



## Trade policy analytics of FY2026 Budget

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### Tinkering at the margin is hardly the answer

Those of us who were waiting with bated breath to see some transformational changes to be launched in the FY2026 Budget were left wondering about the emerging message. In the trade policy sphere, there is some movement in the right direction except that it is so meager as to be largely inconsequential in the current context – impending Least Developed Country (LDC) graduation in November 2026. As we are left with only two budgets prior to graduation,

all the major policy overhauls, particularly in the trade policy arena, needed to be packaged deftly into these budgets. Despite the best of intentions, this budget falls short in that respect. Sadly, some of the adjustments in tariffs and para-tariffs appear nothing more than tinkering at the margin.



Another development that is of particular relevance now is the nation's response to the proposed "reciprocal tariffs" of 37 per cent by the United States (US) government, now paused until the first week of July. Having chosen the path of negotiation, in order to respond to some of the unflattering assessment of the office of US Trade Representative (USTR), our challenge was to demonstrate serious effort to dismantle a highly restrictive trade regime buffered by high and complex tariff structure, address problems in the governance of Intellectual Property measures, and remove non-tariff barriers like non-transparent regulations, customs inefficiencies, corruption, and so on.

The only historical rarity that was delivered in the FY2026 Budget was its financial outlay, which deviated from the standard practice of incremental budgeting. Constricted fiscal outlay, lower than the previous budget, was principally targeted to complement the tight monetary regime that was heavily focused on taming inflation within the shortest possible time. While the anti-inflation policy is on the right path, make no mistake it comes at the expense of growth slowdown impacted by constrained aggregate demand from lower private and public consumption and investment. Some laudable targeted measures notwithstanding, overall impact on poverty and unemployment could come to haunt us in the near future. Of course, a budget does not start from scratch. Rather, it is a continual process of carrying over from past budget outlays and their implementation. That includes the persistence of a highly protective and restrictive trade regime of the past that is not easy to dismantle via one or two budgets. With tight revenue resources, discretionary public expenditures remain constrained while on-going projects create their own momentum of additional outlays. Within these limiting parameters, the Interim Government must navigate the fulfilment of key national objectives of economic growth, equity and justice, job creation, and poverty reduction, while making progress on trade openness to attract foreign investment and promote growth. This challenge becomes even more pressing with US reciprocal tariffs hanging like a Damocles' sword and LDC graduation imminent.

Whither the trade regime: With the best national experts in charge of budgeting and economic policymaking our expectation was high in terms of formulation of innovative and effective policies that would break new grounds for 21st century trade while preparing for the two immediate challenges. On that count, the FY2026 Budget falls short. And the nation deserved better.

To my utter surprise, transformative change of direction in trade policy – as was done in the Budgets of FY1991-95 – was not given the priority it deserved under the compelling weight of two immediate concerns, viz. impending LDC graduation and a meaningful policy response to the pressures arising from the USTR assessment. On both counts, the Budget seems to have kicked the can down the road, once again.

Table 1 gives a summary of average tariff and para-tariff trends up until the estimates (preliminary) from the FY2026 Budget. The tariff and protection structure remains practically unchanged. As we can see, there is only a marginal reduction (from 28.6 to 28.1) in average Nominal Protection Rate (NPR), a key indicator of national protection levels and trade restrictiveness arising from tariffs and para-tariffs. As we know, the real measure of protection is the Effective Rate of Protection (ERP), which combines the impacts of output and input tariffs. But ERP measurement across all sectors requires firm level surveys that are beyond the scope of this write-up. Suffice it to say that ERP is significantly higher than NPR when output tariffs are typically higher than input tariffs, as is the case in the Bangladesh tariff structure for decades (Table 2).

Overall assessment of protection trends arising from FY2026 Budget is that the marginal reduction in NPR comes mainly from a small reduction in para-tariffs (reduction in 442 SD tariff lines). The average customs duty (CD) remains unchanged despite raising the number of zero-duty tariff lines from 328 to 425, largely in the hope of appeasing the USTR by offering 100 plus items of zero-duty imports from USA. CD has been raised in 72 tariff lines and reduced in 76, leaving average CD as in FY25.

On the whole, a closer look at the tariff trends revealed in Tables 1-2 gives the impression that the status quo ante remains unchanged as far as protection is concerned. Although the Budget has recognised the problem of anti-export bias of trade policy (which impedes export diversification), there appears to be a clear lack of understanding about the depth and nature of the problem. Where a radical change in trade openness is required to open the doors of export diversification and make export production more competitive and incentivized after LDC graduation, such marginal adjustments in protection levels are *non sequitur*. In the following paragraphs I explain where this gut feeling comes from.

What can be discerned from the Budget document is that some modest steps have been taken towards trade openness and reduction of protection as well as elimination of anti-export bias. But these efforts are so low-key that they have made hardly any dent in the long-term trend of high tariff protection signifying little or no change in our restrictive trade regime.

Below, I review two of the highlights in reducing protection and anti-export bias of policy. *Reducing para-tariffs - supplementary duties (SD)*. Take the case of reduction in SD, the principal para-tariff. Some 1700 import products are subject to supplementary duties, in most cases on top of the highest CD of 25 per cent. Though SD comes under the new VAT and SD Law 2012, in 90 per cent of the cases, SD has a protection objective as the rate on imports (at rates of 10 per cent to 500 per cent) are substantially higher than SD on domestic production. Such a protective SD regime generating a lot of revenue is an illusion. So, if the budgetary objective was to reduce tariff protection and anti-export bias significantly, (a) a much larger number of SD tariff lines should have seen significant reduction; (b) if the anti-export bias of SD were to be eliminated, then they should have been brought down to become equal to SD on domestic production so that the net protective effect would become zero; and (c) at a minimum, all SD>20 per cent (700 tariff lines) should have been reduced to 20 per cent, which is the standard SD rate on about 1000 products. These SD adjustments would have brought down anti-export bias significantly. Budget support from several multilateral and bilateral institutions are meant to cover any revenue loss from such reform measures. Sadly, this option was ignored. SD reduction (modest reduction rather than removal) on 422 products has proven hardly effective in reducing protection levels. Come November 2026, the existence of protective SD will be a thorn on our WTO membership rules.

*Adjusting Tariff values and minimum values*. The fallacious application of tariff values (fixed import prices) and minimum price (minimum import values) should have been brought to a complete stop, as part of the measures to bring transparency in trade policy. These methods are applied only by antiquated customs administrations reflecting gross inefficiencies in collecting trade taxes. Completely eliminating these two antediluvian mechanisms in this age of digital customs assessment and clearance was a low hanging fruit that would have barely raised any eyebrows, besides eliminating the scope for customs malfeasance. The silly arguments emanating from tax people in the past supposedly preventing rampant under-invoicing (intended to avoid high tariffs) through such antiquated means could have been put to rest. But that was not done. Instead, tariff values were eliminated on the 12 products (tariff

lines) that were subject to tariff values. The other caricature of minimum import values was only partly eliminated by removing the option on 84 products while raising the minimum values on 23 items. How does one set a minimum price of a million type of chocolates and toys! Lo and behold, all of these items are consumer products of daily use already subject to the highest protective tariffs.

Note that a percentage increase in import value leads to an equivalent increase in tariffs. [No economist in this country is aware of this. Only the tax man knows this “shuvonkoror fank”.] Thanks to the upward revision of minimum values by 77.5 per cent, on average, (ranging from 14.3 per cent on toys to 150 per cent on cosmetics and chocolates), average nominal protection rate for these consumer goods are up by 75 per cent (from 70.5 per cent to 124 per cent). The hardworking RMG ladies will soon find their income shaved off when they go to buy cosmetics while urban women will find they can buy cosmetics in Europe/America at one-third the price in local stores. With the rise in protection rate for these highly elastic consumer goods, revenue is expected to decrease, not increase. Hence, this entire convoluted effort will end up raising protection, not revenue.

Alas, the Bangladesh toy industry, a labour-intensive category, was showing signs of robust growth with exports growing annually at a 25 per cent clip, from \$15 million in 2017 to \$77 million in 2023. The rise in protection due to upward revision of minimum import price creates a disincentive for exports of this high potential export product whose global market is \$300 billion, with China being the top exporter with 70 per cent market share. And, as we all know, China is certainly losing share in its largest market – the USA. In this evolving export landscape for toys, who in his right mind would create any disincentive to export toys from Bangladesh to USA, in particular? I strongly propose that all minimum import values should be eliminated in the budget revision to be confirmed by June 19.

It is important to point out the misconception about what the USTR is looking for in Bangladesh’s trade regime. Offering 100-plus zero tariffs and some tariff reduction on products imported from USA is hardly the answer. The USTR is looking at the Bangladesh trade regime in its entirety and sees that US exports are unable to penetrate the Bangladesh market because of high tariff and non-tariff barriers overall, not just on the 2500 US products that enter the Bangladesh market. If Bangladesh imports some 4500 products, why are US exporters limited to 2500 products? In my view, USTR is raising the much broader aspect of our restrictive trade regime that cannot be responded by merely reducing or eliminating tariffs here and there. Even the idea of super-high tariff bindings of 200 per cent, a Bangladesh WTO commitment on both agricultural and industrial products, could have come

up except that USTR is least bothered about WTO agreement now.

To sum up, restrictiveness of our trade regime comes from the high level of tariff protection complimented by some non-tariff barriers (NTBs) arising from opaque import regulations and other customs inefficiencies. The FY2026 Budget shies away from launching any transformational change in the trade policy landscape notwithstanding the fact that deep trade policy reforms were long overdue for at least two decades. One would have thought the Interim Government - a non-political regime - could have taken some bold reform moves in the direction of trade openness to bring a fresh wind of dynamism in our trade regime, as LDC graduation looms. What is surprising is that very recently the Honourable Chief Adviser had listed tariff rationalisation (National Tariff Policy) among the top MUST Dos in preparation of LDC graduation — also a priority objective of the nation’s Smooth Transition Strategy. Yet the approach to tariff rationalization in the Budget was feeble at best and grossly inadequate at worst. The ghost of persistent high protection remains alive and kicking despite the misplaced use of expressions like “justified protection” and “fair protection” (not seen in economic literature).

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