Import liberalisation: the missing half of Bangladesh’s export strategies

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In 1991, when the BNP government assumed office following the restoration of parliamentary democracy, it marked a decisive shift in Bangladesh’s economic policy direction. Export-led growth emerged as the new development paradigm. Yet it was not export subsidies that spearheaded this transformation. The cornerstone of the new outward-oriented strategy was import liberalisation—reducing trade barriers and giving domestic producers greater access to competitively priced raw materials, intermediate inputs, capital goods, and technology from world markets. The new policy was grounded in sound trade theory and policy.

For more than half a century, one proposition has dominated development thinking: exports are the engine of growth. The spectacular rise of East Asian economies beginning in the 1960s reinforced this conviction. Korea, Taiwan, Singapore and Hong Kong, followed by Malaysia, Thailand, China and Vietnam, demonstrated how integration into world markets could transform predominantly agrarian economies into industrial powerhouses.

The lesson drawn by developing countries was simple: promote exports on the vast world market rather than target sales in the limited domestic market.

But in celebrating export-led growth, policymakers often overlooked the other half of the story. Successful exporters are invariably successful importers. Today, China, which has become the "world's factory" and the largest global exporter, is also the second largest global importer.

Industrialisation requires raw materials, intermediate inputs, machinery, components and technology, much of which developing countries like Bangladesh cannot produce efficiently themselves. Imports are therefore not merely the price an economy pays for exports; they are frequently what makes exports possible.

For Bangladesh, this distinction has become critical. We aspire to diversify exports, attract investment and integrate into global value chains while maintaining one of the more protective import regimes in the region. These objectives sit uneasily together. Bangladesh needs to recognise that a competitive export regime ultimately requires a competitive import regime.

The East Asia Miracle. The conventional account of East Asia focuses on export promotion. Yet research by leading trade economists presents a more nuanced picture.

Harvard trade economist Dani Rodrik explained East Asia miracle emphasising the central role of extraordinarily high investment. Rapid investment generated demand for imported machinery and capital goods; these imports expanded productive capacity, raised productivity and ultimately supported exports. Industrialisation therefore involved a mutually reinforcing cycle of investment driving capital goods imports which helped raise productivity leading to exports and growth.

The phenomenon is even more pronounced today because production is fragmented across countries. A Vietnamese electronics exporter imports components from China, Korea and Japan. A Thai automobile exporter uses components produced throughout Asia. A Bangladeshi garment exporter imports cotton, yarn, fabric, chemicals, machinery and accessories before exporting the finished product.

Calling the final transaction "export-led growth" conceals much of the economic process that made the export possible.

Imports have a major role in raising productivity. One of the most compelling empirical demonstrations comes from research on Indonesian manufacturing (American Economic Association publication). They found that reductions in tariffs on imported intermediate inputs produced particularly large productivity gains among firms importing those inputs.

The explanation is intuitive. Liberalised imports provide manufacturers with cheaper inputs, better-quality inputs and a wider variety of inputs. They also expose firms to foreign technology. The excessive focus on imports displacing domestic industrialisation may be misplaced. Imports can create industrialisation by providing impetus to produce new products with intermediate inputs becoming more easily available.

For example, a manufacturer may be unable to produce a sophisticated product because one particular chemical, component, machine or material is unavailable domestically. Once that input becomes available competitively through imports, an entirely new domestic production activity can become commercially viable.

The hidden export tax. There is also a fundamental principle of trade economics that Bangladesh cannot afford to ignore: protection of imports creates an anti-export bias.

An exporter sells at world prices. But if tariffs and para-tariffs raise the cost of its imported inputs substantially above world prices, its competitiveness is squeezed from both ends. It receives an international price for its output while paying protected domestic prices for its inputs. Non-garment exporters can come out of this trap only if all exporters are assured duty-free imported inputs.

Moreover, high protection raises profitability in the domestic market. Entrepreneurs naturally ask: why incur the costs and risks of competing in London, Tokyo or New York when substantially higher margins can be earned behind tariff protection at home?

Protection consequently creates two distortions simultaneously: it raises the cost of producing exports while increasing the profitability of producing for the domestic market.

This is why the classic Lerner symmetry result remains so relevant: under standard conditions, an import tariff is the equivalent of an export tax.

For an economy seeking export diversification, that is a serious contradiction.

The current Bangladesh import regime is too restrictive, and too cumbersome with high and complex tariffs that clearly undermines export competitiveness.

Bangladesh’s RMG success proves the point. Ironically, Bangladesh already possesses compelling evidence of the importance of an open import regime: the ready-made garment industry.

RMG did not become internationally competitive simply because Bangladesh subsidized exports. An essential part of its success was the ability of exporters to obtain imported inputs at something approaching world prices through bonded warehouses and back-to-back letters of credit.

In effect, Bangladesh created a free-trade enclave for its most important export industry inside an otherwise highly protected economy.

The lesson is profound.

If an exporter must sell at world prices, it must also be able to buy its inputs at world prices.

Yet this principle has not been applied uniformly across the economy. Potential exporters in light engineering, footwear, agro-processing, electronics and other emerging sectors frequently face a more cumbersome and costly import regime than established RMG exporters.

We should therefore ask whether Bangladesh's failure to diversify exports reflects insufficient export incentives—or an import regime that systematically discourages the emergence of new exporters.

Global Value Chain (GVC). In an era of global value chains imports are increasingly inseparable from exports. Global value chains have made the traditional mercantilist distinction between exports as "good" and imports as "bad" economically obsolete.

Modern production involves components crossing borders several times before becoming final products. Countries specialize not necessarily in entire industries but in particular stages of production.

This produces an apparent paradox. A country can increase the domestic-content requirement of an exported product and nevertheless end up generating less domestic value added.

Suppose a Bangladeshi firm exports a $100 product containing $40 of imported components and $60 of Bangladeshi value added. Policymakers might prefer replacing the imported components with domestic substitutes. But if those substitutes are significantly more expensive or inferior in quality, the product may cease to be internationally competitive. Exports fall to zero—and Bangladesh loses the $60 of domestic value added it was previously earning. This raises an important policy question related to the recent coercive scheme to ensure higher domestic content use of yarn/fabrics by the garment exporters.

The objective should therefore not be to minimise imports. It should be to maximise internationally competitive domestic value addition.

Final point: from export-led growth to trade-led development. There is research evidence that trade openness stimulates growth and Bangladesh is a good example if we consider the liberalising reforms of the early 1990s. None of this means Bangladesh should abandon industrial development or indiscriminately eliminate every tariff overnight. Nor does it mean imports automatically promote growth. Trade liberalisation needs sequencing, adjustment policies, effective competition and a revenue strategy that gradually shifts taxation away from trade.

But the direction of reform should be unmistakable.

Bangladesh should progressively reduce high and dispersed tariffs and para-tariffs; provide all exporters with reliable duty-free access to imported inputs; modernise bonded warehouses and duty-drawback arrangements; simplify customs procedures; and make imported machinery, technology and intermediate goods readily accessible at internationally competitive prices.

The objective should also be to eliminate the artificial policy distinction between "export promotion" and "import liberalisation." They are two sides of the same competitiveness strategy. The latest Import Policy Order 2026-2029 shows several signs that easing import restrictions is an essential part of our export strategy. The document explicitly enables relaxation of import policy to support FTA, EPA, and CEPA engagement, overrides conflicting Acts restricting industrial raw material imports, and mandates Ministry of Commerce deliberation before new restrictions. The Order introduces WTO Trade Facilitation Agreement measures, duty-free imports for FTA-zone entities, raises local value-addition thresholds paired with expanded free-of-charge (FOC) input allowances, and a restructured bonded-warehouse framework requiring bank guarantees, while dropping the earlier LC-free provision for RMG inputs. This is a major step forward but falls short of the needed deeper import liberalisation of the kind Bangladesh experienced in the early 1990s.

This is particularly urgent as Bangladesh graduates from LDC status. Preference erosion will make export markets tougher, while traditional cash export subsidies will have to be phased out. Future competitiveness must therefore come increasingly from productivity, technology, logistics, skills and world-price inputs rather than compensatory subsidies.

Perhaps it is time, therefore, to reconsider the terminology itself.

The East Asian miracle was not simply a triumph of exports. It was a triumph of economies that learned to combine domestic labour, entrepreneurship and capabilities with capital, technology and intermediate inputs sourced from the rest of the world, and then sell the resulting products globally.

Bangladesh’s next stage of industrialisation requires the same insight.

The appropriate development paradigm is no longer simply export-led growth. It is trade-led development: import competitively, add value efficiently, and export globally.

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