

## CHAPTER 1 INTRODUCTION

### Background

The trade dispute between the United States and China, widely known as the US-China trade war, has become one of the most important events affecting global trade in recent years. It began in 2018 when the United States raised tariffs on a wide range of Chinese imports. China quickly responded by imposing similar tariffs on American products, creating a cycle of retaliation. By late 2019, the conflict had escalated further with new tariff measures, raising concerns about its impact on the global economy and supply chains. Towards the end of the year, however, both sides agreed to ease tensions by cancelling some planned tariffs and reducing part of the earlier increases. This led to the signing of the *Phase One Agreement* in January 2020, which temporarily stabilized relations. Even so, the trade war left lasting effects, not only on the United States and China but also on many other countries that depend heavily on international trade. (Bekkers & Schroeter, 2020)

The escalation of the US–China trade war has had broad implications not only for the two countries directly involved but also for many developing economies that rely heavily on global value chains. Rising production costs in China as a result of tariff measures pushed multinational companies to relocate parts of their supply chains to alternative locations, including Vietnam, Bangladesh, and Mexico, in order to reduce costs and secure tariff-free access to the U.S. market. This diversion of trade and investment created short-term opportunities for several developing countries, particularly those with strong export-oriented industries such as textiles and garments. However, the extent to which these countries could benefit was constrained by structural challenges. Limited productivity, underdeveloped infrastructure, and dependence on a narrow range of markets meant that many developing economies were unable to fully capture the gains from this trade war (Liu et al., 2025). As a result, while the conflict opened temporary windows of opportunity, it also highlighted the vulnerability and fragility of export-driven growth models in the developing world.

In this context, Bangladesh has emerged as one of the most prominent players in the global textile and garment industry. In the fiscal year 2021–2022, the country's ready-made garment (RMG) exports reached USD 42.61 billion, representing a remarkable 35.47% year-on-year growth and underscoring the sector's resilience and competitiveness in the face of global trade tensions. Knitwear alone contributed about 41.8% of Bangladesh's total export earnings, while home textiles established Bangladesh as the world's fifth-largest exporter, surpassing USD 1 billion in export value during 2020–2021. The industry also holds critical socio-economic importance by employing around 4.4 million workers, the majority of whom are women, while continuing to attract significant foreign direct investment, reaching USD 3.5 billion in 2021.

Moreover, Bangladesh's garment exports to India surged 69.58% in 2021–2022, reflecting the sector's increasing market diversification beyond its traditional partners. However, this upward trajectory faced new challenges in 2023, when Bangladesh's apparel exports to the United States the country's single largest export market declined by over 25%, highlighting the vulnerability of the sector to external demand shocks and shifting global trade dynamics ([The Business Standard, 2024](#)). With an ambitious target of USD 100 billion in garment exports by 2030 set by Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the RMG sector not only represents the backbone of Bangladesh's national economy but also positions the country as a strategic alternative supplier in the reconfiguration of global supply chains driven by the US–China trade war (World Fashion Exchange, 2023).

Bangladesh is one of the countries significantly impacted by this tariff war. As a country that relies on the garment and textile (RMG) sector as the backbone of its economy, the tariff war opens up new opportunities as well as significant challenges. On the one hand, the decline in US imports from China provides Bangladesh with room to increase textile and garment exports to the United States market. However, on the other hand, this high dependence on the US market makes Bangladesh vulnerable if tariff dynamics change again. Furthermore, Anwar's journal highlights that Bangladesh has experienced an increase in garment orders from US buyers seeking alternatives to China. This has raised optimism among RMG industry players. However, production capacity, supply chain efficiency, and technological limitations pose challenges that could reduce Bangladesh's ability to maximize the opportunities from this tariff war. (Anwar, A., 2021)

The tariff war also creates long-term uncertainty. If tariffs are lifted or US-China relations improve, orders initially diverted to Bangladesh could potentially be diverted. Thus, the positive effects felt by Bangladesh are more short-term than long-term. From a labor perspective, the increased demand for garments in Bangladesh has a direct impact on the millions of workers, mostly women, who depend on this industry. However, working conditions, low wages, and the threat of overdependence on a single market pose serious risks to Bangladesh's economic and social sustainability. (Anwar, A., 2021)

Further examination reveals that the US–China tariff war has had a particularly notable impact on Bangladesh's textile and garment exports. Several studies indicate that the imposition of high tariffs on Chinese goods opened new opportunities for Bangladesh in the U.S. market. For instance, a study by LightCastle Partners (2019) documented a surge in demand for Bangladesh's RMG as U.S. buyers sought alternative sourcing destinations following increased tariffs on Chinese apparel products (Wing, 2025).

This trend is further supported by the United States Fashion Industry Association, which reported that nearly 90 percent of American fashion companies confirmed that Section 301 tariffs on Chinese imports significantly raised their sourcing costs. As a direct consequence, all surveyed firms stated that they had shifted at least part of their sourcing away from China, with Bangladesh and Vietnam emerging as key beneficiaries (Lu, 2021). Such findings highlight that the trade war did not merely create a temporary reallocation of orders, but also positioned Bangladesh as one of the most attractive alternatives for global apparel brands seeking cost efficiency and tariff-free access to the U.S. market.

To conclude, the US–China tariff war has positioned Bangladesh at a critical juncture in global trade. On the one hand, the redirection of U.S. sourcing away from China has generated considerable short-term gains for Bangladesh’s textile and garment sector, boosting its export earnings and strengthening its role in the global value chain. On the other hand, these opportunities are coupled with significant risks, including excessive dependence on a single market, low levels of productivity, and infrastructural bottlenecks that may limit the country’s ability to sustain these gains over the long term.

While previous research has highlighted the immediate benefits of trade diversion, there is still a lack of comprehensive analysis that integrates both the quantitative impact of the tariff war on Bangladesh’s exports and the structural challenges that determine the sustainability of such benefits. Against this backdrop, the present study seeks to bridge this gap by examining how the US–China tariff war has affected Bangladesh’s textile exports, assessing the industry’s competitiveness, and exploring its broader implications for economic resilience and long-term development.

## **Research Methods**

This research uses a qualitative approach with descriptive-analytical methods, aiming to deeply understand the impact of the United States–China tariff war on Bangladesh's economic position, particularly in the Ready-Made Garments (RMG) sector, and how the Bangladeshi government responds to these dynamics through various economic and trade policies. This approach was chosen because the research focuses on policy analysis, economic structure, and the relationships between actors in the international trade system, which cannot be adequately explained through quantitative methods alone.

### **a. Complex Interdependence Theory**

In analyzing the dynamics of international trade and the impact of the US–China tariff war on Bangladesh, this research utilizes the Complex Interdependence Theory proposed by Robert Keohane and Joseph Nye. This theory emphasizes that

modern international relations are no longer solely dominated by military security issues, but are instead characterized by increasing mutual dependence between countries through various channels, particularly economic and trade.

Through the perspective of complex interdependence, this research views Bangladesh not as a passive actor, but as part of an interconnected global network, particularly within the global garment industry value chain. The US–China tariff war is analyzed as an external shock affecting Bangladesh's trade dependency patterns, investment flows, and supply chains. This theory helps explain how changes in major power trade policies can create both opportunities and vulnerabilities for developing countries integrated into the global trading system.

### **b. Economic Security Theory**

Furthermore, this study also uses Economic Security Theory to analyze the role of the state in protecting national economic interests amidst global uncertainty. This theory emphasizes that economic stability, the resilience of strategic industries, and trade sustainability are integral to a country's national security.

In the context of Bangladesh, economic security theory is used to evaluate the extent to which government policies—such as policy measures, export diversification, industrial upgrading, and international trade cooperation—are able to reduce structural vulnerabilities resulting from dependence on imported raw materials from China and the dominance of the RMG export market to the United States. Thus, this theory serves as an analytical framework for assessing the effectiveness of Bangladesh's policy responses in addressing the systemic impacts of the global tariff war.

### **c. Interviews (Primary Method)**

This study also uses primary data obtained through in-depth interviews. The interviews were conducted with Mr. Tarikhul Islam at 29 October 2025, based at the Bangladesh Embassy in Jakarta, served as a resource person with direct understanding of Bangladesh's trade policy, investment, and economic strategy.

This interview aimed to gain policy perspectives from the Bangladeshi government's perspective, particularly regarding the country's response to changes in the global trade structure following the US-China tariff war. Interview data was used to complement and validate secondary data obtained from government reports, publications from international institutions, and Bangladeshi national media. Therefore, the use of primary methods is expected to strengthen the depth of analysis and enhance the validity of the research findings.

### **Objectives and Benefits**

Due to these limitations, the research problems are formulated as follows:

1. How has the US–China tariff war affected Bangladesh’s trade and economic vulnerabilities, particularly in the textile and RMG sector?
2. How has Bangladesh responded through policy measures to enhance its resilience and sustain growth amid global trade tensions?

Based on the previous research problems, the objectives of this study are as follows:

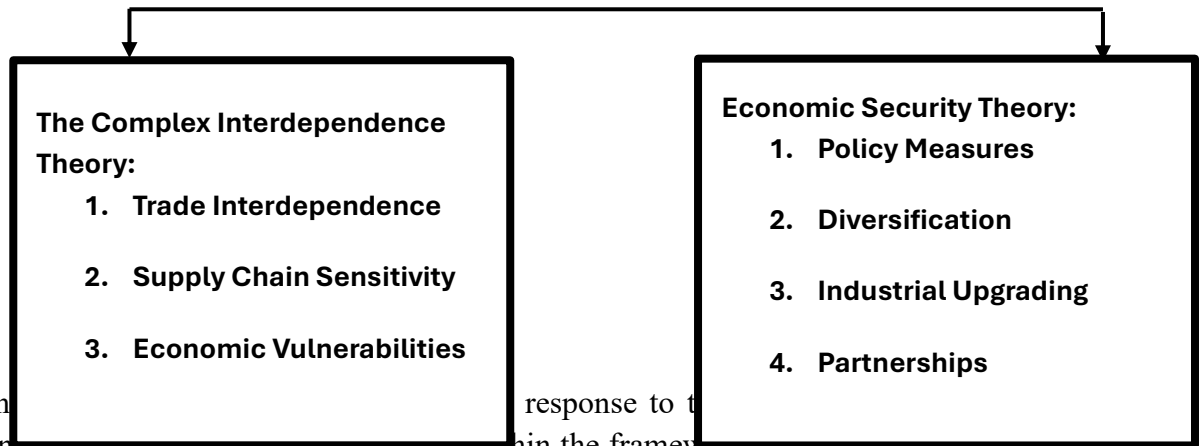
- A. To understand How has the US–China tariff war reshaped Bangladesh’s trade dynamics and exposed its structural vulnerabilities within the textile and RMG sector.
- B. To analyze adaptive policy responses has Bangladesh implemented to strengthen its economic resilience amid the trade tensions between the United States and China.

The benefits or uses that the author hopes to obtain through this research are as follows:

- A. **For Academic:** the author hopes that the results of this research can serve as a reference for international relations and trade policy studies, particularly in understanding how developing countries like Bangladesh navigate external shocks such as the US–China tariff war.
- B. **For Practitioners:** the author hopes that this research can provide insights for policymakers, trade negotiators, and development planners in Bangladesh to design more effective strategies for strengthening the textile sector and ensuring resilience in the face of future global trade disruptions.

### Conceptual Framework





This study examines Bangladesh's response to the United States and China by placing it within the framework of asymmetric global economic interdependence. This study focuses on how the tariff conflict affects Bangladesh's position in the RMG sector trade, and to what extent the policy responses taken are able to turn short-term opportunities into sustainable economic gains or instead reveal Bangladesh's structural limitations in the international trading system.

This conceptual framework was developed to explain how Bangladesh responds to the dynamics of the tariff war between the United States and China, particularly in relation to the textile and RMG sectors, which are the backbone of the country's exports. This framework is based on the understanding that although Bangladesh is not directly involved in the trade conflict between these two major countries, the interconnected global trade structure means that the impact is still significant. Therefore, this study utilizes two theoretical foundations, namely Complex Interdependence Theory and Economic Security Theory, to examine both Bangladesh's vulnerabilities and policy responses.

First, Complex Interdependence Theory is used to answer research questions about how the US-China trade war affects Bangladesh's trade conditions and economic vulnerability. This theory allows researchers to examine Bangladesh's interconnectedness in the global trading system through three main aspects: trade interdependence, supply chain sensitivity, and economic vulnerabilities. These three aspects help explain the extent to which Bangladesh's dependence on global markets and supply chains makes the country vulnerable to external shocks arising from economic rivalry between the two major powers.

Second, Economic Security Theory is used to analyze Bangladesh's policy response in strengthening national economic resilience amid increasing international trade uncertainty. Through this framework, the study evaluates the Bangladeshi government's measures in four dimensions: economic security, diversification, industrial upgrading, and strategic partnerships. These dimensions provide an analytical basis for examining how Bangladesh seeks to maintain economic stability, reduce dependence on a single market, and enhance long-term

competitiveness through industrial modernization and expanded international cooperation.

Thus, this conceptual framework not only maps the relationship between theory and research questions, but also provides a clear analytical structure for understanding both the external impact and Bangladesh's internal response to the US-China tariff war.

For further explanation, the conceptual framework in this study combines Complex Interdependence Theory and Economic Security Theory to explain the relationship between the external impacts of the United States-China tariff war and the Bangladeshi government's policy response. Complex Interdependence Theory is used in the initial stage of the analysis to identify the patterns of Bangladesh's economic linkages with key actors in global trade, particularly the United States and China. Through the concepts of trade interdependence, supply chain sensitivity, and economic vulnerabilities, this theory helps explain how Bangladesh's dependence on the United States export market and raw material supplies from China creates an asymmetric interdependence. This analysis allows researchers to understand the primary sources of Bangladesh's structural vulnerability and the extent to which the tariff war creates economic pressures and limited opportunities for the RMG sector.

Furthermore, Economic Security Theory is used to analyze how the Bangladeshi government responds to these vulnerabilities through national policies and strategies. Within this framework, the government's response is classified into four main dimensions: policy measures, diversification, industrial upgrading, and partnerships. These four dimensions reflect the government's efforts to maintain economic stability, protect strategic sectors, and enhance short- and long-term economic resilience. By combining these two theories, this study not only explains Bangladesh's position as an actor affected by global trade dynamics, but also evaluates the effectiveness of the country's role in managing risks and responding strategically to international economic challenges.

## CHAPTER II: LITERATURE REVIEW

### Complex Interdependence Theory

The concept of *Complex Interdependence Theory* was first introduced by Robert Keohane and Joseph Nye (1977) in their seminal work *Power and Interdependence: World Politics in Transition*. They argued that in a globalized world, states are connected through multiple channels of interaction economic, political, and social making their actions mutually dependent. The theory challenged the realist view that military power is the dominant factor in international relations, instead emphasizing that issues of trade, finance, and technology often hold greater influence in shaping global outcomes. Under complex interdependence, there is no clear hierarchy of issues, and the use of force becomes less effective as economic and political interconnections deepen (Jin & Meng, 2023).

Contemporary scholars have revisited Keohane and Nye's framework to understand current global dynamics marked by economic rivalry and interlinked supply chains. For example, Hafner-Burton and Montgomery (2004) noted that interdependence not only fosters cooperation but can also generate asymmetric vulnerabilities that powerful states may exploit. Similarly, Akkas (2022) and Jin (2024) observed that modern interdependence has evolved into a more complex web where trade relations can become both tools of diplomacy and instruments of coercion. This reinterpretation of the theory helps explain how economic ties such as those between the United States, China, and Bangladesh can simultaneously create opportunities for growth and expose countries to global risks (Proulx, 2025).

In the context of the US-China tariff war, the theory of complex interdependence provides a useful lens to analyze how global economic shocks transmit through interconnected trade networks. The tariff escalation between the two largest economies disrupted established production and supply chains, forcing smaller export-oriented countries like Bangladesh to adapt their trade strategies. As Almazán-Gómez et al. (2025) note, regional exposure to new trade wars demonstrates that no country operates in isolation policy shifts in one major economy can cascade across entire value chains. For Bangladesh, this interconnectedness means that both the risks and benefits of the tariff war depend on its position and adaptability within the global network (Almazán-Gómez et al., 2025).

Despite the extensive application of complex interdependence theory to global trade relations, few studies have analyzed how developing economies operationalize this interdependence through policy adaptation and resilience strategies. Most existing research focuses on major powers or aggregate global patterns rather than the agency of smaller states. This study applies the theory to examine Bangladesh's policy responses to the US-China tariff war, exploring how interdependence shapes

both its vulnerabilities and its strategic opportunities in maintaining economic stability and advancing long-term resilience.

From the perspective of Complex Interdependence Theory proposed by Keohane and Nye, relations between states in the modern international system are no longer dominated solely by military power, but rather by various forms of mutually influencing economic, trade, and institutional linkages. This theory emphasizes that interactions between states occur through multiple channels, including relationships between governments, business actors, and cross-border production networks. In the context of the United States-China tariff war, this dynamic demonstrates that trade policies adopted by major powers impact not only their direct partners but also extend to third countries, such as Bangladesh, connected in the global garment industry supply chain.

The key concept in this theory relevant to this research is asymmetric interdependence, a condition where the level of dependence between countries is unequal, creating differing levels of sensitivity and vulnerability. In the case of Bangladesh, the high dependence on the United States' export market for Ready-Made Garments (RMG) is not offset by a similar dependence on RMG imports from Bangladesh. Conversely, in the Bangladesh-China relationship, dependency is also asymmetrical, with Bangladesh heavily reliant on imports of textile raw materials and synthetic fibers from China, while China has no significant dependence on Bangladesh. This pattern places Bangladesh in a more vulnerable position to changes in trade policies and supply chain disruptions.

Through the lens of Complex Interdependence Theory, the US-China tariff war cannot be understood solely as a bilateral conflict, but as a phenomenon that creates spillover effects on other countries within the global economic network. While the conflict presents opportunities for Bangladesh to increase market access as an alternative supplier, the theory helps explain why these opportunities do not automatically translate into structural advantages. Bangladesh's dual dependency as an exporter to the United States and an importer of raw materials from China demonstrates that complex interdependence can actually increase vulnerabilities, making state policy responses a key factor in maintaining national economic stability and security.

### **Economic Security Theory**

The concept of economic security developed from the understanding that security is not only related to military threats, but also to a country's ability to maintain economic stability in uncertain external situations. Bellany (1981) explains that security can be understood as a commodity that is exchanged in international interactions, whereby countries need to “pay certain debts” to obtain guarantees of stability, whether through alliances, protection, or safer economic access. In this

view, security has market-like characteristics: it is influenced by supply and demand, depends on a country's capacity, and creates dependency when domestic capabilities are insufficient to cope with external shocks. This approach provides a framework for understanding how countries, especially developing countries, deal with global economic risks and seek ways to reduce the costs of such vulnerabilities (Bellany, 1981).

In addition to security as a commodity, literature on economic security also emphasizes the importance of a country's capacity to protect strategic economic sectors from external threats, whether in the form of crises, conflicts, or global policy changes. This approach views economic stability as an internal part of national security, because economic instability can weaken a country's ability to maintain sovereignty, meet the needs of its people, and maintain its position in the international system. Within this framework, policies such as market diversification, protection of vital industries, technological advancement, and strengthening international cooperation are positioned as key instruments in maintaining economic resilience. The literature emphasizes that states need to respond to external pressures through proactive policies that not only improve the domestic sector but also reduce dependencies that could create long-term risks (Dunne & Coulomb, 2008).

Thus, the theory of economic security provides a relevant conceptual framework for analyzing Bangladesh's response to the impact of the US-China tariff war. This approach helps explain how Bangladesh prioritizes economic stability through various policies such as export market diversification, increasing textile industry capacity, and strengthening international partnerships to reduce structural vulnerabilities arising from external shocks. This framework also emphasizes that efforts to maintain economic growth are not merely a development issue, but an integral part of national security strategy amid global trade tensions.

In this study, Economic Security Theory is used to understand how the Bangladeshi government responded to the impact of the United States–China tariff war on the Ready-Made Garments (RMG) sector, which plays a vital role in job creation, foreign exchange earnings, and socioeconomic stability. Bangladesh's high dependence on the RMG sector makes this industry a strategic national economic interest. Therefore, policies such as tariff negotiations, economic incentives, financial sector stabilization, and support for the export industry can be understood as the state's efforts to maintain economic security and mitigate potential vulnerabilities resulting from changes in the global trade environment.

Furthermore, Economic Security Theory also emphasizes the importance of medium- and long-term strategies to reduce structural vulnerabilities, including through diversification of export markets and products, increasing industrial capacity, and strengthening international economic cooperation. In the Bangladeshi

context, the government's response, which includes diversifying export destinations, industrial upgrading, and establishing trade partnerships, demonstrates that economic security is understood not only as reactive protection against short-term shocks but also as a process of structural adaptation to enhance national economic resilience. Thus, this theory provides an analytical framework for assessing the extent to which Bangladesh's policy responses have been effective in maintaining economic stability while strengthening the country's position in an increasingly competitive global trading system.

### **Previous Research**

Iglesia et al. (2025), analyzing trade flows such as imports, exports, and re-exports between the US and China during 2020-2023, showed China's consistent trade surplus and the US's continuing deficit, amid escalating tariffs of up to 145% from the US and a 125% retaliation from China in 2025, which triggered a restructuring of global supply chains and spillover effects to third countries such as Indonesia and Bangladesh. In the context of the garment sector, this journal highlights how the tariff war has encouraged supply diversification to developing countries, where Indonesia faces challenges such as tariff barriers on steel and aluminum but opportunities in textiles and furniture as alternatives to Chinese goods, in line with the global value chain (GVC) theory which shows the relocation of production to Vietnam or Mexico to avoid tariffs.

However, this also reveals the economic vulnerabilities of third countries, such as dependence on imported raw materials and low competitiveness, while policy responses are recommended through market diversification, productivity improvement, and multilateral diplomacy to build resilience. This study provides a general framework on the impact of the tariff war on third countries, but lacks an in-depth examination of the specific case of Bangladesh in the garment sector, particularly the government's policy response in the field of export-import trade.

Iqbal (2022) highlights the implications of the trade war between the US and China on the economies of South Asia, where India and Bangladesh are identified as the biggest beneficiaries through the exploitation of the trade vacuum that has been created. with a special chapter (Chapter 7) on the impact on Bangladesh emphasizing the unevenness of economic effects, opportunities from changes in supply chain dynamics and investment patterns, and policy recommendations such as infrastructure modernization to capture global value chains amid the conflict. In the context of the garment sector, although not explicitly discussed, these implications are relevant because Bangladesh relies on raw material imports from China and RMG exports to the US, revealing vulnerability to trade disruptions and bilateral dependence, while resilience is achieved through potential investment diversification and policy adjustments to target opportunities. However, this review focuses more on general regional analysis, including PTAs and technology

conflicts, without delving into specific sectors such as garments or detailed policy responses. Therefore, the gap with this study lies in its in-depth focus on Bangladesh's policy response in the garment sector.

Quibria (2025) asserts that global geopolitical transformation, marked by rising US protectionism, supply chain fragmentation, and shifting economic alliances, has created an increasingly unstable international trading environment for developing countries. Through an analysis of the dynamics of the US-China trade war, the new industrialization policies of developed countries, and increasing trade barriers, the study shows how external pressures affect the capacity of low-income countries, such as Bangladesh, to maintain export competitiveness and expand market diversification.

Quibria highlights that global market restrictions can strengthen developing countries' dependence on certain commodities and weaken their economic resilience, especially when preferential access begins to narrow as a country's economic status changes. However, this study focuses more on global macro analysis and long-term policy responses, thus providing an important conceptual foundation but still leaving room for research on more contextual, sectoral, and analytical model-based approaches that this study could fill.

Furthermore, Hasan and Mostaque (2024) analyze the dynamics of the asymmetrical Bangladesh-US bilateral relationship, in which the US holds economic and military dominance, while Bangladesh maintains autonomy through its strategic location in the Indo-Pacific and its balanced relationship with China. In the context of the garment sector, the journal does not highlight how US-China tensions, including wage increases in China and geopolitical competition, have prompted US buyers to turn to Bangladesh as an alternative, with RMG contributing more than 80% of Bangladesh's exports to the US and showing resilience after the suspension of GSP in 2013 due to labor rights issues.

However, this also reveals Bangladesh's economic vulnerabilities, such as its dependence on the US market and pressure for labor rights reforms, while Bangladesh's policy response emphasizes geopolitical neutrality to avoid alienating China through the BRI, while pursuing development goals such as transitioning to a middle-income country. This study provides a foundation for understanding the broader context, but lacks an in-depth examination of specific policy responses to the US-China tariff war in the garment sector. Therefore, this study will focus on an in-depth analysis of Bangladesh's policies that emphasize geopolitical vulnerability and economic resilience, such as market diversification and internal reforms, thereby filling a gap in the more general literature on bilateral relations.

Zubair (2025) in his policy brief "Trade War - Winners, Losers, and Strategic Adaptation" identifies Bangladesh as one of the short-term winners of the US-China

tariff war -China, particularly in the garment sector, where US importers are actively shifting to Bangladesh (along with Pakistan) as an alternative to Chinese textiles, thereby increasing exports, absorbing diverted investment, and strengthening its position in the global supply chain. The brief highlights opportunities for developing countries to take advantage of this trade realignment, while recommending strategic policy responses such as diversifying trading partners, strengthening regional agreements (e.g., RCEP), investing in domestic industries, developing digital infrastructure, and reforming governance to attract FDI, which indirectly supports Bangladesh's economic resilience amid global volatility.

However, this analysis also implies vulnerabilities, such as dependence on temporary shifts in supply chains, rising raw material import costs, and long-term risks if the tariff war subsides or new competitors emerge. This study is general in nature and focuses on developing countries such as Afghanistan, with only a brief mention of Bangladesh without empirical data or specific policy analysis. The gap with this thesis lies in its in-depth focus on Bangladesh's policy response in the garment sector alone, which explicitly emphasizes vulnerability (e.g., the risk of disruption to raw material imports from China, dependence on exports to the US, and geopolitical impacts) and its economic resilience (through labor rights reforms, new market diversification, and post-LDC adaptation), thereby filling a gap in the literature that is still descriptive-regional and lacks sector-specificity and a national policy basis.