CHAPTER-III

BANGLADESH-UNITED STATES ECONOMIC RELATIONS
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Introduction: Bangladesh-US Economic Relations

The present chapter deals with the evolution and development of economic relations between Bangladesh and the US in the background of meeting domestic needs and foreign policy objectives. The foreign economic relations of a developing country like Bangladesh is a complex phenomenon since it takes into purview the domestic and foreign policy. Conceptually, the domestic policy refers to a nation's national policy and foreign policies, as the extension of domestic needs and policies.

Some most important domestic factors that determine the foreign economic relations of a country can be categorized as:¹

(a) the internal structure of the economy;
(b) the nature of the government and its ideologies;
(c) the economic policies pursued; and
(d) the bureaucracy.

On the other hand, the economic relations of a country with another country are determined by external factors, such as

(a) Political attitude of the foreign country and its domestic and foreign policy objectives;
(b) General international economic environment; and
(c) Economic policies of partner countries.

The basic economic structure of a country determines the nature of its needs and requirements. Thus a primary producing country like Bangladesh imports industrial goods from developed countries like US in exchange for its primary exports. In other words, a mutually profitable market needs to be found out to cater to the need of these two countries. Thus, every specific economic relationship is based on some specific need. This need, which is the basis of mutually profitable trade, is the outcome of economic structure of the participating countries.

The nature of the government, particularly, its political ideology is a crucially important factor in shaping a country's foreign economic relations. During Mujibur Rahman period, due to Bangladesh's pro-USSR-India inclination the US-Bangladesh economic relations were not as good as during the period of Ziaur Rahman who adopted a pro-West policy. This is more relevant in the context of aid and assistance commitment towards Bangladesh during post-Mujib period.

Thus the principal determinants of the economic relations between the two countries rest upon the economic policies pursued by them. In pre-1990 period, Bangladesh Government's main objective was to secure aid and assistance from US for its economic development for which an aggressive
campaign was undertaken. As a result Bangladesh succeeded in securing aid and assistance from the US. Later in the 1990's, Bangladesh began its efforts to develop trade and investment relations with the US, which, in turn, have helped in growing trade and investment relationship between Bangladesh and the US.

Bureaucracy is responsible for the day-to-day administration of all types of policies of a country. Economic policies and measures are applied to develop a particular type of economic condition and relations. But these policies are implemented through the regular civil authority. The overall background and commitment of the bureaucracy shapes economic relations of the country with other countries considerably. An efficient administrative system helps the development of healthy economic relationships. There are examples when bureaucracy administered economic policies in Bangladesh more on an ad hoc basis which largely benefited power elite of the country rather than needy people. Substantial body of evidence is available to show that they are engaged in reaping benefits rather than promoting national interests.

The political attitude of the foreign country plays a significant role in shaping the external economic relations of a country. In 1970's economic aid and assistance to Bangladesh was provided to secure politico-strategic interests of US in Bangladesh and South Asia. Basic objectives of America

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were to establish political stability in Bangladesh, prevent spread of communism and reduce Indo-USSR influence in Bangladesh.

The overall economic environment is a major determinant of the external economic relationship of a country. The boom and the recession in the world economy affect the trading relationship between countries.

Economic policies of partner country also determines shape of bilateral relationship. In post-Cold War era, major objective of US was the expansion of market and investment. As a result, there has been growth in trade and high increase in foreign Direct Investment in energy, oils and natural gas and communication sector of Bangladesh.

The above discussed framework has been used to discuss and explain basic features of the growth and development of economic relations between Bangladesh and US. In the present study Bangladesh-US economic relations have been discussed in view of US’s aid and assistance to Bangladesh and its impact on Bangladesh domestic economic and political conditions, bilateral trade relationship, compositional shift in import and export, its direction, and policy and plan formulation in the context of globalisation era and US investment in Bangladesh.

Above all, this study also deals with above economic relations (aid, trade and investment) in view of meeting domestic needs and requirements and foreign policy objectives.
Beginning of US-Bangladesh Economic Relations: A Historical-Economic Perspective

In 1947, when the British India was partitioned into India and Pakistan, Pakistan had two geographical entities, East and West Pakistan and these two geographical entities were thousands of miles away from each other. Though East Pakistan (now Bangladesh) had numerical majority and was largely responsible for the creation of Pakistan, yet Western Pakistan was centre of power and East Pakistan was under represented in the government and administration of Pakistan. This disparity in government and administration, however, was largely responsible for the neglect of needs and aspirations of East Pakistan. This led to the underdevelopment of East Pakistan at the cost of West Pakistan. Therefore, superordinate-subordinate relationship between West Pakistan and East Pakistan was largely responsible for the underdevelopment of Eastern Pakistan at the cost of development of West Pakistan. This is evident from the available facts and figures. Between 1949-50 and 1969-70, the economy of West Pakistan grew at a faster rate than the economy of the East Pakistan. In the 1950's, the average growth rate of West Pakistan's economy was 2.7 per cent compared to 1.9 per cent of the East Pakistan. In 1960's, this gap widened and the average growth rate of West Pakistan and East Pakistan were 6.4 per cent and 4.3 per cent, respectively. The difference in the growth rates of the two wings of economy was due to the differences in the structural diversification of their economy. Greater industrialization took place in the West Pakistan
than East Pakistan. The outcome of unequal investment and industrialization between East and West was unequal growth between East and West Pakistan. The share of industry in the income of West rose from 8 to 15 percent but in East the income rose from 7 to 10 percent. In East Pakistan the value of industrial production increased from Rs.320 million to Rs.630 million. While the corresponding figures for the West were Rs.871 and 1,808 respectively. In the 1960's this trend continued unabated. Industry contribution to GDP rose to 16 per cent in West Pakistan as compared to 8.9 per cent in East Pakistan.

East Pakistan contributed heavily to foreign exchange earnings through the export of jute and jute goods (traditional export earnings of East Pakistan). Yet West Pakistan accounted for most of foreign exchange used for the investment. Therefore, disparities in growth and investment between the two wings of Pakistan, led to disparities in the level of living of the people. These disparities promoted by the state policies in Pakistan became the central political issue in the minds of the deprived Bengalis of East Pakistan. In his six point program in Lahore, Sheikh Mujib called for treating Pakistan as one polity with two economies. This program was unofficially supported by US. Not given any concession to East Pakistan in political and economic matters by West Pakistan and in the face of such gross inequalities, the leadership of East Pakistan realized that self rule was the only way to assure a better living. Mujib succeeded in mobilizing people of East Pakistan to
assert their demand for self-rule. Ultimately, this led to the formation of Independent Bangladesh.

In 1971, therefore, Bangladesh was born amidst appalling socio-economic conditions. Its economy was thoroughly impoverished and underdeveloped, which was due to its long history of exploitation by Pakistan. Even the freedom movement has had a negative impact on economic scenario of Bangladesh. Quite naturally, the country was ridden with myriad of problems in which most nagging were acute food crisis, completely ruined infrastructure, recurring cyclones and floods, which greatly hampered the purchasing power of people, and the absolute destruction of economic infrastructure. According to an estimate, in 1972 Bangladesh was second most poorest country in the world, just above Rwanda.3 Its per capita income was estimated at US $70. Total population of Bangladesh was 73 million living in a relatively small geographical area (55,000 sq. miles). For such a huge population area was relatively small.

The agriculture sector, which was most prominent sector of economy, had always been affected by frequent cyclones and floods. Besides that, little investment in agriculture and lack of scientific method in agriculture had made this sector vulnerable to the vagaries of the nature. Crops failed due to severe drought or flood conditions. Food had thus become the major problem area of the economy and food deficit and insecurity was a regular

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phenomenon in Bangladesh. Food was required not only for the 20 million homeless people within the country but also another 10 million returnee refugees. In early 1973, food deficit was estimated at 2.5 million tons. Besides, at the time of partition, Bangladesh had ruined industrial infrastructure. Contribution of industrial sector to GDP was negligible. Its export was limited to only certain raw materials and agricultural produce which was not able to sustain import bill. Condition of infrastructure was also in shambles. Condition of roads and railway transport was not at satisfactory level. The energy sector was also in a poor condition.

Thus, the outset the Mujib regime was faced with a formidable challenge in internal political and external relations. Overcoming food deficit and initiating the process of nation-building and construction was the most formidable task at hand for the Mujib regime, since the restructure of the ruined economy and ensuring food security required Bangladesh to seek foreign assistance.

After Independence, under Mujib regime, Bangladesh was principally under Indo-Soviet influence. Its favourable equation with India and USSR was the result of role which India and USSR played, and the support they gave to it during its liberation war. This political factor led the Mujib regime to build warm relations with India and USSR. In fact the birth of the Bangladesh was a diplomatic victory for Indian and the socialist bloc over the US and China. The relation of Bangladesh with the superpower of world the US came
under serious strain due to the latter's opposition of liberation war and partition of Bangladesh.

Mujib's regime had committed to the principles of secular, socialist democracy and non-alignment. As such nationalisation of industrial units and expanded role of the public sector were envisaged and implemented.

The economic imperatives were, however, quite different from the political ones. In the immediate aftermath of liberation war, the paramount need was to avert famine, to rehabilitate refugees and to reconstruct the war ravaged economy. These gigantic tasks required massive amount of foreign aid. As it emerged, there could not be a happy marriage between compulsion of needs and politics of the hour. The short-run priorities of the newly born state were such that the conventional lending by India, USSR and Eastern European countries failed to satisfy the country's requirement. For example, food aid was virtually absent in the assistance package from India and USSR. On the other hand, US package confirmed to Bangladesh economic imperatives but in the beginning of Mujib regime the US aid was viewed with suspicion by the ruling party and its allies due to their role during the liberation war. Waves of resentment prevailed in Bangladesh against western aid especially from US. It was not until Sheikh Mujib open admission that Bangladesh was ready to welcome aid from external sources provided it was

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without strings. Thus in later phase of Mujib regime opposition to American aid slowly faded away within the government.\(^5\) Result of this admission was formulation of a foreign policy oriented towards goal of maximization of foreign economic assistance. Mujib government, perhaps desperate by the need of hour, tried to improve the relations with the US. He had travelled to the US in the hope of realizing aid and assistance and of recovering the lost political alliance with US."\(^6\)

Though, US stand was anti-liberation and diplomatically US tried to prevent the breakup of Pakistan but economic channels between Washington and Dhaka had always remained alive. During the liberation war, US had provided large economic relief to the country through the UN. The US contribution to the UN Relief Operations Dacca (UNROD) till April 1972, amounted to about $100 million including 500,000 tons of food.\(^7\)

But, soon after Bangladesh liberation, diplomatic setback US had suffered in Bangladesh was recognized by US. US also recognized strategic importance of Bangladesh in South Asia and Indian Ocean to contain USSR influence. Recognition of above detrimental political strategic factors and humanitarian needs of Bangladesh by US were largely responsible that US legitimized its politico-economic relationship with Bangladesh through formal

\(^5\) Ibid.


\(^7\) Biswas, n.3.
diplomatic recognition of Bangladesh as a sovereign nation-state in 1972 and the US began giving economic assistance to Bangladesh within two months of its recognition and has kept the inflow going over the years.⁸

**US's Aid and Assistance to Bangladesh:**
*Quantum, Nature and Emerging Trends*

Aid and assistance to Bangladesh from US have been intended for overcoming two critical gaps:

1. The domestic-saving investment gap.
2. The export-import gap or foreign exchange management.

Any country needs resources to invest in domestic economy for economic growth and development. But countries like Bangladesh, in which resources are scarce and domestic saving rate is very poor, cannot have enough resources for investing in domestic economy. On the other side, this country also needs imports, which cannot be financed by their exports due to import-export earning gaps. Thus they need foreign aid and assistance to meet their domestic saving investment gap and export-import gap. This aid and assistance is used by this country to meet investment needs in economy and consumption requirements. External aid also fills another gap, the technological gap caused by the lag of the developing countries like

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⁸ Dilara Chowdhury, *Bangladesh and South Asian International System* (Dhaka: Academic Publishers, 1992), p.120.
Bangladesh in science and technology. In this sense aid is intended to supplement investment not only in quantity but also in quality.  

US aid and assistance to Bangladesh has been disbursed under three operative titles:

(a) Food aid,
(b) Commodity aid, and
(c) Project aid.

(a) Food Aid: Food aid to Bangladesh has been transferred over the years Public Law Program (PL 480) which is classified under three categories:

(a) Public Law I (PL 480 Title I)
(b) Public Law II (PL 480 Title II)
(c) Public Law III (PL 480 Title III)

PL 480 Title I refers to loans on favourable terms or concessional sales of food grains to developing countries like Bangladesh. However, the maximum term provided under Title I loans is 40 years including the grace period of 10 years with a minimum interest rate of 2 per cent during the grace period and 3 per cent thereafter. In Bangladesh the title I program was officially started from the financial year 1974.

Under the authority of PL 480 Title II program food grants or donations are provided to cope with famine or emerging requirements due to natural

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disaster and to combat malnutrition and hunger. The Title II program commenced in Bangladesh in the financial year 1972. Subsequently, the US Agency for International Development (USID) and Co-operative for American Relief Everywhere (CARE) introduced the Title II Food for Work Program in 1976 to provide off farm employment to landless and near landless labours of Bangladesh.

Finally, Title III refers to a Title I program for which the loan is forgiven if the local currencies generated by the sale of food grants are used by the recipient country (Bangladesh) for specific agriculture development programs. With the evolution of Title I program to Title III, sales proceeds of US government's supplied commodities have been directed to finance specific agricultural self-help projects.

(b) Commodity Aid: Commodity aid to Bangladesh finances imports for an economy as a whole, to permit it to operate more efficiently and productively. Commodity aid however does not include materials associated with construction a specific new projects. The basic purpose of the commodity aid is to erase budgetary problems or a foreign exchange crisis. Commodity aid financed imports are sold to firms and consumers. Proceeds of the sales provided revenues to the government in framing a viable annual budget. It also supplies those commodities which the exhausted foreign exchange reserves of the country cannot purchase. Commodity aid includes both loans and grants components.
(c) **Project Aid:** This is to finance infrastructural projects, such as building factories, electrification of the rural-urban centres, irrigation works, construction of roads and ports, etc. A special feature of US project aid is their availability almost exclusively for the financing of specific projects and not for the general support of a country's development program as a whole. Often they are available only for the foreign exchange component of the total expenditure on the project. Project aid includes both grant and loan components. In general, aid and assistance to Bangladesh have been provided in form of loans and grants. For grants, principal and interest payment is not required and loans are repaid with interest but interest rates are low and payment periods large.

Thus under above described structure, US aid and assistance have been provided over the years.

Formal US aid and assistance to Bangladesh started after 4th April 1972, when Secretary of State William Rogers announced American decision to grant recognition to the Bangladesh. In his statement, announcing recognition Rogers made two commitments:

(i) The US was keen to develop friendly bilateral relations.

(ii) The US would be helpful as Bangladesh faces its immense task of relief and rehabilitation.

Thus US's recognition of Bangladesh removed stumbling block to the way of American aid flow to Bangladesh.
The first bilateral aid agreement between US and Bangladesh was signed on 30th May 1972. In this agreement, US provided $90 million dollars to Bangladesh on grant basis requiring neither interest nor repayment. The good point of American aid was its easy non-interfering terms. Regarding the use of the PL 480 food aid, the government of Bangladesh was allowed ample discretion either to distribute them freely to the refugees and other destitute families or to sell them so that the proceeds could provide employment opportunities on the labour intensive projects.\textsuperscript{10}

Since the first bilateral grant in May 1972, the total of US bilateral grants till mid-1973 amounted to $203 million under humanitarian assistance for priority relief and rehabilitation projects. In 1974, there was change in the assistance relationship when US signed with Bangladesh a bilateral agreement covering future US economic technical and related assistance to the nation, indicating US interests in long-term economic development programs. Before this agreement, USID program in Bangladesh was concentrated almost totally on problems of food and population. But this agreement started a new beginning in US-Bangladesh economic relations. It was aimed towards strengthening Bangladesh capabilities to do research on wheat, legumens, oilseeds and cropping system which together with high yielding rice varieties had potential for greatly expanding food supply and quality. Hence forth the US emphasis was on providing loan assistance to

Bangladesh foreign exchange costs of importing agricultural goods and related services. On 12 February 1975 the US signed a loan agreement in Dacca to assist in financing the Ashugani Fertilizer plant. The total cost of this joint internationally financed project was estimated at $249.4 million in which USID provided 30 million dollars.\textsuperscript{11} Therefore, over the years, during Mujib period, the US had remained the single largest donor of loans and grants to Bangladesh.

The abrupt change of Government in August 1975, started the beginning of a parametric shift in Bangladesh-US relations. Unlike the Awami League, a party with ideologically opposing forces inside, Ziaur Rahman headed a party consisting of homogeneous right wingers who dominated the policy issues. Ziaur Rahman could well visualized that in a country suffering from endemic poverty and backward economy, foreign aid and assistance was imperative and relations with principal donor, US must be improved. That was to be achieved by taking some bold steps in the area of domestic socio-economic policies and by fresh initiatives in external economic relations to convince the donors for the necessity of increased aid flow.\textsuperscript{12} In the external relations, US's role as a main donor of aid and assistance was recognized. At the same time, Ziaur Rahman initiated a number of policy

\begin{footnotesize}
\begin{enumerate}
\item[Ibid.]
\end{enumerate}
\end{footnotesize}
changes in the Bangladesh economy to attract aid from donor countries. The role of private sector was expanded. Significant changes were made in the domestic industrial policy like denationalization of industries and more liberal attitude towards foreign private investment. Therefore the relationship between Bangladesh and the United States improved considerably. As a result United States was giving substantial amount of economic assistance to Bangladesh. Various domestic projects like rural development, Grameen Bank and export processing zones were result of direct or indirect involvement of America.\footnote{13}

Therefore, during 1971-72 through 1981-82, the US had actually provided about $1,479.156 million of which 51.12 per cent came as grant and 48.88 per cent came as loan. When aid is categorized, the actual disbursement of US food aid constituted about 56.36 per cent, commodity aid 25.05 per cent and project aid 18.59 per cent respectively.

During the first decade after its emergence, US remained as the top most food providing for 33.6 per cent of total food aid so far received by Bangladesh.\footnote{14} In the beginning there had been frequent fluctuations in the quantum of US food assistance. In 1973-74 and 1974-75 no fresh food grant

\footnote{13} Ibid.

was committed by the US but in the same period the US food loan reached the highest level. But disbursement of food loan was far from satisfactory. But in Zia's period during 1978-79 and 1979-80 grant component of US food aid maintained upward trend. According to diplomatic observers more grants were advanced firstly in appreciation of Zia's domestic and foreign policy and to help avert food crisis of the country.\textsuperscript{15}

Immediately after the emergence of Bangladesh, the US Government committed higher amount of commodity grants up to 1974 for the relief and rehabilitation of the war ravaged economy. US delivered 10.34 per cent of the total commodity aid received by Bangladesh during 1971-72 through 1981-82. This was the second highest contribution by a single donor country.\textsuperscript{16} In 1978-79, commodity assistance grant commitment and disbursement were highest amounting to $81.00 million and $50.29 million, respectively. During 1971-72 to 1981-82, commodity aid to Bangladesh was a positive help to Government of Bangladesh as it needed more commodity aid not only to support the balance of payments but also for investments as commodity aid generated much needed counterpart funds for the development budget of the government to finance the local cost component of expenditure on various development projects.\textsuperscript{17}

\textsuperscript{15} Abdul Bayes, n.12, pp.173-74.
\textsuperscript{16} Kamal Uddin Ahmad, n.14, p.747.
\textsuperscript{17} Ibid.
US considerably increased project aid during Zia's period. Project loan commitment of US had increased from $30.00 million in 1974-75 to $50.00 million in 1981-82. As a single donor in 1971-81 period, US had committed highest quantum of project aid amounting to 9.59 per cent of the total project aid (Table-1). But during this period, there had been gap between project grant commitment and disbursement. The main reason for poor disbursement of project aid was attributed to the poor absorption and implementation capacity of Bangladesh.18

Table-1
US Aid and Assistance Disbursement to Bangladesh
(US Million Dollars)

<table>
<thead>
<tr>
<th>Regime</th>
<th>Year</th>
<th>Food Grant</th>
<th>Food Loan</th>
<th>Commodity Grant</th>
<th>Commodity Loan</th>
<th>Project Grant</th>
<th>Project Loan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mujib</td>
<td>1971-72</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1972-73</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1973-74</td>
<td>29.860</td>
<td>18.90</td>
<td>13.672</td>
<td>-</td>
<td>38.501</td>
<td>-</td>
<td>100.934</td>
</tr>
<tr>
<td></td>
<td>1974-75</td>
<td>149.67</td>
<td>37.508</td>
<td>32.610</td>
<td>40.041</td>
<td>-</td>
<td>-</td>
<td>249.833</td>
</tr>
<tr>
<td>Zia</td>
<td>1975-76</td>
<td>9.15</td>
<td>201.69</td>
<td>0.269</td>
<td>53.400</td>
<td>7.168</td>
<td>10.124</td>
<td>281.848</td>
</tr>
<tr>
<td></td>
<td>1976-77</td>
<td>2.100</td>
<td>42.503</td>
<td>4.900</td>
<td>5.804</td>
<td>1.858</td>
<td>57.165</td>
<td>63.289</td>
</tr>
<tr>
<td></td>
<td>1979-80</td>
<td>126.857</td>
<td>-</td>
<td>13.81</td>
<td>-</td>
<td>14.88</td>
<td>22.03</td>
<td>177.60</td>
</tr>
<tr>
<td>Ershad</td>
<td>1981-82</td>
<td>70.700</td>
<td>-</td>
<td>17.625</td>
<td>-</td>
<td>18.63</td>
<td>9.25</td>
<td>116.49</td>
</tr>
<tr>
<td></td>
<td>1982-83</td>
<td>66.400</td>
<td>-</td>
<td>35.90</td>
<td>-</td>
<td>32.93</td>
<td>10.08</td>
<td>147.62</td>
</tr>
<tr>
<td></td>
<td>1983-84</td>
<td>63.100</td>
<td>-</td>
<td>13.50</td>
<td>26.327</td>
<td>-</td>
<td>21.02</td>
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<tr>
<td></td>
<td>1984-85</td>
<td>0.7500</td>
<td>-</td>
<td>62.00</td>
<td>55.07</td>
<td>2.51</td>
<td>-</td>
<td>194.38</td>
</tr>
<tr>
<td></td>
<td>1985-86</td>
<td>45.596</td>
<td>-</td>
<td>7.37</td>
<td>50.24</td>
<td>1.32</td>
<td>104.53</td>
<td>116.00</td>
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<td>1986-87</td>
<td>65.342</td>
<td>-</td>
<td>20.47</td>
<td>44.309</td>
<td>0.28</td>
<td>-</td>
<td>125.41</td>
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<td>1987-88</td>
<td>79.546</td>
<td>-</td>
<td>20.39</td>
<td>42.79</td>
<td>-</td>
<td>142.73</td>
<td>157.09</td>
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<tr>
<td></td>
<td>1989-90</td>
<td>65.021</td>
<td>-</td>
<td>19.82</td>
<td>-</td>
<td>15.27</td>
<td>-</td>
<td>100.11</td>
</tr>
<tr>
<td></td>
<td>1990-91</td>
<td>72.07</td>
<td>-</td>
<td>12.30</td>
<td>-</td>
<td>18.13</td>
<td>-</td>
<td>102.50</td>
</tr>
<tr>
<td>Post</td>
<td>1991-92</td>
<td>104.882</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>34.36</td>
<td>-</td>
<td>139.24</td>
</tr>
<tr>
<td></td>
<td>1993-94</td>
<td>45.68</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>61.78</td>
<td>-</td>
<td>107.47</td>
</tr>
<tr>
<td></td>
<td>1994-95</td>
<td>48.09</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>68.62</td>
<td>-</td>
<td>116.61</td>
</tr>
<tr>
<td></td>
<td>1995-96</td>
<td>36.78</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14.46</td>
<td>-</td>
<td>51.249</td>
</tr>
<tr>
<td></td>
<td>1996-97</td>
<td>6.293</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29.01</td>
<td>-</td>
<td>35.311</td>
</tr>
<tr>
<td></td>
<td>1997-98</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26.27</td>
<td>-</td>
<td>26.273</td>
</tr>
<tr>
<td>Total</td>
<td>1209.93</td>
<td>484.24</td>
<td>442.40</td>
<td>146.23</td>
<td>779.68</td>
<td>133.03</td>
<td>3195.529</td>
<td></td>
</tr>
</tbody>
</table>

18 Ibid.
The Government of H.M. Ershad which replaced Zia's regime in 1982, continued to uphold the principles and policies of both domestic and external, set out by the Zia's regime. In fact Ershad government embarked on taking more aggressive measures to materialize the unfinished policies of the previous government. Immediately after the regime came to power, Soviet diplomats were expelled from the country and Soviet cultural centre was closed. It had also opposed Soviet invasion of Afghanistan and Vietnamese invasion of Kampuchea. On the other side, Bangladesh supported the US position at the UN, human rights in Central America and in Poland. Its views on other matters like North-South coincided with the stand of US.\textsuperscript{19}

On domestic front also, some bold steps were taken by Ershad government. It further moved towards market economy by creating an atmosphere for a market economy to work. It implemented prescriptions of World Bank and USID for the privatization of the supply of the agricultural inputs and withdrawal of subsidies from agriculture. Various other steps were taken to promote and expand private sector's role in the economy.

In the analysis, therefore, approach taken by Ershad government at domestic and external level, had improved Dhaka-Washington relations. The US recognized its cooperative relations with Bangladesh on international questions. This paved the way for an elevated seat for the Ershad's regime.

\textsuperscript{19} Abdul Bayes, n.12, pp.178-79.
on the dias of the donors like the US and the World Bank and this attitude of the donors, especially of the US was clearly reflected in the flow of aid.

Ershad maintained excellent political relationship with US. US recognizing this fact, continued the aid and assistance support to Bangladesh. In fact, during Ershad period there was rise in amount of aid and assistance from US to Bangladesh. In 1982-83 financial year US provided 68.70 million dollars food and whereas the amount in 1983-84 and 1984-85 the amount under food aid category was 63 million dollar and 75 million dollar respectively. The most striking feature of aid and assistance relationship was tremendous rise in commodity aid which touched 62.00 million dollars mark in 1984-85 (Table-1).

Project aid was also continuously rising during Ershad period. For financial year 1983-84, disbursement under project aid category was 84.2 million dollars, in 1984-85, and 1985-86 it was 54.7 and 51.56 million dollars, respectively (Table-1).

This clearly reflects that due to favourable relationship with US, Ershad was able to secure aid and assistance from US. Most importantly, it could be seen that on one side Bangladesh was able to secure food aid from US, on the other side, there was significant rise in commodity and project aid.

In August 1988 catastrophic floods swept Bangladesh. The flood submerged three-fourths of the country. The estimate of damage exceeded $2 billion. Flooding caused major infrastructural damage, crop losses were estimated to exceed two million tons and approximately 30 million people
were displaced. In response to Bangladesh's appeal to the US for relief assistance, Stephen S. Solarz introduced a bill in the house of representative on 26 September 1988 for the purpose of channeling disaster assistance to Bangladesh. Subsequently then President of US Reagan signed it on 31 October 1988. It came to be known as public law 700-576, Bangladesh Disaster Assistance Act of 1988. In 1988 floods, according to a USID report circulated on 4 October 1988, total US government emergency assistance amounted to 151 million dollars. Voluntary organizations of US also provided assistance totalling $4,570,000. American assistance was highly effective in mitigating negative effects of disaster. The versatile programs undertaken by the US disaster assistance teams such as supplying food, water purification, temporary shelter and communications proved immensely useful.

In 1991, Begum Khalida Zia, after elections, became Prime Minister of Bangladesh. Under her premiership there was further improvement in Bangladesh-US relations especially in the field of economic relations. During Khalida Zia's period US-Bangladesh economic relations was stressed. Khalida Zia understood very well that in order to achieve economic development, Bangladesh needed enormous foreign assistance and investment. Bangladesh felt that the US had economic power and influence in order to meet the desired development of Bangladesh. Khaleda Zia understood well that in the phase of globalization and liberalization Bangladesh could not merely depend on aid and assistance from US but cooperating in trade and investment area had become necessary. She took
particular measures to promote multifarious economic cooperation with US.\(^{20}\)

The following objectives were sought to be promoted:

(i) Trade promotion with particular emphasis on the promotion of exports.

(ii) Attracting foreign investment and joint ventures.

(iii) Acquiring appropriate advance technology including training and technological know-how.

Just after Begum Zia's Government was installed in Bangladesh a devastating cyclone struck the southern coast of Bangladesh, causing widespread destruction and miseries. The largest assistance came from US. US marines and other forces who were returning to home bases from Operation Desert storm were diverted to Bangladesh with the objective of assisting the cyclone hit people. This American relief effort-operation 'Sea Angel' earned great appreciation in Bangladesh for the efforts undertaken, especially in areas where only the specialized equipment used by the Marines could be effective.

During her regime, USID concentrated towards food security and long-term development of Bangladesh through releasing project aid. In March 1992, Bangladesh and US signed PL 480 agreement. The agreement contained a 4 year period program in which 268 million dollar food aid was provided to Bangladesh. Under agreement, US aid and assistance was to be

used not only to meet Bangladesh food security needs, it was also to be used to generate local currency to finance the annual development assistance program, much of which was to be used for agricultural development. On the other hand, USID provided $4,662,000 for disaster grants to Non-Government Organizations.

In 1996, after a relatively free and fair election, Sheikh Hasina Wajed became Prime Minister of Bangladesh. Overall transfer of power from Khalida Zia to Begum Sheikh Hasina Wajid was peaceful. In her premiership, she herself paid a visit to the United States in October 1996. Although the visit was to address the fifty first session of the UN General Assembly, she availed of the opportunity of her stay in New York to meet potential investors. During her visit she briefed liberal economic policy of Bangladesh, the incentive package offered to investors and urged them to invest in Bangladesh.

However, an important landmark in the US-Bangladesh relations was Sheikh Hasina visit to Washington in February 1997 to chair the micro-credit summit. There she met President Clinton twice. During her meeting she briefed US President on Bangladesh's achievements, and prospects and opportunities offered by Bangladesh to US investors. During this meeting, she also requested US's President to waive Bangladesh's outstanding debt of US $518 million to US on account of PL 480 food assistance. President Clinton, on his part, commended Bangladesh for its success in reducing poverty level, increasing food self-sufficiency and also applauded the
Government's vision in recognizing the important role that economic liberalization and foreign investment play.

Sheikh Hasina has provided stress on trade and investment relationship rather than aid and assistance. In fact, during current regime, the share of commodity and food aid is minimum, though project aid is still maintaining its status (Table-1). This shift is due to emphasis of GOB on trade and investment rather than aid and assistance by economic reform measures and opening of Bangladesh market for foreign investors.

In post-1995, there had been significant decline in food aid and commodity aid. But project aid, moreover, is relatively maintaining its status. In financial year 1996-97 US food aid was only 6.293 million dollars, whereas amount received under project aid was 29.01 million dollars. In 1997-98, food aid was nil, but project aid provided by US was 26.273 million dollars. The most striking feature of project aid was that it was provided all in grant. Thus during financial years from 1995-96 to 1997-98, commodity aid was virtually nil. Amount of project aid was 69.776 million dollars and food aid amount was 43.077 million dollars.

In July and August 1998, Bangladesh suffered its worst flooding in the 20th century. During worst conditions produced by flood, US was the largest supplier of food grains. US provided 700,000 metric tons of wheat and other cereals and other relief materials. On 6 August 1998, MOU was signed between GOB and US for a five year US plan for disaster assistance. Under this MOU, the US Defense Department has undertaken an assessment study
for preparing a five year plan for providing possible humanitarian and disaster assistance to Bangladesh in terms of need. Further, in August 1998 Ministry of Foreign Affairs of GOB and US Embassy signed another MOU for Humanitarian Assistance Need Assessment (HANA).  

The United States of America is currently the second largest bilateral aid donor, behind Japan. For FY 1999, $63.8 million dollar US assistance was provided to Bangladesh. The aid appropriation for Bangladesh from US for FY 2000 was 66 million dollars including $77.4 million in development assistance, $17 million for food aid. 

In sum, for nearly three decades, Governments of Bangladesh and US have maintained a successful long-term economic partnership. During these three decades, US has provided 3,195.52 million dollars to Bangladesh to meet its needs and requirement through Aid and Assistance. Of above total, food aid accounts for 50 per cent, commodity aid 20 per cent and rest of amount has been provided as project aid. Of total food aid, 75 per cent has been provided as grant, whereas rest has been provided as loan. Almost same ratio has been maintained for commodity loan. But project aid contains 85 per cent grant and rest loan. Most of the aid, therefore, have been provided as grant for which payment of basic amount and interest is not needed (Table-1). So far, America has provided 16.09 per cent of total aid

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received by Bangladesh during this period from different donors. In the first
decade of independence, its position was first but later on it has become
second highest donor country after Japan. But its position is important
because amount of money provided by America as grant is greater than
Japan on which no debt service payment is necessary.

**Socio-Economic-Politico Effect of Aid & Assistance**

Aid and assistance from US has supported Bangladesh economy over
the years. Over the years, it has helped Bangladesh to bridge foreign
exchange gap, saving-investment gap and technological gap. This has
supported different sectors of economy, viz., food security and agriculture,
industry and infrastructure service sector and most importantly during natural
calamities, viz., flood, cyclones and famine.

For food security in Bangladesh, United States Agency for International
Development (USID) has supported food production through green revolution
technologies, enhanced food security through food aid, and rural income
growth through projects and investment in rural infrastructure. USID
considers agriculture as an engine of growth and provides assistance with
four major objectives:

- (a) increasing agriculture output to feed the rapid growing population;
- (b) generate rural employment;
- (c) generating rural energy resources;
- (d) reducing human fertility.
In Bangladesh, annual rice production has increased by 97 per cent between 1972-73 and 1998-99 from 10.09 to 19.86 million MTs. Wheat production increased more than twenty fold from only 91 thousand MTs in 1972 to 1.90 million MTs in 1988. Food under Titles I, II, III of PL-480 which has been designed to help Bangladesh meet minimum food requirements and promote food production has been able to moderate fluctuation in consumer prices. It has assisted ten millions of poor people by providing short-term relief, wages through food for work program and the resources for child education through food for education. Food for work program has development orientation. It has not only provided food security but also built up infrastructure in Bangladesh.

In agriculture sector, USID has financed large scale fertilizers imports for Bangladesh since 1974. It has also supported the construction of a large number of fertilizer storage units and food grain units. USID has also supported rapid growth of irrigation and fertilizer use combined with agricultural diversification and improvement of rural infrastructure. USID development objective in Bangladesh gives top priority to the goal of population control in view of the fact that food production increase is unlikely to match unchecked growth of population. To meet objective of population control in Bangladesh USID has financed population control program. GOB has been equally responsive to this program. According to USID, there has
been a dramatic drop in the total fertility rate in Bangladesh from over 7 children per family in 1974 to 3.3 in 1996-97. USID has worked to increase rural household income through increased agricultural and industrial productivity. USID has given assistance to the rural electrification program\textsuperscript{23} which facilitate the establishment of rural industries, increase agriculture production and create employment opportunities in the rural areas. Due to these measures, considerable progress has been made towards increasing real household incomes, with per capita income rising to 3.2 per cent in 1996. USID supports policy reforms, particularly in the financial and industrial sector that has contributed significantly to growth. Micro enterprise credit and disaster preparedness have also been improved with USID assistance, further contributing to increase in real household income and reducing poverty and demand for agricultural labour over the years.

US aid and assistance to Bangladesh was most important during different calamities suffered by Bangladesh over the years. During natural calamities of 1974, 1988, 1991 and 1998, USID support not only provided food security for Bangladesh but also helped in rehabilitation and reconstruction of economy aftermath of these calamities. USID particularly during and aftermath of 1998 flood, provided extensive support to Bangladesh through emergency food aid and advisory services to the ministry of food on prudent stock management and emergency food aid targeted programs to

\textsuperscript{23} BFPS, Vol.3, No.3, July-September 1997, p.16.
During this time, USID also encouraged private sector import of rice and wheat.

Finally, no portrait of Bangladesh-US economic relations would be complete without the role that have been played by USID-GOB partnership in economic development of Bangladesh. On the other side, though foreign aid has helped Bangladesh to meet economic demands of Bangladesh, but within the process of development (dependent on aid regime) it has contributed to the growth of external dependence. This particular pattern of dependent development has contributed little towards self-reliance and eradication of poverty in Bangladesh. Rather it has accentuated concentration in the ownership of wealth and inequality in the distribution of income without leading to a significant expansion of productive force within the Bangladesh economy.

Aid dependence has in fact been self-perpetuating as it has over the years, served to reinforce a system which has been inimical to the mobilization of domestic resources and the effective use of productive capacities. Besides this, Bangladesh has been vulnerable to donor's influences. As Rehman Sobhan writes, Bangladesh has been exposed to foreign influence because of its dependence on external resource inflow. In highlighting donor's influence on the domestic economic policies of Bangladesh, he said, in Bangladesh donors have tended to freely express

their views on the sustainability of various policies, viz., foreign policy and
domestic policy, the quality of their administration and their political integrity.
This attitude originates from the belief that the size and importance of their
contribution to Bangladesh's development efforts gave them a right to dictate
how it should conduct its development affairs. It has also been found that,
donors use aid conditionality to promote their own particular interest in
Bangladesh and world over. In cold war era and post-cold war era, there has
been sufficient evidences when US has used aid and assistance in
influencing Bangladesh foreign policy. In 1973-74, US pressurized
Bangladesh to abandon its plan to try 1971 Pakistani war criminals
responsible for the genocide of 1971. This pressure was put on Bangladesh
in the wake of demand of 300,000 tons of food grains during November and
December 1973. This pressure tactics, went of course in favour of
Pakistan.

Again this card was played by US government in 1974 when the US
threatened Bangladesh to withhold her selling of 4 million gunny sacks to
Cuba (black-listed country by US) if Bangladesh had to get food aid under PL
480. Though Bangladesh protested to US demand, it could not help to bring
any shift in US attitude. Bangladesh ultimately had to bow down under US
pressure. Thus US government has used food aid not only as carrot but also

26  Ibid.
27  Jayshree Biswas, n.3, p.83.
as stick. Financial cost of food aid has, therefore, related to the political cost incurred through a high level of food dependency. Countries especially US which have politico-military-economic interests being superpower expect recipients to follow their advise and interests.

Moreover, given the fact that much of food aid was given as grants. Grant component of loan is relatively costless and does not have to be repaid, Therefore there was no material compulsion to use aid more efficiently. Therefore, in Bangladesh grants and loans contributed to the addicted dependence on aid as performance and domestic resource mobilization was largely neglected.

Debt and debt service repayment adversely affects macro-economic environment of a LDC country like Bangladesh, which severely face saving-investment gap and foreign exchange, gap. In the wake of maturity of loans received by Bangladesh over the years, from US, money generated by exports has to be paid as debt service repayments. That further creates foreign exchange crisis and widening of saving-investment gap in Bangladesh. Thus it will again need foreign aid to bridge above economic gaps. Therefore, instead of moving towards self-reliance, dependency on aid will grow for imports and development. In 1997, Bangladesh owed outstanding debt of US $518 million to US on account of PL-480 food

28 Rehman Sobhan, n.5.
29 Ibid.
assistance. Not able to pay debt due to macro-economic constraints, the prime minister of Bangladesh during her visit to US in February 1997 requested President Clinton to waive Bangladesh's outstanding debt to US.

US has used assistance as a political instrument in Bangladesh for changing its domestic food policy. The US exerted influence on Bangladesh's food policy towards reduction in food subsidies, procurement of food grains at market prices from the domestic farmers and improvement of food distribution among the extremely poor people. In order to pressurize the Bangladesh Government for reduction of food subsidies and an increase of ration food prices, the USID mission withheld a portion of food grain shipment to Bangladesh during the period from November 1975 to March 1976. Similarly commodity aid and project aid have been used by US to influence economic policies of Bangladesh. As Ahmad observes, though commodity aid was used to increase capacity utilization in various sectors of the Bangladesh economy, but it usually provides a powerful and continuing instrument of leverage in the hand of US to influence foreign policy or development strategy of Bangladesh.

The lion's share of project aid was used in industry, power, transport and communication, while a lower share was utilized in agriculture, flood control and water resources, education and social service sectors. Most probably this utilization pattern of project assistance underlined the general strategy of industrial development in Bangladesh. But such as utilization pattern was unexpected provided that GOB gave increased attention to rural
development since early seventies. This suggests that GOB preferences were not in exact conformity with and influenced by the preferences of the donors like US. Even Bangladesh developed an industrial structure with inappropriate (capital intensive) technology, which was not convenient for its balanced growth.\textsuperscript{30}

This particular pattern of aid dependent development in Bangladesh has contributed little to eradicate poverty, inequality and enhance Human Resource development scenario in Bangladesh. Though investment in agriculture has produced results in the rise of production and productivity but it has created its own problems for providing a basis for self-sustaining development. Given the limited scope for the development of new lands and unsuccessful land reforms much of the aid programs which are focused on enhancement of yield on available land has created a built-in bias within these programs. Skewed pattern of land ownership has ensured that aid programs for land yields are not only generating benefits for a narrow range of village households but are directly contributing to differentiation and polarization in the rural areas.\textsuperscript{31}

The income distribution among the households has become more unequal in mid-nineties compared to seventies and eighties. For instance,

\begin{footnotesize}
\begin{enumerate}
\item S. Ahmad, "Foreign Capital Inflow and Economic Growth in Bangladesh: A Two Gap Model for Bangladesh Economy" \textit{BDS}, Vol.XVIII, No.1, March 1990.
\item Rahman S., n.25, p.ix.
\end{enumerate}
\end{footnotesize}
the gini ratios increased to 0.43 in 1995-96 from 0.3 in 1991-92 and 0.36 in 1983-84 and 1973-74. Moreover, the shares of income for the bottom 40 per cent and lower middle 40 per cent households have declined while those of the upper middle 15 per cent and top 5 per cent households have increased throughout the period 1973-74 and 1995-96.\textsuperscript{32}

The percentage of population below the poverty line I (2,122 calories per day/person) and poverty line II (1,805 calories per day/person) declined in both rural and urban areas during the period 1973-74–1991-92, but after 1991-92 the rural poverty declined and the urban poverty increased slightly. In mid-nineties nearly 50 per cent of the population remained below the poverty line I while over one-fourth of population were below the poverty line II in spite of the fact that various social safety net programs were undertaken by the NGOs and GOB. Because of the large population base, the increase in population every year is enormous. As a result, the number of people below the poverty line has been on increase over time although the percentage of population in poverty has been on decline.\textsuperscript{33}

The income inequality and poverty scenario have implications for economic well-being of Bangladesh. Many of the richer people belonging to traders, bureaucrats, politicians, rich farmers have access to state power

\textsuperscript{32} Shamsuddin Ahmad, "Economic and National Security: The Case of Bangladesh" (paper presented at Centre for Strategic and Peace Studies at CIDAP Auditorium, 10 April 1999).

\textsuperscript{33} Ibid.
directly and indirectly and use their influence for pro-aid policy of Bangladesh.\textsuperscript{34} And as highlighted by several studies, the most visible implication of the aid dependent economic strategy is the expanding and strengthening network of aid dependent elite which flourishes its exclusive position by trading poverty while in the end the masses of poor continue to grow poor.

In conclusion, therefore we can safely conclude that although foreign aid from US has contributed towards economic growth of country but qualitative and quantitative changes in poverty scenario is missing. Foreign aid from US has benefited a tiny minority of power elite in the absence of politico-administrative reforms, while large majority has remained alienated. And it has not helped to create or even generate the prospect of self-sustaining growth and development in Bangladesh economy.

\textbf{Bangladesh-US Trade and Investment Relations: A Shift from Aid and Assistance Relationship}

Trade is simply the exchange of goods and commodities. Trade between countries takes place to ensure supply of a country's need. Moreover, some countries may produce a surplus of certain goods and if these are not to be wasted they must be sold outside the country. The increasing industrialization and development of transport system has made international trade increasingly important. Industrial nations require raw

\textsuperscript{34} R. Sobhan, n.

144
materials for their factories. Much of this has to be imported from mainly developing countries with little industrialization where there are surpluses to spare. Similarly, the agricultural countries need machinery and manufactured goods. These are supplied by the industrial nations.

Being a superpower, US gives much attention to trade because its importance in foreign relations. US trade relations with the developing countries like Bangladesh is becoming increasingly important because of its vital interests – political, economic and strategic – in the third world countries. In fact, there has been a steady increase in US exports to and imports from the developing countries.35

However, though trade with the developing countries is important for the US, it is even more important for the developing countries like Bangladesh. Exports and imports from US have an important role in the domestic economy of Bangladesh.36

(1) Imports provide essential goods and commodities for domestic economy;

(2) Imports and exports generate revenue which are used for public expenditure;

(3) Trade supports rural and urban employment;

35 J. Biswas, n.3.
36 Ibid.
### Table-2

**Export to United States from Bangladesh**

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<tr>
<td>2. Fish, Shrimps &amp; Prawns</td>
<td>2.8</td>
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<td>5. Raw Jute</td>
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<td>1.9</td>
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<td>79.0</td>
<td>111.5</td>
<td>102.5</td>
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<tr>
<td>2. Fish, Shrimps &amp; Prawns</td>
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<td>4.8</td>
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<tr>
<td>3. Others</td>
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<td>3.4</td>
<td>7.5</td>
<td>14.8</td>
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<td>96.3</td>
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<td>5. Raw Jute</td>
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<td></td>
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<td>6. Others</td>
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<td>1035.0</td>
<td>1044.8</td>
<td>1522.9</td>
<td>1683.9</td>
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Table 3

Exports to the United States from Bangladesh

(Million US$)

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<td>1117.22</td>
<td>1442.88</td>
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<td>2. Knitwear</td>
<td>28.04</td>
<td>49.54</td>
<td>40.96</td>
<td>99.02</td>
<td>121.38</td>
<td>128.85</td>
<td>229.85</td>
<td>262.74</td>
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<td>3. Terry Towel</td>
<td>9.43</td>
<td>14.43</td>
<td>16.65</td>
<td>26.08</td>
<td>24.96</td>
<td>34.47</td>
<td>29.20</td>
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<tr>
<td>4. Frozen Fish and Shrimps</td>
<td>46.21</td>
<td>62.97</td>
<td>69.23</td>
<td>84.29</td>
<td>77.58</td>
<td>91.41</td>
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<td>18.92</td>
<td>13.71</td>
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<td>6. Ceramic Tableware</td>
<td>1.13</td>
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<td>2.51</td>
<td>3.64</td>
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<td>7. Leather</td>
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<td>0.98</td>
<td>0.96</td>
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<td>8. Tents</td>
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<td>10. Golf shaft</td>
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<td>0.00</td>
<td>5.56</td>
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<td>11. Fishing reel</td>
<td>0.00</td>
<td>0.00</td>
<td>0.89</td>
<td>4.79</td>
<td>8.76</td>
<td>7.84</td>
<td>11.11</td>
<td>NA</td>
</tr>
<tr>
<td>12. Specialized textile</td>
<td>1.84</td>
<td>1.84</td>
<td>1.97</td>
<td>0.00</td>
<td>3.79</td>
<td>7.43</td>
<td>11.84</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>673.82</td>
<td>822.51</td>
<td>734.82</td>
<td>1184.28</td>
<td>1197.54</td>
<td>1432.15</td>
<td>1929.21</td>
<td>1967.54</td>
</tr>
</tbody>
</table>

Source: Export Promotion Bureau
Note: Exports data is on Shipment basis
* Allocation not complete. Detailed data for some categories yet unavailable. Total is correct.
Bangladesh's export to US comprise both traditional and non-traditional items and over the years the latter has been playing an important role. In 1970's and in the first half of 1980's, traditional export items such as raw jute and jute products, leather products, tea, etc. accounted for more than four-fifths of the export receipts (Table-2). But their relative share has declined significantly now. Now items like RMG (Readymade Garments), knitwear, shrimps, terry towel accounts for the 90 per cent of the export to US. In recent years, the most important export item is Readymade Garments which consistently covers about 75 per cent of export earning. Other commodities, which have made consistently more than 5 per cent of total export earning during nineties, are knitwear and shrimp (Table-3).

Production of readymade garments for export to the US market has grown rapidly and now dominates Bangladesh export to US. Bangladesh is now fifth largest supplier of cotton apparel to the United States of America. Although the country began exporting garments in the early 1980's, this sector took off in the 1990's. Exports of RMG grew at a phenomenal rate since 1994 (Table-3). This phenomenal rise in export of readymade garments has helped Bangladesh economy significantly. About 1.5 million workers are presently employed in the 2,800 RMG factories, with attendant positive externalities in the form of increased economic activities in such areas as banking, insurance, transportation, real states, packaging and recycling, consumer goods and utility services. A rough estimate shows the sector, through linkage effects, currently generates about $2.0 billion worth of
domestic economic activities. For example, 80 per cent of garment accessories, accounting for about $0.5 billion, are now locally produced. Key to success to RMG is a relatively light load of government regulations, favourable provisions of customs, warehouses and financial support and arrangements.\footnote{Debapriya Bhattacharya and Mustafizur Rahman, \textit{Experience with Implementation of WTO-ATC and Implications for Bangladesh}, Centre for Policy Dialogues, p.1.}

After textile and knitwear, there are a mixture of exports of which frozen food (shrimp fish) has taken an important place.

Therefore, composition of export from Bangladesh to US has been changing from raw material export to manufactured goods but even today, it can be safely concluded that little diversification has been achieved. Total amount of export from Bangladesh to US has increased over the years. It has contributed to increase in share of export to US in relation to total export amount of Bangladesh. In 1977-78, amount of export to US was 16,839.17 thousand takka (Table-2). Tremendous rise has been witnessed during 1990's. In 1991-92 export value reached at 16,839.17 million taka. From there on, value of export is rising and export amount has reached up to 94,481.27 million taka. Share of export to US from Bangladesh's total export was 10.89 per cent in 1975. In 1985-86 its share was 20.68. In 1991-92 share of US's receipt from Bangladesh of total amount of export of Bangladesh 31.8 per cent and in 1997-98, 36.1 per cent (Table-3).
US is the most important export destination of Bangladesh. It is the largest foreign market for Bangladesh products. In future, Bangladesh has prospects for exporting other items to US market because of cost advantage. These may include canned food, hosiery and handloom products, packet tea, spices, jewelry, travel goods, etc. The nature and composition of imports into Bangladesh from US have significant implications for survival of the population, growth and development of the country. Being a developing economy and facing natural calamities regularly, Bangladesh depends on imports from US to meet its domestic requirements. The composition of imports from US have changed slightly over time. In 1970's and 1980's, major imports of Bangladesh were food grains and edible oils. In 1997-98, Bangladesh spent TK203 crore on import from US of which it spent 157.3 TK on food items – cereals and cereal preparations, vegetables, oils and fats. In recent years, there has been shift in the composition of imports from the US (Table-4). In the wake of globalization and increasing export of readymade garments from Bangladesh to the US import of fibers to meet export has increased. In 1970's and 1980's whereas share of fiber was negligible now it has become most important imported commodity. Relative share of import of cereals have declined due to improvement in agricultural productivity and production, yet commodities like chemical fertilizers are still important import commodity. In the wake of increasing industrialization and mechanization of Bangladesh imports from the US also concentrates on electrical machinery
### Table 4

**Exports from United States to Bangladesh**  
*(Commercial-Excludes Foreign Assistance)*

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cereals</td>
<td>13.62</td>
<td>41.18</td>
<td>15.14</td>
<td>58.47</td>
<td>79.27</td>
<td>16.13</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>2. Tobacco and manufactured tobacco substitutes</td>
<td>1.48</td>
<td>3.09</td>
<td>2.83</td>
<td>1.07</td>
<td>2.70</td>
<td>1.95</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>3. Mineral Products</td>
<td>13.50</td>
<td>16.09</td>
<td>0.18</td>
<td>2.89</td>
<td>1.74</td>
<td>20.91</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>4. Fertilizer</td>
<td>4.11</td>
<td>6.97</td>
<td>2.57</td>
<td>9.50</td>
<td>8.53</td>
<td>35.20</td>
<td>NA</td>
<td>33.50</td>
</tr>
<tr>
<td>5. Cotton</td>
<td>11.46</td>
<td>17.25</td>
<td>15.09</td>
<td>41.34</td>
<td>56.67</td>
<td>57.47</td>
<td>81.87</td>
<td>54.35</td>
</tr>
<tr>
<td>6. Man made staple fibres</td>
<td>0.51</td>
<td>2.70</td>
<td>2.36</td>
<td>2.48</td>
<td>3.72</td>
<td>9.76</td>
<td>4.77</td>
<td>2.98</td>
</tr>
<tr>
<td>7. Knitted or Crocheted fabrics</td>
<td>1.93</td>
<td>7.78</td>
<td>6.86</td>
<td>3.33</td>
<td>1.11</td>
<td>0.36</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8. Machinery etc.</td>
<td>9.61</td>
<td>14.79</td>
<td>18.72</td>
<td>32.77</td>
<td>42.68</td>
<td>46.65</td>
<td>42.67</td>
<td>49.54</td>
</tr>
<tr>
<td>9. Others</td>
<td>39.39</td>
<td>30.67</td>
<td>36.28</td>
<td>61.81</td>
<td>80.71</td>
<td>83.27</td>
<td>158.14</td>
<td>93.74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>95.62</td>
<td>140.52</td>
<td>100.01</td>
<td>213.66</td>
<td>277.13</td>
<td>271.69</td>
<td>287.46</td>
<td>234.10</td>
</tr>
</tbody>
</table>

Source: Communication from Bangladesh Bank  
Annual Import Payments, Bangladesh Bank, Various years.

* Allocation not complete. Detailed data for some categories yet unavailable. Total is correct.
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US Exports to Bangladesh (Private)</td>
<td>217.67</td>
<td>190.96</td>
<td>187.03</td>
<td>246.54</td>
<td>297.33</td>
<td>305.00</td>
<td>310.69</td>
<td>300.92</td>
</tr>
<tr>
<td>US Exports to Bangladesh (Private)</td>
<td>95.62</td>
<td>140.52</td>
<td>100.01</td>
<td>213.66</td>
<td>277.13</td>
<td>272.00</td>
<td>287.46</td>
<td>234.00</td>
</tr>
<tr>
<td>US Imports from Bangladesh</td>
<td>673.82</td>
<td>822.51</td>
<td>734.82</td>
<td>1184.28</td>
<td>1197.54</td>
<td>1432.15</td>
<td>1929.21</td>
<td>1967.54</td>
</tr>
<tr>
<td>Balance</td>
<td>-456.15</td>
<td>-631.55</td>
<td>-547.79</td>
<td>-937.74</td>
<td>-900.21</td>
<td>-1127.15</td>
<td>-1618.52</td>
<td>-1666.62</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank, Export Promotion Bureau
Note: US imports data is on shipment basis.
# Table 6

Bangladesh Balance of Payments with USA

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exports</td>
<td>296.68</td>
<td>661.30</td>
<td>1025.50</td>
<td>1016.77</td>
<td>1098.83</td>
<td>1419.01</td>
<td>1446.00</td>
</tr>
<tr>
<td>2. Service Receipts</td>
<td>164.31</td>
<td>167.25</td>
<td>179.83</td>
<td>114.72</td>
<td>134.52</td>
<td>185.50</td>
<td>355.00</td>
</tr>
<tr>
<td>3. Government</td>
<td>124.73</td>
<td>194.40</td>
<td>296.12</td>
<td>249.27</td>
<td>274.50</td>
<td>238.41</td>
<td>159.00</td>
</tr>
<tr>
<td>4. Private Transfers</td>
<td>122.25</td>
<td>134.75</td>
<td>180.82</td>
<td>202.45</td>
<td>271.85</td>
<td>218.13</td>
<td>356.00</td>
</tr>
<tr>
<td>Memo: Remittances</td>
<td>68.34</td>
<td>78.68</td>
<td>111.54</td>
<td>115.65</td>
<td>157.61</td>
<td>202.99</td>
<td>240.00</td>
</tr>
<tr>
<td>Total Earnings</td>
<td>727.98</td>
<td>1157.70</td>
<td>1682.26</td>
<td>1583.20</td>
<td>1779.70</td>
<td>2061.04</td>
<td>2316.00</td>
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<tr>
<td>5. Imports</td>
<td>190.96</td>
<td>187.03</td>
<td>246.54</td>
<td>297.33</td>
<td>305.00</td>
<td>310.69</td>
<td>301.00</td>
</tr>
<tr>
<td>6. Service Payments</td>
<td>112.65</td>
<td>149.88</td>
<td>166.24</td>
<td>197.11</td>
<td>178.62</td>
<td>166.23</td>
<td>183.00</td>
</tr>
<tr>
<td>7. Government</td>
<td>9.56</td>
<td>13.03</td>
<td>29.43</td>
<td>94.91</td>
<td>25.83</td>
<td>17.75</td>
<td>20.00</td>
</tr>
<tr>
<td>8. Private Transfers</td>
<td>0.49</td>
<td>0.98</td>
<td>0.40</td>
<td>1.52</td>
<td>1.05</td>
<td>0.57</td>
<td>2.00</td>
</tr>
<tr>
<td>Total Payments</td>
<td>313.64</td>
<td>350.90</td>
<td>442.61</td>
<td>590.87</td>
<td>510.50</td>
<td>495.25</td>
<td>506.00</td>
</tr>
<tr>
<td>Investment Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Earnings</td>
<td>22.99</td>
<td>44.78</td>
<td>72.29</td>
<td>54.77</td>
<td>27.87</td>
<td>72.70</td>
<td>66.00</td>
</tr>
<tr>
<td>Balance</td>
<td>11.45</td>
<td>30.25</td>
<td>61.89</td>
<td>38.52</td>
<td>1.10</td>
<td>39.38</td>
<td>23.00</td>
</tr>
<tr>
<td>Current Account</td>
<td>425.78</td>
<td>837.05</td>
<td>1301.54</td>
<td>1030.85</td>
<td>1270.29</td>
<td>1605.17</td>
<td>1833.00</td>
</tr>
<tr>
<td>11. Direct Investment-net</td>
<td>0.82</td>
<td>0.65</td>
<td>4.05</td>
<td>5.36</td>
<td>2.25</td>
<td>70.11</td>
<td>50.00</td>
</tr>
<tr>
<td>12. Portfolio Investment-net</td>
<td>0.61</td>
<td>39.08</td>
<td>23.88</td>
<td>-27.15</td>
<td>-94.00</td>
<td>-3.45</td>
<td>-5.00</td>
</tr>
<tr>
<td>Total Capital</td>
<td>-6.11</td>
<td>23.83</td>
<td>21.04</td>
<td>-43.58</td>
<td>-77.49</td>
<td>75.19</td>
<td>-72.00</td>
</tr>
<tr>
<td>Balance</td>
<td>419.67</td>
<td>860.88</td>
<td>1322.59</td>
<td>987.27</td>
<td>1192.80</td>
<td>1680.36</td>
<td>1761.00</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank

Note: Exports on Payment basis
and equipment and parts thereof, machinery and mechanical appliances, boilers, fertilizers and chemicals, etc.

The US export to Bangladesh is increasing but its share in relation to total import of Bangladesh is on decline. In 1973-74 whereas US contribution was 15.86 per cent, in 1980-81 it declined to 8.82 and in 1987-88 it declined to 7.23. In 1990's its share was only 5 per cent of total import of Bangladesh. In 1990-91 US export to Bangladesh was 180.87 million dollars, in 1995-96 the amount was 272.72 million dollars whereas in 1998-99 amount declined to 234.07 million dollars.

Most important feature of trade relations between Bangladesh and US is trade balance, which is in favour of Bangladesh. In recent years especially in 1990s, trade balance has increased significantly in favour of Bangladesh. In 1991-92 FY trade balance was 291.74 million dollars and it rose to 1,733.47 million dollars in 1998-99 (Table-5). This positive balance has increased due to export growth which overrides significantly over import growth. This favourable trade balance has helped Bangladesh to import essential goods and commodities from other countries, meet its foreign exchange gap and saving-investment gap, and development needs.

**Bangladesh-US Investment Relations: A New Beginning in Economic Cooperation in 1990s**

Foreign Direct Investment (FDI) is an emerging phenomenon in Bangladesh-US economic relations. Its significance has increased in the
wake of discovery of oil and natural gas and investment opportunities in energy, telecommunication and infrastructure in Bangladesh.

During pre-independence period, FDI in Bangladesh was insignificant due to exploitation and underdevelopment of Bangladesh (then East Pakistan) by Pakistan and dynamics and diversity of West Pakistan economy compared to Bangladesh.

The response of FDI investors of US during Mujib period was very poor. The commitment of the Mujib regime to socialism, large-scale nationalization and stress on public sector acted as a strong deterrent for FDI from US.  

This trend was continuing in next two regimes viz. Zia and Ershad. Though during Zia's period, a significant shift of policy towards foreign investment was witnessed and investment was permitted in ten sectors previously reserved for public sector, that could not attract FDI from US in large amount.

During Ersad regime slowly FDI from US was on increase. This was result of further gradual liberalization of economy for foreign investment. During this period investors forum on industrial bank were established. The

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39 Ibid.
Ershad regime directed its foreign economic policy towards convincing foreign investors. As a result slight improvement in FDI was witnessed.\(^{40}\)

In sum, during two decades (1971-81 and 1981-91) investment from US was not very significant. Though GOB initiated process of attracting FDI during three regimes but investors by and large held back. Non-economic reasons for low investment were political instability, hartals, sense of insecurity and inconsistent policy of Bangladesh towards FDI. The other important factors were overall underdeveloped conditions of the economy.

In 1991, Begum Khalida Zia's government was installed after elections. She took economic policy decisions in favour of FDI in Bangladesh. Though policy measures adopted by her government were attractive but soon Bangladesh witnessed rivalry and conflict between government and opposition parties. That political instability generated insecurity among FDI investors. As a result FDI could not gain momentum during Zia's period.\(^{41}\)

FDI from US America has gained momentum after 1996. As an estimate, till June 1996 total US investment in Bangladesh which was roughly estimated US 20 million dollars has sharply risen to US $750 million dollars in 1999. Therefore investment by US companies has increased sharply in the

\(^{40}\) Ibid.

\(^{41}\) *Investing in Bangladesh: A Guide to Opportunities* (Board of Investment, Prime Minister's Office).
past few years. It has happened because of investments in electricity generation, gas exploration and infrastructure building.  

A number of major US oil companies, namely Haliburton-Brown and Root, Occidental, Petroleum, Unolal, Mobil, Cherron, Enron, Smith, cogeneration international, the AES are already operating in Bangladesh. The Board of Investment registered private investment proposals from US totalling around US $4.5 billion. It is expected that the total investment by US oil and gas companies will amount to several billion US dollars over the next few years. Therefore, US investment has developed and added value to Bangladesh's extensive reserves of natural gas. It is known that economic use of natural gas requires very large downstream infrastructure development and technical expertise. To boost investment in energy sector Bangladesh Government has undertaken a program of reform of energy sector and is under various stages of implementation. The essential elements of reforms are:  

(a) Separation of owner operator and regulator of the industry establishment of an independent regulator;  
(b) Unbundling of the assets among generation, production, transmission and distribution;  


(c) Formation of the industry structure to promote efficiency and competition;

(d) Encourage environmentally responsible demand side management.

In response to such policy measures, a joint statement on cooperation in energy was signed in December 1998. This joint statement on cooperation.

In energy it started a new beginning in the direction of investment and cooperation in energy sector. Following this, a high powered energy delegation led by Mr. Calvin Humphrey, Acting Assistant Secretary for policy and international affairs of US Department of Energy visited Bangladesh in February 1999, to discuss with Bangladesh officials ways and means of developing power sector in Bangladesh. On conclusion of the visit the US side agreed to prepare an action plan to develop the energy sector in Bangladesh. The salient features of the arrangements are as follows:

(i) Exchange of energy market statistics;

(ii) Exchange of other related data and information concerning fuel characteristics, etc.

(iii) Exchange of information concerning statistical methods, analytical techniques and system documentation; and

(iv) Exchange of information about electronic information dissemination.

As a follow up of Mr. Calvin Humphrey's visit to Bangladesh in February a delegation came to Bangladesh to discuss in detail a draft. Action plan on
US-Bangladesh program for cooperation in clean energy was prepared by the US Department of Energy.

In return of such understanding and cooperation measures, the international companies have so far invested around $540 million in this sector. In 1999 Bangladesh achieved an additional investment of $150 million in energy sector. Some of the US investments in energy sector are: AES Haripur Private Ltd, NEPC Consortium Power Ltd, American International Investment in GSSA Bangladesh Ltd, AES Meghnaghat Ltd, Mobil Jamuna Lubricants Ltd and Holding and Management Inc.

US investment has also taken place in the Five Star hotels, seaports, airports, post container software development, cash car system etc.

Therefore under favourable trade and investment regime, relative political stability and democratic setup, Bangladesh has graduated as an attractive destination for FDI's from US for investment in industrial production (including consumer items), natural resources based and in the major service sectors e.g. roads and highways, ports, power generation, natural gas based industries, telecom, investment banking and others. As a result of FDI in above sectors of economy and macro economic indicators produce encouraging trends. The investment-GDP ratio increased from 11.5 per cent in fiscal year 1990-91 to over 18 per cent in fiscal year 1998-99. On the other
hand, domestic savings have increased from 11 per cent of GDP in fiscal year 1990-91 to over 14.29 per cent in fiscal year 1998-99.\textsuperscript{44}

Therefore it can be concluded that there are great potential for further trade and investment between the two countries. With cooperative behaviour on both sides one can expect that there will be major expansion in trade and investment in coming years.

\textsuperscript{44} Bangladesh Document, Ministry of Foreign Affairs, Government of Bangladesh, February 2000.