Strategic Approaches to FTAs in the Context of LDC Graduation: Policy Imperatives for Bangladesh

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Bangladesh's forthcoming graduation from LDC status in November 2026 poses significant risks to its export competitiveness, particularly due to the expected loss of non-reciprocal trade preferences currently enjoyed in several key markets. Given that over 80 per cent of exports are concentrated in apparel products that usually have much higher tariff rates in most importing countries in comparison with the most favoured nation (MFN) average rate for manufacturing, the impact could be disproportionately severe. Retaining preferential access through reciprocal Free Trade Agreements (FTAs) has thus become critical. Despite Bangladesh's strong economic growth record and large protected market making it an attractive FTA partner, its historical reliance on unilateral preferences and protectionist trade policy has constrained its readiness for reciprocal trade deals. Furthermore, despite numerous MoUs and feasibility studies. Bangladesh remains largely outside bilateral and regional trade arrangements apart from the currently dysfunctional SAFTA. The paper sets out to examine these structural and institutional impediments and proposes a strategic framework to guide Bangladesh's FTA engagement in the context of LDC graduation.

Significance of FTAs for Bangladesh

Bangladesh stands out among Least Developed Countries for its heavy reliance on LDC-specific trade preferences as nearly three-quarters of its exports enjoy duty-free access under these arrangements. In critical markets such as Australia, the European Union, and United Kingdom, the figure climbs even higher, exceeding 90 per cent. This level of dependence is far greater than that of other LDCs, many of which export primary commodities that face little or no tariffs to begin with, or benefit from bilateral trade deals that offer duty-free access regardless of LDC status. As Bangladesh prepares to graduate from the LDC group in 2026, this extensive exposure leaves its export sector, especially the apparel industry, facing steep tariff increases, with average Most Favoured Nation (MFN) rates ranging from 9 to 20 per cent across key markets. Although Australia has pledged to maintain existing preferences, most other partners including the EU, Canada, India, Japan, Korea, and China will either raise tariffs or apply more restrictive conditions, such as the UK's double transformation requirement for garments under its Enhanced Preferences scheme.

What makes the situation even more pressing is that Bangladesh's competitors are moving quickly to secure trade advantages through bilateral deals. Viet Nam and India, for example, have signed or are negotiating FTAs with major importers like the EU, UK, and Canada, effectively gaining tariff-free access just as Bangladesh risks losing it. Under the EU–Viet Nam FTA, tariffs on Viet Nam's apparel exports are being phased out, coinciding with the end of Bangladesh's transition period, when its own exports will start facing nearly 12 per cent tariffs. Bangladesh has already seen a tangible impact: it was once the second-largest apparel exporter to Canada but has now been overtaken by Viet Nam, following the latter's accession to the CPTPP. These developments highlight a critical reality: unless Bangladesh proactively negotiates reciprocal FTAs, it risks falling behind in global export markets, precisely at a time when preserving competitiveness is more urgent than ever.

Priority FTAs for Bangladesh

Given its limited institutional capacity and protectionist legacy, Bangladesh must take a carefully targeted approach when considering future FTAs. Not all trade agreements deliver benefits, and their outcomes depend heavily on the economic structures, existing trade patterns, and compatibility between partner countries. While FTAs can improve market access, they can also lead to trade diversion and revenue losses—especially for countries like Bangladesh with high tariffs and a narrow export base.

Theoretical insights and empirical analyses suggest that FTAs with developed countries often produce clearer gains for developing partners, especially when trade specialisation is complementary. In contrast, South–South FTAs, particularly those involving countries with overlapping production structures and weak trade complementarity, tend to yield modest benefits for weaker partners unless designed with sufficient flexibility and asymmetry.

Ex-ante assessment tools like trade complementarity indices and economic models can help guide FTA prioritisation, but they have limitations. Bangladesh's low trade complementarity scores with most major economies reflect its over-reliance on apparel exports and misalignment with the import profiles of key partners. Furthermore, models often fail to capture the complexity of real-world negotiations, such as rules of origin, sensitive product exclusions, and non-tariff barriers. Despite these challenges, well-negotiated FTAs can help anchor domestic reforms, attract investment, and facilitate greater integration into global value chains—benefits that go far beyond immediate tariff reductions.

In light of LDC graduation, Bangladesh's most urgent task is to safeguard its access to key export destinations. The EU remains a top priority, with options including GSP+ or a bilateral FTA if current preferences cannot be maintained. FTAs with the USA, where Bangladesh faces the highest tariffs, could offer significant gains, especially as reciprocal tariff threats loom. Canada and Japan may also warrant FTA negotiations post-graduation, particularly to maintain parity with competitors like Viet Nam, which already enjoys duty-free access in these markets.

While India and China are not major export destinations, they are Bangladesh's top import sources and regional powerhouses. FTAs with these partners carry risks of import surges, but they also present long-term opportunities for investment, regional integration, and value chain participation—provided negotiations are strategically framed and designed with safeguards under WTO provisions.

Finally, joining the Regional Comprehensive Economic Partnership (RCEP) could offer Bangladesh a broader and more dynamic route to trade integration. Beyond immediate market access, RCEP's harmonised standards, large market scale, and phased liberalisation timeline could support Bangladesh's aspirations for export diversification and industrial upgrading, while easing the burden of negotiating multiple bilateral FTAs.

Key Challenges in Pursuing FTAs

Bangladesh faces a complex set of structural and policy-related constraints that limit its ability to effectively engage in free trade agreements. These challenges are deeply interconnected and cannot be understood in isolation. At the heart of the problem is a highly protectionist trade regime. With average tariffs—especially when para-tariffs are included—among the highest in the world, Bangladesh's trade structure creates serious risks of revenue loss and trade diversion if reciprocal agreements are pursued without prior reform. This is particularly worrying given the country's heavy reliance on trade taxes, which account for more than a quarter of total government revenue. Without a robust strategy for domestic revenue mobilisation, tariff liberalisation remains fiscally difficult.

Another concern is the limited quality compliance in domestic manufacturing. Without pressure to meet international standards, many firms remain focused on the local market, and even export-ready sectors like leather have lost global buyers due to poor environmental compliance. This lack of alignment with international benchmarks further discourages outward orientation and export diversification.

Bangladesh's narrow export base compounds these problems. With exports largely concentrated in a few products, mostly apparel, the country finds it difficult to negotiate broad-based trade agreements. It lacks the product diversity needed to pursue an offensive trade strategy or to offer reciprocal concessions across sectors. This also weakens trade complementarity with potential partners, making the economic case for many FTAs relatively weak.

Resistance from vested interests further hinders progress. Powerful domestic groups that benefit from high tariffs and protectionist policies are often hostile to liberalisation. This resistance shapes government policy and contributes to ongoing inconsistencies between national strategies and actual implementation. While the Smooth Transition Strategy and the National Tariff Policy call for modernising trade policy, the reality on the ground remains driven by protectionist impulses, as illustrated by recent bans and ad hoc policy reversals.

Adding to these domestic challenges is the lack of interest from many prospective partner countries. Developed economies are increasingly looking for deeper, more comprehensive trade deals that cover not just tariffs, but also labour standards, environmental protections, investment rules, and public procurement. Bangladesh's limited institutional readiness and regulatory capacity—owing in part to its historical LDC status—make it a less attractive FTA partner. The country's modest levels of foreign direct investment also signal weak global business linkages.

Finally, the lack of trade negotiation capacity is a fundamental constraint. Having long relied on non-reciprocal trade preferences, Bangladesh has not developed the institutional expertise or inter-ministerial coordination required for complex modern trade negotiations. Key agencies often operate in silos, and there is a lack of rigorous preparatory work on sectoral sensitivities or export potential. Without a coordinated, government-wide strategy backed by legal, technical, and sectoral insights, formulating and defending credible negotiating positions remains a serious challenge.

Strategic Approaches to Navigating FTA Challenges

To navigate the complex challenges of entering into Free Trade Agreements, Bangladesh needs a well-calibrated strategy that balances short-term policy imperatives with long-term development goals. Central to this is the urgent need to rationalise its high tariff structure, which continues to distort incentives, discourages export diversification, and raises the risk of trade diversion in reciprocal trade deals. The National Tariff Policy and the Smooth Transition Strategy (STS) both call for lowering tariffs, reducing anti-export bias, and aligning trade incentives more closely with the country's development objectives. Successful implementation of these reforms, supported by strengthened domestic resource mobilisation, would not only mitigate revenue concerns but also unlock broader gains for the economy, including increased investment and export growth.

Alongside tariff reform, Bangladesh must adopt a more strategic and focused approach to negotiating trade agreements. Rather than pursuing numerous memoranda of understanding and feasibility studies with limited follow-up, efforts should prioritise countries and blocs where preferences are at risk due to LDC graduation or where clear opportunities exist to boost exports. Key priorities include maintaining duty-free access to the EU, finalising a comprehensive agreement with Japan, and initiating deeper engagement with the United States, despite the complexity of its trade policy environment. Accession to the Regional Comprehensive Economic Partnership (RCEP) also offers substantial medium- to long-term benefits, including integration into dynamic regional value chains and improved investment prospects.

India and China are Bangladesh's two most important import sources and increasingly relevant export destinations. While neither currently accounts for a large share of Bangladesh's total exports, both offer significant potential for future market expansion, especially in non-apparel sectors. However, any prospective FTA with these countries must be approached with caution. Given their vast supply-side capacities, entering into reciprocal agreements without adequate safeguards could expose Bangladesh to sudden import surges and undermine domestic industries.

That said, there are flexibilities available—particularly under the WTO's *Enabling Clause*, which governs South–South preferential trade agreements. Unlike North–South FTAs that must comply with the strict requirements of GATT Article XXIV (such as liberalising "substantially all trade"), the Enabling Clause allows developing countries to enter into trade agreements with less-than-full reciprocity, phased tariff reductions, and exemptions for sensitive products. This means Bangladesh can design agreements that liberalise only selected sectors aligned with its comparative advantage, while protecting others through exclusion lists, longer implementation timelines, and safeguard mechanisms. These provisions have been used in other South–South FTAs to ensure that weaker economies are not overwhelmed by more competitive partners.

Moreover, special and differential treatment (S&DT) provisions may also be invoked, allowing for asymmetrical commitments where Bangladesh can request extended transition periods, flexible rules of origin, and technical assistance to meet compliance and regulatory requirements. By leveraging these flexibilities, Bangladesh can pursue engagement with India and China in a way that supports domestic industrial upgrading, enables gradual adjustment, and avoids one-sided liberalisation that might otherwise lead to welfare losses or structural dislocation.

Institutional capacity is another area where reform is essential. Bangladesh's limited experience with reciprocal trade negotiations has left it without a dedicated cadre of trade negotiators or an institutional framework to manage complex, multidisciplinary trade agreements. Establishing a permanent pool of trained negotiators—drawing from government, think tanks, and relevant agencies—and creating a Chief Trade Negotiator's Office would provide the leadership, coherence, and technical depth needed to support future FTA efforts. Complementing this with sustained training and strategy development would help shift from reactive trade engagements to more proactive and technically sound negotiation processes.

Lastly, building broad-based domestic support for trade liberalisation is vital. Instead of abrupt policy shifts, the government should pursue gradual, transparent reforms that replace blanket protection with targeted, time-bound support for firms to become competitive. This approach, as laid out in the STS, includes improving quality standards, aligning production with global demand, and promoting export diversification. By signalling a credible path to liberalisation while protecting vulnerable sectors during the transition, Bangladesh can create the political and institutional conditions necessary to support a more open and competitive economy in the post-LDC era.

Strategic Approaches to FTAs in the Context of LDC Graduation: Policy Imperatives for Bangladesh

I. Introduction

Being a Least Developed Country (LDC), Bangladesh receives LDC-specific non-reciprocal, one-way trade preferences in most of the critical importing destinations, including Australia, Canada, China, the European Union, India, Japan, the Republic of Korea, and the United Kingdom, significantly boosting its export competitiveness. However, with the imminent graduation from the group of LDCs, scheduled to take place in November 2026, its exporters could be subject to abrupt and large tariff hikes. Since an overwhelming proportion of more than four-fifths of Bangladesh's exports are from apparel items, which traditionally have attracted average tariffs in importing countries much higher than the MFN average rate for manufacturing, the potential consequences could be disproportionately higher compared to a situation of having a more diversified export structure. It is in this backdrop that retaining preferential market access either through an extension of possible arrangements or through negotiated free trade deals based on reciprocity cannot be overstated.

When considering the potential for bilateral or regional trade agreements, countries often weigh both the size and growth momentum of the prospective partner along with the character of its trade policy regime, and Bangladesh stands out as a particularly promising case by these measures. With sustained economic growth averaging over 5 per cent per annum for the past four decades, it has now emerged as a sizeable economy. Despite coming under macroeconomic strain in recent times, growth prospects remain positive, as depicted in the forecast by the International Monetary Fund (IMF, 2025), with broad expectations of growth bouncing back over the medium to long-term. Furthermore, the impressive growth record since the early 1990s has been accompanied by a much higher level of tariff protection than many other developing countries such as China, India, Indonesia, and Viet Nam. A fast-growing country with its protected market usually makes a country an ideal FTA partner. Yet, Bangladesh has some serious obstacles in pursuing reciprocity-based trade agreements including the very salient feature of its erstwhile protectionist stance. The availability of unilateral tariff preferences granted by so many countries has also not helped with trade negotiation and policymaking capacity, which Bangladesh now needs badly to deal with any adverse implications arising from LDC graduation.

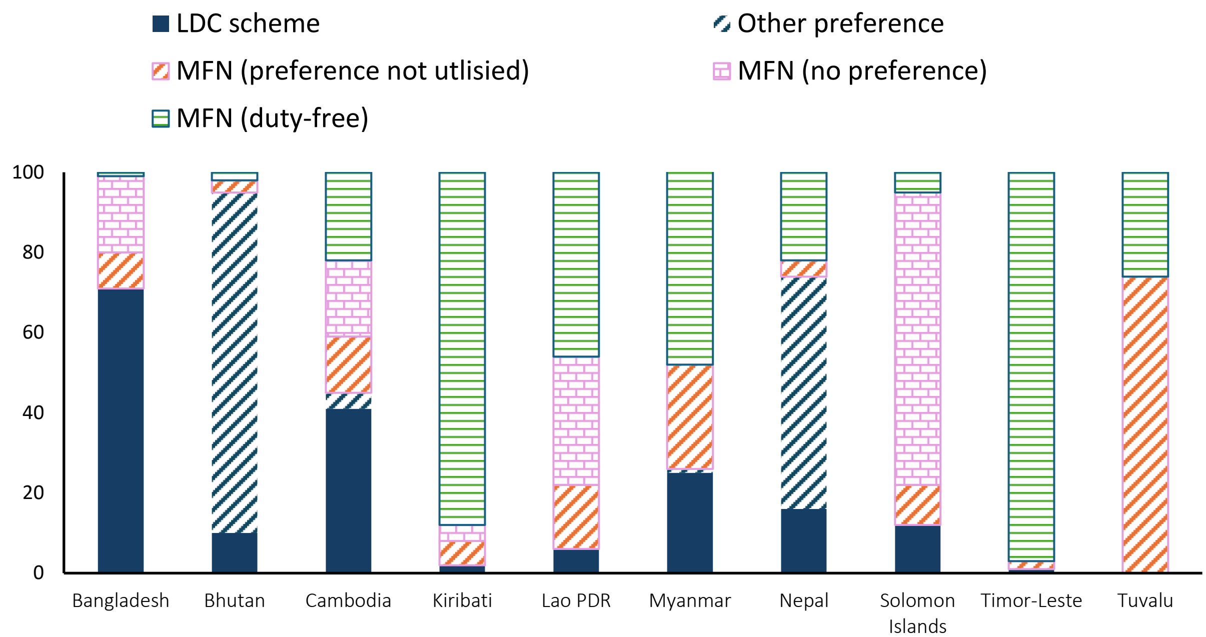
Apart from SAFTA, which is currently dysfunctional in further promoting trade and regional cooperation, Bangladesh is not a party to any other bilateral or regional trade agreements. This has translated into a huge policy pressure to look for FTAs. While it has signed more than 40 bilateral Memorandum of Understanding (MoU) and conducted numerous feasibility studies related to PTAs and FTAs with as many as 10 individual countries and five regional blocs (MoC, 2022), the success of materialising an FTA remains elusive.[1] While policy prescriptions for undertaking FTA deals are readily available, the interplay between the stylised features of Bangladesh's trade policy regime and the preference erosion associated with LDC graduation makes it a uniquely instructive case for understanding the deep-rooted challenges that must be addressed to formulate pragmatic solutions. Against this backdrop, this policy brief outlines the key difficulties Bangladesh faces in pursuing FTA options and proposes strategic approaches to address them.

II. Significance of FTAs for Bangladesh

Almost three-quarters of Bangladesh's exports benefit from LDC-specific preferences—a level of reliance unmatched by any other LDC (Figure 1). The dependence is even more pronounced in key export markets such as Australia, the EU, and the UK, where 90 per cent of Bangladesh's exports receive duty-free access, alongside 87 per cent to Japan and 84 per cent to India. In contrast, most other LDCs primarily export mineral or primary commodities that attract little or zero MFN tariffs, offering limited scope for leveraging preferential market access. For instance, 88 per cent of Kiribati's exports and 97 per cent of Timor-Leste's exports enter major importing countries duty-free (Figure 1). Bhutan, which recently graduated from LDC status, exports predominantly (85 per cent of its exports) to India, where its goods enjoy duty-free access under a bilateral trade agreement unrelated to LDC status. Nepal, too, benefits from preferential access to the Indian market under a separate bilateral trade agreement, with India accounting for close to 60 per cent of its total exports. As a result, the looming withdrawal of LDC preferences poses a far greater threat to Bangladesh's export competitiveness than it does for other current or recent LDC graduates.

[1] The 10 countries are: USA, India, China, United Kingdom, Japan, Canada, South Korea, Singapore, Indonesia, Morocco and the 5 blocks are: EU, RCEP, ASEAN, Eurasian Economic Union (EAEU), MERCOSUR.

Figure 1: Breakdown of selected LDC exports by duty type (%)



Source: Estimation based on the WTO Preferential Trade Arrangement (PTA) database. Note: The chart shows the share of exports from some selected LDCs and one recently graduated LDC (Bhutan) by types of tariff treatment they receive in importing countries. LDC Scheme refers to unilateral tariff preferences granted to LDCs by developed and developing countries under their respective GSP arrangements. These schemes provide duty-free or reduced-duty market access specifically for LDCs. MFN (duty-free) means products facing zero MFN tariffs by default. MFN (no preference) means the products that do not receive any preference and are subject to standard MFN tariffs. MFN (preference not utilised) represents tariff preferences that are available but not used by the exporting country, possibly due to not fulfilling rules of origin requirements. Other preferences include non-LDC bilateral or regional preferential trade arrangements, such as regional trade agreements (RTAs) and bilateral FTAs under which exporting countries get preferential access.

Table 1 summarises the likely changes in export market conditions for Bangladesh after LDC graduation. Except for Australia, which has announced the continuation of the current preference for Bangladesh after graduation, in most other importing destinations, the existing benefits will change substantially.

Table 1: Bangladesh's existing DFQF and post-LDC schemes in key markets

Market	Current schemes for LDCs			
	Scheme	Tariff concessions and Rules of Origin (RoO) requirements	Scheme	Post-graduation provisions
Australia	Australian System of Tariff Preferences (ASTA) for LDC	-Duty-free market access - Minimum 25% VA for all products -LDC Cumulation: 25% VA	ASTA for Developing Countries	- While Australia has a scheme for developing countries, it has announced that Bangladesh will continue to get existing duty-free access in the post-LDC period
Canada	Least Developed Country tariff (LDCT)	-Duty-free market access - Minimum 20% VA in general -25% VA for apparel and textile	GPT	-Major exporting products (such as garments and footwear) from Bangladesh will face tariff rate of 16%-18% -Minimum 60% value addition (VA) requirements for any available tariff preferences
			GPT Plus	Provision yet to be finalised, and most likely have implications for graduating LDCs
China	Duty-free treatment for LDC	-99% of products cover zero-duty tariff - General: 40% or CTH VA -Regional Cumulation: 50% VA	APTA	-Tariff concession for 27% of tariff line at HS 08 digit, with the margin of preference ranging from 5 to 100% depending on the goods. For the rest, full MFN tariffs are applicable. - General rules of origin (RoO): 45% of VA; RoO under regional cumulation: 60% VA
European Union	Everything But Arms (EBA)	-Duty-free market access -30% minimum VA -Single-stage transformation required for clothing	GSP Plus	-Zero tariff for 66% of EU tariff lines. Textiles and clothing items are generally allowed duty-free, but subject to safeguard clauses violation of which will result in MFN duties. Given, Bangladesh's apparel export share, it will be subject measures. -50% minimum VA -Double-stage transformation for preference in clothing
			Standard GSP	-Duty concession and reduction for 66% of tariff lines. Textile and clothing items are subject to safeguard clauses. -50% minimum VA; Double-stage transformation for clothing.
India	SAFTA LDC	-Duty-free for all products except 25 sensitive products -RoO: 30% VA	SAFTA	-77% of tariff lines in apparel products have limited coverage with an average MFN tariff rate of 20%. -No preference for 614 sensitive products -RoO: 40% of VA; under regional cumulation: CTH+ 50% VA
Japan	GSP for LDC	-Duty-free for 98.2% of tariff line -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.	Standard GSP	-Duty concession available for 54% of tariff line -Most apparel exports are not covered in the GSP -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.
Republic of Korea	GSP for LDC	-Duty-free for 95% of tariff line -RoO: General: 40% VA	APTA	-Tariff concession available for only 20% of tariff line -General RoO: 45% VA -RoO under regional cumulation: 60% VA
United Kingdom	Comprehensive preference	Duty-free for all products except arms and ammunition RoO: -General 25% VA -For clothing: Single-stage transformation	Enhanced preference	-92% of tariff lines get zero tariff preference -General RoO: 50% VA -For clothing: Double-stage transformation
			Standard preference	-65% of tariff line gets zero tariff preference RoO: -General: 50% VA -For clothing: Double-stage transformation

Note: CTH= Change in Tariff Heading, RC = Regional Cumulation, VA= Value Addition

Sources: Smooth Transition Strategy (2024), China Ministry of Commerce (2025)

- The EU grants a three-year transition period for graduating LDCs, allowing them to enjoy the same preferences during this period. The average MFN tariff on apparel is close to 12 per cent. Post-graduation, a country may access the EU's Standard GSP or GSP+, subject to fulfilment of certain conditions, with average apparel tariffs of 9.3 per cent and 0 per cent, respectively. However, safeguard provisions mean Bangladesh will still face MFN rates, even if eligible for either scheme.[2]

- In Canada, Bangladesh will receive preferences under the General Preferential Tariff (GPT), though it covers only 28 apparel items, with an average tariff of 11.2 per cent; the rest will face the MFN rate of 16.2 per cent.[3]
- In India, Bangladesh receives preference as a SAFTA LDC. Most of these exports after LDC graduation will face an average MFN tariff of 20 per cent.
- Under Japan's GSP for developing countries, only 38 out of 393 apparel items are covered; the remaining face the MFN tariff of 9 per cent.
- In the Republic of Korea and China, preferential access under APTA is limited for apparel, resulting in tariffs of around 12 per cent in Republic of Korea and 5 per cent in China.
- Although under the UK's Developing Countries Trading Scheme (DCTS) apparel products continue to receive duty-free access under the Enhanced Preference tier, the double-stage transformation requirement (i.e., yarns and fabrics to be produced domestically for duty-free access) may create a barrier for Bangladesh to fully utilise these benefits.

Various impact assessment studies have shown that LDC graduation-related tariff rises could have adverse implications for Bangladesh. In one of the most prominent such studies, the World Trade Organization (WTO) estimates that Bangladesh's exports could decline by over 14 per cent following the loss of LDC-specific preferences (WTO & EIF, 2020). While such quantitative assessments are often criticised for falling short of capturing the complexity of real-world trade dynamics, e.g., Bangladesh's continued export growth to the United States despite the absence of tariff preferences, along with China's ongoing withdrawal from low-end apparel manufacturing offering additional market space for other suppliers, the useful insight they provide is that tariff increases do significantly undermine a country's export competitiveness. Bangladesh, with its heavy reliance on preference-dependent apparel exports, may be particularly exposed to such risks in the post-LDC landscape.

An equally pressing concern for Bangladesh is the proactive FTA deals involving other countries. While graduating Bangladesh loses trade preferences, preferential trading arrangements could allow other countries to gain improved competitiveness, making them more attractive supply

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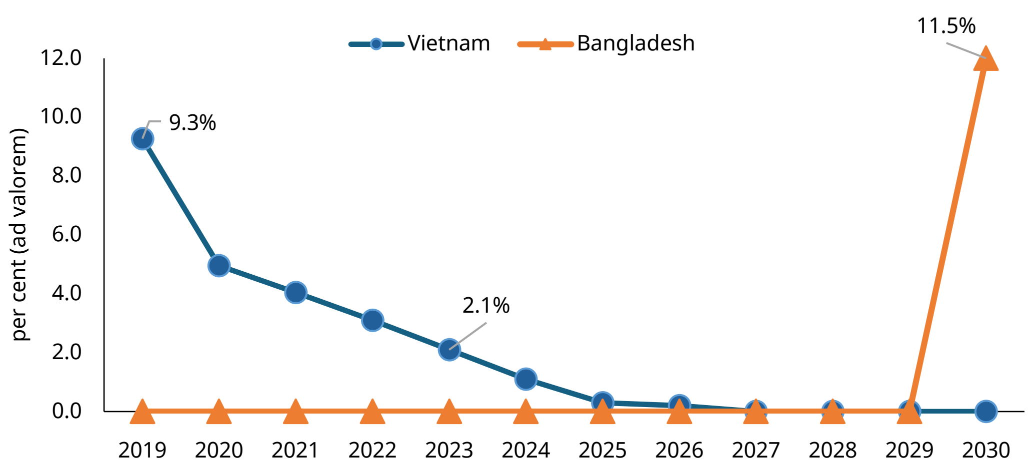
[2] According to the proposed EU GSP provisions on Safeguards in the Textile, Agriculture, and Fisheries Sectors (Article 29 of the proposed EU GSP), which are expected to take effect after 2027, clothing products from a GSP+ beneficiary will not receive preferential access if the share of the relevant products is above 6 per cent of total EU imports of the same products and exceeds the product graduation threshold during a calendar year. Bangladesh's current exports under GSP section S-11b (clothing items) are way above the threshold 6 per cent market share in the EU. Under such circumstances, the share of those products as a percentage of EU GSP-covered imports of the same products cannot be more than 37 per cent to attract any tariff preference. However, Bangladesh's share is almost half of all GSP-covered clothing imports into the EU. Therefore, if the proposed GSP scheme 2024-34 is adopted, Bangladesh will be subject to an MFN tariff of 12 per cent for apparel items, even if it qualifies for GSP+.

[3] Canada is considering a three-year transition period and the introduction of new GSP schemes, such as GPT+, but the details are yet to be finalised.

sources. Several of Bangladesh's comparator countries, particularly Viet Nam and India, have either already secured or are in the advanced stages of securing trade agreements with major importing regions, putting Bangladesh in a disadvantaged position. For instance, under the EU–Viet Nam FTA, tariffs on Viet Nam's apparel exports to the EU will gradually decline from the current average of 9 per cent to zero, just as Bangladesh reaches the end of its three-year transition period granted by the EU following LDC graduation, and its apparel exports to the EU start facing tariffs of nearly 12 per cent (Figure 2). Similarly, India has already signed an FTA with the UK and is on course to conclude another with the EU. These agreements will likely erode Bangladesh's competitiveness in these markets.[4] Bangladesh's own experience in Canada illustrates the implications of these agreements. Once the second-largest apparel exporter to Canada, Bangladesh lost that position to Viet Nam following the latter's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and subsequent market access improvements (Figure 3).[5]

Figure 1: EU apparel tariffs: Viet Nam's FTA access and Bangladesh's post-LDC graduation status

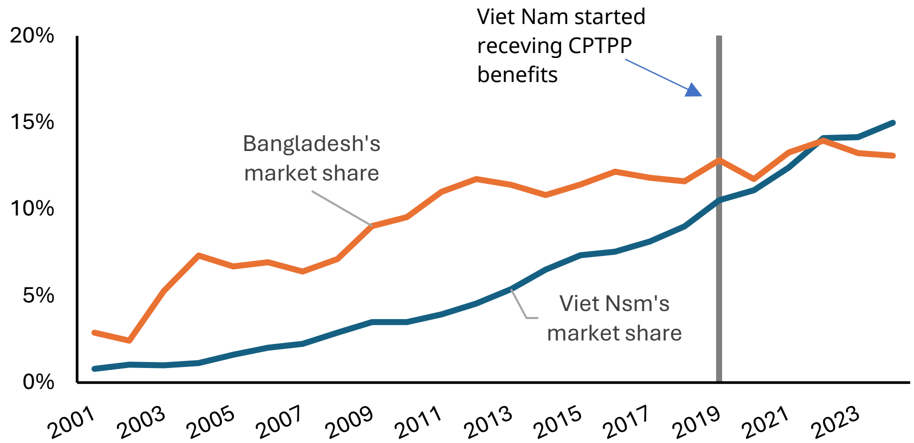


Source: Authors' estimation.

[4] Even when graduating LDCs can retain duty-free access under GSP+, such FTA arrangements will cause preference erosion. Pakistan, which has access to GSP+ and is a major cotton producer, and Indonesia, which is another major apparel supplying country, are currently negotiating FTAs with the EU.

[5] CPTPP is a major free trade agreement involving 11 countries across the Asia-Pacific and the Americas. Originally initiated as the Trans-Pacific Partnership (TPP), it was signed in 2016 by 12 countries, including the United States. However, following the USA's withdrawal in January 2017, the remaining members rebranded the agreement as the CPTPP in November 2017. The CPTPP was officially signed in March 2018 by the 11 countries—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam. The agreement came into effect on December 30, 2018, for Australia, Canada, Japan, Mexico, Singapore, and New Zealand; on January 14, 2019, for Viet Nam. The CPTPP eliminates or significantly reduces tariffs and trade barriers among member countries and represents a high-standard trade pact that promotes economic integration and cooperation across the Pacific region.

Figure 2: Bangladesh and Viet Nam's apparel market share in the Canadian market



Source: Estimation is based on ITC Trademap data (2025).

Therefore, as LDC graduation leads to the withdrawal of preferential tariffs, negotiating FTAs becomes essential for Bangladesh to prevent further erosion of its export competitiveness and to level the playing field with competitors like Viet Nam and India who are actively securing preferential market access.

III. Priority FTAs for Bangladesh

Economic Considerations for FTAs

Considering capacity constraints, the need for being strategic by focusing on a few most promising FTAs is important, although this is far from being straightforward, given that certain preconditions for such trading arrangements, as well as the characteristic features of Bangladesh's current trade policy stance and export structures, need to be taken into consideration.

First and foremost, the gains from FTAs are ambiguous as the resultant implications depend on various factors, including FTA members' inherent characteristics, trade links prior to the formation of the FTA, trade policy regimes in place, and the nature of existing trade outside the potential partner countries. According to the classical Vinerian proposition providing the basis of preferential/regional trading arrangements (PTAs/RTAs) or free trade agreement (FTAs), these can be welfare-enhancing when the resultant "trade creation" that occurs when lower tariffs within a regional bloc lead to the replacement of higher-cost domestic production with lower-cost imports from partner countries, dominate over "trade diversion" resulting from lower-cost imports from non-members are replaced by higher-cost imports from member countries due to preferential access. Following the same argument, having more countries participating in an FTA increases the likelihood that a partner country's price will be closer to and/or lower than the most efficient outsider's price, potentially leading to greater benefits (ADB, 2011).[6] In contrast, for a country like Bangladesh, as will be elaborated further below, with initially high tariffs, entering an FTA or RTA can lead to significant trade diversion and revenue loss, while offering disproportionate market access to partners without necessarily enhancing the country's own export competitiveness.

However, even if an FTA is welfare-enhancing on the whole, the distribution of the gains may not be equal. In fact, it has been argued that in an FTA involving the developed and developing countries, it is the developing countries that often gain more.[7] On the other hand, in FTAs involving developing countries only or South-South FTAs, relatively weaker economies tend to lose while relatively advanced developing countries with large supply-side capacities are in advantageous situations (Panagariya, 1998; Razzaque, 2010).[8] One reason for this differential outcome is that in FTAs with developing and developed countries, the expected pattern of specialisation is more predictable: southern countries typically specialise in labour-intensive or resource-based products, while the North supplies capital- and technology-intensive goods.[9] This distinct specailisation makes the trading arrangement complementary in nature. In contrast, South–South FTAs often involve countries with similar economic profiles blurring the line of specialisation and resulting in weak complementarity and low intra-regional trade flow. Furthermore, in North–South FTAs, by anchoring domestic reforms through binding commitments to powerful partners, developing countries can enhance the credibility of liberalisation, which can help attract foreign investment, and reduce policy uncertainty. While often asymmetrical in liberalisation commitments, the resulting market access and dynamic gains typically outweigh the static losses in tariff revenue or limited reciprocal concessions.

In the discussion on preferential trading arrangements, often reference is made to the so-called "natural trading partner hypothesis", which suggests that FTAs are more likely to enhance welfare when formed between countries that already trade significantly with one another. Implicit in this argument is that deeper existing trade relationships reduce the risk of trade diversion and increase the likelihood of replacing high-cost domestic production with more efficient imports from partners. Natural trading partners are also thought to include countries with geographic proximity or

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[6] If a partner country is the inherently cheapest source of imports for a good, then an FTA between the countries would only result in trade creation and be unambiguously beneficial.

[7] The accession of Spain, Portugal, and Greece to the then EC9 in 1986 significantly boosted trade and welfare in those three countries (Panagariya 1998). Similarly, NAFTA expanded Mexico's trade with the U.S. and Canada from around US$297 billion in 1993 to over US$1.3 trillion by 2016, with exports rising more than sixfold—from US$61 billion to US$409 billion by 2017. Consumer prices for basic goods fell by an estimated 30–50 per cent, enhancing welfare. However, NAFTA shortcomings have also been highlighted as, amongst others, employment gains concentrated in low-wage sectors, Mexican farmers affected by subsidised U.S. agricultural imports, and complementary domestic reforms not being undertaken (Chatzky, et al., 2020).

[8] In SAFTA, India, which has the largest supply side capacity, gets maximum welfare distribution, while comparatively weaker economies tend to lose [See Razzaque (2010) for details].

[9] It must be acknowledged that the rise of China and India in the world economy somewhat dilutes this demarcation of specialisation. However, for typical low- and middle-income, capacity-constrained developing countries, the traditional North–South pattern of specialising in labour-intensive or resource-based products while importing capital- and technology-intensive goods from the North remains largely valid.

neighbouring countries due to perceived lower cost of trading between them (Wonnacott and Lutz 1989; Krugman, 1993). However, critiques point out that pre-existing trade volumes are not, in themselves, reliable indicators of welfare-enhancing trade agreements (Bhagwati and Panagariya 1996; Schiff, 1997). Instead, what matters more is trade complementarity, i.e., the extent to which one country's exports align with another's import needs, and complementarity should also ensure that exporters within the PTA/FTA can competitively meet partners' import demand without causing trade diversion (Schiff, 2001).

Another important issue is the differential impact of shallow versus deep integration. PTAs/FTAs have evolved markedly over time—from early arrangements narrowly focused on tariff liberalisation at the border, to more complex and far-reaching frameworks that address a range of behind-the-border (non-tariff) issues. While shallow PTAs may yield limited market access gains, it is the newer generation of deep trade agreements, encompassing regulatory standards, investment provisions, and disciplines on labour and environmental practices that tend to deliver broader and more sustained benefits. These deeper agreements are increasingly used as instruments not just for trade promotion but also for advancing domestic reforms and aligning with global value chains. For instance, the inclusion of legal enforceability and dispute settlement provisions in the CPTPP has been shown to significantly enhance welfare (Xu et al., 2024). On the other hand, it has been argued that many PTAs in Asia remain relatively narrow and shallow with limited impact (ADB, 2025), helping average exports to increase by just 3 per cent, compared with 20 per cent in the more comprehensive agreements outside Asia.[10]

Ex-ante Assessments for FTA Selection

Ex-ante quantitative exercises, including descriptive data analysis, construction of indices to capture trade complementarity, and simulation analyses using partial and general equilibrium models can offer valuable insights into the likely economic effects of prospective FTAs, potentially helping with FTA prioritization. However, such assessments must be interpreted with caution, given the methodological and data-related limitations that underpin them.

An important limitation associated with these models is that where initial trade volumes are low, the impact of FTA liberalisation yield only marginal gains, raising questions about the strategic rationale for pursuing an FTA in the first place. Given Bangladesh's current narrow export structure, finding export gains beyond apparel items due to FTA is extremely limited.[11]

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[10] However, the benefits of deep integration depend on legal enforceability, domestic implementation capacity, and supporting resources. Therefore, the extent of integration must align with a country's development priorities, institutional readiness, and production structure.

[11] Estimation of Trade Complementarity Index (TCI) for Bangladesh, as part of this policy brief, has resulted in consistently low values across key trading partners, reflecting the country's concentrated export structure and its limited alignment with the import profiles of potential FTA counterparts. The TCI ranges from 0 to 100, where 0 signifies no overlap between a country's exports and a partner's imports, and 100 indicates a perfect match. For Bangladesh, average TCI values with major partners over the 2005–2023 period turn out to be strikingly low:

More involved analytical tools such as partial equilibrium models, which are frequently used due to their relative simplicity and lower data requirements, are best used for the impact of tariff elimination from a particular export sector but cannot account for broader economy-wide feedback effects. While computable general equilibrium (CGE) models are more comprehensive in capturing inter-sectoral linkages and resource reallocations, they also rely on restrictive theoretical assumptions—such as constant returns to scale, perfect competition, and full employment—and are highly sensitive to parameter calibration, use of various elasticities that are routinely assumed, and data quality.

One of the key challenges in ex-ante assessments is the construction of policy scenarios. Most models tend to simulate uniform tariff liberalisation—such as complete (100 per cent) or partial (e.g., 50 per cent) tariff elimination—on FTA partners. In actual negotiations, tariff concessions, however, are far more complex, often featuring product-specific exclusions, phase-in periods, sensitive lists, and complex rules of origin. Moreover, non-tariff measures (NTMs), which can be substantial, are rarely modelled with precision, even though they significantly influence trade outcomes and agreement utilisation rates. Furthermore, when a potential FTA partner already provides LDC-specific duty-free market access, ex-ante results show negligible additional benefits.[12]

One salient feature of ex-ante assessment for Bangladesh is that they tend to be dominated by large trade diversion effective, given the country's high import tariff, causing overall unfavourable welfare consequences in many instances.[13] Therefore, while ex-ante tools are useful for initial guidance, they should be complemented by qualitative analysis, scenario realism, and a prudent assessment of other likely benefits associated with securing and/or retaining liberal market access in critical partner countries. Static gains are largely confined to tariff advantages, but FTAs often include features—such as provisions that attract investment, facilitate value chain integration, and generate spillover effects—that warrant consideration beyond narrowly defined reciprocal tariff concessions.[14]

6.17 with India, 7.16 with China, 9.53 with Canada, 12.92 with Japan, 12.32 with the USA, and 11.75 with the EU, indicating minimal trade complementarity.

[12] Alternatively, this can be modelled as preference giving countries imposing tariffs on Bangladesh and from there to indirectly infer what could be the potential export gains in the absence of those duties.

[13] For instance, CGE simulations using the Global Trade Analysis Project (GTAP) model, undertaken as part of this policy brief, pick up negative negative welfare effects for Bangladesh, despite modest trade gains. Except for an FTA with the United States—which shows a welfare gain of US$738 million (0.05% of GDP)—all other scenarios, including with major partners like the EU, China, India, and RCEP countries, result in welfare losses ranging from US$10 million to over US$690 million. This is particularly striking in cases where exports increase significantly, such as under RCEP (+16% exports) or an FTA with China (+13.8% exports), yet still produce negative welfare impacts due to larger import surges and trade diversion. FTAs with countries like Japan, Korea, or ASEAN members generate only marginal export growth and remain welfare-reducing.

These largely negative outcomes stem from Bangladesh's high initial tariffs, narrow and preference-dependent export base, and the fiscal revenue loss that liberalisation entails. When trade volumes with prospective partners are low or LDC-specific duty-free access is already in place (e.g., EU, Canada), the scope for additional gains is limited. Moreover, simplistic modelling scenarios—assuming full tariff elimination—fail to reflect the complexities of real-world negotiations, such as sectoral exclusions or rules of origin.

[14] Some simulation studies do incorporate such effect as improved trade facilitation measures along with mutual tariff cuts, dismantling of other non-tariff measures, improved connectivity, etc. While these measures may rely on specific assumptions regarding the types of shocks to be introduced and/or certain parameter values to be

Table 2: Key ex-ante analysis on some potential FTAs of Bangladesh

Study	Methodology	Key Findings
Raihan and Razzaque (2020)	Computable General Equilibrium (CGE) Analysis	- Under full reciprocity, Chinese exports to Bangladesh would rise by 45 per cent, at the cost of a 2.3 per cent-of-GDP revenue loss. - Under "less-than-full" reciprocity (Bangladesh cuts 75 per cent of tariffs vs China's 100 per cent), Chinese exports could still grow by 34 per cent, with revenue losses of 1.6 per cent of GDP. - In both scenarios, Bangladeshi exports would increase by only 7–9 per cent. - Before negotiations, Bangladesh should draw up defensive and offensive negative lists of products.
Razzaque et al. (2021)	Partial Equilibrium and Computable General Equilibrium (CGE) Analysis	- FTAs with India and China would shrink government revenue by 0.5 per cent and 1.2 per cent of GDP, respectively. - An FTA with the EU would incur a 5.4 per cent revenue loss. A Bangladesh–US FTA shows a 1 per cent revenue drop in partial-equilibrium simulations, but general-equilibrium results predict a 4.3 per cent revenue gain via reverse trade diversion to nonmember countries. - FTAs with Indonesia and Malaysia imply revenue losses of 5 per cent and 4.1 per cent, though welfare gains are relatively modest. - FTAs with Brazil and the UK have minimal impact—each under 1 per cent of revenue. - Although ASEAN-centric FTAs would entail substantial revenue losses, expanded exports would offset part of the shortfall.
Raihan (2012)	Partial Equilibrium, Social Accounting Matrix (SAM), and Computable General Equilibrium (CGE) Analysis	- Under the SAM methodology, the Bangladesh–India FTA would boost unskilled employment by 115,776 jobs (0.26 per cent) and skilled employment by 7,316 jobs (0.22 per cent) in Bangladesh, whereas BIMSTEC would see losses of 200,423 unskilled and 5,518 skilled positions. The Bangladesh–Malaysia FTA would cause only minimal declines in employment (4,319 unskilled and 41 skilled jobs). - CGE simulations forecast employment gains under all three agreements—with BIMSTEC and the India FTA delivering similar job creation and the Malaysia FTA yielding marginal increases. - Most employment generation would occur in Service and manufacturing sector.
De et al. (2012)	Computable General Equilibrium (CGE) Analysis and Gravity Modelling	- The CGE simulation predicts that the Bangladesh-India FTA would increase Bangladesh's exports by 182 per cent, while for India, it would be 126 per cent. However, if improved connectivity along the FTA were considered, Bangladesh's exports would be 297 per cent, against 17 per cent for India. This result emphasises the importance of trade facilitation in the Bangladesh-India FTA, where Bangladesh would be largely benefitted. - Using augmented gravity model, it is found that the role of trade of facilitation in bilateral trade between Bangladesh and India. A 10 per cent improvement in trade documentation, customs-clearance efficiency and infrastructure quality would raise bilateral trade by 7.31 per cent, 3.91 per cent and 2.33 per cent, respectively.
Kim et al. (2014)	Computable General Equilibrium (CGE) Analysis	- A full reciprocal FTA between Bangladesh and India will reduce welfare for Bangladesh by $196.8 million, resulting in a negative growth of real GDP by 0.14 per cent, while India will gain welfare of $444.5 million, leading to a growth of real GDP by 0.1 per cent. - If Bangladesh cuts 75 per cent of import tariffs for India against full tariff liberalisation by India, Bangladesh will still lose welfare while India gains. - If Bangladesh cut 50 per cent of all tariffs against full tariff liberalisation, it would gain in welfare and real GDP growth, which is very substantial.

used, it is important to be able to recognise the scope of such dynamic gains by assessing the strategic choice of trade partners involved.

Rahman and Ara (2014)	Computable General Equilibrium (CGE) Analysis	- Under full tariff elimination in a Bangladesh–Japan FTA, Bangladesh would lose $63 million in welfare, real GDP would fall by 0.04 per cent, and its ToT would worsen by 0.23 per cent, while Japan would gain $190 million in welfare with no real GDP change. If Bangladesh forms a PTA with a 50 per cent tariff cut for Japanese products and Japan cuts 100 per cent tariff for Bangladesh, there would be a positive welfare and ToT effect on both economies, but the impact would be minimal.
Raihan et al. (2024)	Computable General Equilibrium (CGE) Analysis	- A fully operational RCEP would decrease welfare by 0.9 per cent (as a percentage of real GDP) for Bangladesh, while 3.4 per cent of Bangladeshi exports would decline, with the most affected sectors being fish and frozen food, ready-made garments (RMG), and leather. - In the proposed CPTPP, Bangladesh's exports would decrease, but this decrease (1.12%) would be significantly lower compared to RCEP. However, if the USA, UK, and both the USA and UK join this bloc, Bangladesh's exports and welfare would decline, while Viet Nam, Canada, Mexico, and the USA would experience the largest gains in their trade volume. - The fall in Bangladesh export in these major block is expected as intraregional competition increased and most of the gain will divert to the most efficient producer.

Source: Compiled from the source mentioned

FTA Consideration in the Context of LDC Graduation

Along with the above generic issues associated with preferential and free trade arrangements, Bangladesh's impending transition out of LDC status calls for FTAs as tools for addressing the most immediate and pressing concerns related to the erosion of preferential export market access. In this context, the most practical starting point for identifying potential FTA partners is to prioritise countries where Bangladesh already has a significant export presence and faces the risk of losing duty-free access due to LDC graduation, as well as major markets where preferential access is currently unavailable but could be gained through a new FTA.

Among the top export destinations (Figure 4), only the United States does not currently offer any preferential market access although it captures more than 15 per cent of Bangladesh's exports. From an export market perspective, FTAs with all major destination countries appear relevant. However, as both Australia and the United Kingdom have already committed to continuing preferential access for Bangladesh after its LDC graduation, pursuing reciprocity-based FTAs with these two partners may not be regarded as an immediate priority.

Figure 4: Bangladesh's exports by source country, 2024 (%)

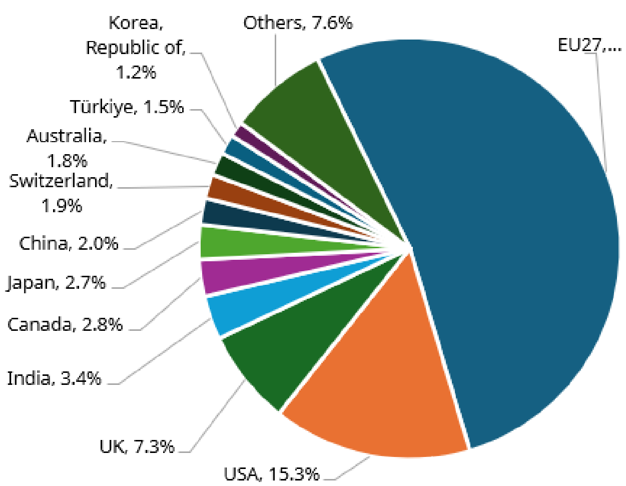
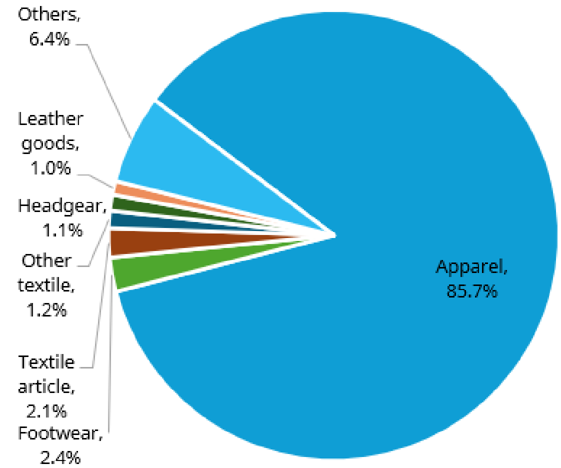


Figure 5: Composition of Bangladesh's exports, 2024 (%)



Source: Authors' representation using the data from ITC trade map

Clearly, Bangladesh's top priority is to secure continued market access to the EU. If it qualifies for GSP+ and obtains a waiver from the safeguard measures on textile and apparel products under the upcoming GSP scheme—scheduled to take effect in 2027—it may retain its current level of access without entering a reciprocal trading arrangement. A similar arrangement with Switzerland, which maintains close alignment with EU trade preferences, could also be a realistic and worthwhile pursuit for Bangladesh. However, if the EU is unwilling to extend unilateral preferences, Bangladesh should explore the option of negotiating a bilateral FTA.[15] Given the Customs Union between the EU and Türkiye, Bangladesh would also face the same trade policy regime in the Turkish market as it does in the EU.

Although Bangladesh has never had duty-free access to the U.S. market, a potential FTA with the United States could be highly beneficial, particularly given the high existing tariff barriers on key Bangladeshi exports. The U.S. applies relatively high MFN tariffs on apparel—averaging around 16 per cent—which is substantially above the manufacturing average. The recent introduction of reciprocal tariff provisions by the United States could further raise duties on Bangladeshi exports by an additional 27 per cent, pushing the effective tariff burden to over 40 per cent. In this context, an FTA that eliminates or reduces such tariffs could result in significant trade creation for Bangladesh. Encouragingly, the two countries have recently begun discussions on a possible bilateral trade

[15] While more than 85 per cent of Bangladesh's exports are in apparel (Figure 5), the dependence on apparel for exporting to the EU is even higher at 92 per cent. Therefore, if under GSP+, Bangladesh does not receive duty-free market access for apparel, the overall utility of the scheme will be marginal.

agreement. Given the distinct pattern of specialisation between their economies, there is a strong economic rationale for pursuing such an arrangement, which could offer clear mutual benefits.[16]

Unlike the USA, Canada and Japan currently provide LDC-specific trade preferences, and if these are discontinued following Bangladesh's graduation, the need for FTAs with them cannot be overlooked, as they would be essential to maintain competitive market access and avoid potential trade losses It is important to mention that one of the leading suppliers of clothing, Viet Nam, has duty-free access in both these markets. Currently, Bangladesh is negotiating a comprehensive economic partnership agreement (CEPA) with Japan. Despite Bangladesh's high export concentration, FTAs with such developed countries as Canada, Japan, the EU, and USA can ensure gains from clearly specialised comparative advantage.

Although China and India account for a relatively modest share of Bangladesh's exports, they are by far its most important trading partners, ranking as the top two sources of imports. Besides, India is also a large made-in-Bangladesh apparel export market, where post-LDC market access conditions will change dramatically. Any prospective FTA with either or both countries, therefore, warrants careful consideration. If Bangladesh continues to maintain its high MFN tariff structure, such agreements could offer disproportionate advantages to Indian and Chinese exporters, potentially resulting in import surges. This concern is compounded by the structural challenge of defining clear lines of specialization in South–South FTAs, where overlapping production structures could limit the already weak trade complementarity. Nonetheless, the strategic rationale for long-term engagement with these markets is compelling. As the world's two largest and fastest-growing economies, China and India will play an increasingly dominant role in global demand, technology diffusion, and regional supply chains. Deeper economic integration with them would not only enhance Bangladesh's access to critical consumer markets but also facilitate greater participation in regional production networks.

In South–South FTAs—as explained in Panagariya (1998)—weaker economies will tend to gain only when they are able to secure more favourable concessions from relatively more advanced developing partners. For Bangladesh, this underscores the importance of a targeted negotiating strategy that aligns with its strategic export priorities and recognises its domestic supply-side constraints. While GATT Article XXIV requires FTA members to liberalise barriers on "substantially all the trade", developing countries negotiating among themselves are granted greater flexibility under the WTO's Enabling Clause (1979). This provision permits less-than-full reciprocity in South–South agreements, thereby allowing countries like Bangladesh to retain protection for sensitive sectors while focusing liberalisation efforts on areas of comparative strength.[17] Such flexibility presents an

[16] A study by Razzaque et al. (2020) found that an FTA with the USA could generate an additional export earning of $1.3 billion. Another study also suggested considerable welfare gains for Bangladesh and complementarities associated with US export and imports actually raising government revenue (Razzaque et al., 2021)..

[17] Paragraph 2(c) permits developing countries to enter into preferential trade agreements which do not meet the strict criteria laid out in GATT Article XXIV for regional free-trade agreements. It allows developing countries

important opportunity to address concerns over trade diversion or import surges by designing a phased, selective approach to tariff liberalisation. If strategically framed, FTAs with India and China—despite short-term adjustment costs—could serve as platforms for export diversification, investment attraction, and deeper integration into regional value chains.

Compared to any bilateral FTA, joining the Regional Comprehensive Economic Partnership (RCEP) could offer Bangladesh a strategic pathway to deeper trade integration, industrial upgrading, and export diversification.[18] As the world's largest regional trade bloc, covering around one-third of global GDP, exports, and population, RCEP offers a scale and diversity that perhaps no bilateral FTA can match. For Bangladesh, a country seeking to expand beyond its traditional markets and integrate into higher-value segments of global value chains, participation in RCEP provides access to a wide spectrum of economies—from advanced manufacturing hubs like Japan and South Korea to fast-growing ASEAN markets like Viet Nam and Indonesia. This diversity should increase the scope for trade complementarity and allow Bangladesh to better harness its comparative advantage in labour-intensive manufacturing.[19]

Beyond market access, harmonised rules and standards in the RCEP region could significantly lower transaction costs, enhance regulatory predictability, and attract FDI from within the bloc.[20] Joining RCEP would also reduce the administrative burden of negotiating multiple bilateral FTAs by securing access to a large and integrated market through a single agreement. Furthermore, the RCEP is characterized by a longer liberalisation phase-out period, up to 20 years, which offers Bangladesh ample time to adjust and gradually align with RCEP's trade and regulatory frameworks.

IV. Key Challenges in Pursuing FTAs

There are several structural and policy-related factors that limit Bangladesh's capacity to pursue FTAs. Its historically protectionist trade policy stance, narrow export range, and limited institutional capacity for complex trade negotiations, amongst others, affect prospects for trade agreements. These challenges are not discrete; rather, they are interrelated in ways that reinforce one another. As such, examining these issues in isolation risks overlooking the broader strategic complexity that underpins Bangladesh's FTA engagement.

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to enter into agreements which may be non-reciprocal, or cover a very limited range of products (which would otherwise contravene the GATT).

[18] RCEP is an FTA between China, Japan, South Korea, Australia, New Zealand and the 10 ASEAN member states of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

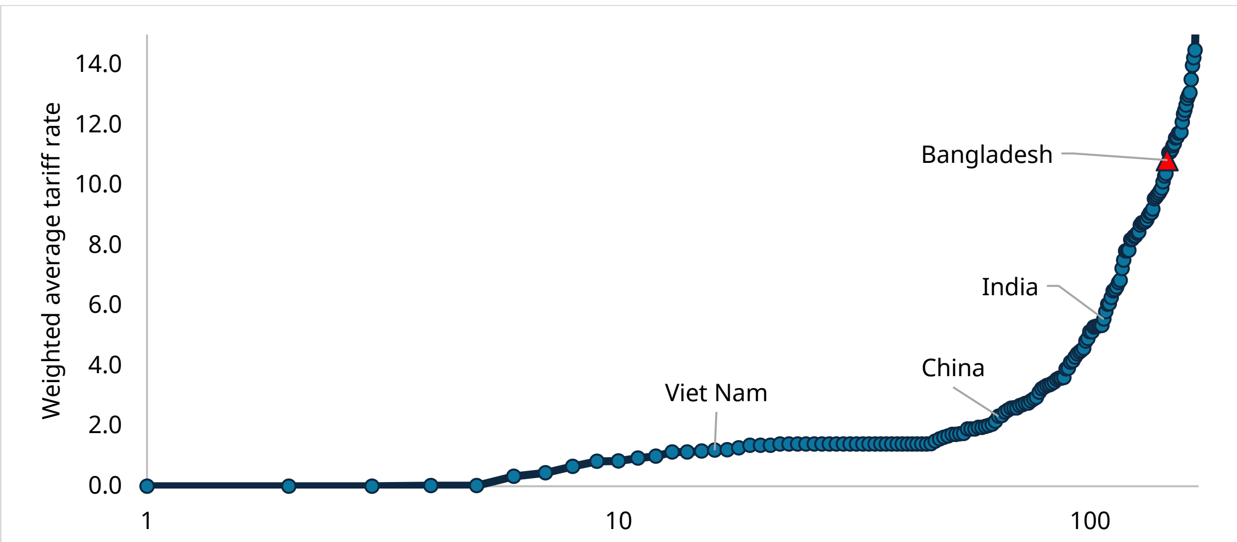
[19] The gains from FTAs are influenced by the market size and efficiency of the member countries. The RCEP has been shown to generate significant welfare gains due to the large market size of its member countries (Lin et al. 2024)

[20] By joining a large trade bloc, a developing country can become more attractive to FDI (Medvedev, 2012). Developing countries are also found to receive inward FDI within an FTA primarily due to income differences between the member countries Jang (2011).

High tariff protection: Risks of trade diversion and revenue loss

Bangladesh maintains a strongly protectionist trade regime. Based solely on import duties, its average tariff stands at around 11 per cent, which is higher than those of many East Asian economies and neighbouring countries such as Bhutan, Nepal, Pakistan, and Sri Lanka, though slightly below India's 6 per cent. When para-tariffs, such as supplementary and regulatory duties, are included, the average nominal protection rate rises to around 28 per cent, making Bangladesh the most protected economy globally (World Bank, 2023). In many sectors, protection levels are several times higher than this average level. Additionally, escalating tariffs along the value chain have widened the gap between input and output duties, sharply increasing the effective rate of protection (GED, 2020a; ERD, 2024a).

Figure 6: Weighted mean tariff rates across countries



Source: World Bank's World Development Indicators (WDI).

A country's existing tariff structure plays an important role in determining the potential benefits of entering into an FTA. The gains from unilateral liberalisation, where tariffs are reduced on a most-favoured-nation (MFN) basis, differ markedly from those realised through reciprocity-based FTAs. Under unilateral liberalisation, the main benefit arises from reducing one's own tariffs, as domestic consumers gain from lower import prices. In contrast, FTAs generate benefits primarily through partner countries' tariff reductions, making the value of received preferences critical. These negotiated preferences function as implicit transfers from the liberalising country to its partners in the form of foregone tariff revenue. Such transfers favour more advanced FTA members, who can scale up their exports. However, for a country like Bangladesh these supplies may be more expensive than what could be sourced from more efficient global suppliers, leading to trade diversion and potential welfare losses.

To sum up, when the initial tariffs are high as in the case of Bangladesh, an FTA can lead to a substantial level of export incentives for partners, subdued price reductions for its domestic consumers, a drastic fall in government revenue, and significant trade diversion.[21] A critical question, therefore, is whether Bangladesh should first reduce its tariffs to more reasonable levels before pursuing reciprocal trade agreements. Given that few other countries maintain such high tariffs, entering negotiations without prior adjustment could leave Bangladesh offering significantly more in concessions than it stands to gain in return.

The apprehension that tariff liberalisation to pursue FTAs would directly reduce a key source of government revenue derived from import duties is a significant policy obstacle for a country that has a tax-GDP ratio of about 8 per cent, amongst lowest in the world. Around $8.4 billion (BDT 1,008,190 million) worth import revenue was collected in FY24, accounting for about 26 per cent of the total government revenue (NBR, 2024). A World Bank study estimates that if Bangladesh reduces its import duties to levels comparable to those of middle-income countries like China, India, or Viet Nam, it could face a government revenue loss ranging from 18 to 41 per cent (World Bank, 2022).[22] This excessive dependence on trade taxes, combined with the absence of a robust domestic revenue mobilisation strategy, severely constrains Bangladesh's trade policy flexibility—limiting its capacity to liberalise and engage in comprehensive FTAs without jeopardising fiscal stability.

It is also worth noting that the gap in product quality and compliance requirements in Bangladesh's domestic market relative to international benchmarks further accentuates protection at home. In the absence of rigorous, enforceable standards, firms face little incentive to upgrade processes or invest in compliance infrastructure (RAPID & FES Bangladesh, 2023) to make their products export-ready. This partly explain why domestic manufacturing growth has not resulted in significant export response. Because exporting requires adherence to stringent quality and compliance standards, many non-garment manufacturers remain inward-looking (Razzaque et al., 2024). For example, numerous international buyers have ceased procuring leather goods produced from locally sourced

[21] To illustrate the point with a hypothetical example, suppose, Bangladesh imports a particular product from two countries—Country B and Country C—both priced at $100 per unit. If Bangladesh imposes a $50 tariff on all imports of this item, the domestic price rises to $150. Now consider that Bangladesh signs an FTA with Country B while keeping the MFN tariff unchanged for Country C. As a result, imports from Country B enter duty-free at $100, effectively excluding Country C from the market. However, knowing that Country C's products still face the $50 tariff and sell for $150, exporters from Country B may raise their price to $140—still cheaper than Country C, but now capturing an additional $40 in profit per unit. Consequently, Bangladeshi consumers pay $140 instead of the expected $100, reducing consumer welfare. Meanwhile, the government loses the $50 tariff revenue it previously earned, of which $40 is now appropriated by exporters from Country B, leaving only $10 in consumer benefit. If Country C is the more efficient producer, this arrangement also results in trade diversion, shifting imports away from the more efficient supplier and diminishing the potential welfare gains from the agreement.

[22] There are alternative views suggesting that tariff liberalisation could lead to an expansion in import volumes, which may help offset some of the lost revenue. For example, the value-added tax (VAT)—a major source of government revenue—would still apply to imports, and its rates would remain unaffected by tariff reductions. However, all quantitative analyses show a profound impact on government revenue.

hides owing to their failure to meet global environmental standards; however, this non-compliance has had little to no impact on products sold within the domestic market.

Narrow export base weakening strategic case for FTAs

When a country's exports are highly concentrated in a few products and markets, exploring FTA options becomes particularly challenging. The limited diversification across products and sectors, reduces Bangladesh's ability to take full advantage of the broader market access opportunities typically offered through trade agreements. It restricts the capacity to pursue an offensive trade strategy and limits the potential for reciprocal gains, particularly when partner countries expect wide-ranging concessions across multiple sectors. The lack of export breadth also weakens trade complementarity with many prospective FTA partners, undermining the economic justification for an agreement.

Resistance from the interest groups and inconsistent implementation of policy commtments

Domestic interest groups, particularly those benefiting from high protectionist policies, can obstruct the trade liberalisation process affecting FTA initiatives. Industries shielded by tariffs or other trade barriers often view FTAs as a threat to their market share and profitability, prompting them to lobby against liberalization. In a country like Bangladesh, where import-competing sectors wield substantial influence over policymaking, such resistance shapes government decisions. The entrenched political economy dynamics dilute the government's commitment to structural reforms needed for deeper trade integration. Moreover, concerns over potential tariff revenue losses following liberalization amplify domestic opposition to FTAs, introducing a critical fiscal constraint to protectionist arguments.

Bangladesh's imminent LDC graduation is considered as an opportunity for undertaking significant trade policy reforms and exploring negotiated FTAs as reflected in the Smooth Transition Strategy (STS) for LDC graduation adopted by the interim government. Before the political transition in July 2024, the previous administration had actively pursued Bangladesh's graduation from the Least Developed Country (LDC) category, alongside potential free trade agreements (FTAs), although little tangible progress had been made on the latter. Private sector opposition to these initiatives remained relatively subdued. However, following the change in government, more pronounced concerns have emerged, with calls to postpone the graduation process on the basis that Bangladesh is yet to establish adequate preparatory measures and institutional support systems.[23] It is true that disagreeing with the authoritarian government of the past regime that strongly pursued the

[23] Critics have also raised the possibility of manipulated official statistics that may have led to premature eligibility for graduation (Abdullah, 2024). While it is plausible that GDP growth figures were overstated, the magnitude of inflation required to fall short of graduation thresholds appears implausible—particularly given Bangladesh's current per capita income of USD 2,685, compared to the threshold of USD 1,306. Moreover, per capita income is only one of three criteria for graduation, the others being the Human Asset Index (HAI) and the Economic and Environmental Vulnerability Index (EVI). Bangladesh exceeds the thresholds for both these indicators, and eligibility for graduation requires meeting any two of the three benchmarks.

graduation agenda showcasing an economic success was difficult, and the economic slowdown largely due to the misgovernance of the past regime is now generating a stronger pushback under a liberal political regime. Therefore, given the significance of the interest groups in national policymaking, reforming out of the current economic crisis will continue to remain a difficult task.

The tariff reform effort in the national budget of FY26 can best be described as “tinkering at the margin” without providing any direction for momentum (Sattar, 2025). This is despite the adoption of the STS in 2025 and the National Tariff Policy in 2023 with the both national documents specifying the need for effective trade policy reform for efficiency gains and for undertaking FTAs. In contrast, protectionist stance continues to flourish even in the absence of policy commitment. For instance, in April 2025, the National Board of Revenue (NBR) imposed a ban on the import of Indian yarn through land ports, citing the need to protect the domestic spinning sector. The revenue authorities and specific sectors are critical interest groups that can undermine the officially adopted policy stance.

Policy inconsistency, compounded by vested interests, continues to entrench inertia. Industrial and trade policy instruments, which should ideally be complementary, often operate at cross-purposes. A notable example is the contradiction between the National Industrial Policy 2022 and the National Tariff Policy 2023. The former, developed by the Ministry of Industries, promotes import-substituting sectors through protective tools such as tax exemptions, elevated tariffs, concessional credit, and subsidies. These instruments perpetuate an anti-export bias by shielding domestic producers from international competition and dampening incentives to innovate or expand into export markets. Conversely, the Tariff Policy acknowledges the distortions caused by such protectionism and sets a clear agenda to dismantle them—by streamlining tariff structures, lowering trade barriers, and promoting deeper integration into global value chains. It also explicitly calls for FTA preparedness and alignment with evolving international trade norms, particularly in light of Bangladesh’s LDC graduation.

The coexistence of these divergent policy frameworks—one oriented towards liberalisation and global integration, the other committed to protectionist industrial development—creates a fundamental lack of coherence. This dissonance not only sends mixed signals to private sector actors and potential investors but also weakens Bangladesh’s credibility in trade negotiations, raising questions about the country’s readiness to engage meaningfully in a competitive global trade environment.

Lack of interest in FTA from partner countries

Forming FTAs is not solely a matter of Bangladesh’s strategic intent; it also depends on the willingness of prospective partners to engage. Many developed countries are often hesitant to pursue FTAs with developing economies due to concerns about the latter’s regulatory capacity, institutional transparency, and the enforcement of trade-related commitments. Modern FTAs increasingly feature stringent "WTO-plus" provisions (Lejárraga, 2014), covering labour rights, environmental standards, intellectual property, and investment protection, that developing countries frequently find challenging to adopt or implement. For instance, the EU-Viet Nam FTA (EVFTA), includes provisions for protecting investments and strengthens the protection of intellectual property rights, including geographical indications, going beyond WTO rules (Duong, 2022). Similarly, it opens up public procurement markets in Viet Nam to EU companies, with specific commitments on the entities covered and transitional periods. The EVFTA also facilitates market access for EU service providers in various sectors, including business services, environmental services, and financial services, which are beyond WTO commitments. Furthermore, the same FTA includes a chapter on trade and sustainable development, promoting labour rights, environmental protection, and social development which includes commitments to international conventions and involvement of social partners and civil society. The EVFTA also aims to foster cooperation between the EU and Viet Nam on regulatory matters to reduce red tape and facilitate trade.

Bangladesh's limited exposure to binding WTO obligations, owing to its historical LDC status, and persistent concerns about its institutional readiness in these areas, diminish its attractiveness as a trade agreement partner. Moreover, the absence of significant foreign FDI inflows into Bangladesh may further signal to potential partners a lack of integration with global business networks, reducing the perceived commercial value of formalising preferential trade ties.[24]

Limited trade negotiation capacity

Limited trade negotiation capacity remains a fundamental barrier to Bangladesh's ability to pursue and secure effective FTAs. Bangladesh has not had significant exposure to complex trade negotiations given that its LDC status granted it non-reciprocal trade preferences, undermining the incentive and need to develop institutional expertise in reciprocal trade negotiation. The result is a thin cadre of professionals and a fragmented institutional setup, with limited coordination across ministries, regulatory agencies and other stakeholders. At the same time, modern trade agreements have become much more involved going beyond tariffs and rules of origin to encompass a wide array of disciplines, including services, investment protection, technical standards, compliance with labour and environmental issues, digital trade, and dispute settlement mechanisms. Without an embedded system for rigorous preparatory assessments covering sectoral sensitivities, export potential, and adjustment costs, Bangladesh often finds itself unprepared to develop negotiating positions that are both defensible and implementable.

While trade negotiations are overseen by officials from the Ministry of Commerce and the Ministry of Foreign Affairs, these negotiations require domestically owned legal, technical, and sectoral insights. In the absence of a well-coordinated whole-of-the-government approach, developing firm commitments, based on defensive and offensive interests, becomes a critical constraint as either there is resistance from the concerned sectors or there is lack of awareness of potential implications with the relevant stakeholders being only reluctant. While gaps in technical expertise and articulation persist, deeper institutional weaknesses—such as poor inter-ministerial coordination and inconsistent implementation of policy commitments (evident in recent national and sectoral plans)—

[24] A feasibility study for Bangladesh–Japan EPA has indicated potentially substantial commitments going beyond existing WTO rules, particularly in the areas of intellectual property. Another feasibility study for Bangladesh-China FTA hints at regulating subsidies for the services sector through GATS-plus provision.

undermine Bangladesh's ability to formulate and enforce coherent trade positions, making credible negotiation commitments especially challenging.

V. Strategic Approaches to Navigating FTA Challenges

Entering into FTAs presents a range of complex challenges, spanning policy alignment, institutional readiness, and capacity constraints. For Bangladesh, the key lies in carefully balancing immediate policy priorities with its long-term strategic trade and development objectives. This should include, amongst others the following.

Undertaking tariff rationalisation to minimise trade diversion and to promote export diversification

As follows from the above discussion, perhaps the single most critical challenge that Bangladesh faces in pursuing FTAs is its currently maintained excessively high MFN tariffs. This problem is well-acknowledged in the country Smooth Transition Strategy (STS) for LDC graduation. Separately, Bangladesh also adopted a National Tariff Policy (NTP), which aims to rationalise tariffs, deal with anti-export bias, provide incentives for exporters, especially for procuring imported inputs for exports, and above all to promote export diversification. Its timely implementation following a practical roadmap should be regarded as an urgent priority. The separation of policy and revenue wings of the recently defunct National Board of Revenue (NBR) can be seen as an opportunity for tariff rationalisation.

There is no denying that strengthening domestic resource mobilisation at the same time should be prioritised to address revenue concerns stemming from tariff reductions. In this respect, Bangladesh is confronted with a dual challenge of reducing dependence of revenue from international trade and boosting revenue effort from other sources, including direct taxation and non-tax revenue. How to raise revenue has been a longstanding subject matter of policy discussions in Bangladesh with the past five-year plans, and the recently adopted STS providing useful directions. It has also been argued that by focussing more on direction taxation and non-trade taxes, not only is it possible to generate more revenue but also to address the ever-growing income and wealth inequality in the country. Furthermore, there is evidence o suggests that tariff rationalisation could increase GDP by 1.4 per cent and boost exports by 16.5 per cent, underscoring the potential economic benefits (World Bank, 2022) which can further generate government revenue.

While tariff rationalisation itself can boost export diversification, several other measures, as discussed in the STS, e.g., improving trade facilitation measures, reducing cost of doing business, supporting skill development, mobilising domestic and foreign investments in export sectors, helping improve compliance, etc., can greatly improve export competitiveness. Furthermore, improving product quality and compliance standards should be regarded as an important means for improving consumer and worker welfare while at the same time helping tackle the issue of export disincentives resulting from domestic products not being ready for export as discussed earlier.

Considerations for strategically selected FTA negotiations

Rather than the current indiscriminate approach to FTAs, as reflected in Bangladesh's signing 45 bilateral Memorandum of Understanding (MoU), conducting 26 feasibility studies related to PTAs and FTAs, entering into not very meaningful trade agreements, with 10 individual countries and five regional blocs, the focus must be strategic in nature considering the potential gains, existing negotiation capacity weaknesses, and limited policy and institutional preparations.[25] Based on the discussions earlier in the paper, consideration of the points below should help develop strategic approaches to FTAs.

- The first critical strategic consideration for Bangladesh at this stage will be to consider retaining the current referential market access that is going to be affected by the imminent LDC graduation.
- From that perspective, retaining duty-free market access in the EU will be the topmost priority given its significance in Bangladesh's exports. With the EU's next round of GSP regime postponed until end-2027, Bangladesh has a narrow window to engage with the EU and seek a waiver on textile and clothing safeguards so that post-graduation GSP+ provisions can continue to provide duty-free market access for Bangladesh garment exports to the EU.[26] If this cannot be secured, efforts should be made to negotiate an FTA with the EU. While such negotiations can be time-consuming, Bangladesh should request for continuation of the current duty-free market access pending the conclusion of the FTA deal.
- Since a Comprehensive Economic Partnership Agreement (CEPA) negotiation is currently underway with Japan, successfully concluding it will be critical. As noted, developing countries often benefit from FTAs with developed partners due to complementary specialisations. A deal with Japan would also signal Bangladesh's readiness and credibility in pursuing negotiated trade agreements. This can attract similar engagements with such other countries as Canada, considering its trade deal with Viet Nam under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- Securing an FTA with the United States would be strategically significant for Bangladesh, particularly as its exports—especially apparel—have never benefited from duty-free access and continue to face high MFN tariffs. While recent exchanges signal early interest in a potential trade agreement, it is important to recognise that U.S. trade policy remains fluid and any formal negotiation would entail a protracted and complex ratification process. Nonetheless, sustained engagement with the United States remains essential—not only to minimise the risk of unfavourable or discriminatory treatment in one of the most significant

[25] The information on Bangladesh's MoU and trade agreements is based on MoC (2022). The 10 countries are: USA, India, China, United Kingdom, Japan, Canada, South Korea, Singapore, Indonesia, Morocco; and the 5 blocks are: EU, RCEP, ASEAN, Eurasian Economic Union (EAEU), MERCOSUR.

[26] As Access to GSP+ requires ratifying and effectively implementing 32 international conventions on labour, human rights, and the environment, constructive dialogue with the EU and development partners on implementation challenges and the need for securing technical and financial support is crucial.

export markets, but also to demonstrate Bangladesh's commitment to deeper trade partnerships and to lay the groundwork for enhanced future market access.

- Bangladesh should actively explore accession to the Regional Comprehensive Economic Partnership (RCEP) as a strategic priority for medium- to long-term trade integration. Unlike bilateral FTAs, RCEP offers access to a vast and diverse regional market, facilitating broader export diversification, participation in dynamic value chains, and industrial upgrading. The bloc's harmonised standards and regulatory convergence can significantly reduce transaction costs and enhance policy predictability, while also attracting investment from within the region. Notably, RCEP already provides for extended transition periods—up to 20 years in some cases—allowing late-joining developing countries like Bangladesh the time and flexibility to undertake necessary reforms and adjust gradually. Accession would also reduce the burden of negotiating multiple bilateral agreements by securing entry into an integrated regional framework anchored by some of the world's most dynamic economies.
- India, under the SAFTA-LDC scheme, is a key market for both apparel and non-apparel exports from Bangladesh, with significant growth potential in the latter. With LDC graduation approaching, Bangladesh should actively seek continuation of duty-free access—similar to Maldives, which retained such access post-graduation under Article 12 of SAFTA. While Bangladesh and India initiated CEPA negotiations, progress has been slow; an interim arrangement to retain existing preferences is essential until CEPA is finalised.
- Negotiating FTAs with India and China offers significant medium- to long-term market access opportunities in the world's two largest economies. Given their vast supply-side capacities, Bangladesh must begin domestic preparations without delay. Advancing both negotiations in parallel is essential; pursuing one in isolation risks trade diversion and welfare losses. Bangladesh can also leverage special provisions for developing countries, which permit preferential agreements outside the strict GATT Article XXIV criteria—allowing for non-reciprocal terms or limited product coverage. Additionally, Bangladesh should seek less-than-full reciprocity and extended transition periods, consistent with precedents in South–South FTAs.
- In other markets where Bangladesh has limited export presence, pursuing selective trade agreements—focused on key sectors of the country's offensive interest such as garments, leather, agro-processed goods, pharmaceutical products, etc.—offers a more pragmatic alternative to comprehensive FTAs. Leveraging the Enabling Clause, such agreements can be non-reciprocal, limited in scope, and tailored to Bangladesh's current export strengths and institutional capacity. This strategy minimises risk, facilitates incremental integration, and allows time to build the necessary readiness for broader commitments in the future.

Strengthening Trade Negotiation Capacity

The capacity to negotiate effectively is a critical determinant of securing trade gains, particularly in the context of reciprocal trade deals where outcomes depend on the ability to obtain meaningful concessions from partner countries. To address Bangladesh's persistent weaknesses in trade negotiation capacity, it is imperative to operationalise a key recommendation of the Smooth

Transition Strategy (STS), which calls for the formation of a standing pool of trade negotiators, drawing from relevant ministries, specialised agencies, and external institutions such as think tanks, to ensure a broad base of expertise across legal, economic, regulatory, and sectoral domains.

In addition, establishment of a Chief Trade Negotiator's Office to lead, coordinate, and formulate negotiation strategies should help provide much-needed leadership and coherence. This cross-institutional approach is particularly important given the frequent rotation of civil servants and the practical challenges of maintaining a sizeable, permanent negotiation team. A dedicated pool would help ensure both continuity and institutional memory across ongoing and future trade negotiations. In parallel, systematic capacity-building programmes must be introduced to equip this pool with advanced skills not only in the technical dimensions of trade agreements such as market access, rules of origin, investment, and regulatory standards, etc., but also in developing negotiation strategy and diplomacy with effective articulation. Embedding these measures within a coherent institutional framework would enable Bangladesh to move beyond fragmented and reactive trade engagements, and to formulate defensible, forward-looking positions in increasingly complex FTA negotiations.

Building Domestic Consensus for Trade Liberalisation

There is no denying that trade policy measures will have differential impacts on varying stakeholders. In the context of FTA preparation, building domestic consensus does not necessitate the wholesale withdrawal of protection; rather, it requires a strategic shift from blanket, indefinite protection to targeted, time-bound support that incentivises competitiveness and structural upgrading. It is the calibrated tariff rationalisation combined with transitional safeguards that can create an acceptable ground for firms to modernise, improve productivity, and align with international standards. A phased liberalisation schedule that clearly signals future market opening allows firms time to adjust while disincentivising prolonged rent-seeking behaviour. The government must also reinforce this shift by ensuring the effective implementation of the Smooth Transition Strategy (STS), which lays out a roadmap for enhancing competitiveness, promoting export diversification, and strengthening institutional readiness in the post-LDC landscape.

As part of this, the STS already underscores the importance of aligning domestic production structures with global market requirements, improving quality assurance systems, and deepening supply-side reforms. If operationalised effectively, the STS can serve as a critical instrument for building stakeholder confidence—demonstrating that liberalisation is not an abandonment of industry, but rather a move toward a more disciplined and enabling environment for long-term industrial growth and export resilience.

VI. Conclusion

As Bangladesh approaches its graduation from the group of Least Developed Countries, the urgency of addressing the impending loss of unilateral trade preferences has become increasingly evident. In this new landscape, reciprocal free trade agreements offer one of the few viable pathways to preserving and expanding market access, securing investor confidence, and sustaining export-led growth. Yet, as this paper has shown, engaging meaningfully in such agreements will require confronting a complex web of structural, institutional, and policy-related challenges.

Bangladesh's historically protectionist trade regime, narrow export structure, weak trade complementarity with major partners, and limited institutional readiness collectively constrain the country's capacity to pursue reciprocal deals on equal footing. Tariff rationalisation remains a critical first step, both to reduce trade diversion risks and to remove long-standing disincentives against export diversification. At the same time, revenue concerns cannot be ignored. A credible medium-term strategy for strengthening domestic resource mobilisation—through reforms in direct taxation and broader fiscal policy—must accompany any meaningful tariff reform effort.

To make its FTA engagement effective, Bangladesh must abandon its fragmented and ad hoc approach in favour of a strategic, sequenced roadmap. Priority must be given to countries and blocs where market access is at imminent risk due to LDC graduation, particularly the European Union, Japan, and the United States. Regional integration, including accession to the Regional Comprehensive Economic Partnership (RCEP), offers a compelling longer-term opportunity, provided Bangladesh can leverage the flexibility available to late joiners and undertake necessary domestic reforms over a longer adjustment period. In parallel, selective engagement with regional powers like India and China—designed under the WTO's Enabling Clause to allow phased and asymmetric liberalisation—could unlock significant strategic and economic benefits if approached with clarity and caution.

Ultimately, Bangladesh's ability to secure favourable trade outcomes will hinge on its capacity to negotiate effectively. Building a standing team of skilled trade professionals, supported by a centralised Chief Trade Negotiator's Office and embedded within a whole-of-government framework, is essential. Just as important is the task of cultivating domestic consensus for reform. Liberalisation cannot and should not be abrupt. Rather, it must be gradual, well-communicated, and anchored in credible plans for supporting competitiveness, improving quality and standards, and aligning with global value chains.

In sum, the path to an effective FTA strategy will not be without friction. But with clear prioritisation, institutional preparedness, and a calibrated political economy approach, Bangladesh can turn this moment of transition into an opportunity—not only to safeguard export performance, but also to lay the foundation for a more resilient, diversified, and globally integrated economy in the post-LDC era.

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