

BANGLADESH-US TRADE AGREEMENT IN FOCUS



Fahmida Khatun

# A deal done in the dark – almost

CPD Executive Director Fahmida Khatun says pre-deal consultations with economists were largely formalities

STAR BUSINESS REPORT

Bangladesh's recently signed trade deal with the United States promises slight tariff relief but carries deeper implications for fiscal stability, foreign policy and democratic transparency, according to Fahmida Khatun, executive director of the Centre for Policy Dialogue (CPD).

The economist says the agreement, signed on February 9 just days before a national election, was negotiated with limited public engagement.

The interim government did hold meetings with economists, civil society representatives and business leaders on ways to reduce bilateral trade deficit, but Fahmida, who attended one of the sessions, describes them as "just mere formalities."

In an interview with The Daily Star, she said that those discussions were limited in scope and substance. When economists began raising questions, there was little clarity about the topics under consideration.

Meanwhile, negotiations with US authorities continued under a non-disclosure agreement, with no public information available, she said.

"Overall, the process resembled a box-ticking exercise rather than a genuine national consultation," added the CPD executive director.

"The deal may help exporters in the short-term, but its financial costs, geopolitical conditions and policy limits could affect Bangladesh's economy for years."

She emphasised that the agreement is "not only an economic agreement but also geopolitical and security-related," which makes transparency essential.

For a pact that will shape trade, diplomacy and fiscal priorities for years, the lack of broader engagement has raised concerns about legitimacy and preparedness.

According to Fahmida, a far-reaching agreement covering tariffs, defence and energy purchases, technology use and geopolitical alignment has been signed without a strong public debate. Implementation will not fall on those who negotiated it but on the next elected government.

"The interim government will leave without responsibility, while the next government will bear both the positives and negatives," she observes.

**SOME RELIEF**

Under the deal, the reciprocal tariff on Bangladeshi exports to the United States, previously set at 20 percent, has been reduced to 19 percent. In the fiercely competitive ready-made garment sector, the difference matters as much psychologically as financially.

"Even though it is only a 1 percentage-point reduction, it still provides some relief," said the CPD executive director.

Competing exporters face broadly similar tariff levels. Vietnam continues to face around 20 percent, while India, which previously had the same rate, has recently secured a reduction to 18 percent, putting Bangladesh closer to its competitors.

The agreement also provides duty benefits in the US market for garments made with American cotton, though the advantage is limited.

"Bangladesh also exports to other countries, so this is only partially beneficial," she commented.

"It may help Bangladesh remain competitive in its largest export sector, but it does not fundamentally alter the structure of trade."

**THE HIDDEN COST: FISCAL STRAIN**

For the next government, the larger economic effects lie in financial obligations. The deal includes commitments to purchase US goods, notably Boeing aircraft, and to expand cooperation in agriculture and energy.

The agreement enforces a form of managed trade with specific targets. Bangladesh has committed to purchasing \$15 billion worth of US energy commodities, including liquefied natural gas (LNG), over 15 years.

LNG may conflict with Bangladesh's long-term energy goals. "Bangladesh aims to increase renewable energy, but LNG is expensive and not clean," Fahmida said.

"Ideally, the country should gradually reduce LNG dependence and invest in domestic energy exploration. Instead, the agreement may lock Bangladesh into costly

energy imports."

In agriculture, Dhaka will import at least \$3.5 billion of US farm products, including wheat and soybeans.

Bangladesh is already coping with rising domestic and external debt. "The fiscal space of the government is very narrow. We have relatively high debt, and repayment has already started," said the economist.

The CPD executive director said that funding the purchases of 14 aircraft will require "proactive efforts" and could further strain debt sustainability. The country's debt-to-GDP ratio rose to 38.61 percent in the first quarter of this fiscal year from 36.30 percent a year earlier, reflecting sustained borrowing amid tightening fiscal space.

Though framed as a trade deal, Fahmida said the agreement carries clear geopolitical overtones. Certain clauses limit Bangladesh's engagement with "non-market countries," widely interpreted to include China and Russia.

**The deal may help exporters in the short-term, but its financial costs, geopolitical conditions and policy limits could affect Bangladesh's economy for years**

"There are clauses binding Bangladesh not to engage in certain dealings with so-called 'non-market countries,'" Fahmida said. "This clearly introduces a geopolitical and security dimension."

For a country that has traditionally balanced relations among major powers, this could complicate foreign policy.

"Bangladesh's foreign policy is to maintain a balanced relationship with its partners. How the government will implement this while maintaining balance is going to be another challenge," she said.

**POLITICS AND TIMING**

The timing of the agreement has amplified controversy. Signed three days before a national election, it was

concluded by an interim administration that will not oversee its implementation.

Fahmida believes the timing of the agreement is crucial. "This is a major national decision. Ideally, the elected government should have taken this decision."

"The urgency is difficult to explain. Negotiations had been ongoing for months, and while exporters, particularly garment manufacturers, probably benefited from clarity on tariffs, broader national interests suffered."

She said, "Closing the deal may have been necessary for exporters, but not necessarily for all sectors. The deal could have waited."

The next government will inherit the consequences of a deal it did not negotiate. Renegotiation may be difficult. "Once an agreement is signed, flexibility is limited," Fahmida said.

The agreement intersects with wider structural changes. Bangladesh is preparing to graduate from least developed country status in November, a shift that will reduce preferential market access and concessional financing.

According to her, to sustain growth, Bangladesh must diversify trade partnerships, improve governance and strengthen institutions. The competitive landscape is also shifting.

India has secured more favourable trade terms with major partners, including the European Union. "Bangladesh must remain mindful of competition," she warned.

In the longer term, she suggested exploring a full free-trade agreement with the United States, though such negotiations would be complex and constrained. "Trade agreements must be a win-win situation," she said. Given Bangladesh's limitations in technology and finance, the benefits must be carefully assessed.

"How this trade deal will benefit Bangladesh, something we have to see," she said. "The next government will have to examine it very closely and, if possible, renegotiate aspects of it."

# Unequal, rushed and risky

Prof Selim Raihan says it raises questions about Bangladesh's economic sovereignty and place in the global order



Selim Raihan

STAR BUSINESS REPORT

A trade agreement signed between Bangladesh and the United States on February 9, just days before a national election, has drawn sharp criticism from economists and policy observers.

The Agreement on Reciprocal Trade, signed by the interim government at the fag end of its tenure, offers only a marginal reduction in US tariffs but binds Bangladesh to a broad framework covering defence, energy, trade, labour and digital governance.

"The agreement could reshape Bangladesh's economic autonomy, geopolitical balance and long-term development path," said Professor Selim Raihan, executive director of the South Asian Network on Economic Modeling (Sanem).

Speaking in an extended interview, Raihan described the deal as "highly unequal", "rushed" and "potentially damaging" to Bangladesh's strategic independence.

His first concern centres on timing. The agreement was finalised by an interim government just days before the election, a move he believes sets a "troubling precedent".

"I do not understand why our interim government rushed to sign this agreement just days before the election," he said. "This should have been left to the newly elected government... Waiting one or two months would not have created major problems."

Raihan contrasted Bangladesh's decision with India's slower approach to a similar trade arrangement with Washington.

"I was informed that India and the United States have not yet signed their trade agreement... If a country like India has not finalised such a deal, why were we in such a hurry?" he asked.

He said an agreement of this magnitude should have gone through parliamentary scrutiny and wider consultation with business leaders and trade experts. "Stakeholders, including exporters and experts, were not properly consulted," he said, calling the process "deeply concerning".

One of Raihan's strongest criticisms concerns the imbalance of obligations between the two countries.

In the 32-page document, "Bangladesh shall" appears 158 times, while "the United States shall" appears only nine times, he said. "This shows that most obligations fall on Bangladesh."

Under the agreement, Dhaka will open its market to

around 6,700 US products, including chemicals, medical devices, machinery, ICT equipment, motor vehicles, beef and poultry. In contrast, the US will grant duty-free or preferential access to about 2,500 Bangladeshi items.

In return, Washington has reduced its reciprocal tariff on Bangladeshi exports to 19 percent from 20 percent.

For Raihan, the imbalance is especially troubling given the asymmetry between the two economies. "For a trade agreement between the most powerful country in the world and one of the weakest economies among the least developed countries, this is highly unequal," he said.

"Here the weaker country is offering more, while the superpower is offering less," he added. "Bangladesh is actually giving special and differential treatment to the United States."

Apart from trade, Raihan expressed concern over provisions that could limit Bangladesh's policy autonomy.

**The agreement should have been left to the newly elected government. Waiting one or two months would not have created major problems**

The agreement mandates that Bangladesh endeavour to increase purchases of US military equipment and restricts procurement from certain countries – language widely seen as aimed at China. It also allows Washington to terminate the deal if Bangladesh enters trade agreements with countries classified as non-market economies.

"In many areas, including defence purchases and trade agreements with other countries, Bangladesh may need endorsement from US authorities," Raihan said. "This raises concerns about Bangladesh's independence and sovereign decision-making."

The deal emphasises "economic and national security alignment" between the two countries, which Raihan describes as "potentially intrusive".

"This is not just about trade. It is geopolitics," he said. "Bangladesh is vulnerable in global geopolitical competition, and we must be careful."

**RISK OF LOSING NON-ALIGNED STATUS**

Raihan said the agreement could push Bangladesh towards alignment with US strategic interests.

Under one provision, if the US introduces border

measures or trade actions on national security grounds, Bangladesh would be required to adopt complementary restrictive measures. Critics say this could bind Dhaka to US sanctions and trade disputes.

"If the United States bans products from certain countries, Bangladesh may be expected to support that," Raihan said. "Bangladesh has historically remained non-aligned. This agreement could change that stance."

He also highlighted the challenge of managing relations with China, Bangladesh's largest import partner, and India, its key regional neighbour.

"China is our largest import source, yet the US has trade conflicts with China. If Bangladesh is pressured to reduce imports from China, it will be extremely difficult," he said. "We need good relations with everyone – China, India, the US, and others."

**ZERO TARIFF, BUT NOT REALLY**

Raihan criticised what he described as misleading public communication about tariff benefits. "When officials spoke of 'zero tariff' for products using US cotton, it actually refers to zero reciprocal tariff, not total tariff removal," he said. "The original tariff remains."

Many exporters misunderstood the provision, believing it meant full tariff elimination. "The document clearly states the original MFN [Most-Favoured-Nation] tariff remains," Raihan added.

Although Bangladesh will notify the World Trade Organization (WTO) of its commitments, Raihan argues that several provisions contradict WTO norms.

"Under WTO principles, weaker economies usually receive special and differential treatment," he said. "But here Bangladesh appears to offer greater concessions."

He called this a "serious contradiction" and questioned whether adequate WTO expertise was involved in the negotiations.

Another concern is what Raihan describes as "managed trade", where Bangladesh commits to importing fixed quantities of US goods regardless of market conditions.

The agreement requires Bangladesh to purchase US liquefied natural gas worth about \$15 billion over 15 years and increase imports of aircraft and agricultural products.

This includes plans for Biman Bangladesh Airlines to buy 14 Boeing aircraft and at least \$3.5 billion of US agricultural goods such as wheat, soybean and cotton.

"The whole idea is to reduce the bilateral trade deficit," Raihan said. "You have to import more from the United

States, regardless of competitive prices."

He warned that Bangladesh could be forced to buy more expensive goods even when cheaper alternatives are available.

"If we find a cheaper source elsewhere, we may not be able to choose it," he said. "This will put additional pressure on our foreign exchange."

"How are we going to finance aircraft purchases and energy imports? There is a risk of increased reliance on foreign loans," Raihan said.

The agreement also requires changes to Bangladesh's labour laws, including expanding union rights and bringing export processing zones under national labour standards within two years. Analysts say this could unsettle investors in the garment sector.

"Labour is a very critical issue in Bangladesh," Raihan said. "If these new provisions create confusion or discomfort among investors, it could create serious problems."

He also raised concerns about provisions requiring Bangladesh to recognise US Food and Drug Administration (FDA) approvals for pharmaceuticals and medical devices, which could weaken regulatory sovereignty.

**REMOVAL OF NON-TARIFF BARRIERS: ONE POSITIVE AREA**

Despite his criticism, Raihan acknowledged some potential benefits.

"There is a positive area in addressing non-tariff barriers," he said. "But reforms should apply globally, not just for one country."

He said inefficient regulations raise costs for both domestic and foreign businesses, and reform could support broader economic growth.

Raihan believes the agreement will pose a major challenge for the next government. "The next government will already be occupied with domestic political and economic challenges," he said. "They may seek a review rather than cancellation."

Cancelling the deal could damage Bangladesh's credibility. "Signing and cancelling later does not send a positive signal to trading partners," he said.

At the same time, moving ahead would lock in long-term obligations. "The pressure will remain – financial, strategic, and geopolitical," Raihan said.

"We need everyone – China, India, the United States, and others," he said. "Maintaining that balance is crucial for Bangladesh's future."