join regional value chains, upgrade logistics and standards, and attract investment.

The GCC-FTA yields small results, providing a 0.2 percent increase in welfare and GDP, with rising exports and imports of about 1.7 percent. This is reflective of the characteristics of GCC economies. They are large consumer markets but not big production spheres. The gains are driven, therefore, by demand for goods like food, pharmaceuticals, and consumer products - not deep supply chain integration. A GCC FTA is useful for diversification but much less transformative in terms of structural change.

The Domestic Reform scenario stands out clearly. Welfare increases by 3.3 percent of GDP, and real GDP by 3.6 percent, with exports rising by 11.3 percent and imports by 8.4 percent. What is striking here is that welfare gains are much larger than in any trade-only scenario, even though export growth is smaller than in the China or RCEP cases. This highlights a crucial point. Increases in productivity, trade facilitation, and industrial efficiency create gains that have a deeper basis in the domestic economy. They boost competitiveness in all sectors, lower costs, and raise the quality of growth.

Table 1 reveals a larger trend. Big export gains do not equal big welfare gains. In the China and RCEP scenarios, we see large increases in exports, but welfare gains are more modest

in magnitude. This mirrors the importance of imports, terms-of-trade effects, and structural adjustment costs. By contrast, the domestic reform scenario produces more balanced and welfare-intensive outcomes.

Several important caveats must therefore be emphasised. First, the simulations assume full tariff liberalisation, whereas real-world FTAs include sensitive lists, phased reductions, and negotiated exceptions. This means that the real effects are likely to be lower and more gradual. Second, India and China already grant most Bangladeshi exports duty-free access; therefore, the extra market access benefit of FTAs might be muted. A third factor has to do with direct fiscal consequences for the government, as tariff reductions decrease government revenue. This is not fully internalised in the welfare results and requires domestic tax reform to be tackled. Fourth, legitimate issues arise with protecting strategic domestic industries during the transition. Hasty liberalisation may expose vulnerable sectors to intense competition; sequencing and safeguards are vital.

Taken together, the results taken together suggest a nuanced policy conclusion. Regional integration, particularly through RCEP, holds significant promise, particularly when integrated with supply chain participation. However, these gains are conditional. They rely on domestic readiness, institutional capacity, and appropriate risk management. Simultaneously, the strong performance of the domestic reform scenario means a message is crystal clear. Trade agreements can support growth, but domestic reforms are the primary driver of sustained and inclusive welfare gains.

Sectoral Impacts and Structural Transformation

Table 2 provides a much richer picture of what is happening beneath the aggregate results. While Table 1 showed overall welfare and trade outcomes, Table 2 reveals the structural shifts across sectors, and this is where some of the most important policy insights lie.

Table 2: Sectoral Output Changes of Potential EPAs/FTAs (percentage change from baseline)

	Baseline (post- LDC)	Japan- EPA	India- FTA	China- FTA	Australia- FTA	Korea- FTA	ASEAN Integration	RCEP Accession	GCC- FTA	Domestic Reform
Grains and Crops	-0.61	0.43	-0.15	0.25	0.02	0.03	0.05	0.24	0.04	0.83
Livestock and Meat Products	-1.59	0.59	0.15	0.01	0.04	0.02	0.25	0.4	0.06	2.14
Mining and Extraction	0.49	0.44	-0.1	0.3	0.05	0.0	-0.14	0.21	-0.11	-0.47
Processed Food	-0.25	0.66	-0.04	0.45	-0.2	0.02	-1.03	-0.72	1.28	0.4
Textiles and Clothing	-7.94	2.47	4.07	10.99	0.4	0.14	4.64	13.36	0.57	7.99
Light Manufacturing	3.37	-0.15	-4.06	-9.23	0.02	-0.03	-1.18	-10.03	-0.55	2.64
Heavy Manufacturing	6.65	0.14	-0.21	-8.84	0.26	-0.39	-1.45	-10.18	-0.86	1.84
Utilities and Construction	-1.92	0.9	0.45	2.39	0.06	0.04	0.63	2.95	0.3	2.82
Transport and Communication	-0.33	0.76	0.17	0.39	0.11	0.03	0.19	0.62	0.09	0.52
Other Services	-2.24	1.01	0.29	1.67	0.09	0.04	0.46	2.26	0.18	3.16

Source: GTAP simulation

A first observation concerns the baseline (post-LDC) scenario, which shows a clear pattern of contraction in Bangladesh's core export sector. Textiles and clothing would fall sharply by nearly 8 percent, confirming the heavy dependence on preferential access. Decline also spills over to other sections of the economy. Services, utilities, and even livestock-related activities are contracting in response to lower income and demand. At the same time, heavy and light manufacturing expand, which may seem counterintuitive

at first glance. But that probably just captures a reallocation effect in the model. As the leading export sector shrinks, resources reallocate to somewhat shielded or local-oriented sectors. That is not in itself a sign of sound diversification. Rather, it may indicate a movement toward less efficient activities driven by reduced external competitiveness.

The Japan-EPA scenario presents a more balanced recovery. The rebound in textiles and clothing (2.47 percent) is minor but significant. It indicates that better access to the market can partially compensate for preference erosion. Meanwhile, most sectors continued to show modest but positive growth, such as services, transport, and utilities. That suggests a fairly broad-based adjustment. But the manufacturing gains are not broad-based, and some sectors, including light manufacturing, remain weak. The implication is that the Japan-EPA supports stabilisation rather than transformation.

The India-FTA produces an interesting and somewhat uneven pattern. Textiles and clothing do quite well, expanding by 4.07 percent. This is due to the positive reallocation effect of resources toward the textiles and clothing sector, whereas, despite the already existing duty-free access in India, other sectors have not been able to expand their exports much. The surge in exports of textiles and clothing is also accompanied by sharp contractions in light manufacturing (-4.06 percent) and relatively poor performance in other industrial sectors. That indicates heightened competition from Indian imports, especially in manufacturing. To put it differently, the India FTA seems to solidify Bangladesh's comparative advantage in garments, but at the expense of undermining other sectors of industry.

This trend is even more pronounced in the China-FTA case. The growth in textiles and clothing is enormous (10.99 per cent), emanating from very strong input cost effects and also market access assumptions. Meanwhile, in heavy manufacturing (-8.84 percent) and light manufacturing (-9.23 percent), the decline is significant. This is a classic case of specialisation driven by comparative advantage, but in a potentially unbalanced way. The economy becomes more concentrated in garments, while other manufacturing sectors shrink due to intense import competition from China. This is a critical cautionary point. The rise in exports is significant, but this structural result may not be so positive if it means over-relying on one sector and the erosion of industrial diversity.

The Australia-FTA produces small impacts, but Textiles and Clothing, Light and Heavy Manufacturing expand. This expansion suggests that the agreement provides improved market access or cost advantages for these sectors, resulting in modest growth. Although the gains are not as pronounced as those observed in other trade scenarios, the positive movement in these industries indicates that the Australia-FTA supports some diversification and sectoral development. However, the overall effect remains limited, likely due to the scale of Australia's market or the nature of the agreement, meaning it does not significantly transform Bangladesh's export structure or drive large-scale industrial change.

In the case of FTA with South Korea, there are small sectoral impacts, but Textiles and Clothing and Processed Food expand while the manufacturing sector contracts. This pattern suggests that the FTA with South Korea provides some advantages, particularly for Bangladesh's traditional export sectors. Improved market access or lower input costs likely support growth in Textiles and Clothing, reinforcing Bangladesh's comparative

advantage in garments. Similarly, the expansion of Processed Food may result from favorable demand in the South Korean market or better access for Bangladeshi producers. However, the contraction in the manufacturing sector indicates that increased competition from South Korean imports or limited export opportunities for Bangladeshi manufacturers could be putting pressure on the local industry. Overall, while the FTA delivers modest gains by boosting select sectors, it does not facilitate broad-based industrial growth and may contribute to structural concentration rather than diversification.

The picture is mixed with respect to the ASEAN integration scenario. Several sectors, such as processed food (-1.03 percent), light manufacturing (-1.18 percent), and heavy manufacturing (-1.45 percent) decline, while textiles and clothing grow (4.64 percent). This implies that ASEAN integration exerts competitive pressures across sectors. ASEAN economies, unlike China, contend with Bangladesh across a more comprehensive range of sectors, including agro-processing and light manufacturing. The result is that the benefits are more widely shared, and the costs of adjustment are more experienced. It does highlight that all sectors in an economy do not benefit uniformly from regional integration, and some industries may need extra attention.

The RCEP accession scenario intensifies these trends. The growth in textiles and clothing is the highest at around 13.5 percent among all of the scenarios. It is a testament to deep integration into regional supply chains and strong cost advantages. But the upside is equally clear; so too, the downside. Light manufacturing (-10.03 percent) and heavy manufacturing (-10.18 percent) contract hard, and even processed food declines (-0.72 percent). The strong reallocation towards the dominant export sector signaled both market access and input sourcing advantages. Though this enhances exports and welfare in aggregate terms, it casts deep doubts about structural stability and long-run sustainability. An overconcentration of the economy may make the country more susceptible to external shocks.

The GCC FTA scenario stands out for a different reason. The gains in processed food (1.28 percent) and modest improvements in agriculture-related sectors reflect the demand structure of GCC markets. However, the impact on manufacturing is limited, and textiles grow only slightly (0.57 percent). This confirms that GCC engagement is more about diversification into consumption-driven sectors rather than industrial transformation. It is useful, but not transformative.

Finally, the Domestic Reform scenario provides perhaps the most instructive results. The gains are more broad-based across sectors, with strong growth in textiles (7.99 percent), but also significant expansion in livestock (2.14 percent), services (3.16 percent), and utilities (2.82 percent). At the same time, both light and heavy manufacturing sectors show some expansion. What stands out here is that growth is not excessively concentrated in a single sector. Instead, productivity improvements allow multiple sectors to expand simultaneously. This is a more balanced form of structural transformation.

Several broader conclusions emerge from Table 2. First, many FTA scenarios reinforce Bangladesh's existing comparative advantage in garments, often quite strongly. Although this increases exports, it may also contribute to deeper structural concentration. Second,

we see that large new gains in the textile and clothing sector exports often crowd out export growth in other manufacturing sectors, most notably under China FTA and RCEP scenarios. This points to the effects of competitive pressures and resource reallocation. Third, diversification is not created equal. This GCC engagement provides a bridge to diversification into agro-based sectors; ASEAN integration brings in greater competitive constraints across the board that could undermine several industries. Fourth, domestic reform produces the most balanced structural outcome, even if it does not generate the largest export surge.

A few cautionary points are important. These results are based on full tariff liberalisation assumptions, which may overstate both gains and losses. FTAs, in a practical sense, will have sensitive lists and phased liberalisation, especially for Bangladesh, as a weaker economy. It would presumably moderate the scale of structural changes. And the model would not fully account for the non-tariff barriers, compliance costs, or institutional constraints that might induce modest expansion of export sectors. Furthermore, the contraction of manufacturing sectors in a few scenarios emphasizes the importance of strategic protection and support for emerging industries, especially if Bangladesh aims to diversify its industrial base.

Lastly, the FTA with domestic reform generates the much-desired outcomes – positive macroeconomic and sectoral gains and economic diversification. Unlike scenarios where export growth is concentrated in just one sector, domestic reforms paired with FTA agreements enable a more balanced expansion across various industries. This approach not only boosts textiles and clothing but also strengthens sectors such as livestock, services, utilities, and manufacturing. By improving productivity and competitiveness, domestic reform ensures that multiple sectors benefit simultaneously, reducing dependence on a single industry and fostering a resilient, diversified economy. This balanced structural transformation is crucial for long-term economic stability and sustainable growth.

In sum, Table 2 suggests that the choice of trade strategy is not just about how much exports grow, but how the structure of the economy evolves. Some pathways trade off high export growth with increased concentration. Others provide smaller gains but help diversification. The best results seem to be when trade integration is paired with domestic reforms that enhance competitiveness in a wide variety of sectors.

5. Critical Challenges and Capacity Gaps

Bangladesh's increasing interest in FTAs and EPAs represents an evolution in aspirations. But ambition does not always equal results. Beneath the surface, there are several structural and institutional weaknesses that could undermine the ability of these agreements to produce real change. Some are longstanding. Others have taken on greater urgency in the context of a shifting global trade landscape. Together, they signal a core concern: If these gaps are not addressed, no matter how well negotiated the agreements may be, we end up with little real value.

5.1. Institutional and Negotiating Capacity

One of the most immediate constraints lies in the limited depth of institutional capacity for trade negotiations. Modern FTAs and EPAs are complex instruments. They go far beyond tariffs. They cover services, investment, intellectual property, digital trade, public procurement, dispute settlement, and a range of regulatory issues. Each of these areas requires specialised knowledge. Each demands careful calibration.

Currently, Bangladesh is suffering from a shortage of skilled trade negotiators and legal experts capable of participating in such negotiations. As the number of RTAs continues to grow, there is a limited pool of professionals with experience in international trade law, economic modelling, and sector-specific analysis. Wider within government, responsibilities are often split across multiple ministries and agencies, making coordination difficult. Even in the private sector, the ability to participate on the technical side of things drops off drastically, especially when we take into account small and medium enterprises.

This shortage has practical implications. Negotiations can be extended, the positions may not be thoroughly articulated, and trade-offs may not be properly evaluated. In some instances, the imbalance between Bangladesh and its negotiating partners can be pronounced. Bigger economies generally field well-resourced teams with deep technical know-how. They arrive armed with statistics, legal rationales, and sharp tactical goals. In contrast, Bangladesh often functions under more constrained analytical support.

And beyond negotiation itself, there is also the issue of implementation. Now, signing an agreement is just the start. It will take sustained institutional effort to ensure that commitments translate into domestic law, administrative processes, and enforcement mechanisms. Weaknesses at this stage may affect the credibility of agreements and their practical impact.

It is also worrisome that there would be so little ability to investigate and combat unfair trade practices. With FTA and EPA, Bangladesh will also open its markets, and the risk of dumping and sudden import surge increases. Managing these risks demands technical knowledge of data analytics, legal processes, and evidence collection. Currently, however, that capacity is underdeveloped. This puts domestic industries in a position of exposure to unfair competition without an appropriate remedy.

5.2. Weak Trade Defence Mechanisms

Institutional capacity is closely tied to the state of Bangladesh's trade defence regime. In principle, tools such as anti-dumping duties, countervailing measures, and safeguards can be employed to shield domestic industries from unfair or harmful imports. These tools are, in practice, not often applied.

Recent trends indicate that the risks are genuine. Dumping has been a concern in sectors like gypsum and yarn, especially from neighbouring countries. These imports can undercut domestic producers, distort markets, and cause job losses. But there has been a muted response. Investigations are not that common, and the application of trade defence instruments is still sporadic.²

This is due to a number of factors. First is ignorance, and the capacity of the private sector. Most of the firms are not aware of the steps needed to file a case. Even when they know about these opportunities, it can feel complex, time-consuming, and expensive. As a consequence, many potential cases go unreported.

Second, the institutional set-up for trade defence is still in the making. Agencies tasked with carrying out investigations and imposing sanctions are constrained in terms of staffing, expertise, and resources. While establishing a credible and functional system will take time, the acute nature of the current transition suggests it must be hastened.

Third, trade defence has not yet been embedded within broader policy frameworks. National strategies regarding LDC graduation and economic transition, for example, often emphasize market access and competitiveness at the expense of defensive tools to manage adjustment burdens. It opens up a hole in policy coherence. The effect can leave markets more vulnerable as they open: without effective safeguards, vulnerabilities can be magnified.

Hence, reinforcing trade defence instruments is not protectionism. It is about making sure that there is equity and stability. It provides domestic industries time to adjust in an orderly fashion rather than be submerged by sudden shocks.

5.3. Domestic Policy and Regulatory Hurdles

Even where agreements are well negotiated, their effectiveness depends on the domestic policy environment. In Bangladesh, several regulatory and policy-related challenges stand out.

Tariff rationalisation is one of the most pressing issues. Bangladesh's current tariff structure is characterised by a combination of customs duties, supplementary duties, and regulatory duties. In numerous instances, those layers generate relatively high effective protection for domestic industries. This has supported some sectors, but it also creates distortions. That increases the cost of imported inputs, diminishes competitiveness, and makes trade deals harder.

² See <https://today.thefinancialexpress.com.bd/first-page/country-risks-trade-deals-amid-limited-defence-mechanisms-1762797890>

Bangladesh needs a gradual rationalisation of its tariffs to be seen as a credible FTA partner. That takes the form of reducing high rates, streamlining the structure, and bringing it closer to international norms. But this process is not without its risks. Import taxes are a major source of revenue for the government. Cuts can impose fiscal pressures, especially in the context of weak domestic tax mobilisation. It's a delicate balancing act between the two. It needs to be sequenced carefully and mainspring with wider fiscal reform.

Another key issue is compliance with the rules of origin. Rules of origin tell us whether a product is entitled to preferential treatment under an agreement. They tend to be quite intricate and specific, covering elements of value addition, processing stages, and sourcing of inputs. The rules are supposed to be strict in agreements like the Japan-EPA or even RCEP.

And for Bangladeshi exporters, these requirements can be tough to fulfil. Many industries depend on imported raw materials and intermediate goods. Low domestic value addition renders the products ineligible for preferences. At the same time, there is limited administrative capacity to verify compliance. Customs authorities and related agencies require strong systems to certify origin, deter fraud, and increase transparency.

Without such systems, there is a danger that preferential access is mostly theoretical. While agreements may exist on paper, their uptake remains low. As noted in a number of countries, rules with high complexity and weak administrative capacities do result in this means that the actual gains from FTAs may not be as broadscale.

A third set of challenges involves standards and compliance. Sanitary and phytosanitary measures, labour standards, and environmental regulations are among the growing requirements shaping global trade. Regulators in markets including the European Union and Japan have particularly strict standards. These requirements must be met to receive approval to market the product.

This means substantial investments in infrastructure, testing facilities, certification systems, and regulatory frameworks for Bangladesh. It also mandates capacity building at the level of firms themselves, especially with small and medium enterprises. Compliance should not merely be about reaching a floor. It is about showing reliability, traceability, and accountability.

For instance, in sectors like garments, there has been progress on workplace safety and environmental sustainability. But the same gains will be harder to apply elsewhere. This may lead to the new export opportunities remaining untapped if there is no coordinated approach.

5.4. Structural Economic Vulnerabilities

In addition to issues with institutions and policy, underlying structural features of the economy have influenced Bangladesh's trade prospects.

The most notable of these is export concentration. The strength and vulnerability have been constituted by the predominance of the ready-made garments sector. It has spurred growth, jobs, and foreign exchange earnings. It also has limited diversification. Over 80 percent of exports are accounted for by one sector, and a significant share is concentrated in a few product categories and markets.

This concentration results in exposure to sector-specific shocks. Changes in global demand, shifts in buyers' preferences, or new regulatory requirements can all have disproportionate effects. It also hinders the full utilization of new market access opportunities provided by FTAs and EPAs. The broader the export base, the greater the opportunity for growth.

Related to that is the concentration of export markets. Exports go primarily to the European Union and the United States. These markets are significant, but overdependence on them increases vulnerability. Diversifying both products and destinations is therefore a critical objective.

Another structural issue is the fiscal implications of trade liberalisation. When Bangladesh becomes a party to the FTAs and EPAs, it will gradually lower tariffs on imports from partner countries. While this may improve efficiency and lower prices for consumers and producers, it also tends to lower government revenues.

This is a problem because import-based taxation accounts for a large percentage of overall fiscal revenue. This transition requires a pivot toward more robust domestic tax systems, such as value-added tax and income tax. Over time, failing to achieve such a transformation would mean growing fiscal deficits or cuts in public spending on essential services and infrastructure.

In trade policy discussions, the fiscal dimension is also frequently neglected, whereas it lies at the core of sustainability. Trade and investment agreements should support sustainable development without risking future revenues, and be complemented with stronger domestic resource mobilization measures.

6. Strategic Framework for Effective FTAs and EPAs

6.1. Pillar 1: Prioritising and Sequencing FTA Partners

A clearer reading of recent evidence suggests that Bangladesh cannot approach all FTAs with the same level of urgency or expectation. Some agreements offer stabilisation. Others create scale. A few open pathways for diversification. The challenge is to prioritise accordingly, rather than treating every negotiation as equally transformative.

In the short term, a carefully implemented agreement with a high-quality partner such as Japan should take precedence. The gains here are not dramatic, but they are reliable and broad-based. More importantly, such an agreement helps build institutional capacity, improves standards compliance, and creates a platform for learning how to negotiate and implement complex deals. In a period of transition, this kind of steady and manageable adjustment is valuable.

In the medium term, deeper engagement with large regional economies, specifically China and India, becomes more pertinent. These collaborations have significant scope for export-led growth – especially when this is combined with reduced input costs and greater access to production networks. However, the same evidence also signals risks. Gains tend to be concentrated on garments, while other manufacturing sectors face strong competitive pressure. This means that such agreements must be approached with caution, backed by detailed impact assessments and supported by policies that protect and upgrade vulnerable industries. The goal should be integration into value chains, not excessive specialisation.

Looking further ahead, participation in broader regional frameworks such as RCEP offers the most substantial gains in terms of scale and connectivity. These arrangements reshape how production is organised, not just where goods are sold. Yet, they also intensify competition and accelerate structural shifts. Without adequate preparation, the adjustment costs could be high. This reinforces the importance of sequencing. Entering such frameworks should follow, not precede, domestic readiness and institutional strengthening.

Conversely, diversification-focused deals, especially those with the GCC countries themselves, aren't to be neglected either. Their gains may be smaller, but they will be more targeted. They also enable diversification into farming, processed food, and niche consumer markets that work to wean over-dependence on one export sector. In this way, they supplement, not replace, broader trade agreements.

Put together, the evidence suggests a tiered strategy. Focus on agreements that build capacity and stability. Pace the risks of deeper regional integration. Simultaneously seek out diversification via selective partnership opportunities. And above all, ground all these efforts in domestic reform. Without that foundation, even the most promising agreements would deliver far less than expected.

6.2. Pillar 2: Strengthening Domestic Institutional Capacity

If the first pillar is about choosing partners, the second is about preparing the state to engage effectively. Trade agreements are only as good as the institutions that negotiate and implement them. In Bangladesh, this is still a critical limiting factor. Negotiations are often fragmented, analytic capacity is thin, and interagency coordination is haphazard. Formulating effective solutions and covering these gaps gets harder with the increasing complexity of trade agreements. Strengthening institutional capacity is therefore not optional. It is central to making any FTA strategy work in practice.

The creation of a dedicated FTA negotiating cell in the Ministry of Commerce is one such priority. Modern agreements need ongoing engagement, technical sophistication, and durability. This foundation can be provided by a permanent, multidisciplinary team. It would make it possible for negotiation positions to be evidence-based, informed by data and modelling, and aligned across different ministries. Equally important, it would help create institutional memory, ensuring that lessons are carried from one negotiation to another. Lacking such a structure, Bangladesh risks negotiating these agreements in silos, after which little cumulative learning takes place.

At the same time, greater openness must be matched with stronger trade defence capacity. The Bangladesh Trade and Tariff Commission would have an important role to play, but its existing capacity is quite inadequate for the task. As tariffs decline, so do the risks of dumping and import surges. Trade defence that is more proactive and technically prepared, capable of monitoring trends, launching timely investigations, and providing a credible level of protection where justified. This is not about inviting protectionism, but making sure that liberalisation is fair and workable.

Equally important is the need to deepen engagement with the private sector. Trade agreements ultimately affect firms, yet consultation mechanisms are often informal and inconsistent. A more structured approach can bridge this gap. Regular dialogue with industry bodies can help align negotiation priorities with business realities, improve the design of agreements, and raise awareness of compliance requirements. It can also encourage firms to make use of trade defence mechanisms and better prepare for new market opportunities.

In the end, institutional strengthening is a long-term process, but it is also the foundation of success. Trade agreements may attract attention through headline commitments, but their real impact depends on how effectively they are negotiated, implemented, and managed over time. For Bangladesh, building capable, coordinated, and adaptable institutions will determine whether FTAs and EPAs become instruments of transformation or remain underutilised policy tools.

6.3. Pillar 3: Deepening Domestic Reforms to Maximise Gains

Trade agreements can create opportunities, but the extent to which those opportunities become real benefits is very much a function of domestic factors. This pillar shifts the focus inward, recognising that market access alone is not enough. Firms must be able to compete, comply, and adapt. Even well-negotiated FTAs risk being underutilised without supportive policies, institutions, and capabilities at home.

Tariff rationalisation and revenue reform are major starting points. The existing tariff structure of Bangladesh is very complex and gives rise to high costs of imported inputs, hence reducing export competitiveness. There is no alternative to a more simplified and predictable tariff regime if deeper integration is to be pursued. However, since import duties are a major source of revenue, this transition must be paired with stronger domestic taxation, particularly a modernised VAT system. In this sense, trade liberalisation and fiscal reform must proceed together.

Equally important is the modernisation of customs and rules of origin administration. Preferential access has little value if firms cannot use it effectively. Streamlining procedures, reducing delays, and investing in digital systems such as a National Single Window can lower compliance costs and improve transparency. At the same time, firms need support to understand and meet the rules of origin requirements. Without this, many exporters may simply opt out of using available preferences.

Moving past these other challenges, the greatest concern is that of building export competitiveness and diversification. Bangladesh's heavy dependence on garments has brought growth but also vulnerabilities. Investments in skills, technology, infrastructure, and compliance with standards are needed for the country to diversify into pharma, footwear, or processed foods. Moving up the value chain, even within garments, is equally critical. Trade agreements can facilitate this process, but they cannot substitute for domestic capability.

Collectively, these reforms underscore a singular point. FTAs have most of their gains not at the negotiating table, but during implementation and domestic readiness. A sound reform agenda can transform market access into lasting growth; weak systems at home, however, can suffocate even the best deals. For Bangladesh, strengthening these foundations is not a complement to trade policy. It is its core.

6.4. Pillar 4: Proactive Trade Diplomacy

Trade policy today is so much broader than tariffs and market access. It is increasingly defined by diplomacy, leverage in negotiation, and participation in global rule-making. This suggests that for Bangladesh, success in FTAs and EPAs is unlikely to be due solely to domestic reforms or selection of effective partners; instead, it will depend on how successfully this country navigates international trade institutions and pursues strategic alliances.

One of the priorities in this context is to gain sufficient transition periods in trade agreements. Liberalisation comes with adjustment costs, and many sectors in Bangladesh are still far from prepared to compete under fully open conditions. Tariff reductions over time allow firms to upgrade, restructure, and sharpen competitiveness. But they must be negotiated judiciously and deployed wisely. Transition periods should create space for reform, not delay it

At the same time, continued engagement with the global trade discussion remains essential. As Bangladesh graduates from LDC status, it risks losing important flexibilities under global trade rules. Active participation in the WTO and relevant discussions can

help secure extended transition arrangements and protect policy space. Working with other developing countries can strengthen Bangladesh's voice, while also ensuring that emerging rules do not disproportionately constrain its development options.

Collectively, this pillar signifies the need for a shift to a new trade diplomacy that centres on greater proactivity and strategic action. Bangladesh will have to engage on several fronts, benevolently manage competing interests, and prepare for a transformation in the global trade system. If managed properly, this wider engagement can allow for necessary adjustment, preserve national interests, and underpin economic transformation in the long run.

7. Conclusion

Bangladesh faces a turning point in its development journey. Moving away from LDC status is both a landmark and a challenge. It is a culmination of decades of export-led growth and industrialisation, and expanded domestic integration into global markets. But it also starts a more challenging stage, with the backdrop of those conditions that nourished growth slowly moving.

This paper has argued that free trade agreements and economic partnership agreements will play an important role in navigating this transition. They provide a route to gain assured access in the markets, mitigate uncertainty, and help Bangladesh to position itself better in the context of an increasingly competitive global trading regime. In a world where preferential regimes are fading and competitors are actively negotiating their own advantages, standing still is not an option.

But the central message is equally clear. FTAs and EPAs, by themselves, are not enough. They are necessary tools, yet they are far from sufficient. Agreements can open markets, but they cannot ensure that firms are ready to compete. They can reduce tariffs but not structural weaknesses in productivity, infrastructure, or compliance. They can create opportunities, but they cannot guarantee that those opportunities will be seized.

The real challenge lies in bridging this gap between access and ability. This calls for a more fundamental transformation, one which extends beyond trade policy in the narrow sense. It requires institutions that are equipped to negotiate and execute more complicated agreements. Such an assertion requires domestic reform to cut costs, increase efficiency, and gain competitiveness. It requires a shift toward diversification, so that new market access translates into new products, new sectors, and new sources of growth.

Equally important is the need for coherence. Trade policy cannot operate in isolation. That needs to be aligned with fiscal strategy, industrial policy, investment promotion, and skills development. Actions taken in one area will invariably influence results elsewhere. Such policies may well be well-intentioned, but in the absence of coordination, they will pull in different directions.

This is why a whole-of-government approach is essential. Ministries and agencies must work together, not in silos. Negotiation strategies should reflect shared priorities. Implementation plans should be coordinated. Monitoring systems should provide a common understanding of progress and challenges.

At the same time, the transformation cannot be driven by the government alone. The private sector is at the centre of the process. Firms are the ones that export, invest, innovate, and create jobs. Their capacity, their incentives, and their responses will ultimately determine whether trade agreements deliver results. Engaging them as partners, rather than passive recipients of policy, is therefore critical.

A whole-of-economy approach also means recognising the broader social and economic implications of trade. Adjustment will not be uniform. Some sectors will expand. Others may face pressure. Managing this transition requires attention to inclusiveness. Support

for workers, investment in skills, and policies that promote equitable growth all have a role to play.

Therefore, there is a need for a National FTA Roadmap, which should incorporate specific milestones and annual assessment protocols. This Roadmap should facilitate situating trade agreements within a broad, cross-governmental, and economy-wide strategic framework.

In the end, the effectiveness of Bangladesh's FTA and EPA strategy will not be judged by the number of agreements signed. It will be judged by outcomes, whether exports grow and diversify, whether firms become more competitive, and whether new opportunities translate into better jobs and higher incomes.

The transition ahead is complex, but it is also an opportunity. It offers a chance to rethink how Bangladesh engages with the global economy. To move from reliance on preferences to a model built on capability. To shift from concentration to diversification. To strengthen the foundations of long-term growth.

With clarity, coordination, and commitment, FTAs and EPAs are not just policy instruments. They can become catalysts. Not just for maintaining competitiveness, but for transforming it.

The South Asian Network on Economic Modeling (SANEM), established in 2007, is a Dhaka-based non-profit research organization. Over the past nearly two decades, it has grown into an international platform for economists, researchers, policymakers, and institutions committed to promoting high-quality, evidence-based economic analysis and informed policy advocacy in Bangladesh, South Asia, and beyond. SANEM conducts both quantitative and qualitative research on a broad range of development issues, including macroeconomics, international trade, poverty, inequality, labor markets, climate change, political economy, renewable energy, human capital, agriculture, social protection, and sustainability, and translates its findings into policy briefs, technical papers, and public discussions aimed at supporting effective decision-making. Through collaborative projects, training programs, conferences, publications, and initiatives for young economists, SANEM plays a key role in strengthening research capacity, fostering policy engagement, and contributing to inclusive and sustainable economic development in the region.

