Addressing protectionism with grit in the FY2026 Budget

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Our hope is that the forthcoming FY2026 Budget could be a crucial reform budget that could change the direction of the economy, like the budget of FY1992 did. Addressing the economy's persistent and deep-rooted protectionism will have to be one of the key policy priorities in order to meet the impending Least Developed Country (LDC) graduation challenges as well as for the immediate response to the onslaught of United States (US) ‘reciprocal tariffs’. These are times when global protectionism is on the rise. But the time is ripe for Bangladesh to do the opposite. Let me explain in as much detail as I can muster in this short article.

21st century protectionism is no ghost of bygone days. It has brought the global economy at a turning point. Geopolitical fragmentation, with increased protectionism, is replacing globalization trends. Various notions of “economic security” now take precedence over efficiency gains of international trade. Trade restrictions have been on the rise. World Trade Organization (WTO) records show that in 2023 such restrictions had risen to three times what they were in 2019.Trade interventions are on the rise in the form of production subsidies, import restrictions based on national security, export controls to punish geopolitical rivals, and so on. The glossary of economic terms is being enriched by newly coined expressions like “homeland economics”, de-risking, re-shoring, friend-shoring, strategic autonomy, and the like. In essence, these are expressions to describe the emerging trend toward greater protectionism as more and more developed economies resort to “industrial policies” with various forms of competing support or subsidies for domestic production. This signals a departure from the rules-based trade order of the post-Bretton Woods era.

Finally, there is the US-China decoupling scenario gathering momentum by the day, recently intensified by the ubiquitous launch of “baseline and reciprocal tariffs” by the US on 02 April 2025 which, if implemented in whole or in part, could be the final nail in the coffin of the rules-based trade order of the past 80 years.The principal casualty, in my view,will be the “efficiency dividend” of globalisation and its pivotal offshoot – global value chain (GVC) integration. Trade multilateralism is under threat like never before since the creation of the post-War economic order. Thankfully, the US-China trade war is in a détente phase for some 90 days from 15 May. That gives the world economy only a brief reprieve.

IMPACT OF RISING PROTECTIONISM ON GLOBAL TRADE: While developing economies of the world made progress in dismantling protectionist trade policy instruments to reach an average tariff level of under 10 per cent, it is a sad testament of the times that in the recent past developed countries of the world have been gradually sleep-walking into the protection trap with a plethora of trade restrictions. The restrictions include such measures as higher tariffs, import bans, subsidies, and stricter customs procedures, with a notable focus on sectors like clean energy, semiconductors, and critical minerals. Together, all of these developments could present potential challenges to sustaining Bangladesh’s future growth trajectory.

Governments worldwide are revisiting tariffs, trade barriers, and industrial policies aimed at safeguarding domestic industries, citing reasons such as national security, economic self-sufficiency, and geopolitical tensions. This trend is a sharp departure from the globalization-driven liberal trade regime that had dominated global economic policy since the 1990s.

The impact of rising protectionism on global trade has been profound. First, global trade growth has decelerated. According to the World Trade Organization (WTO), global merchandise trade volume contracted in 2023, barely recovered in 2024, and is forecast to decline by 3 per cent if the novel scheme of US Reciprocal Tariffs get under way. The consequential trade fragmentation is expected to lead to inefficiencies, higher costs, and diminished gains from comparative advantage.

Second, global value chains (GVCs) are being restructured. Countries and firms are diversifying supply sources, investing in redundancy, and seeking trade resilience over efficiency. While this may create new trade routes and investment opportunities for some economies (e.g., Vietnam, Mexico, India, Bangladesh), it also disrupts established trading patterns and increases costs for consumers and producers alike.

Third, rising protectionism undermines multilateralism. The rules-based global trading system, anchored by the WTO, has weakened as more countries resort to unilateral or plurilateral trade actions. Dispute settlement mechanisms remain paralysed, and confidence in trade cooperation is waning, especially among developing economies.

For the world, such rising protectionism is reshaping the landscape of global trade by altering supply chains, dampening trade growth, and undermining multilateral norms. While some domestic sectors benefit in the short term, the longer-term costs include reduced global efficiency, higher prices, and a fragmentation of the global economy. Addressing these challenges will require renewed commitment to fair and inclusive trade cooperation amidst growing geopolitical and economic rivalries.

THE BANGLADESH SCENARIO: In the case of Bangladesh, we have come to live with the notion that protectionism is and will be a constant companion in our development journey. Though export industries and export production as a share of output is on the rise, significantly overtaking import-substituting production, the prevailing mindset is still one of protecting domestic industries as a national pursuit. As if, there is no cost to such a policy pursued *ad infinitum*. There is hardly any discussion of how high protection (tariffs) should be and how long it should prevail. What exists even violates the principal logic of protection – to be time-bound and declining over time.

A closer review of the state of industrial protection in Bangladesh as it stands today reveals that the ghosts of protection remain alive and kicking, imposing costs on the economy and consumers, in particular. It is the premise of this brief analysis that the burden of protection costs falls unevenly on the consumers in Bangladesh, through high tariff-induced prices of imported consumer goods and import substitutes domestically produced and sold.

This is not to say that zero protection is the answer. No. If the logic of protection is to be accepted, at least fourcriteria must hold: (a) protection must be accorded to nascent industries (so-called infant industries), (b) the level of protection must be reasonable, (c) protection must be time-bound and performance-based (ensuring output growth and job creation), and (d) protection must decline over time. Is our protection regime adhering anywhere close to these principles?

ACKNOWLEDGE THAT CONSUMERS ARE AT THE RECEIVING END: Evidently, when it comes to tariffs, the Bangladesh consumer seems to have had little voice in the past. Amidst a plethora of stakeholder consultations pre- and post-budget organized by the chamber representatives round the year, producers put forth various proposals for tariff adjustments, understandably, to raise their profitability which can happen if output tariffs are raised or input tariffs are cut. Producer groups, of whom there are many, lobby hard to get input tariffs (on intermediate, capital, and raw materials) reduced and output tariffs (on consumer goods) increased as much as possible.Seldom (or never) do we hear a word about reducing output tariffs!

To the extent that producers get their way – and it seems they do – the outcome is skewed in favour of producer interests and against consumer interests as protection remains high and consumers end up paying prices that are significantly above international prices.

The resulting high domestic prices are essentially a protection tax (inflationary) on consumers — an implicit transfer of resources from the pocket of the consumer to the pocket of the producer. But nobody, not even the Consumer Association of Bangladesh (CAB), has raised the issue of how long should consumers continue to be taxed to protect producers. This situation is quite unique for Bangladesh but any discussion is absent from the policy discourse.

For more reasons than one, this pre-budget time of the Interim Government is just the time to flag the interests of consumers in budget making. It is my understanding that the Government's challenge is to strike a balance between the interests of the producer and the consumer, as well as promote the national interest which lies in laying the foundations for long-run efficiency, productivity and competitiveness of currently protected industrial activities and sectors.
Looking into the future, there is another important reason for rationalising the protection structure.

THE SURGING MIDDLE CLASS: With Bangladesh's middle class surging in size and spending power consumer goods are in high demand – but at what price? In 2015, a leading international firm, Boston Consultancy Group (BCG), published a report entitled, "Bangladesh: The Surging Consumer Market Nobody Saw Coming."

The report focused particularly on the middle and affluent class (MAC) in Bangladesh, defined as consumers earning more than $401 (approximately Tk 34,000) a month, or above $5,000 annually. This segment of consumers, estimated to be around 12 million strong, provided insights into the consumption trends of goods and services that went beyond basic necessities, and into the realm of convenience and luxury (discretionary spending).

Examples include air conditioners; flat-screen TVs; mobile phones and imported cosmetics. BCG projected the size of Bangladesh's MAC population to rise to 34 million by

2025, when our gross domestic product (GDP) will have crossed $450 billion, and exceed US$1 trillion in the early 2030s.

According to anHong Kong and Shanghai Banking Corporation (HSBC) report, Bangladesh is expected to be the fastest-growing consumer market globally over the next decade, emerging as the ninth largest consumer market globally by 2030 – overtaking established markets such as the UK and Germany, and surpassing high growth peers Vietnam and Thailand. As consumers (affluent or middle class) rise in size so will be their economic and political clout.

But what are the prices they are paying now for consumer goods they buy? PRI research has shown that Bangladeshi consumers pay around 50 percent to 100 percent above world prices for most consumer products—either imported or produced locally. Is that fair in these times of high inflation?

RATIONALISING PROTECTION A NATIONAL IMPERATIVE: The strategy of import substitute protection for industrialisation comes at a high price in Bangladesh, paid by consumers who end up bearing the brunt of the protection tax. This could only make sense if it were a time-bound initiative. But theory and practice tells us that that is not how protection works. Once started it takes a life of its own, as is the case in Bangladesh and many other countries. Infant industry protection has a tendency to morph into permanent protection leading to the sustenance of “geriatric infants”.

Besides, the record shows that import substitution strategy has not given us jobs and growth. Export orientation has. RMG success is not a story of import substitution transiting into exports; it started off as an export industry. Not only is our economy stuck in the quagmire of high protection this policy is also characterised with anti-export bias which is preventing numerous non-RMG exports (some 1400-1500 products) from becoming significant export items, thus hampering product diversification of exports.

Amidst the ever-growing demand for consumption, rationalizing the protection regime which actually goes hand-in-hand with rationalization of the tariff structure has become a national imperative that can spur domestic spending, reduce anti-export bias of trade policy incentives, and fuelexport growth and diversification. The National Tariff Policy

(NTP) 2023 – which has been lying dormant since its launch –could come to the rescue.

Bangladesh badly needed a nationally recognised policy articulating the structure and trend of import tariffs and protection. Now it has one in the NTP 2023 (Gazette notification of 10 August, 2023). NTP 2023 acknowledges that industrial protection is deeply rooted in Bangladesh's economic policy and practice. Tariffs and para-tariffs are now the principal instrument of protection, which is the way to grant incentive to import substitute production. But the current practice does not require protection to be subject to any binding with regard to the degree of protection, the time period or any performance criteria. NTP proposes to bring some order in this chaotic state of protection by streamlining and rationalizing the protection structure.

As a national policy statement, NTP 2023 has not ignored the interests of the largest stakeholder group in the trade policy arena — consumers. One of its goals is to improve consumer welfare. Tariffs are ultimately paid by consumers. The protection that is afforded through nominal and effective (ERP) tariffs is also a tax on consumers who bear the ultimate burden of the protection tax by having to pay higher than world prices (tariff-inclusive price) for imported products and their domestic substitutes. So, policymakers need to balance the support they extend to producers by ameliorating the social costs of protection. The community as a whole stand to gain from protection only when the objective of protection is met, i.e. domestic import substitute producers become globally competitive in the shortest possible time so that protection can be removed and domestic prices of import substitutes converge to international prices. The longer this takes, higher are the social costs of protection. Therefore, one of the idealistic goals of NTP 2023 is to gradually scale back protective tariffs with the objective of reducing the burden of higher tariff-induced prices on consumers.

However, coherence and heighted coordination among the leading government agencies responsible for spearheading NTP 2023, such as Ministry of Finance, Ministry of Commerce, National Board of Revenue, Bangladesh Trade and Tariff Commission (BTTC),will be absolutely essential for giving traction to NTP 2023 implementation. For a trade analyst, the document reveals detailed diagnostics of the state of tariffs and para-tariffs applied for the purpose of protection and revenue. It could be the proper handle for starting a tariff and protection rationalization scheme in the FY2026 Budget. The Chief

Adviser, who recently outlined the FIVE MUST DOs for speeding up preparation for LDC graduation, also listed NTP 2023 implementation as one of the top priorities.

So, with commitment from the top, including Finance and Commerce Advisers, and due diligence from the relevant policymakers in the Ministries of Commerce and Finance, such as NBR Chairman, Secretary MOC, and Chairman BTTC, economic and trade policy analysts in the country are eagerly looking forward to one of the most consequential rationalisation scheme for tariffs and protection reformin the forthcoming FY2026 Budget.
Lukewarm approach of the past governments to this critical reform imperative should be no guide for future direction expected to be laid out in the impending FY2026 Budget.

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