EU-India Concludes FTA Deal
Implications On Bangladesh's RMG Exports

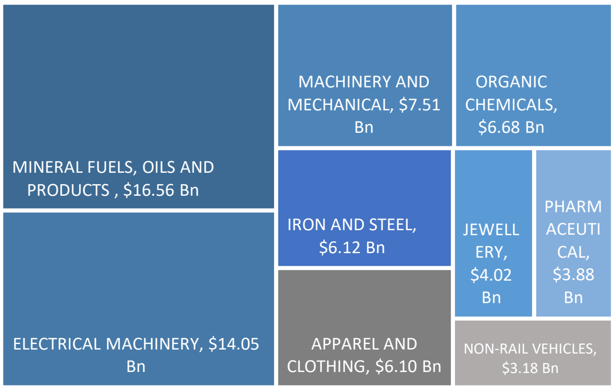
Our Take: How EU-India FTA Would Impact Bangladesh's RMG Exports

The EU-India Free Trade Agreement (FTA), concluded on January 27, 2026, marks a historic pact after nearly two decades of negotiations, creating a free trade zone of 2.0 Bn people [1]. The FTA is now subject to ratification in EU Council/Parliament and India's cabinet, but its commercial outlines are now largely defined. We view the EU-India FTA as a medium-term structural headwind for Bangladesh's RMG pricing power rather than an immediate shock from market share loss.

EU-India FTA: Key Outline

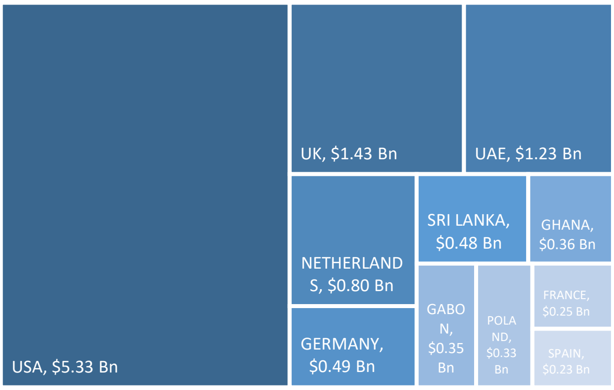
The agreement eliminates or reduces tariffs on 96.6% of EU goods exports to India, projected to double EU exports to India by 2032 and save EUR 4.0 Bn annually in duties for European products [1]. On the other hand, ~99% of Indian exports gain preferential entry into the EU, with textiles, leather, gems and jewellery, and marine products among the principal beneficiaries under the FTA [2].

India's Top Exports to Europe (USD Bn)



Source: Ministry of Commerce and Industry (India)

Country-wise India's Apparel Exports (HS Code 61 & 62)



Source: Ministry of Commerce and Industry (India)

Bilateral trade in goods and services currently stands at over EUR 180 Bn [1], with the FTA focusing on liberalizing trade in goods, services, investments, digital trade, and supply chains. Key provisions include slashing Indian tariffs on EU cars to 40% from up to 110% and materially improved market access for Indian labour-intensive exports. EU exports to India are expected to rise 52-56%, while Indian exports to the EU could increase 33-35% [3].

Crucially, for product categories where India faced MFN duties in the EU (notably apparel, which is subject to 9.6% duty under GSP [4]), the FTA creates preference for Indian exporters (tariff differentials versus non-FTA suppliers). India's vertically integrated textile ecosystem would reduce the rules-of-origin (RoO) frictions, allowing duty-free access under the FTA to translate more efficiently into pricing competitiveness. By contrast, Bangladesh's RMG remains structurally dependent on imported fabrics, which limits RoO flexibility, raises effective compliance costs, and subdues margins. Consequently, even relatively modest tariff differentials arising from the FTA are likely to exert a disproportionate influence on buyer sourcing decisions within the EU apparel market.

[1] https://ec.europa.eu/commission/presscorner/detail/en/ip_26_184
[2] https://news.abplive.com/business/india-eu-sign-free-trade-agreement-top-highlights-1823981
[3] https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642841/EPRS_STU(2020)642841_EN.pdf
[4] https://eu-india.org/2026/01/23/indian-exports-to-eu-hit-by-withdrawal-of-tariff-preferences-amid-fta-talks/

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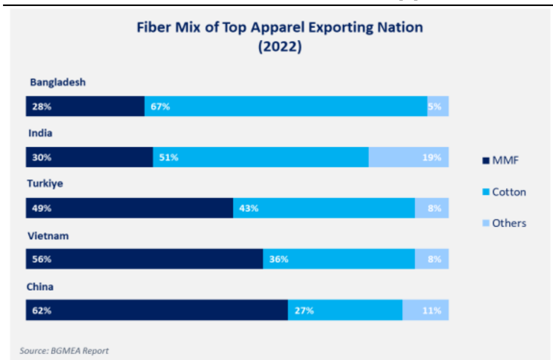
EU-India Trade Profile: Apparel Gains Are Strategically Material

India's exports to the EU totalled USD 75.85 Bn in FY25 (17.3% of total export) [5]. Major destinations within the EU include the Netherlands (USD 22.76 Bn), Germany (USD 10.63 Bn), Italy (USD 7.73 Bn), and Belgium (USD 6.32 Bn). Considering EU's USD 264 Bn textile and apparel market, India's export stood at USD 6.1 Bn in FY25 [6], with five EU countries dominating the top destination chart. Post-FTA, India's "Textile, Apparel and Clothing" and "Leather and Footwear" would enjoy **0% tariff** (vs 12% and 17% earlier, respectively) [7]. While apparel is not India's largest export category, the duty-free, preferential access materially enhances India's competitiveness in price-sensitive EU sourcing decisions, particularly in cotton-based and blended segments. We expect India's apparel export growth to the EU to outpace overall EU apparel import growth in the initial years of FTA implementation.

EU Market Becomes the Primary Competitive Arena For Bangladesh

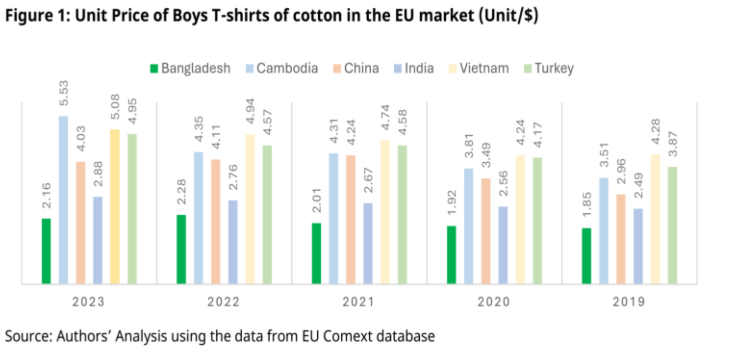
Bangladesh exported USD 19.7 Bn RMG products (woven and knit) to EU in FY25 (+9.10% YoY) [8], commanding ~20% share in the EU apparel market [9]. In the wake of US tariff actions and trade policy adjustments, EU has emerged as the principal battleground for apparel exporters, intensifying competitive pressure. This sudden oversupply has shifted bargaining power towards EU buyers, enabling tougher negotiation terms with suppliers and shorter lead-time expectations [10]. This dynamic has structural implications for Bangladesh's export margins.

BD's Reliance on Cotton-based Apparels



Source: BGMEA, LightCastle Partners

FTA Could Minimise Unit Cost Differential For India



Source: RAPID

Margin Pressure Is Structural, Not Cyclical

Bangladesh's limited pricing power reflects deeper structural constraints. During 11MCY25, EU garment imports rose only 3.93% vs Bangladesh's 7.65% exports growth, indicating that market share were driven by aggressive pricing rather than underlying demand expansion. Indeed, average unit price declined 12% over the preceding 12 months, underscoring exporters' prioritisation of order retention over margin preservation [10].

Globally, MMF made up ~80% of fibre production, whereas only 28% of Bangladesh's RMG exports were MMF-based [11]. Competing exporters have aligned more closely with evolving demand patterns: Cambodia and Vietnam recorded double-digit growth in EU apparel export, supported by strong man-made fibre capacity [10]. China's exports are supported by higher-value products, advanced man-made fibre integration, and strong backward linkages [10]. India and Pakistan expanded presence in cotton and blended segments [10].

In contrast, Bangladesh has struggled to transition meaningfully from basic cotton-based items, where differentiation is limited and price competition is most intense [10]. At the same time, RMG exporters are yet to pass through inflation-driven cost pressures (energy, compliance, wages, and finance), resulting in margin compression [10]. Following LDC graduation in 2026, absence of preferential trade arrangements could force Bangladesh's RMG exporters to absorb ~40% of the price impact to remain competitive after 2029 [12].

[5] https://tradestat.commerce.gov.in/eidb/region_wise_export
[6] https://timesofindia.indiatimes.com/business/india-business/india-eu-fta-deal-set-to-be-signed-today-why-its-being-called-the-mother-of-all-deals/articleshow/127593542.cms
[7] https://www.hindustantimes.com/business/indiaeu-fta-removes-import-duty-on-textile-leather-in-relief-from-50-us-tariffs-101769507299670.html
[8] https://www.bgmea.com.bd/page/Export_Performance
[9] https://www.fibre2fashion.com/news/apparel-news/tough-competition-in-eu-hits-bangladesh-rmg-exporters-profit-margins-306521-newsdetails.htm
[10] https://www.textiletoday.com.bd/bangladeshs-eu-garment-growth-hides-rising-price-pressure-and-post-ldc-risks
[11] https://lightcastlepartners.com/insights/2024/09/rmg-man-made-fiber-sustainability/
[12] https://www.tbsnews.net/economy/rmg/bangladeshi-apparel-exporters-have-absorb-40-eu-tariff-cost-after-2029-study-1322201

Buyers are increasingly adopting the "Open Costing" method to control costs, which now accounts for 60% of total Bangladeshi RMG exports, up from just 10% a decade ago [13]. As open costing incorporates tax rebates and cash incentive adjustments upfront, local factory owners are ultimately left with thin profit margins of only 1%-4% [13]. In contrast, "Open Costing" works better in India, Vietnam, Thailand, and Cambodia since these countries have higher profit margins and fewer disruptions [13].

With numerous competitors at play, price undercutting has remained an obstacle towards fair pricing. Despite substantial investment in "Green Factories", Bangladesh RMG exporters benefit primarily from being "prioritised" rather than premium prices [14]. Data from UK Trade Info indicates that during the 10MCY23, the average price of apparel products exported from Bangladesh was 21.39% lower than those from China, 32% lower than those from Turkey, and 26.75% lower than those from India [13].

EU-India FTA To Gradually Erode Bangladesh's Core Advantages

Historically, Bangladesh's positioning in the EU apparel market has relied on three core advantages: (i) strong ESG-compliance credibility, (ii) preferential market access as an LDC, and (iii) lowest-cost large-scale manufacturing. While these advantages would remain relevant in the near term, the EU-India FTA introduces mechanisms that are likely to progressively weaken their relative effectiveness over time.

First, Bangladesh's ESG advantage, while still meaningful, is no longer remain as a permanent differentiator. The FTA would gradually align India's regulatory frameworks with EU standards and bring more investments in green factories, replicating Bangladesh's success story. As sustainability standards converge, ESG compliance is likely to evolve from a competitive differentiator into a baseline requirement.

Second, Bangladesh's preferential market access, the most critical advantage, now faces an impending closure. With LDC graduation scheduled for Nov 2026, Bangladesh will have some three-year timeline to negotiate a successor arrangement (e.g., GSP+ or similar transition facility) [15]. If Bangladesh delays LDC graduation till 2029, it will receive duty-free facilities until 2032. Absent such an agreement, Bangladeshi apparel exports would be exposed to some 12% tariffs along with import safeguards, materially altering cost competitiveness and buyer preferences.

Finally, while Bangladesh continues to benefit from cost advantage, the FTA would enable India to narrow much of the cost differential through duty-free apparel exports, strong backward linkages, favourable input economics, and anticipated investments in automation, upgrades, and scale [16]. In contrast, Bangladesh's RMG remains reliant on imported fabrics from China and India, with India making up 70-80% of yarn imported in recent years [17]. Cost advantage, quality, and client specification are deciders for sourcing yarn locally vs import. As locally manufactured fibres continue to struggle to match the price and quality of imported inputs due to structural and competitive constraints, Bangladesh's exporters face persistent challenges in value retention and RoO compliance.

Summarized together, the EU–India FTA does not eliminate Bangladesh's competitive advantages outright rather erodes over time. With EU buyers increasingly focused on optimized price, compliance, and supply-chain resilience, this erosion raises the risk of gradual market share loss and sustained pricing pressure, rather than abrupt displacement. During the initial phase of EU-India FTA discussion, one simulation suggested Bangladesh's apparel could lose 5-10% market share to India over the medium term as tariff preferences reallocate sourcing decisions [18].

[13] https://www.tbsnews.net/economy/rmg/rmg-exporters-struggle-rise-open-costing-buyers-cuts-profits-1102871
[14] https://www.thedailystar.net/business/news/buyers-admire-green-effort-dont-pay-it-3577831
[15] https://www.tbsnews.net/analysis/what-if-we-graduate-ldc-next-year-or-three-years-later-1297226
[16] https://www.rapidbd.org/wp-content/uploads/2025/01/Quality-and-Apparel-prices_MR_SI_26January-2025.pdf
[17] https://www.tbsnews.net/economy/govt-weighs-import-curbs-incentives-protect-struggling-local-spinners-1329721
[18] https://www.gtap.agecon.purdue.edu/uploads/resources/download/4780.pdf

Policy Imperatives: Limited Time Is the Only Ally

Industry stakeholders are broadly aligned on the strategic responses required to mitigate FTA-related risks. The challenge, however, lies in speed, sequencing, and execution. With competitive pressures expected to intensify in the next five years, delayed policy adjustments materially increase headwinds to Bangladesh's export competitiveness.

Securing post-LDC preferential market access to the EU must remain the single highest macro-trade priority. While Bangladesh would enjoy a three-year transition period post LDC graduation, absence of a clearly defined successor arrangement (e.g., GSP+) would expose Bangladesh's largest export industry to material tariff shock. In such a scenario, pricing adjustments alone are unlikely to fully absorb a ~12% tariff re-imposition.

Second, redirecting policy incentives towards MMF backward linkages, technical textiles, and high-value functional apparel could benefit in the medium-term, as demand growth and pricing power are structurally stronger. This shift requires coordinated support from textiles and RMG factories.

Third, local value addition must be structurally increased since continued dependence on imported fabrics undermines competitiveness under stricter RoO regimes and limits the benefits of any future trade concessions. As India's textile capacity increasingly pivots to serve domestic and preferential export markets, Bangladesh's dependence on imported inputs would emerge as a structural vulnerability.

Finally, export concentration risk warrants greater macro-level attention. While RMG will remain dominant, targeted diversification, both within apparel toward higher-value segments and non-RMG, would be critical to mitigate vulnerability to external trade shocks [19].

In our assessment, policy inertia represents the single largest risk variable. The EU-India FTA serves as a clear inflection point, materially shortening the timeline available to implement structural adjustments to Bangladesh's export model.

Conclusion

In our view, the EU-India FTA does not pose an immediate existential threat to Bangladesh's apparel sector. However, Bangladesh also stands to gradually lose its market share in EU in the absence of timely policy action and overall industry's failure to transition towards high-value-added production. For Bangladesh, the risk is not abrupt displacement, but rather gradual strategic marginalisation.

[19] https://www.theigc.org/sites/default/files/2024-09/Razzaque%20et%20al.%20Policy%20Brief%20September%202024.pdf

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