

BANGLADESH'S TRADE POLICY AT A CROSSROADS: PROTECTION VERSUS COMPETITIVENESS

by Selim Raihan

Bangladesh's trade policy faces an inherent contradiction. While for decades Bangladesh has been trying to diversify its exports, attract foreign investment, and enter into more sophisticated international markets, a large part of the trade system still provides firms with better incentives to operate within a protected domestic market rather than compete on a global scale. Though the ready-made garment (RMG) industry avoided this problem, as it enjoyed bonded facilities and duty-free import of raw materials, many other industries outside of RMG had not been treated similarly. Bangladesh, therefore, pursues export diversification through policies that often make exporting less attractive.

LDC graduation makes the problem more pressing. Bangladesh remains scheduled to graduate on 24 November 2026, although the government has sought an extension and the UN process remains active. Under the European Union's new GSP framework, Bangladesh is expected to retain Everything But Arms preferences for three years after graduation, at least until the end of 2029. This provides breathing space, but does not address the underlying weakness. The real test is whether Bangladesh can develop competitive firms outside garments before preferential access narrows and external competition becomes more demanding.

The tariff regime helps explain why that transition has been slow. While Bangladesh has decreased conventional customs duties over time, para-tariffs and supplementary charges continue to provide a high level of protection for many sectors. This results in an anti-export bias. If final goods receive high protection while imported machinery, components, and intermediate inputs remain costly, firms are encouraged to concentrate on the domestic market. Exporting requires them to face world prices, stricter standards, and stronger competition. Protection reduces those pressures at home and can weaken incentives to invest in productivity.

The RMG industry is an example of what was successful and what failed. RMG exporters were provided an "enclave" type arrangement to access duty-free imported input materials. These arrangements allowed firms to

develop economies of scale, take advantage of the labor-cost benefits that Bangladesh has, and link their manufacturing processes to international markets. In contrast, no similar privileges were implemented for other industries that could have potentially been exporters, such as leather products, light engineering products, agro-processed goods, pharmaceutical products, electronic products, etc. While there is strong political settlement around supporting RMG, such settlement is weak for other sectors. Therefore, Many of the non-RMG sectors face distortive tariffs, restrictive standards requirements, high transportation/logistics costs, limited access to trade finance, and regulatory barriers. Adding sectors to a list of export priorities does little if the underlying incentive structure remains unchanged. Therefore, reforms in tariff structure should not be treated as separate from reforms in supporting industrial upgrading and entry into international trade.

This is where political economy comes into play. Protections create easily identifiable "winners" and less visible "losers." A protected producer will immediately recognize the benefits of a tariff through increased profit margins or decreased competition. On the other hand, the costs of such protections are distributed throughout society. Consumers pay higher prices; downstream producers must buy more costly inputs; and potential exporters may find it impossible to compete in global markets. The latter groups are typically unorganized and possess little power to affect public policy. Industry associations, by contrast, have strong incentives to lobby for protection, often using employment or infant-industry arguments. Some temporary protection can be justified. But protection without clear performance conditions can easily become an entitlement.

The problem is also reinforced by the revenue system. For many years, the National Board of Revenue has relied upon taxes collected at the time of imports. As such, the Trade Policy requires the NBR to lower its levels of border protection, whereas Fiscal Policy requires the NBR to generate greater amounts of revenue from the border. However, this conflict goes beyond being simply a technical inconsistency. In fact, it provides bureaucratic incentives for the NBR and creates significant political barriers to reforming the current system. Until Bangladesh expands its base for collecting taxes domestically; improves the administration of Value Added Tax (VAT); eliminates exemptions from taxation; and improves the

collection of Direct Taxes, the ability to rationalize tariffs will continue to be restricted. Without these changes, any attempt to decrease trade-related taxes will likely encounter the same type of fiscal resistance that has occurred in the past.

When it comes to tariff liberalisation, the current global trade architecture poses a critical challenge for policy-makers. Growing protectionism in many developed and advanced developing countries has created doubts among policymakers in countries like Bangladesh over the usefulness of tariff liberalisation at home. However, for Bangladesh, given its highly distorted trade regime, such doubts should not come in the way as an obstacle to undertaking important reforms.

Trade reforms in Bangladesh must prioritise eliminating the distorted para-tariffs that increase the cost of imported inputs used by domestic firms, as well as those that result in large disparities in protection levels for final products and intermediate inputs. Any remaining protective measures must be clearly defined, have a set expiration date, and undergo periodic reviews. Additionally, government assistance to industries should be redirected from protecting them indefinitely from foreign competitors to supporting investment in technology, skill development, compliance with international standards, export financing, and infrastructure development.

Trade agreements add another layer. The Japan-Bangladesh Economic Partnership Agreement, signed in February 2026, was Bangladesh's first EPA and marked a move towards reciprocal trade arrangements. But an FTA needs to be supported by domestic reform. While an FTA can reduce partner-market tariffs, it cannot make Chattogram port faster, reduce customs discretion, improve testing facilities, ensure reliable energy, or help firms comply with rules of origin. Preferential access will remain unutilised if exporters cannot use it competitively.

The same caution applies to RCEP. Bangladesh's accession bid moved forward in September 2026 when RCEP ministers approved an accession working group for Bangladesh. Integration with Asian production networks could create opportunities for investment, intermediate-goods trade and participation in regional value chains. It would also expose protected domestic industries to stronger competition. Therefore, Bangladesh has to prepare its tariff structure, customs regime, standards institutions, and affected industries while using integration to attract investment.

The reform priorities are clear. Bangladesh needs to reduce anti-export bias, simplify the tariff structure, strengthen domestic revenue mobilisation, modernise customs, strengthen standards infrastructure, and lower logistics costs. Bonded facilities and duty-free input

access should become easier for credible non-RMG exporters rather than remain concentrated in established sectors. Bangladesh's trade policy has reached a point where maintaining old incentives is increasingly costly. The next phase should be organised around competitiveness, not the preservation of protection.

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BANGLADESH'S REVENUE PROBLEM: WHERE IT STANDS, AND WHAT WOULD FIX IT

by Bazlul Haque Khondker

Tax collection in Bangladesh is significantly less compared to the size of its economy, than almost any country in the world. Overall revenue-to-GDP stood at 8.0 percent in FY2024-25 and at 8.2 percent in FY2025-26. The effort is considered low against Bangladesh's revenue tax potential of around 7 percent. The main culprits are weak tax administration, exemptions on essential goods, and low tax productivity. According to the recently published five-year strategy, the government's stated aim is to raise revenue efforts to 11 percent in the medium term and 15 percent by 2035. That is a long climb from here.

The year just ended shows why. In FY2025-26 the National Board of Revenue (NBR) collected Tk 4.15 lakh crore, roughly Tk 88,000 crore short of its revised target - the tenth consecutive year it has missed the target. But the growth of revenue collections was still around 12 percent. Decent growth and a record shortfall in the same year suggests that the target was never realistic. It was the number needed to balance the budget on paper, not a forecast of what the system could deliver and a recipe for larger borrowing. This year's number is even larger. The NBR has been asked for Tk 604,000 crore in FY2026-27 - growth of more than 45 percent on last year's actual collection, whereas the average collection growth during FY21 to FY25 has been around 11 percent.

The root cause of such performances is a very small tax base. There are about 1.28 crore registered income taxpayers and fewer than 800,000 VAT payers, in a country of some 175 million people. Add to that a wide web of exemptions and statutory regulatory orders, and a VAT system broken into multiple truncated rates that cut the input-credit chain the tax depends on. When the target cannot be met by widening the base, pressure falls on those already inside it through array of instruments such as advance taxes, minimum taxes, and aggressive assessments against firms whose main distinction is that they file returns. The outcome: punish the compliant.

Institutional reform has been slow. An ordinance in May

2025 dissolved the NBR and created a Revenue Policy Division and a Revenue Management Division, separating policymaking from collection. It was stated to be an effective approach to improve efficiency and enhance revenue. But the move never materialised. In August 2026, at Revenue Conference-2026 in Dhaka, the Finance and Planning Minister confirmed that the split would go ahead.

Some recent changes seem the right way. The Finance Act 2026 cut the cost of tax appeals sharply, rewrote the withholding schedule, and fixed corporate and personal rates through assessment year 2030-31; the general tax-free threshold rose to Tk 400,000. But a new rule requires firms to deposit a share of recent VAT liability in advance of filing - funding the state from the working capital of businesses that already comply.

Two external deadlines also influence the debate. The IMF has tied a new loan package to a single 15 percent VAT rate and a turnover tax, while the government prefers a rate no higher than 10 to 12 percent. And Bangladesh has formally asked the United Nations to delay its graduation from Least Developed Country status by three years, to November 2029. Whatever is decided, trade preferences - and the tariff revenue attached to them - will eventually go.

So, what would a more effective revenue system look like? The first step is to set realistic revenue targets. A revenue forecast that the NBR cannot reach is not ambition; rather, it is a plan to borrow. Credible and publicly justified targets would help break the yearly pattern of shortfalls followed by emergency bank borrowing, which squeezes credit available to the private sector.

The government should also publish the cost of tax exemptions. Each budget should include a tax expenditure statement listing every concession, who benefits from it, and how much revenue and welfare it costs. New exemptions should carry sunset clauses and lapse unless Parliament actively renews them. Transparency is more effective than any enforcement drive.

The VAT system also needs to be settled once and for all. A single, lower rate with real input tax credits and minimal exemptions would raise more than a 15 percent riddled with carve-outs, as the stalled 2012 law showed. The government's preference for a moderate uniform rate is sound. The key is to pick a rate, enact it, and stop revisiting it every budget.

Bangladesh should also pay greater attention to taxing immovable wealth. Urban property, registered and assessed at actual transaction values, offers the quickest revenue gains. Property is where unexplained wealth is stored in Bangladesh, and it cannot be moved offshore. A wealth tax and a limited inheritance tax on high-value property transfers are both reasonable options, but fixing property registration must come first.

A policy division that exists only on paper changes nothing. Separating tax policy from administration means little if the new policy division is just the old wing renamed. It needs tax experts, economists and statisticians, published forecasts it can be held accountable for, and tax expenditure analysis as a permanent function.

Ultimately, tax reform is also about renewing the fiscal social contract. An elected government has a window of legitimacy that an appointed one lacks. People comply when they can see what their taxes fund and believe wealthier neighbours pay their share. Ending exemptions in public, holding rates steady, and treating compliant taxpayers as citizens rather than as the easiest source of revenue would do more for collections over a decade than any further redrawing of the organogram.

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HOW CAN BANGLADESH REBUILD IT'S INVESTMENT STORY?

by Zubayer Hossen

For years, Bangladesh's pitch to investors has been simple. Come here, hire workers at some of the lowest wages in Asia, and sell into Europe without paying duty. It was a good story, and it worked. The garment industry grew on the back of it, millions of women entered paid work for the first time, and Bangladesh became one of the world's largest apparel exporters.

That story is now running out of pages. Whether or not the UN grants the three-year extension Dhaka requested earlier this year, the destination has not changed. Duty-free access under LDC rules will end, and the only real question is when. The WTO has estimated that Bangladesh could lose up to 14 per cent of its exports once preferences are fully withdrawn. Wages will not stay low forever either, and nobody should want them to.

Therefore, what does Bangladesh offer next? The next investment story has to rest on three things: goods that move quickly, rules that stay put, and workers who can do more. None of these ideas is new. What has changed is that they are no longer optional.

It helps to start with what investors are actually doing. According to Bangladesh Bank, net foreign direct investment rose to USD 1.77 billion in 2025, up nearly 40 per cent on the previous year. That is partly encouraging, but fresh equity, the clearest sign of new investment, barely moved. Most of the growth came from reinvested earnings and intra-company loans.

Put simply, firms already here are staying and expanding. New investors are not yet arriving in meaningful num-

bers. Existing firms have learnt how to work around the system, and their decision to stay is a vote of confidence in their own ability to cope. It tells us much less about whether the system itself works for a newcomer.

The first pillar is logistics. When an investor compares Bangladesh with Vietnam or Cambodia, the wage gap is only one line in the spreadsheet. Another line, often a bigger one, is time. How long does it take for raw material to land, clear customs and reach the factory? How long before the finished order is on a ship?

Chattogram port is where that question gets answered, and the answer is not flattering. As reported by the World Bank, the average container import dwell time at the port rose from 7.8 days in 2023 to 8.3 days in 2024. This happened even as customs rolled out a series of digital systems. For a garment exporter working to tight fashion cycles, every extra day at the port costs money. For an electronics or pharmaceutical company that depends on imported inputs arriving on time, slow port clearance can be reason enough to invest elsewhere.

Under LDC preferences, a European buyer could tolerate some of this delay because the duty saving made up for it. Once that cushion disappears, a slow port becomes a direct tax on every shipment. Speed becomes part of the price.

The good news is that ports are easier to fix than tariffs or wage trends, because they are largely within the government's own control. Bringing in a foreign operator at the Patenga Container Terminal showed that the government is open to new operating models. New capacity, such as the planned Bay Terminal, will also help. But much of the delay lies in how the system works together. Customs, the port authority, shipping agents and banks each handle a part of the process, often on their own timelines. Until they work to a single clock, containers will keep waiting. A port moves only as fast as its slowest signature.

The second pillar, predictability, is probably the cheapest reform on the list. Investors can live with high costs if they can plan for them. What they cannot price is surprise. A tax rule that changes mid-year, an incentive that depends on who is in office, or a licence that sometimes takes three weeks and sometimes three months will quietly push an investor towards another country.

The new Invest Bangladesh Authority, which brings BIDA, BEZA and PPPA under one roof, is a sensible step. Investors, however, will judge it by what happens at the counter, not by the organogram. Does one application now replace five? Are processing times published, and are they met? Is there someone to call when a file gets

stuck? If the answers are yes, the authority could become the most persuasive part of the country's pitch. If not, it risks becoming a new signboard over old problems.

Predictability is not only about rules, it is also about energy. Gas shortages have repeatedly forced factories to cut production, and few investors will commit to a capital-heavy plant without confidence that power and gas will be available. Policy reforms will struggle to convince investors until supply is reliable. Energy policy, in other words, is investment policy.

The third pillar is people, and it is the upgrade that takes longest. Bangladesh's workforce is young and large, and that remains a real strength. But the advantage is shifting from how many workers the country has to what those workers can do. Firms moving into man-made fibres, technical textiles, light engineering or pharmaceuticals need machine technicians, quality controllers, maintenance engineers and capable mid-level managers. Too often these roles go to foreign nationals because employers cannot find local candidates with the right skills.

This is where investment and education policy need to meet, and too often they do not. Vocational training still carries little prestige, and courses rarely keep pace with what factories need. Employer-designed apprenticeships, training centres near industrial clusters and a clear route into decent jobs would do more for the investment climate than any new tax holiday. A factory takes two years to build. A skilled workforce takes much longer, which is why the work has to start now.

None of this means cost no longer matters. Cost still matters, and it will continue to matter. But being marginally cheaper than its neighbours will not be enough to carry Bangladesh through the next decade. What can set it apart is being easier to do business with, which means goods that move on time, rules that stay stable, and workers who can grow alongside the firms that hire them.

The debate over deferring graduation has dominated much of the past two years, but it is worth asking what the extra time is actually for. The UN Committee for Development Policy, which backed Bangladesh's request, made clear that it expects real progress on domestic reforms in return, and an extension spent waiting would only bring the country to the same cliff edge a few years later. Trade preferences wrote the old investment story. Performance will have to write the new one, and most of that is within our own control.

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