

## Tariff Turbulence: Assessing the Impact of US Tariffs on Bangladesh's Economy

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Source: CNN

### Introduction

In a rapidly shifting global trade landscape, few events have impacted Bangladesh as profoundly as the recent imposition of a 37% tariff on its exports by the United States. Announced as part of President Donald Trump's controversial "Reciprocal Tariffs" policy—under the broader "Liberation Day" initiative—this decision has shaken confidence across Bangladesh's export-driven economy. The U.S. administration justifies the move by claiming that Bangladesh effectively levies a 74% trade barrier on American goods, prompting what it terms a "discounted

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reciprocal” response.<sup>2</sup> With the United States serving as Bangladesh’s largest single export destination—particularly for ready-made garments (RMG), which account for more than 80% of total exports—the stakes could not be higher. A tariff of this magnitude poses serious risks: the erosion of price competitiveness, potential factory closures, job losses across the industrial belt, and broader macroeconomic strain.

In April 2025, President Donald Trump authorized a 90-day suspension of most newly imposed tariffs, a decision largely influenced by significant turmoil in the financial markets and mounting pressure from business leaders and international partners. The announcement followed a sharp decline in U.S. stock indices, with the S&P 500 falling 12% and the Dow Jones Industrial Average losing nearly 4,600 points after the implementation of broad tariffs on U.S. trading partners.<sup>3</sup> The administration presented the pause as an opportunity for other countries to engage in trade negotiations. Treasury Secretary Scott Bessent indicated that over 75 nations had reached out to discuss potential trade agreements, prompting the administration to initiate "bespoke" negotiations with individual countries during the 90-day period.<sup>4</sup>

Over the next three months, Dhaka must not only strengthen its case for continued exemption but also take proactive steps to demonstrate goodwill—such as streamlining customs procedures, addressing non-tariff barriers, and expanding imports from the U.S.

This commentary will explore the multifaceted implications of the U.S. tariff decision, with a particular focus on its economic repercussions for Bangladesh and the broader impact on U.S.-Bangladesh relations.

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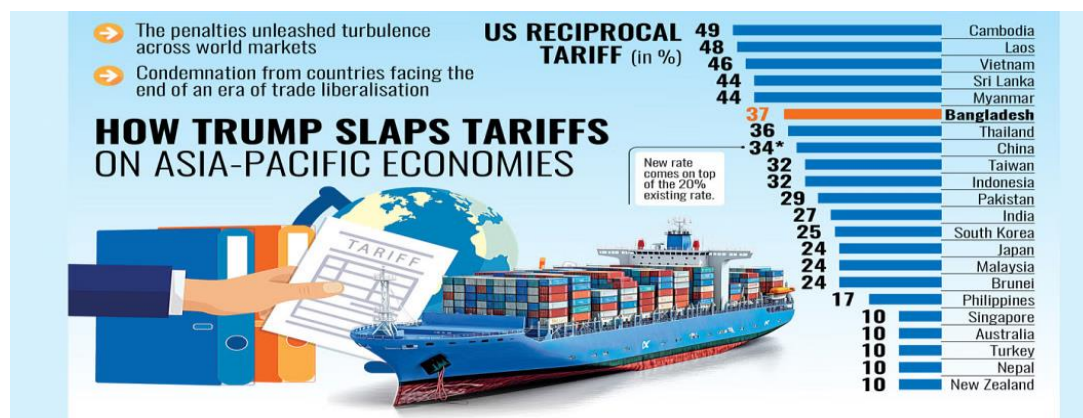
<sup>2</sup>Monitoring Desk. 2025. “Bangladesh Scrambles to Respond as US Imposes 37% Tariff on Garment Exports.” Profit by Pakistan Today. April 5, 2025. <https://profit.pakistantoday.com.pk/2025/04/05/bangladesh-scrambles-to-respond-as-us-imposes-37-tariff-on-garment-exports/?utm>.

<sup>3</sup>Press, The Associated. 2025. “How the Stock Market Made Back All Its Losses after Trump Escalated the Trade War.” AP News. May 4, 2025. <https://apnews.com/article/trump-tariffs-stock-market-bonds-dollar-pause-5409392268729ba0ada7077d0eea9e4e>.

<sup>4</sup> News, TMTPost. 2025. “US Stocks Skyrocket on Trump’s 90-Day Pause on Most Reciprocal Tariffs.” Futunn.com. FuTu News. April 10, 2025. [https://news.futunn.com/post/55350949/us-stocks-skyrocket-on-trump-s-90-day-pause-on?utm\\_source=chatgpt.com&level=1&data\\_ticket=1746421227422493](https://news.futunn.com/post/55350949/us-stocks-skyrocket-on-trump-s-90-day-pause-on?utm_source=chatgpt.com&level=1&data_ticket=1746421227422493).

## Trump's "Reciprocal Tariffs" Doctrine

The re-election of Donald Trump in 2024 re-energized a familiar but deeply polarizing worldview—a transactional approach to global economic relations, this time repackaged under the bold and sweeping banner of the "Reciprocal Tariffs" policy. Unlike earlier protectionist policies such as the 2018 tariffs on Chinese steel and aluminum, the new doctrine does not merely target one adversary—it systemically recalibrates the United States' entire trade architecture under the logic of numeric parity. Under the so-called “Liberation Day” initiative, the Trump administration introduced an automatic tariff baseline of 10% on all imports to the United States.<sup>5</sup> However, for countries the U.S. accuses of maintaining "non-reciprocal trade practices"—such as high tariffs, opaque customs procedures, and non-tariff barriers—the baseline spikes dramatically. And herein lies the controversial core: the U.S. Trade Representative's Office employed a simplistic arithmetic model to determine the tariff rate—a country's “effective trade barrier” percentage was halved to set the U.S. tariff rate. This formula lacked nuance and, critics argue, grossly misrepresents the realities of global trade. For example, Bangladesh was alleged to impose a 74% barrier—an inflated figure that likely includes isolated regulatory obstacles or sector-specific quirks rather than a comprehensive trade wall. The resultant 37% U.S. tariff on Bangladeshi goods is thus based not on rigorous economic assessment, but on political optics and ideological urgency.



Source: The Daily Star

<sup>5</sup>Ishaan Tharoor. 2025. "Trump Hails 'Liberation,' the World Sees America Alone." The Washington Post. April 4, 2025. [https://www.washingtonpost.com/world/2025/04/04/trump-tariffs-liberation-day-isolationism/?utm\\_source](https://www.washingtonpost.com/world/2025/04/04/trump-tariffs-liberation-day-isolationism/?utm_source).

What makes this policy even more disruptive is its decoupling from multilateral mechanisms like the WTO, and its complete disregard for development asymmetries. Bangladesh, classified as a Least Developed Country (LDC) until recently, had previously enjoyed Generalized System of Preferences (GSP) benefits—many of which were suspended years ago but still left room for strategic flexibility. The new tariff essentially erases years of developmental trade diplomacy, pushing Bangladesh into the same penalty bracket as much larger economies like Vietnam or even China.

Critically, the policy is not just economic—it is performative. Trump’s “reciprocity” rhetoric appeals to a domestic political base that sees global trade as a zero-sum game. The Reciprocal Tariffs doctrine, then, is not just a policy—it is a campaign slogan turned into law, where economic grievances are weaponized into a nationalist narrative. As such, countries like Bangladesh become collateral damage, not because of malicious trade behavior, but because they are small enough to be targeted without provoking immediate geopolitical blowback. The doctrine's unpredictability has extensively undermined global confidence in the stability of U.S. trade commitments. Emerging economies, once eager to enter the U.S. market, now face a cloud of arbitrary risk. For Bangladesh, this introduces not only a financial shock but a strategic dilemma: how to engage with an increasingly unilateralist power that no longer plays by the traditional rules of diplomacy or trade liberalism.

## Bangladesh’s Export Dependence



Bangladesh's economy is intricately tied to its export sector, with the Ready-Made Garment (RMG) industry serving as the cornerstone. This sector contributes approximately 85% of the country's total export earnings and accounts for about 11.5% of its GDP, employing over four million workers, the majority of whom are women.<sup>6</sup> The United States stands as a pivotal market for Bangladesh's RMG exports. In the first three quarters of the fiscal year 2024–25, the U.S. accounted for nearly 19% of Bangladesh's total garment exports, with shipments valued at \$5.74 billion.<sup>7</sup> This significant reliance marks the vulnerability of Bangladesh's economy to policy shifts in key markets. The recent imposition of a 37% tariff on Bangladeshi apparel exports to the U.S. has introduced substantial challenges. Previously, synthetic garments faced a 28% tariff, and cotton garments were subject to a 15.2% rate.<sup>8</sup> The uniform increase to 37% across both categories threatens the competitiveness of Bangladeshi products in the U.S. market.

This tariff escalation poses risks of order cancellations, job losses, and a potential decline in foreign investment. Industry leaders have expressed concerns about the immediate impact on the RMG sector, which has been a driving force behind Bangladesh's economic growth and social development over the past decades. In response, Bangladesh has initiated diplomatic engagements, including a pledge to increase purchases of U.S. cotton and other goods, aiming to persuade the U.S. administration to reconsider the tariff decision. However, the situation highlights the need for Bangladesh to diversify its export markets and reduce over-reliance on a single sector or trading partner.

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<sup>6</sup>Bank, Bangladesh. n.d. "Quarterly Review on Readymade Garments (RMG) 1 : April-June of FY23." Accessed April 28, 2025. <https://www.bb.org.bd/pub/quarterly/rmg/rmg%20april-june%20%20fy23.pdf?utm>.

<sup>7</sup>"The Daily Star." 2025. The Daily Star. April 19, 2025. <https://www.thedailystar.net/business/news/garment-exports-us-grow-17-3875111?utm>.

<sup>8</sup>Textile Today. 2025. "US Tariff Shocks Exports, RMG Leaders See New Way." Textile News, Apparel News, RMG News, Fashion Trends. April 6, 2025. <https://www.textiletoday.com.bd/us-tariff-shocks-exports-rmg-leaders-see-new-way>.

## **How U.S. Tariffs Can Threaten Bangladesh's Economic Growth**

### **A Bleeding Trade Balance**

First, the most immediate wound would open in Bangladesh's export sector. Garment exports—the country's lifeline, contributing over 11% of GDP and 85% of export earnings—would lose significant ground in the American market.<sup>9</sup> If the 37% tariff takes effect permanently, Bangladeshi products would become instantly uncompetitive compared to those from Vietnam, Cambodia, and even Latin American countries benefiting from preferential access. Export volumes would nosedive. Foreign currency inflows would constrict. A swelling trade deficit would force the government to dip into dwindling reserves, triggering an ominous ripple effect across the financial system.

### **Shockwaves in the Labor Market**

Beyond cold numbers, the human cost would be staggering. The RMG sector employs over 4 million people, the majority being rural women. A collapse in U.S. orders would mean factory closures, mass layoffs, and a sudden swelling of urban and rural unemployment. Joblessness on this scale would not only erode hard-won social mobility gains but could fuel social unrest, increasing political volatility at a moment when the interim government's stability is still fragile.

### **Currency Devaluation and Inflation Spiral**

Reduced exports mean reduced inflows of dollars. As the Taka weakens against the dollar, Bangladesh would face imported inflation—everything from oil to machinery to consumer goods would become costlier. This would squeeze the middle and lower-income classes hardest, eroding purchasing power and dragging millions back below the poverty line. The political consequences of an inflation surge, especially in a transitional government phase, could be profound and destabilizing.

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<sup>9</sup>FICCI. 2025. "FICCI." FICCI. 2025. <https://ficci.org.bd/en/blog/the-garments-and-textile-sector-a-change-maker-for-bangladeshs-economy?utm>.

## **Foreign Investment Exodus**

Perception matters in global markets. If Bangladesh appears unable to navigate this tariff crisis, it would send a chilling signal to international investors already jittery about emerging markets. Foreign Direct Investment (FDI), which the country desperately needs for infrastructure, technology, and manufacturing diversification, could dry up, rerouted to competitors perceived as more politically and economically stable. The World Bank and IMF, already tightening lending conditions globally, could reconsider Bangladesh's favorable status, raising the cost of external borrowing precisely when it is most needed.

## **A Geopolitical Downgrade**

The fallout from mishandling the tariff crisis would not only be economic—it would ripple into Bangladesh's geopolitical standing at a time when global alignments are shifting dramatically. Under President Trump's renewed "Reciprocal Tariffs" doctrine, U.S. foreign policy has become aggressively transactional: friends are measured not by shared ideals, but by shared benefits. In this new framework, economic leverage is power, and the cost of losing relevance is swift and brutal. If Bangladesh fails to effectively negotiate or offer tangible concessions within the 90-day window, it risks being seen as a low-return partner in Washington's global calculus. Unlike Vietnam, India, or even Cambodia—countries proactively recalibrating their relationships with the U.S.—Bangladesh could be downgraded into a second-tier category: a market neither vital to American supply chains nor crucial to its strategic ambitions.<sup>10</sup> Such a geopolitical downgrade would have profound consequences. Access to trade privileges, participation in regional initiatives like the Indo-Pacific Economic Framework (IPEF), and opportunities for security cooperation would shrink. Bangladesh would find itself increasingly isolated at a time when competition for American attention is fierce—and when strategic neglect often leads to economic marginalization.

Moreover, other partners beyond the U.S. would take notice. Global investors, multinational corporations, and even regional powers like Japan and Australia watch closely how smaller economies navigate major power relations. A perception that Bangladesh failed to manage its most

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<sup>10</sup>"The Daily Star." 2025. The Daily Star. April 3, 2025. <https://www.thedailystar.net/business/news/implications-and-strategies-bangladesh-3862866?utm>.



important bilateral relationship could reinforce an image of vulnerability and weak policy coherence.

## **Opportunities and Expectations During the Pause**

The 90-day suspension of the U.S. "reciprocal tariffs" presents Bangladesh with a critical window to recalibrate its trade strategy and address the economic challenges posed by the proposed 37% tariff on its exports. This temporary reprieve, secured through diplomatic engagement by interim leader Professor Muhammad Yunus, offers both opportunities and expectations that require strategic action.



Source: Somoy News

## **Diplomatic Engagement and Trade Concessions**

In response to the tariff threat, Bangladesh has proactively engaged with the U.S. administration, expressing a commitment to support the U.S. trade agenda. The Bangladeshi government has pledged to increase imports of American goods, including cotton, wheat, corn, and soybeans, and to reduce tariffs on key U.S. export items such as gas turbines, semiconductors, and medical equipment. Additionally, efforts are underway to eliminate non-tariff barriers, streamline customs procedures, and establish bonded cotton warehouses to facilitate U.S. imports.

## **Industry and Expert Recommendations**

Economists and industry leaders have emphasized the importance of utilizing this 90-day period to negotiate a sustainable trade framework with the U.S. At a roundtable organized by the



Bangladesh Garment Manufacturers and Exporters Association, experts urged the government to engage in strategic dialogue with the U.S. to understand its expectations and to define Bangladesh's policy offerings in return.<sup>11</sup> They highlighted the need for a long-term solution to safeguard the country's trade interests beyond the temporary pause.

### **Reducing Overdependence on RMG Exports**

The breathing space also provides an urgent chance for economic diversification. Overreliance on the U.S. garment market has long been Bangladesh's "Achilles' heel"<sup>12</sup>. This pause should galvanize efforts to accelerate entry into alternative markets—like the EU (especially post-Brexit), China, Canada, and rising African economies. Simultaneously, the country must diversify into new sectors like pharmaceuticals, IT services, and agro-processing, cushioning against potential collapses in garment demand.

### **Way Forward**

Bangladesh stands at an inflection point in its economic and diplomatic trajectory. To navigate the complexities of this moment, Bangladesh must adopt a long-term strategic vision that aligns with both its economic aspirations and the harsh realities of the modern global order. For too long, Bangladesh has been reactive rather than proactive in its economic diplomacy. This pause offers a rare opportunity to recalibrate its trade strategy, making it less dependent on traditional markets and diversifying its economic engagements. However, diversification cannot happen in isolation. It requires a holistic approach that involves improving infrastructure, removing red tape, and overhauling domestic regulatory frameworks. Economic diplomacy must shift from lobbying for tariff reductions to advocating for the removal of non-tariff barriers and establishing Bangladesh as a hub for strategic investments across multiple sectors. This means inviting foreign capital with clear policies, creating investor-friendly environments, and becoming a trusted partner in global supply chains.

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<sup>11</sup>"Experts, Businesses Urge Strategic Use of 90-Day US Tariff Pause | Bizbd Review." 2025. Bizbdreview.com. 2025. <https://bizbdreview.com/experts-businesses-urge-strategic-use-of-90-day-us-tariff-pause/?utm>.

<sup>12</sup>A specific weakness or vulnerability that might lead to failure.

Institutionalizing economic diplomacy is equally important. Bangladesh needs a more systemic approach to international trade relations. The establishment of dedicated diplomatic and trade negotiation teams, equipped with the expertise to navigate the complexities of global trade and geopolitical issues, is essential for ensuring continuous engagement with key markets like the U.S. These efforts will need to be supported by a holistic vision of economic diplomacy that balances the country's aspirations with the evolving dynamics of international power. Equally important is the need for domestic reform. Bangladesh must invest in modernizing labor laws, improving environmental standards, and building a stronger digital economy. These reforms will not only address the immediate challenges posed by the tariff but will also equip Bangladesh to compete in a more competitive, technology-driven global economy.

In essence, Bangladesh's response must be a comprehensive, forward-looking strategy that leverages its diplomatic, economic, and institutional capabilities to build a more resilient and diversified economy for the future.