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Credit - Drishti Ias

US-Bangladesh Cotton Deal: Implications for India



For Prelims: India-US Interim Trade Agreement , Cotton , Manmade fibre , Kasturi Cotton Bharat

For Mains: Impact of Trade Agreements on Domestic Industries, Agricultural Exports and Cotton Economy, Technical Textiles and Industrial Policy

Source: TH

Why in News?

Bangladesh and the US signed a reciprocal trade agreement, colloquially termed the "**Cotton for Zero-Tariff**" deal .

- The pact has raised significant concerns among Indian exporters, as it threatens to erode the competitive edge India had gained under the **India-US Interim Trade Agreement in the US market** and could also disrupt **India's raw cotton exports**.

Summary

- The US-Bangladesh "Cotton for Zero-Tariff" deal gives Bangladesh a quota-based zero-duty advantage in the US market, eroding India's tariff edge, threatening textile hubs, and risking a decline in Indian cotton exports as Bangladeshi firms shift to US cotton.
- India must respond through trade negotiations (cotton parity, BTA), MMF reforms, ESG branding, technical textiles, and market diversification to protect its textile sector and farmer incomes.

What are the Key Highlights of the US-Bangladesh Trade Deal?

- Tariff Reduction:** The deal secures a **19% reciprocal tariff** for Bangladesh, a reduction from the

earlier 20%.

- **Zero-Tariff Mechanism:** The most significant aspect is the commitment to establish a mechanism allowing a specified volume of Bangladeshi textile and apparel goods to enter the US at a **zero reciprocal tariff rate**.
- **Conditionality (Rules of Origin):** The zero-tariff benefit is conditional. The volume of duty-free exports will be determined based on Bangladesh's use of "**US-produced cotton and man-made fibre textile inputs.**"
- **Reciprocal Commitments by Bangladesh:** Bangladesh has agreed to significantly open its economy to US industrial and agricultural goods.
 - It has committed to purchasing **USD 3.5 billion** of US agricultural products (wheat, soy, cotton, corn) and **USD 15 billion** worth of energy products over 15 years.

How Does the US-Bangladesh Trade Deal Impact India?

According to the **Confederation of Indian Textile Industry (CITI)**, the deal presents a "two-fold challenge" for India:

- **Erosion of Tariff Advantage:** Prior to this deal, India had a perceived advantage with an **18% US tariff** compared to Bangladesh's **20%**.
 - With the new deal, Bangladesh's general tariff drops to **19%**, narrowing India's margin to just 1%.
 - More critically, for the specific quota of goods entering at **0% duty**, India now faces a massive **18% disadvantage** compared to Bangladesh.
- **Bangladesh is already the second-largest apparel exporter globally (after China).** This deal further strengthens its position against India (the 6th-largest exporter) in the lucrative US market.
- Industrial hubs like Tiruppur (Tamil Nadu) and Surat (Gujarat) operate on thin profit margins. Global retail giants (like Walmart, GAP) may shift large-volume orders to Bangladesh to capitalize on the duty-free benefits.
- **Loss of a Key Market for Indian Cotton:** Bangladesh has traditionally been the largest buyer of Indian raw cotton (accounting for nearly 70% of India's cotton exports).
 - India exported USD 1.6 billion worth of cotton yarn and about USD 85 million of **manmade fibre (MMF)** yarn to Bangladesh in 2024.
 - To access the 0% US tariff, Bangladeshi manufacturers must use **US-produced cotton**. This incentivizes them to switch their sourcing from India to the US.
 - This will likely lead to a **sharp decline in Indian cotton exports to Bangladesh, causing a glut in the Indian domestic market** and depressing prices for Indian cotton farmers.

What Measures can India Take to Safeguard its Cotton and Textile Sector?

- **Lobby for “Cotton Parity” With the US:** India's **cotton imports rose to 4.13 million bales in 2024-25, with the US as the top supplier**.
 - India should seek a **“Cotton Clause” from the US**, granting zero-duty access for garments made from US cotton to counter **Bangladesh's new advantage**.
 - Fast-track the **India-US Bilateral Trade Agreement (BTA)** to reduce non-tariff barriers and

compliance burdens, enabling faster movement of goods to the US market.

- **Countering with ESG:** Western buyers are sensitive to "Ethical Sourcing." Bangladesh faces scrutiny over labor rights and safety.
 - India should aggressively market its "**Sustainable & Socially Compliant**" manufacturing (zero child labor, better fire safety records than Bangladesh) to premium buyers who fear reputational risk.
- **Pivot to Man-Made Fibres (MMF):** Global textile trade is **70% MMF (polyester/viscose) and 30% cotton**, but India's exports are largely cotton-based.
 - Higher taxes on MMF raw materials than on finished goods have historically discouraged domestic MMF production.
 - The **GST Council** must rationalize the entire MMF value chain to make Indian synthetics price-competitive against Bangladesh, China and Vietnam.
- **The "Kasturi" Strategy:** Scale up the "**Kasturi Cotton Bharat**" initiative. By using blockchain to prove that Indian cotton is **ethically grown and contamination-free**, India can command a premium price that offsets the tariff disadvantage.
- **Technical Textiles:** India should target high-tech textiles where quality outweighs tariff gaps, shifting toward value-added textile segments like Meditech (surgical implants, sanitary products), Mobiltech (airbags, seatbelts), and Geotech (road construction fabrics).
 - Creating a guaranteed domestic market would help firms scale up and compete globally.
- **Market Diversification:** Reduce over-reliance on the US market by exploring new export destinations in **Australia** and the **UAE** (where India already has FTAs) and tapping into emerging markets in **Latin America**.

Drishti Mains Question:

"Trade agreements often create both opportunities and vulnerabilities." Examine this statement in the context of the US-Bangladesh textile deal and its implications for India.

Frequently Asked Questions (FAQs)

1. What is the key feature of the US-Bangladesh "Cotton for Zero-Tariff" deal?

It grants quota-based zero reciprocal tariffs on Bangladeshi textiles, conditional on the use of US-produced cotton and MMF inputs.

2. How does the deal affect India's tariff position in the US market?

India faces an 18% tariff, while Bangladesh gets zero duty within quota, creating an effective 18% disadvantage for Indian exporters.

3. Why is Bangladesh crucial for India's cotton exports?

Bangladesh accounts for nearly 70% of India's cotton exports, importing \$1.6 billion worth of cotton yarn in 2024.

4. What structural weakness exists in India's textile export basket?

Global trade is 70% Man-Made Fibre (MMF), but India's exports are predominantly cotton-based due to past tax distortions in the MMF value chain.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

1. Consider the following statements: (2020)

1. The value of Indo-Sri Lanka trade has consistently increased in the last decade.
2. "Textile and textile articles" constitute an important item of trade between India and Bangladesh.
3. In the last five years, Nepal has been the largest trading partner of India in South Asia.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

Ans: (b)

Mains

Q. 'What introduces friction into the ties between India and the United States is that Washington is still unable to find for India a position in its global strategy, which would satisfy India's National self-esteem and ambitions'. Explain with suitable examples. (2019)