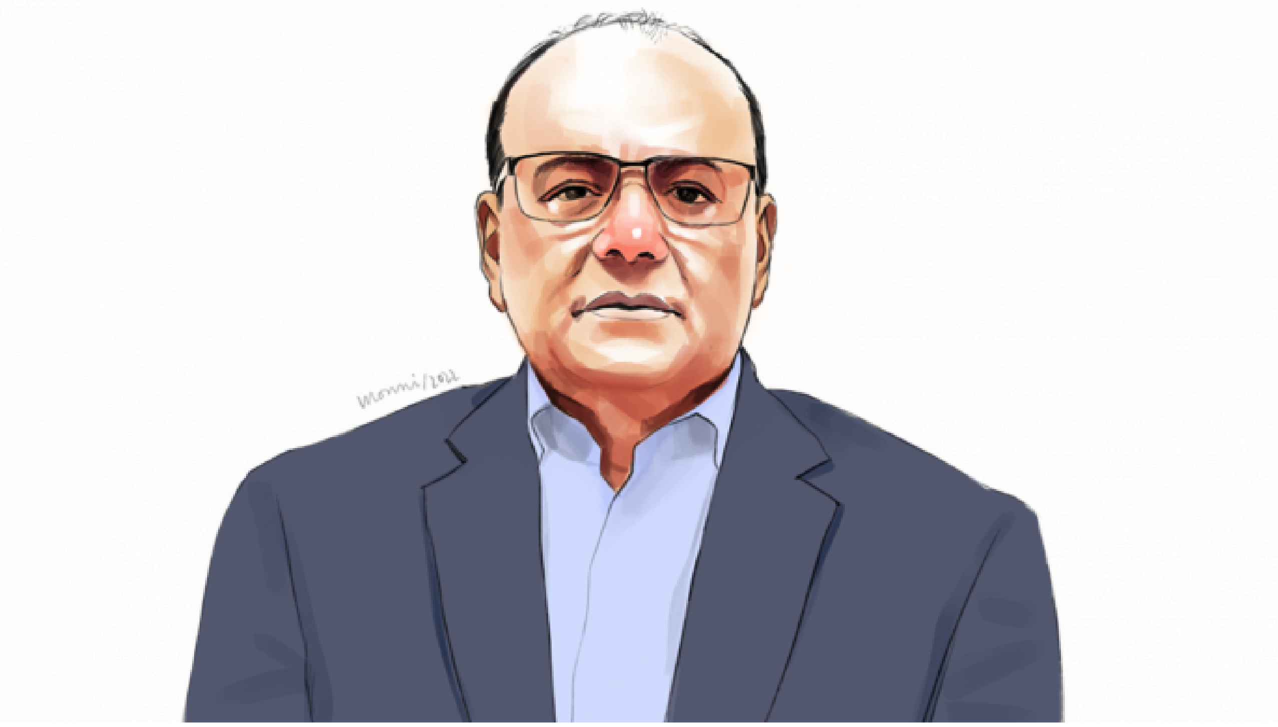

Bangladesh’s tariff complexity

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By *Dr. Zaidi Sattar*

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A choke point for trade and ease of doing business

Zaidi Sattar | July 26, 2026 00:00:00

Bangladesh tariffs are known to be among the highest in the world. What is less known is the fact that it also has among the most complex tariff structure among trading nations.

At the other extreme is Chile, a country that has an exceptionally simple tariff structure – a uniform most-favored-nation (MFN) tariff rate of 6 per cent (Chile Tariff Profile, WTO). In addition, it applies a uniform 19 per cent trade-neutral VAT, imposed equally on imports and domestic production.

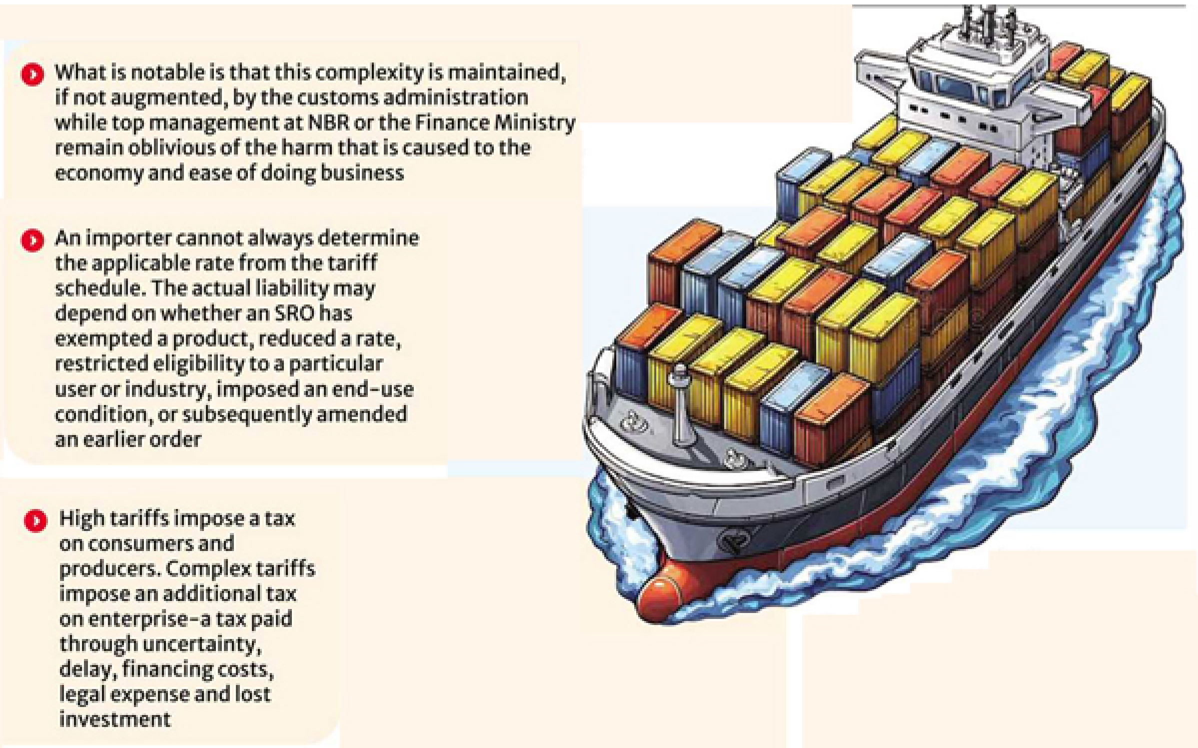
The literature on trade policy has traditionally focused on the level of tariffs with its revenue and protection implications rather than the complexity of tariff regimes. The presumption has been that tariff regimes are as simple as described in economics textbooks. However, a growing body of work by the Organisation for Economic Co-operation and Development (OECD), World Trade Organization (WTO), World Bank, UN Trade and Development (UNCTAD), and leading trade economists shows that complexity itself constitutes a significant trade cost. A country’s tariff regime can therefore undermine the ease of doing business and raise trade costs even if average tariff rates are moderate (OECD — Trade Costs – What have we learned).

In Bangladesh’s trade policy discourse, I have long focused on high tariffs and its protection implications. It is true that the country maintains one of the most highly protected import regimes among comparable developing economies. Yet an equally damaging feature has received remarkably little attention—the extraordinary complexity of the tariff structure itself. Tariff complexity raises transaction costs beyond the tariff itself

The problem is therefore not simply that tariffs are high. It is that import taxation is horizontally and vertically differentiated, layered and cascaded with tax-on-tax systems, exemption-ridden, and is frequently altered with discretionary administrative orders and rules. High protection and high complexity reinforce each other, making the import regime substantially more restrictive than conventional tariff averages suggest.

This neglected dimension has major consequences for the ease of doing business. It raises the cost of imported raw materials, machinery and intermediate inputs, complicates investment decisions, locks up working capital, increases customs disputes and rewards firms capable of navigating administrative discretion. It also weakens exports, because a country cannot sustain export growth while making imports increasingly expensive (due to tariffs) and cumbersome to obtain.

Bangladesh's recent experience offers a stark warning. Imports and exports have recorded virtually no growth over the past four years. This stagnation reflects broader macroeconomic difficulties, weak investment, manufacturing slowdown, and muted growth. But it also exposes a structural contradiction at the heart of trade policy: Bangladesh seeks export-led growth while maintaining an import regime that seriously obstructs access to the machinery, raw materials, components and technology on which competitive exports depend.



In the Bangladesh context – and even globally — tariff complexity appears to be a missing trade policy issue. And tariff complexity is conceptually different from the juggernaut of high tariff protection.

A country can have high tariffs but a relatively simple regime if a few transparent rates are applied consistently. Conversely, even moderate customs duties can become highly restrictive when they are combined with numerous additional taxes, tax-on-tax calculations, product-specific exemptions, frequently amended regulatory orders and wide administrative discretion.

Bangladesh combines both problems: high tariffs and complex tariffs.

Bangladesh Customs Tariffs identifies six major import-stage fiscal instruments—Customs Duty (CD), Regulatory Duty (RD), Supplementary Duty (SD), Value Added Tax (VAT), Advance Tax (AT) and Advance Income Tax (AIT). The total liability on an imported product therefore cannot normally be inferred from its customs-duty rate alone. Customs duty has been maxed at 25 per cent since 2004 at an average of 13-14 per cent that has remained steady for the past 15 years. But a plethora of para-tariffs have lifted the average trade taxes to 55 per cent by FY2027.

This sharply distinguishes Bangladesh from most comparator economies, where import taxation is generally centred on customs duty, a border VAT or sales tax, and excise on selected goods.

Among comparator countries like India, Sri Lanka, Vietnam, Thailand, Kenya, Mauritius, Bangladesh has the largest number of principal para-tariffs, like RD, SD, AT and AIT, which are imposed in addition to ordinary customs duty and VAT.

Furthermore, numerous rate slabs exist within each of these tariffs and para-tariffs, such as 7 for CD (1-25 per cent), 5 for RD (5-25 per cent), and 13 for SD (10-500 per cent), along with numerous concessional rates for selected sectors/sub-sectors (end-user concessions). These plethora of tariff bands, with cascading computations, create a cobweb of a tariff regime that is difficult to fathom by any businessman or official (even economists) outside the customs administration. These complexities in the tariff structure are accentuated by the customs shenanigans over import valuation that is often the principal avenue of malfeasance.

What is notable is that this complexity is maintained, if not augmented, by the customs administration while top management at NBR or the Finance Ministry remain oblivious of the harm that is caused to the economy and ease of doing business.

Tariff complexity thus becomes a hidden non-tariff barrier.

A tariff is no longer just a tariff. This is precisely why the issue has been missed in conventional trade-policy analysis. Researchers and policymakers often compare average tariffs, tariff peaks and the number of tariff slabs. Those indicators capture only part of the burden.

For a Bangladeshi importer, the customs duty is often only the first step in a sequence of calculations. Supplementary Duty may be imposed on a base that already includes the assessable value, Customs Duty and Regulatory Duty. VAT and Advance Tax may then be assessed on values incorporating earlier duties and levies. For some tariff lines, five or six taxes must be calculated sequentially.

This tax-on-tax structure raises the effective protection well above the headline customs-duty rate. It also makes the final tax burden harder to calculate, harder to predict and harder to compare across products.

For investors, uncertainty over the final landed cost of machinery or inputs can be as damaging as the tax rate itself. A firm considering a new factory must assess not only Customs Duty, but also Regulatory Duty, Supplementary Duty, VAT, advance taxes, possible exemptions and the conditions attached to those exemptions.

The result is a regime that imposes both a price barrier and an information barrier.

The SRO labyrinth. Complexity is further magnified by Bangladesh’s extensive reliance on Statutory Regulatory Orders, notifications, circulars and administrative instructions.

An importer cannot always determine the applicable rate from the tariff schedule. The actual liability may depend on whether an SRO has exempted a product, reduced a rate, restricted eligibility to a particular user or industry, imposed an end-use condition, or subsequently amended an earlier order.

Bangladesh maintains separate repositories for customs, VAT and income-tax SROs. These contain frequent amendments, replacements, deletions, extensions and sector-specific provisions. Consequently, the treatment of a product may depend on a chain of subordinate instruments rather than a single, consolidated tariff document.

Digital portals have made these documents easier to locate. That is useful, but digital access should not be confused with policy simplification. Putting a maze online does not remove the maze.

The heavy dependence on SROs imposes high search and compliance costs. Firms must consult the Bangladesh Customs Tariff (First Schedule), annual Finance Acts, customs SROs, VAT SROs, income-tax provisions, notifications, standing orders and circulars to establish the applicable treatment.

Large businesses can hire customs specialists, tax lawyers and clearing agents. Smaller enterprises generally cannot. Tariff complexity therefore operates like a hidden fixed cost, favoring established firms over new entrants and large firms over SMEs.

This directly undermines the ease of doing business in general.

Complexity breeds discretion. A notification-driven system also expands administrative discretion.

All customs administrations exercise judgment in valuation, classification and enforcement. The problem arises when ordinary import treatment itself depends heavily on exemptions, special approvals, project-specific concessions and interpretations spread across several legal instruments.

Bangladesh ranks high in the comparative assessment of discretionary import-tax administration. Discretion operates across Customs Duty, Regulatory Duty, Supplementary Duty, VAT, Advance Tax, Advance Income Tax, reduced rates, exemptions, projects and sector-specific concessions.

Such a structure increases the scope for inconsistent decisions, classification disputes, delays and rent-seeking. Similar goods may receive different treatment because of their declared use, importer status, exemption eligibility or administrative interpretation.

Complexity also encourages lobbying. Every sector seeks lower duties on its inputs, higher duties on competing final goods, or special treatment through an SRO. Over time, the tariff structure becomes an accumulation of negotiated privileges rather than a coherent instrument of economic policy.

The result is neither efficient protection nor neutral taxation. It is a system in which policy uncertainty becomes embedded in business costs.

The overall impact of a complex tariff structure – apart from high tariffs — is to produce a restrictive import regime.

Why restrictive imports undermine exports? The central economic lesson is straightforward: exports depend on imports.

Modern manufacturing requires imported capital equipment, components, chemicals, fabrics, fuels, software, technology and specialised services. An import regime that raises the cost of these inputs inevitably raises the cost of exporting.

Bonded warehouses and duty-free input arrangements partly protect the ready-made garment sector from this burden. But access to such facilities remains uneven, especially for potential exporters outside garments. This creates a dual trade regime: established exporters receive input relief, while emerging sectors face high and complicated import taxes.

That structure helps explain Bangladesh’s persistent failure to diversify exports.

A highly protected domestic market also alters investment incentives. Firms can earn attractive returns by producing behind tariff walls rather than competing in international markets. Resources move toward protected import-substituting activities, while export industries confront higher input costs and thinner margins.

The consequences are now visible. Bangladesh has experienced almost no growth in either imports or exports over the past four years. Import compression may temporarily reduce pressure on foreign-exchange reserves, but it is not a sustainable development strategy. When imports of machinery, industrial materials and technology stagnate, investment and productive capacity eventually stagnate as well. Export growth then weakens because firms cannot expand, modernise or integrate into global value chains.

Restricting imports does not strengthen the balance of payments over the long run. It constrains the productive base needed to generate exports.

Without tariff reforms, not only are imports impaired, export prospects could be doomed.

Reform must address architecture, not only rates. Tariff reform in Bangladesh has often been reduced to adjusting individual duty rates in the annual budget. That approach is neither adequate nor appropriate. The country needs to reform the architecture of the tariff system.

For one, RD can be declared redundant. Since it is essentially an additional CD (applied on import value), it should be added to CD so that people know exactly what the highest CD rate is – not 25 per cent. Supplementary Duty – as it currently discriminates between imports and domestic goods — should be stated for what it is: a protective import duty. Least Developed Country (LDC) graduation preparedness must make elimination or rationalization of SD structure a high priority.

Advance Tax and Advance Income Tax at importation should be reviewed with the aim of reducing working-capital costs and removing discriminatory treatment of imports. This tax deduction at source (TDS) becomes a punitive charge for enterprises that might end up with a loss. VAT should function as a neutral and fully creditable consumption tax, not as another instrument of protection.

SROs should be comprehensively inventoried, consolidated and subjected to transparent cost-benefit review. A lot of redundant SROs should be quashed. Unjustified exemptions should be eliminated. Legitimate concessions should, wherever possible, be incorporated into the tariff schedule or placed within clearly defined, rules-based programmes.

Bangladesh also needs a published medium-term tariff-reform strategy. Businesses should be able to anticipate the direction of policy over three to five years instead of waiting for annual changes, SROs, and negotiations among competing interest groups. Saying that current tariffs are fixed for the next five years is not a certainty when a phased reduction and rationalization of tariffs over that period would be a rational approach to the preparation for LDC graduation.

The ultimate goal of tariff reform should be simple: one consolidated tariff schedule, fewer tax instruments, fewer exemptions, lower dispersion, minimal discretion and a predictable reform path.

High tariffs impose a tax on consumers and producers. Complex tariffs impose an additional tax on enterprise—a tax paid through uncertainty, delay, financing costs, legal expense and lost investment.

Bangladesh cannot become an export-oriented, investment-friendly economy while retaining one of the world’s most restrictive and complicated import regimes. Improving the ease of doing business must therefore begin not merely at the customs counter, but with the simplification of the tariff regime that customs officials are required to administer.

Dr Zaidi Sattar is Founder Chairman, Policy Research Institute of Bangladesh.
zaidisattar@gmail.com