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The Great Unravelling: U.S. Reciprocal Tariffs and Bangladesh

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Abstract: The United States has introduced sweeping "reciprocal tariffs," including a 10 per cent baseline on all imports and higher, country-specific rates—37 per cent in the case of Bangladesh—based on bilateral trade deficits. This marks a sharp departure from multilateral trade norms and the WTO's Most-Favoured-Nation principle. The policy risks undermining the global trading system and could lead to widespread trade distortions. For Bangladesh, the tariffs pose serious challenges to export earnings, particularly in the apparel sector. While its relative position in the U.S. market may remain stable due to even steeper tariffs on competitors, broader risks—such as trade diversion, falling prices in third markets, and macroeconomic pressures—remain significant. Strategic policy responses, including diplomatic engagement, export support measures, and diversification efforts, will be critical.

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The Great Unravelling: U.S. Reciprocal Tariffs and Bangladesh

I. A Radical Departure from Multilateral Trade Norms

U.S. President Donald Trump has announced a sweeping new tariff policy under the banner of "reciprocal tariffs," marking what he dubbed as the "liberation of American trade," in a radical departure from decades of multilateral trade practice, unleashing turbulence across the global economy. In his first term as president, the United States initiated a tariff war against China, while during his last election campaign there was an indication of a much wider application of retaliatory tariffs. Even then, the extent of the latest bout of tariff slaps across so many countries, including some of the capacity-constrained developing countries such as Madagascar and Vanuatu, has come as a major shock and is unprecedented.

The policy introduces a 10 per cent "baseline" tariff on all imports to the United States. In addition, more than 60 countries—labelled as "worst offenders" for allegedly imposing higher tariffs on U.S. goods, maintaining non-tariff barriers, or otherwise acting in ways seen as undermining American economic interests—will face even higher, country-specific tariff rates. The baseline tariff will take effect on 5 April, while the additional country-specific tariffs will be implemented from 9 April. Furthermore, the United States has confirmed the immediate introduction of a new 25 per cent tariff on all foreign-made automobiles.

The newly imposed country-specific tariff rates include 54 per cent for China (factoring in existing tariffs), 20 per cent for the European Union, 26 per cent for India, 37 per cent for Bangladesh, 46 per cent for Vietnam, 48 per cent for Laos, 47 per cent for Madagascar, 32 per cent for Indonesia, and 49 per cent for Cambodia. Based on the precedent set with Canada and Mexico—where the 10 per cent baseline tariff did not apply because higher tariffs had already been imposed—it is expected that, in all cases where higher reciprocal tariffs are applied, the baseline rate will be excluded rather than added on top.

Once the reciprocal tariffs take effect, average U.S. import tariffs are projected to rise more than sevenfold—from the current level of under 3 to 22 per cent—reaching their highest point in over a century, a level not seen since the 1930s, when tariffs peaked during the protectionist era that followed the Great Depression.

II. The Dubious Logic Behind the Tariffs

Irrespective of the technical rigour of the methodology used, the calculation of the reciprocal tariffs imposed on different countries can be closely approximated using a simple formula: the U.S. bilateral trade deficit with a given country as a percentage of that country's exports to the United States, with the resulting figure halved to determine the tariff rate. For example, according to USTR data, total U.S. goods trade with Bangladesh amounted to an estimated $10.6 billion in 2024, of which U.S. exports were $2.2 billion. This implies a bilateral trade deficit of $8.4 billion—approximately 79 per cent of Bangladesh's exports to the U.S.—yielding an estimated tariff of around 37 per cent when halved. Similar approximations align closely with the announced reciprocal tariffs for other countries, including Indonesia, India, and Vietnam.

The methodology underpinning the reciprocal tariffs implicitly assumes that the existence of a bilateral trade deficit constitutes evidence of country-specific trade barriers disadvantaging U.S. exports, and that, in the absence of such barriers, the trade deficit would naturally diminish or disappear. This approach equates trade imbalances with unfair trade practices—even though the USTR's own 2025 National Trade Estimate Report on Foreign Trade Barriers, released on 31 March, while cataloguing various policy measures across countries, including a five-page section on Bangladesh, does not conclusively demonstrate that these measures disproportionately harm U.S. businesses. More broadly, relying on bilateral trade deficits as the basis for tariff action overlooks structural factors—such as country specialisation (e.g., labour-intensive versus capital-intensive goods)—as well as broader determinants of competitiveness.

This approach is also unfair when the absolute sizes of US bilateral trade deficits are to be taken into consideration. For instance, Vietnam's and India's bilateral trade surpluses of about $125 billion and $46 billion, respectively, vis-à-vis Bangladesh's $8 billion attracting comparable tariffs. Another issue is services trade is not taken into consideration, again quite unfairly for the countries with limited competitive strength in services exports, as the objective of the current US trade policy is to create manufacturing jobs.

Most economists are of the view that such tariffs will not correct the overall U.S. trade imbalance. Instead, macroeconomic fundamentals—namely, the U.S.'s substantial fiscal deficit are the root cause of the trade deficit, not foreign trade practices. Without addressing this fiscal imbalance, including through politically difficult spending cuts or revenue increases, tariffs merely shift trade flows without reducing the aggregate deficit.

According to the London-based institute, Centre for Economic Policy and Research (CEPR), even if the U.S. were to eliminate its trade deficit entirely by expanding manufacturing output—requiring an additional $906 billion in production, or a 12.6 per cent increase—this would create only about 1.6 million new jobs, equivalent to just 1 per cent of total non-farm employment. Furthermore, cross-

country evidence seems to suggest that productivity growth, rather than trade imbalances, is the principal driver of manufacturing job losses.

III. Erosion of the Multilateral Trading System

The newly announced U.S. reciprocal tariffs, which vary across countries based on bilateral trade deficits, constitute a blatant violation of the World Trade Organization's (WTO) Most-Favoured-Nation (MFN) principle—a cornerstone of the multilateral trading system that has remained largely intact since the inception of the General Agreement on Tariffs and Trade (GATT) in 1947. The MFN principle mandates that any favourable treatment granted to one WTO member must be extended to all others, with only two narrowly defined exceptions: preferential trade arrangements among regional groupings (such as FTAs) and special concessions granted to developing countries and LDCs under the Enabling Clause.

While the erosion of trade multilateralism has been underway for nearly two decades, the United States' sweeping and discriminatory tariff regime marks an unprecedented departure from WTO norms and could deal a decisive blow to the global rules-based system, potentially reshaping it permanently.

Undermining the system further, the United States has persistently blocked the appointment of appellate judges to the WTO's Dispute Settlement Body since 2019, rendering the organisation's appellate function inoperative and paralysing its ability to enforce trade rules. Despite this, many countries have continued to file complaints, but their efforts are effectively deadlocked at the appellate stage due to the absence of a functioning bench.

Adding to the strain, U.S. delegates in Geneva have reportedly informed WTO members that Washington is withholding its payments for the organisation's 2024 and 2025 budgets, pending a broader review of U.S. financial contributions to international institutions. With a total WTO budget of 205 million Swiss francs (approximately $232 million) in 2024, the United States was expected to contribute about 11 per cent, based on its share in global trade.

Together, the imposition of unilateral tariffs, financial disengagement, and the ongoing obstruction of dispute settlement mechanisms signal not only a potential retreat of the U.S. from the WTO, but also the emergence of a new, fragmented global trade order where geopolitical powerplay or geoeconomics may supplant cooperative rule-making.

IV. Implications for Bangladesh and Policy Directions

Previous estimates of the U.S.-China trade war suggested a global income loss of 0.8 to 1.3 per cent, yet the economic fallout from the newly announced U.S. reciprocal tariffs is likely to be far more severe, given their sweeping reach across dozens of countries and the high probability of retaliatory

measures by many of the affected countries. As trade barriers multiply and global trade volumes contract, the risk of triggering a broader economic slowdown—or even a global recession—has increased markedly. Financial markets have already responded with heightened volatility, reflecting investor anxiety over policy uncertainty and deteriorating growth prospects. In parallel, the tariffs will prompt firms to reassess production strategies, leading to supply chain disruptions that threaten not only industrial output but also price stability, particularly in sectors heavily dependent on globally integrated manufacturing.

The newly imposed reciprocal tariffs will have immediate repercussions for global exports including those from Bangladesh. As tariffs raise the landed cost of imported garments, retail prices in the U.S. are expected to rise, leading to a contraction in consumer demand—an effect that will broadly impact all exporting countries.

According to the U.S. Trade Representative's (USTR) technical assumptions, the effect of the new reciprocal tariffs on import demand hinges on two key parameters: a tariff pass-through rate of 0.25 and a price elasticity of import demand of 4. This implies that every 1 percentage point increase in tariff leads to a 0.25 per cent rise in import prices, which in turn reduces demand by 1 per cent—establishing a linear relationship between tariff hikes and demand contraction. Based on this framework, a rise in the average U.S. tariff rate to about 20 per cent would raise import prices by 5 per cent and reduce import demand by roughly 20 per cent, assuming import volumes respond proportionately.

However, tariff increases on apparel products are significantly higher than this average. Taking a simple average of the new tariff rates applied to the four largest apparel suppliers to the U.S.—Bangladesh (37%), India (26%), Pakistan (29%), Sri Lanka (44%), Vietnam (46%), and China (54%)—yields an average tariff increase of more than 40 per cent. Applying the USTR's pass-through estimate, this would result in at least 10 per cent increase in import prices for garments from these countries, potentially triggering a substantial fall in U.S. demand, heavily affecting suppliers. In reality, tariff pass-through can be much higher thereby triggering a devastating impact within a short period of time.

While the 37 per cent reciprocal tariff imposed on Bangladeshi apparel exports to the United States presents a serious challenge, its relative position among major suppliers may not deteriorate substantially—at least within the U.S. market. China and Vietnam, which collectively account for around 40 per cent of U.S. apparel imports, are facing even steeper tariffs of 54 and 46 per cent, respectively. China's $17 billion worth of apparel exports to the U.S. in 2024, constituting a 21 per cent market share, is expected to contract sharply, while Vietnam's $15 billion in exports, representing 19 per cent of the market, will similarly come under pressure. India, facing the lowest tariff among major exporters, stands to gain the most in competitive terms, followed by Pakistan and Bangladesh. Although a few Sub-Saharan African countries eligible under the African Growth and Opportunity Act (AGOA) will benefit from lower tariffs, their limited supply-side capacity means they are unlikely to significantly expand their U.S. market share.

In this context, Bangladesh’s relative position (although absolute export earnings may suffer) in the U.S. market may remain stable or even slightly improve. However, the more critical challenge lies outside the U.S.: China's excess supply capacity, once constrained by the U.S. tariff wall, may increasingly be redirected to other key global markets such as the European Union, Japan, and Canada. Given Bangladesh’s strong presence in the EU—holding a 21 per cent market share—this diversion of Chinese exports could exert strong downward pressure on global apparel prices, undermining Bangladesh’s competitiveness and profitability.

It is worth pointing out that the imposition of steep and uneven U.S. reciprocal tariffs across a wide range of trading partners raises the risk of triggering competitive currency devaluations, particularly among export-oriented economies seeking to offset the tariff-induced loss in price competitiveness. For Bangladesh, already grappling with foreign exchange constraints and inflationary pressures, such dynamics could deepen macroeconomic vulnerabilities, erode export margins in the price-sensitive apparel sector, and complicate efforts toward economic stabilisation.

Bangladesh must carefully evaluate its position in the shifting global trade landscape, taking into account the responses of other major apparel-exporting countries and identifying a judicious mix of defensive and proactive measures to safeguard its interests. As a first step, Bangladesh should engage in targeted diplomatic negotiations with the United States to seek tariff relief or preferential treatment—potentially by offering reciprocal concessions on select U.S. exports such as cotton, LNG, or capital machinery—to mitigate the adverse effects of the new reciprocal tariff regime.

However, unilaterally reducing tariffs only on U.S. imports could create two significant risks. First, it would violate the WTO’s MFN principle, inviting demands for similar treatment from other trading partners. Second, there is no assurance that such a gesture would lead to reciprocal tariff reductions by the U.S., especially given that the current tariff regime is being justified not on the basis of mutual trade concessions but rather on bilateral trade deficits. In this context, a simple bilateral tariff adjustment may not be a viable or sufficient response. While mutual tariff reductions through Free Trade Agreements (FTAs) have traditionally served as a framework for exchange of market access benefits, the United States has now moved away from that model—evident in the imposition of tariffs even on long-standing FTA partners such as Mexico and Canada. Therefore, any tariff response must be embedded within a broader diplomatic strategy, involving close monitoring of U.S. policy developments, studying the responses of other affected countries, and identifying strategic entry points for negotiation that reflect both economic realities and evolving geopolitical considerations.

One strategic option for Bangladesh could be to eliminate para-tariffs such as supplementary duties (SD) and regulatory duties (RD), which would lower effective import tariffs and demonstrate goodwill toward U.S. trade concerns. However, the challenge lies in the fact that the methodology behind the U.S. reciprocal tariffs does not appear to consider existing tariff rates, but instead relies mechanically on bilateral trade deficits.

Another approach could involve attracting more U.S. investment in sectors linked to American exports, thereby boosting imports from the U.S. and potentially narrowing the trade gap. Yet this

path is likely to be time-consuming, and given Bangladesh's persistent challenges in attracting FDI at scale, its immediate viability remains limited.

In the short term, Bangladesh should support its exporters through targeted temporary measures such as enhanced export subsidies and streamlined duty drawbacks, subsidised financing, export promotional assistance, etc, although there is no denying that the fiscal space of the government is currently extremely limited. Accelerating market diversification—particularly toward the EU, Japan, and emerging economies—can help reduce overreliance on the U.S. market. But, of course, finding another market of that size is currently not possible.

Over the medium term, sustaining competitiveness will require deeper reforms to boost productivity, upgrade quality standards, and streamline logistics, thereby enabling Bangladeshi exports to remain price-resilient in an increasingly fragmented and contested global trade environment. Bangladesh must intensify efforts to secure export market opportunities through FTAs, particularly with high-income and strategically important markets.

Bangladesh should closely monitor potential diversion of Chinese apparel exports to third markets like the EU and develop early warning systems and contingency strategies to safeguard its market share and pricing power. This may include proactive engagement with key buyers in those markets, flexible pricing strategies, and coordinated industry responses to withstand intensified competition and avoid erosion of export earnings.

In parallel, there is also the need for actively collaborating with global economies especially those affected developing and like-minded countries to revive the spirit of trade multilateralism and strengthen the rules-based global trading system. By collectively raising concerns in global forums, the development costs of unpredictable, unilateral, and non-rules-based trade actions can be highlighted while advocating for more equitable and transparent mechanisms that preserve market stability and ensure fair access for all.

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