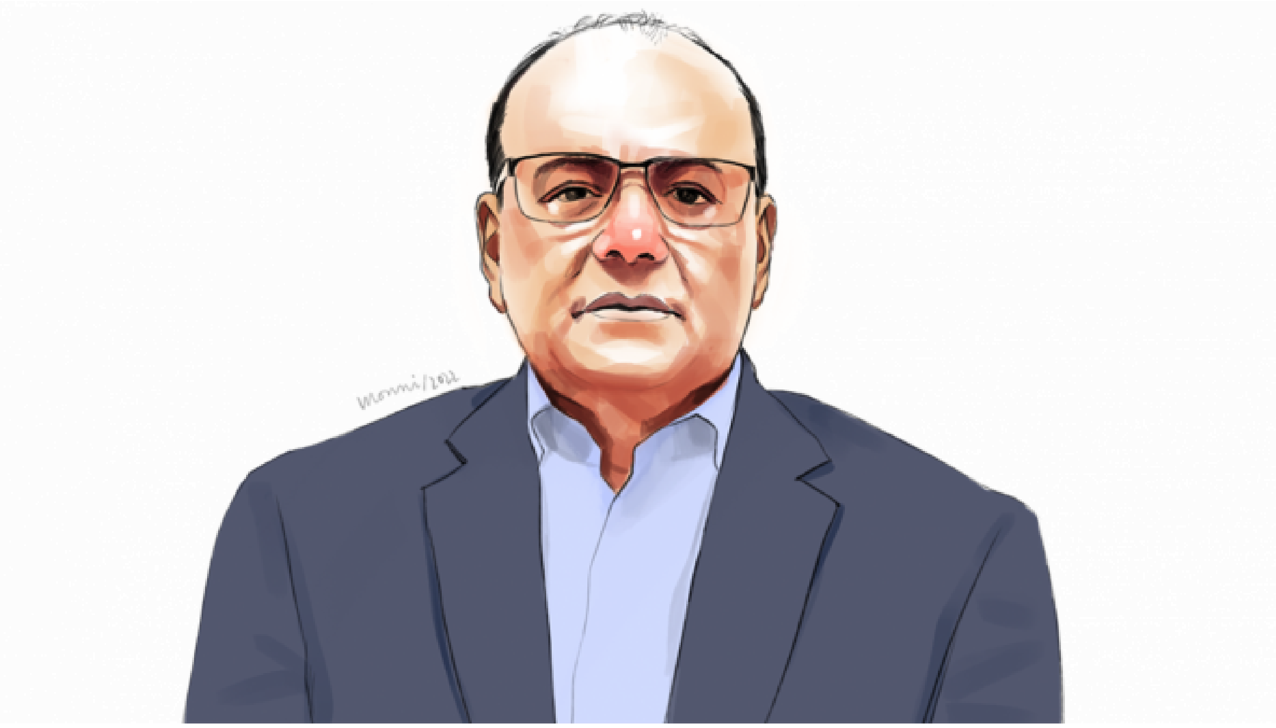

Tariff Reform Deferred: Bangladesh’s Budget Misses a Strategic Opportunity

Friday, Jul 31, 2026

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The FY2026–27 Budget could have been Bangladesh Nationalist Party’s (BNP) second “1991 moment.” After two decades of unfinished economic reforms, analysts expected the new BNP government to launch another bold round of liberalization, much as the first BNP government did in 1991. The economy needed a decisive change of direction—not business as usual. Instead, the Budget largely postpones Bangladesh's most critical economic reform of all: tariff reform.

Following two decades of mounting unfinished economic reform agenda professional analysts waited with bated breath to see a radical approach to deep reforms of the kind that was launched in 1991 by the first BNP government. Instead, the approach we found was to kick the can down the road. The message was: Trade and tariff policy reforms could wait for another day.

It is a significant missed opportunity.

At a time when Bangladesh is preparing for LDC graduation and seeking to attract investment, integrate into global value chains, and diversify exports, tariff policy remains rooted in importsubstitution thinking rather than evolving toward the low, simple, and predictable tariff regime that has characterized the world's most successful export-oriented economies. The contradiction is striking: the Government's macroeconomic strategy points toward greater global integration, while its tariff policy continues to protect the domestic market.

Given the Finance Minister's emphasis on deregulation and liberalization, many expected a meaningful change in trade policy direction. Regrettably, we seem to have received more continuity than change.

The Budget recognizes export concentration risks, LDC graduation challenges, the need for diversification, standards compliance, FTAs, and customs modernization. However, it stops short of presenting a comprehensive export competitiveness strategy.

Missing elements include tariff rationalization, para-tariff reduction, elimination of anti-export bias, universal bonded warehouse access, faster VAT refunds, and WTO-consistent post-LDC export support mechanisms.

As Bangladesh prepares for LDC graduation, trade policy reform is no longer optional—it is imperative.

To be fair, there are some positive measures. The proposed Free Trade Zones, duty-free import facilities for storage, processing and re-export, liberalization of foreign investment in off-dock and ICD operations, air-cargo operator stations, and private port-terminal regulations are pro-trade and pro-logistics reforms. These could reduce lead times and working-capital pressures if implemented well. Lower trade costs could compensate for removal of cash export subsidies that are looming once Bangladesh graduates out of LDC.

The FY2026–27 tariff proposals signal continuity with Bangladesh’s long-standing protectionoriented trade regime, with only modest rationalization. The Budget keeps the seven–tier customs duty (CD) structure unchanged and retains the thirteen-tier supplementary duty structure, with SD rates ranging from 10% to 500%. Instead of eliminating Regulatory Duties (RD), the most pervasive rate of 3% has been raised to 5%. Overall, average tariff has risen marginally this year (see Table) with degree of tariff complexity remaining unchanged. Clearly absent was a structural shift toward a simpler, WTO-style tariff regime. The aggregate indicators reveal remarkable continuity. Average nominal protection remains close to 28 percent, while the average total tax incidence (which includes all taxes levied on trade) continues to exceed 55 percent—among the highest in Asia. Neither tariff levels nor tariff complexity have changed materially.

Bangladesh: Trends in Average NPR, TTI (FY 2000-2027)

Indicator		2005	2010	2015	2020	2025	2026	2027*
NPR	29.24	26.5	23.8	26.6	26.7	28.6	27.9	27.81
Avg CD	22.4	16.31	13.67	13.16	13.45	14.9	14.7	14.66
Avg Para-tariff	6.69	10.22	10.21	13.5	13.3	13.7	13.2	13.15
Avg TTI	50.85	47.4	43.39	50.62	51.7	56.5	55.5	55.38

Source: NBR, PRI staff estimate

Nominal Protection Rate (NPR) = Customs Duty (CD) + Regulatory Duty (RD) + Protective Supplementary Duty (SD) + Protective Value Added Tax (VAT).

Para-tariffs include all the components of NPR except the Customs Duty

Total Tariff Incidence (TTI) = Customs Duty (CD) + Regulatory Duty (RD) + Supplementary Duty (SD) + Value Added Tax

(VAT) + Advance Income Tax (AIT) + Advance VAT (AV) (*) Preliminary.

The tariff regime remains fundamentally unchanged—high, complex, and heavily dependent on para-tariffs. The implementation of the National Tariff Policy 2023, an important pillar of LDC graduation preparation, is not even mentioned. Regulatory duties and minimum import values remain in place, anti-export bias remains embedded in the tariff structure, and the overall tariff regime remains complex and restrictive, increasing cost of doing business while doing little to improve competitiveness or ease of doing business. Trade intensity – share of trade in GDP – is likely to be reduced, not augmented, when every 1% increase in trade intensity could have added 0.5 percentage points to GDP growth.

However, the sectoral tariff measures reveal a familiar pattern: selective protection through higher CD, RD or SD for domestic producers. The Budget raises protection for gypsum boards, gypsum plaster, PVC/PET resin, industrial gases, bicycle parts, small transformers, washing machines, rubber conveyor belts, specialty paper, maize starch and toluene, among others. This points to case-by-case protection, not rules-based tariff rationalization. While the Budget contains numerous product-specific tariff changes, it does not announce a medium-term schedule for tariff rationalization or convergence toward a simpler tariff structure.

The industrial-policy logic is also mixed. Some input-duty reductions are sensible—such as withdrawal of SD on float glass, concessions for LPG-cylinder inputs, raw materials for refractory cement, polypropylene yarn for carpets, and linear alkyl benzene for detergents. But these are selective fixes within a complex tariff system, not a broad reduction in anti-export bias. What is missing in this scheme is output-duty reduction.

The logic seems familiar: “Increase protection where domestic production exists; reduce duties on selected inputs used by those industries.” This undoubtedly benefits firms rooted in the domestic market. But from an economy-wide perspective it also means higher effective protection, wide variation in protection across industries, more lobbying for tariff concessions, greater administrative discretion, and more uncertainty about future tariff changes.

Without sunset clauses or measurable performance benchmarks, temporary protection has a tendency to become permanent. Industries that were intended to mature behind tariff walls often become what economists describe as “geriatric infants”—continuing to depend on protection long after infancy has passed, while consumers continue paying the protection tax indefinitely.

Consumer welfare remains largely absent from the policy discussion, despite Bangladeshi consumers often paying some of the highest prices in the world for basic consumer goods.

As expected, the Budget is stronger on export support commitments. It recognizes that Bangladesh’s export sector remains over-dependent on RMG and that LDC graduation will erode preferences. It proposes wider access to bonded facilities and duty-free input import for promising export sectors, including food processing, light engineering, furniture, electronics, steel, plastics, leather, agriculture, pharmaceuticals, gold and diamonds. If actually implemented across all exporters, this could be a major competitiveness gain.

Yet, by raising effective protection for import-competing industries while leaving the broader tariff architecture intact, the Budget deepens the anti-export bias embedded in Bangladesh’s trade regime. Resources are further tilted toward the domestic market and away from internationally competitive production.

The Budget does emphasize predictability in some tariff proposals and customs administration in general. Examples include extending and simplifying bonded warehouse facilities; easing customs and bond procedures; promoting Free Trade Zones and logistics reforms; and emphasizing consultation and evidence-based tax policy.

These are positive reforms that reduce transaction costs and increase certainty in customs administration. But these are improvements in administrative predictability.

What is missing is policy predictability that was expected, particularly with respect to the tariff regime, such as gradual reduction in average tariffs; fewer tariff bands; reduced reliance on paratariffs; and a transparent medium-term tariff reform roadmap.

The Budget does not exhibit these characteristics.

While the Budget contains numerous product-specific tariff changes, it does not announce a medium-term schedule for tariff rationalization or convergence toward a simpler tariff structure. The customs duty bands remain, supplementary duties remain extensive, and the multi-layered tariff architecture is largely preserved.

Here lies the Budget’s central contradiction — perhaps the most important analytical point.

The Budget articulates an ambitious development strategy based on improving the investment climate; lowering the cost of doing business; expanding exports; integrating more deeply into the global economy; increasing FDI; and raising GDP growth to 6.5% in the short run and 8.5% over the medium term.

Yet the Budget continues to rely on one of the most protection-intensive import regimes in Asia – quite incompatible with the growth objectives. East Asian export-led growth was not driven by continually fine-tuning protection for individual industries, but by progressively simplifying tariffs, reducing effective protection, lowering input costs, and exposing firms to greater competition. These should have been the medium-term goals.

Ultimately, the FY2026–27 Budget is an exercise in incremental tariff management rather than strategic tariff reform. It improves customs administration but leaves the protectionist architecture of Bangladesh’s trade regime largely intact. As Bangladesh approaches LDC graduation, that choice carries increasing economic costs. Countries that have successfully graduated to uppermiddle-income status did so by steadily lowering trade barriers, integrating into global value chains, and exposing domestic firms to greater competition—not by reinforcing complex systems of import protection.

The BNP now has a rare opportunity to recreate the bold trade reforms that transformed Bangladesh’s economy in 1991. Whether it seizes that opportunity—or postpones it once again— may determine the country’s competitiveness and growth trajectory for the next decade.

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