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Trump Reciprocal Tariffs

Implications for Bangladesh and Possible Response

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Highlights

The Trump reciprocal tariffs will have detrimental impacts not only for Bangladesh's export performance in the US market, but also global exports of Bangladesh because of their adverse impacts for the global trade and global economy.

Import duties on Bangladesh's exports to the US in 2024 was about USD 1,273 million, while import duties on US exports to Bangladesh was only USD 64.0 million, indicating that Bangladesh should have a strong negotiating position in bilateral talks.

Bangladesh will need to strategise in an informed and evidence-based manner in view of US-RTs, by articulating measures to assuage US concerns and also by keeping the options open for a non-reciprocal free trade agreement.

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The Context

The recently announced *Reciprocal Tariffs (RTs)* by US President Donald Trump have triggered a lot of uncertainties and anxieties worldwide, both in view of trade with the US and also from the perspectives of global trade and economic growth. For obvious reasons, Bangladesh has been no exception, particularly because US is one of Bangladesh's key trade and economic partners. US is Bangladesh's single-most important export destination (EPB, n.d) and one of the country's most important foreign direct investment (FDI) sources. For Bangladesh, the concerns as regards the global trading regime that USA is trying to enforce, and the possible implications of this for Bangladesh's external sector performance, are thus of heightened interest and grave concern.

The Trump RTs have put under serious threat the rule-based multilateral trading system of the World Trade Organization (WTO) which have been in place for over three decades now. The RTs are trying to establish a *new normal* in global trading regime where one witnesses the ascendency of *bilateralism* and erosion of *multilateralism*. Although the trade deals with the UK, and subsequently that with China, indicates that US administration is ready to demonstrate flexibility and come to mutually acceptable terms, weaker partner countries such as Bangladesh are most likely to be in the receiving end in view of any bilateral trade discussions with the US.

Justification of Reciprocal Tariffs

The way the Trump RTs were estimated clearly indicates that 'high tariff on US exports' was not the only concern of the US. The Presidential order argued that along with high import tariffs the *non-tariff measures (NTMs)* such as environmental compliance rules and various regulatory barriers, in place in partner countries, hinder market access of US exports in those countries. Currency manipulation (undervaluation) by partner countries was another concern of the US, undermining competitiveness of US exports and resulting in higher import costs. Consequently, US trade balance is perennially in the deficit, the Trump administration argued.

To note, the formula used for estimating the RTs was rather simplistic: US bilateral trade deficit with a particular country divided by US imports from the country, expressed as a percentage. The result was divided by two to arrive at the RT for the country. A base rate of 10 per cent additional tariff was imposed across all countries.

The formula generated a number of highly debatable results. For example, the 10 per cent additional tariff was also applied on the UK with which the US actually had a bilateral trade surplus! This oversimplified formula did not take into cognisance either the context or the specificities of US's bilateral trade and economic relationship with particular countries. In this sense, the tariffs were not reciprocal, but rather unilateral and arbitrary.

It also needs to be pointed out that, while US does have a deficit in *Trade in Goods*, to the tune of USD 1,200 billion (2024), it had a significant surplus in *Trade in Services*. Indeed, US's services trade surplus rose from USD 77.0 billion in 2000 to USD 295.0 billion in 2024. However, the RTs considered only trade in goods, and not the services trade of the US.

In view of the high RTs, one may recall the adverse implications of the *Smoot-Hawley Tariff* Act of 1930 which was passed by the US Congress on similar grounds. The Act ushered in an era of protectionism in the US, with other countries following suit. The result was the collapse of the world trade which is generally considered to be one of the major reasons underpinning *the Great Depression* of the 1930s.

It is, however, apprehended that the likely adverse knock-on impacts of the protectionist policies pursued by the USA, as also the Sino-US trade war, were likely to be greater this time around. At the time, in the 1930s, US's external trade was equivalent to a mere 5.0 per cent of the US generalized system of preference (GSP). In 2024, shares of US exports and imports in the country's gross domestic product (GDP) were 11.0 per cent and 14.0 per cent respectively. For China, the two relevant figures were 20.0 per cent and 18.0 per cent. Together, US (10.4 per cent) and China (17.5 per cent) account for about 27.9 per cent current of global trade (2024). These figures indicate that in today's world the implications of any disruptions to global trade were likely to be much deeper, and wider, than was the case in the 1930s.

Implications of RTs for Bangladesh

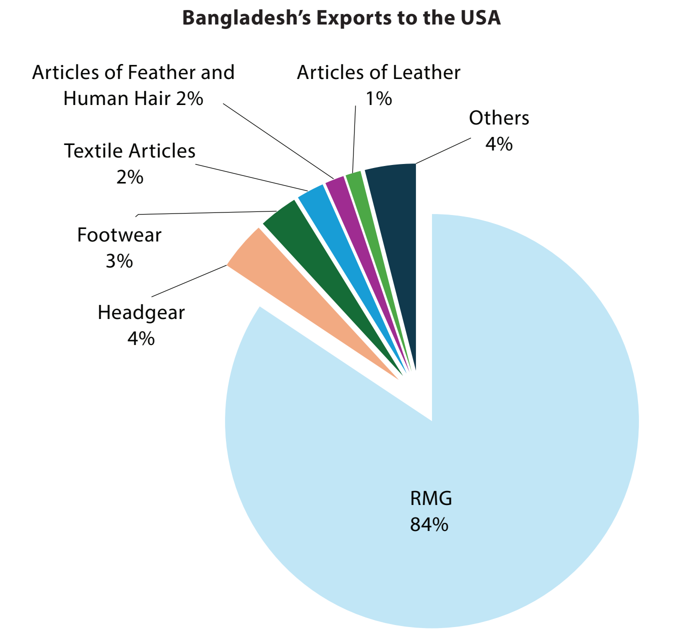
Figure 1 presents the composition of Bangladesh's trade with the US (in 2024). As is evident from the information in the figure, Bangladesh's exports to the US are dominated by apparels (more than four-fifths) whilst imports are more diversified, with four items (iron and steel, seeds and grains, cotton and organic chemicals) accounting for two-thirds of total imports from the US.
With US import of USD 8.6 billion, and bilateral US trade deficit of USD 2.2 billion, the RT for Bangladesh was fixed at 37.0 per cent.

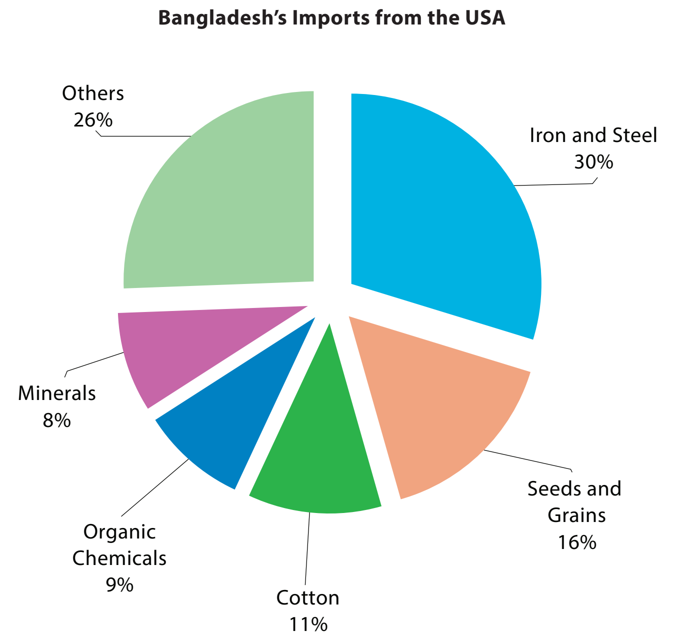
During the pause period the additional import tariff for Bangladesh was to be, as in case of all countries, 10.0 per cent. As regards Bangladesh's all important exports of apparels to the US, the brands and buyers are likely to try to split the burden of additional tariff between themselves and producers and suppliers (Rahman and Arpita, 2025). While the relative shares are not known as yet, any additional cost will be difficult for Bangladesh's apparels entrepreneurs to absorb particularly at a time when prices of gas, energy, and other inputs are on the rise, and costs of borrowings have gone up significantly.

Thus, the impact will be significant, particularly for the *small and medium-sized enterprise (SME)* producers and enterprises whose profit margins tend to be rather thin. If after the 90 days pause the earlier-proposed RT of 37 per cent is imposed on Bangladesh's exports to the US, the adverse impact will no doubt be highly significant for Bangladesh. Estimates carried out for this study indicates that a 37.0 per cent RT will lead to a potential decline of Bangladesh's exports by 56.0 per cent in the US; the decline in global exports of Bangladesh was likely to be to the tune of 9.0 per cent. In case of the currently in place 10.0 per cent RT, the corresponding fall in the country's exports were likely to be by 13.0 per cent and 2.0 per cent respectively.

As far as the apparels sector was concerned, Bangladesh's exports could potentially fall respectively by 34.0 per cent and 5.0 per cent in the US and globally (in view of the 10 per cent RT). As Table 1 indicates, the Trump-RTs

Figure 1: Bangladesh's Exports to and Imports from the USA (2024)





Source: Estimated from USITC.

Table 1: Impact of Trump's New Tariff Schemes on the RMG Sector of Selected Countries

Affected Economy	Proposed Tariff Addition	Exports to US as share of total exports, 2023	Trade Creation in USA (USD Bn)	Trade Diversion in USA (USD Bn)	Total Trade Effect in USA (USD Bn)	US Imports 2023 (USD Bn)	Trade Destruction as share of US imports	Potential reduction in global exports
Bangladesh	37%	15%	-5.07	0.71	-4.36	7.25	-60%	-11%
	10%	15%	-2.66	0.22	-2.45	7.25	-34%	-5%
Vietnam	46%	48%	-9.59	1.45	-8.14	14.42	-56%	-27%
	10%	48%	-4.20	0.74	-3.46	14.42	-24%	-12%
Cambodia	49%	44%	-2.37	0.16	-2.21	3.48	-64%	-28%
	10%	44%	-1.16	0.17	-0.99	3.48	-29%	-13%
India	26%	32%	-3.28	1.12	-2.15	4.68	-46%	-15%
	10%	32%	-1.70	0.19	-1.51	4.68	-32%	-10%
China	145%	12%	-2.52	-15.13	-17.65	17.80	-99%	-12%
	30%	12%	-8.55	-3.10	-11.64	17.80	-65%	-8%

Source: Estimated from TINA and UN Comtrade.

will have adverse implications particularly for the RMG exports of Bangladesh. As would be expected, the impact of 37.0 per cent RTs will be specially detrimental, resulting in a 60.0 per cent fall in exports of apparels to the US market.

Global exports of apparels are likely to fall by 11.0 per cent. For 10.0 per cent RT, the corresponding figures are (-) 34.0 per cent and (-) 5.0 per cent. The adverse impacts will be similar for Bangladesh's key competitors such as Vietnam, as also for Cambodia and India. As is known,

Table 2: Bangladesh and USA: Comparative Tariff Scenario (2024)

Country	Import-weighted Duty	Total Import Duties Collected on Import from Partner Country	Duty-free Import from Partner Country
Bangladesh	6.2%	USD 180.0 mln.	26.0% of import value
	(2.2%)	(64.0 mln.)	(50.0%)
USA	16.2%	USD 1,273.0 mln.	4.8% of import value

Source: Estimated from NBR and USTR (2024).
Note: Figures in parenthesis consider rebates in the form of VAT and AIT refund.

China-US negotiations have resulted in imposition of additional tariffs of 30 per cent on Chinese imports to the US (tariffs on US imports to China would be 10.0 per cent). Thirty per cent additional tariff on imports from China will likely lead to a 65.0 per cent reduction of exports in the US market. The message from the above discussion is two-fold: firstly, Trump RTs will have detrimental impact on Bangladesh's exports of apparels as also overall exports, to the US as also globally; secondly, if Bangladesh's competitors are able to negotiate better deals with the US, Bangladesh's exports will be negatively impacted to a greater extent.

Indeed, the actual implications of US tariffs on Bangladesh's trade performance will hinge critically on several factors: (a) depth of additional duties; (b) duration of additional tariffs in place; (c) coverage of goods; (d) relative competitiveness scenario vis-à-vis competitors; (e) what Bangladesh offers to the US; and (f) strategies pursued by Bangladesh's competitors in the US market.

How reciprocal are reciprocal tariffs?

As far as Bangladesh was concerned, there is nothing reciprocal in the reciprocal tariffs imposed on imports from Bangladesh by the US. As Table 2 would testify, Bangladesh's customs and other duties on items imported from the US are rather low: import-weighted tariff rate is estimated to be about 6.2 per cent.

If the rebates are considered (Bangladesh's importers are eligible for return of advance taxes charged at import stage), the import-weighted duty on imports from the US comes down to only about 2.2 per cent. Our estimates suggest that total amount of duties collected by Bangladesh's imports from the USA was about USD 180.5 million in 2024. If the rebate is taken into account, the amount of import duties will actually be to the tune of only USD 64.0 million (2024).

On the other hand, while US average import tariffs are very low, at 2-3 per cent, tariffs on apparels items tend to be significantly high, between 10-30 per cent. Total import duties charged at US end on imports from Bangladesh came to about USD 1,273 million in 2024. Import-weighted average tariff on all US imports from Bangladesh is estimated to be about 15.1 per cent. Total US duty on imports from Bangladesh's apparels was found to be USD 1,196.1 million which would mean that import-weighted US duties on US imports of apparels from Bangladesh was 16.8 per cent.

Thus, the total import duties collected at the US end was about *six times more* than those collected by the Bangladesh customs; if the duty rebates in Bangladesh are taken into cognisance, this amount will be about *16.8 times higher*.

If the average import-weighted tariff is compared, US tariffs are *6.9 times more* than that of Bangladesh (considering the duty rebate). Indeed, the question that begs an answer who is actually extending market access to who!

Recommended Strategies

In view of the unequal bilateral partnership, Bangladesh will need to design its strategies in the context of the US-RTs very carefully, and in a well-informed manner. Against this backdrop, a set of initiatives and measures is presented below.

Monitoring Closely the Dealings of Competing Countries: Bangladesh will need to carefully monitor what other countries are doing, and how they are negotiating their offer and request lists, how they are strategising their offensive and defensive interests, and how they are dealing with their non-negotiables. Knee-jerk reaction on the part of Bangladesh may undermine the country's interests.

Also, Bangladesh will need to take into cognisance its obligations under the various Agreements and provisions of the WTO of which it is a founding member. Compliance with the MFN principle will also need to be taken into account by Bangladesh including ramifications of the offers in term of *revenue loss*. A proactive and multistakeholder consultation process must be put in place and evidence-based options must be weighed carefully in preparation of the bilateral discussion with the US in connection with the RTs.

Undertake Proactive Negotiations Taking advantage of TICFA Platform: Bangladesh and the US signed a Trade and Investment Cooperation Forum Agreement (TICFA) on November 25, 2013. Several rounds of discussions have taken place between the two countries since then. USTR Report also emphasises that this agreement is the primary mechanism for discussion of trade and investment between the US and Bangladesh.

In the discussions, Bangladesh may ask the US side for a list of products of export to Bangladesh in which US has an interest in having duty-free or reduced-duty access. TICFA is also the platform for undertaking discussion as regards moving towards a bilateral FTA.

Estimate Implications of Providing Market Access Preference to the US: As was noted, if Bangladesh offers tariff concession to the US for certain commodities, it will need to extend similar treatment to all other trading partners on an MFN basis. Depending on the product, and the attendant import duties, this was likely to have important revenue implications. The list of products for preferential treatment will need to be carefully assessed in view of the potential revenue losses. However, signing of a bilateral FTA with the USA would address this particular concern.

Consider Signing a Bilateral FTA With the US: Bangladesh may show an interest in initiating discussions as regards negotiating a bilateral FTA, as also a *Bilateral Investment Agreement*, with the US. Indeed, in the course of TICFA discussions Bangladesh had earlier raised this issue. However, US was not inclined to pursue this on the ground that Bangladesh was yet not ready for signing an FTA with the USA. In recent talks, US has indicated its agreement to open talks, in principle, in this regard.

Experience of developing countries which have signed bilateral FTAs with the US will need to be studied carefully and negotiating FTA with the US and the attendant risks and rewards will need to be assessed in an informed way. Issues of non-reciprocal treatment and differential timelines for implementation of the trade liberalisation plan and compliance assurance will need to be negotiated with the US with due caution and care.

Reflect US Tariff-related Concerns in FY2025-26 Budget: As was mentioned earlier, Bangladesh had already indicated its readiness to address some of US's tariff-related concerns in the letter sent by the Chief Adviser as also the subsequent statement by the Commerce Adviser. Some of these have been reflected in the budget for FY2025-26 presented by the Interim Government on June 2, 2025. The budget proposes phased reduction of tariffs on imported goods, withdrawal of import duties on 110 products, reduction of import tariffs on 65 products, complete withdrawal of supplementary tariffs on 9 products and reduction of supplementary duties on 442 products as part of preparing for trade dialogue with the US.

However, it is reckoned that these, or at least some of these, proposals in the Budget should have been kept as bargaining chips in the context of possible bilateral FTA negotiations with the US. If duties on the top three duty-paid imported items from the USA are brought down to zero, the duty loss would be about USD 61.6 million. If this same preferential access is offered to all the other countries on a most favoured nation (MFN) basis, the total duty loss on these three items would be to the tune of USD 168.1 million.

Accordingly, any decision as regards duty-free (or reduced-duty) market access to be offered for imported items from the US will need to be carefully examined. Providing preferential market access only to the US, as part of a BFTA, would thus be of more benefit to Bangladesh than extending this on an MFN basis.

Take Advantage of Flexibilities as Regards Imported Cotton From the US: In terms of import of cotton, the US is Bangladesh's 5th largest import source (accounting for

12.0 per cent of total cotton imports by Bangladesh). For the US, Bangladesh is the 7th most important export destination of its cotton. Bangladesh should explore whether apparels produced from cotton imported from the US could receive preferential treatment at US customs. This could help Bangladesh avoid additional tariffs and provide Bangladesh's exports some edge over its competitors.

Provide Warehouse Facilities: Bangladesh could consider allowing special warehouse facilities for imports of cotton from the US. The Bangladesh Garments Manufacturers Association (BGMEA) and Bangladesh Knitwear Manufacturers Association (BKMEA) have already asked for permission to set up dedicated warehouses for storage of cotton imported from the US.

This, if implemented, will reduce the lead time, and contribute to raising Bangladesh's export competitiveness not only in the US but also in other markets. This would also facilitate negotiating tariff waivers in the US for apparels produced in Bangladesh with US cotton. This would also likely increase import of cotton from the US.

Allow Deferred Payment Facility: Allowing financing of imports of cotton from the USA, with deferred payments facilities, will incentivise Bangladesh's export-oriented apparels sector and importers of cotton in general by way of facilitating higher amount of import of cotton from the US.

Attract FDI from the US: Attracting more investment from the US will help to (a) reduce US's bilateral trade deficit with Bangladesh and (b) take advantage of the higher *US content requirement* mentioned in the Presidential Executive Order. Signing a bilateral *Investment Agreement* should be seriously considered in this connection.

Strengthen IPR Regime: Bangladesh will need to significantly improve its IPR regime to assuage US concerns in this regard. A policy of zero tolerance will need to be enforced in view of counterfeit and IPR violations.

Put Emphasis on Regional Cooperation: In view of the emerging volatilities in global trade, Bangladesh must proactively pursue avenues of deepening and broadening regional cooperation (e.g., BIMSTEC). This should be seen as a key strategy towards triangulation of transport, investment and trade communities, and export market and export product diversification.

Opportunities of FTAs and *Comprehensive Economic Partnership Agreements (CEPAs)* with regional countries and regional trading blocs will need to be actively explored and diligently pursued. Towards this, Bangladesh will need to significantly strengthen its negotiating capacity. Bangladesh should seriously consider setting up a Negotiating Wing with adequate human and financial resources at its disposal.

Embed Response to the US in Bangladesh's LDC Graduation Strategy: Addressing global shocks, including the adverse impacts originating from such unforeseen developments as the US-RTs, should be seen as an integral part of Bangladesh's *Smooth Transition Strategy (STS)* which has been formulated in anticipation of Bangladesh's graduation from the least developed country (LDC) group. A comprehensive, well-coordinated approach will be necessary to address the emerging challenges in the global trading system and global economy, and this should be an integral component of the overall Strategy of Bangladesh towards sustainable LDC graduation, by avoiding the *middle-income trap*.

Concluding Remarks

The preceding sections have made an attempt to capture the evolving dynamics in view of Trump RTs, and their implications for Bangladesh's external sector, and what needs to be done to address the emerging challenges against this backdrop. The US trade policy under President Trump is an evolving one with many pieces moving simultaneously.

As was noted, RTs have been paused for three months. US has already negotiated separate agreements as regards tariffs with the UK, China and a number of other countries. Many other countries have initiated discussion with the US, offering concessions and articulating various measures to assuage US concerns and meet its demands. At the same time, China has sought consultations in the WTO-DSB, on grounds of violations of the WTO rules by the US. US has agreed to initiate discussion with China within the ambit of the WTO. Bangladesh will need to monitor the developments in this regard very closely and should take note of the strategies pursued by other countries.

The paper has argued that the concerns that the US has flagged needs to be addressed by Bangladesh as part of its reform agendas and as part of its efforts at reducing trade barriers and removing anti-export bias in trade policies, and not just because the US is asking for these. The paper argues that Bangladesh should open FTA talks with the USA; however, adequate preparations must be undertaken in anticipation of this.

Against this backdrop, the paper has strongly argued in favour of establishing a well-resourced *Negotiating Wing* without delay. The paper also observes that all the suggested measures in this paper ought to be coordinated with Bangladesh's initiatives towards sustainable LDC graduation and aligned with the country's *Smooth Transition Strategy* in view of this.

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