BD gets decent, though not a superb deal

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By *Dr. Zaidi Sattar*

Finally, the wait is over. The Office of US Trade Representative (USTR) — actually President Donald Trump — announced what tariffs will apply to which country as their goods enter the US market. A new world trade order has emerged. Trading according to comparative advantage of nations will no longer be the basis for export success in the US market, which happens to be the world's largest single country market and an attractive destination for exports of all countries. In the new world of trading with the United States, a relatively better bilateral trade deal is what matters. A bad deal (i.e. relatively higher import tariffs) could significantly undermine competitiveness.

So, after several tenacious sessions of negotiations with USTR, Bangladesh has been accorded a "decent" rate of 20% tariff on our exports reaching US shores. This compares with Sri Lanka's 20%, Pakistan's 19%, and India's 25%. Other notable ones in the 20% category (includes 19% ones) are Vietnam, Thailand, Malaysia, Indonesia, Philippines, and Cambodia. It is worth ruminating about what happened in our neighbourhood. Pakistan got a marginally sweeter deal with 19%, perhaps for the offer of exclusive rights for offshore oil exploration (by still unknown US oil company) off the coast of Southern Pakistan. India seems to have got a bad rap with the imposition of 25% tariffs, despite long negotiations for months, primarily because of its traditional resistance to open up its agriculture and dairy sector by lowering its 40% average tariffs in this sector. So, in relative terms, Bangladesh gets a decent though not a superb deal as a reward to the tenacious negotiations pursued by our official Team at the table. Whether or not it would have made a difference I have always argued that the nation might have been better served with the inclusion of a seasoned trade economist with a deeper understanding of the intricacies of domestic trade and tariff policies, which is not as simple as it might seem to the external world. Be that as it may, it is time to commend our negotiators for staying the course despite the uphill task they faced.

A brief summary of the notable features of the latest version of US reciprocal tariffs can be captured as follows (few countries not listed yet, may be due to negotiations not concluded yet):

• A baseline (minimum) tariff of 10% applies to UK and Falkland Islands;

• 15% tariff applies mostly to African countries, and few countries that have largely open economies or on particularly friendly terms with the USA (not necessarily allies); Turkey, S. Korea and New Zealand are other notables;

• 19-20% tariffs apply to countries that have shown eagerness to negotiate and offer as many zero-tariff concessions and offers to substantially raise imports from USA; 19% serves as a sweetener for countries that went the extra mile to appease USTR;

• 25-30% tariffs (India, South Africa) sound like punitive impositions for not reaching agreement, or some outstanding geopolitical issues;

• China-US trade negotiations remained inconclusive until now; so 30% previously imposed remain;

• Singapore, one of the most open economies is not named; my understanding is that there is an impasse with pharmaceutical tariffs;

• Quite a few countries are also missing in the list.

What could be a quick take away?

First, the baseline tariff of 10% was first imposed uniformly across all countries when President Trump first talked about launching reciprocal tariffs. To my mind, a theoretical case for this was made by the Council of Economic Advisers to enact a “tariff offset” for the perennial over-valuation of the US dollar (undermining competitiveness of US export products to start with).

Second, this a new world of differentiated tariffs for countries rather than products. This is contrary to the fundamental principle of rules-based trade (MFN principle) regarding equal treatment of all WTO member nations. If I understand it right, the other novelty is that a country is subject to one import tariff for all its exports to the USA. For Bangladesh, that means all its exports ranging from garments and footwear to ceramic tiles and handicrafts will be subject to the same tariff rate. Since 90% of our current exports are RMG, the focus has been on what tariffs will this be subject to versus the rate for competitors like India, Vietnam, and so on. But Footwear, toys, etc., two promising exports, will now be facing the 20% rate as well.

Third, there is also a punitive tariff for “transshipments”; i.e. for re-exporting goods that originate from another country, in order to ensure that the applied tariff is only meant for the country concerned. China or any other country subject to higher tariffs cannot take the advantage of shipping their goods via another country.

Finally, in relative terms, the 20% rate for Bangladesh gives our exporters some respite and a competitive landscape for entry to the US market. In the new world of reciprocal tariffs, there will be a lot of churning in the market with enormous redirection or trade diversion happening in the months ahead. The global world of trade is no longer the same. So our exporters need to gear up if they wish to carve out a bigger slice of the potential.

To sum up, as I understand it, the 20% rate shows that imports from Bangladesh will not be subject to punitive tariffs, under the present tariff scheme. Given the overall distribution of the new tariffs I consider 20% in the moderate range, though all the reciprocal tariffs could be considered punitive if compared to pre-Trump US tariffs which had an effective rate of 2-3% only and the US economy was among the most open economies in the world. Not any more.

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