

## ***A PRELIMINARY ANALYSIS OF THE U.S. FOREIGN AID TO BANGLADESH***

*Anisul M. Islam, University of Houston-Downtown*

### **INTRODUCTION**

Bangladesh, located in South Asia, is one of the poorest countries in the world. According to the UNDP's 2002 Human Development report, the country has a large population (137 million in 2000) living in a small land area (55,000 sq. miles) and having a low annual per capita income of about U.S.\$350 (but about 1,602 in PPP adjusted dollars in 2000). Because of its precarious economic conditions, various donor countries and agencies have provided the country with substantial amounts of public foreign assistance since its independence in 1971. In some peak years, it received a sum of \$1,611 million in foreign aid, which constitutes about \$14 per capita and about 7% of its GDP (Islam, 1992). More importantly, foreign aid constitutes an extremely high proportion (about 90%) of the country's development budget in some peak years (Islam, 1992).

Bangladesh thus provides a test case for examining the role of foreign aid in promoting economic development in the context of a developing economy. The primary objectives of this preliminary study is examine the trend, composition, and future prospects of aid received from the U.S. *vis-à-vis* some other major aid donor countries such as Japan and Canada.

### **BANGLADESH-U.S. RELATIONSHIP: A BRIEF HISTORICAL BACKGROUND**

The issue of U.S. aid to Bangladesh has to be examined within the framework of Bangladesh-U.S. relationship. The relationship can be divided into three distinct periods: First: the Pre-independence Period; Second: The 1971 – 1975 Period; and third: the Post-1975 Period.

#### **The Pre-Independence Period**

Bangladesh received independence from Pakistan in 1971 through a bloody liberation war. Before its independence, Bangladesh was part of Pakistan and was known as East Pakistan from 1947 to 1971. During that period, the U.S. had a very friendly relationship with Pakistan including East Pakistan. However, when the liberation war began in the then East Pakistan to gain independence from Pakistan, the then U.S. administration headed by Nixon-Kissinger administration sided with Pakistan against the wishes and aspirations of the people of Bangladesh. This blind U.S. support for Pakistan can be partially attributed to the geopolitical and strategic interests of the U.S. in the context of the then prevailing Cold War. During that period, the U.S. was aligned with Pakistan to counter the Indo-USSR influence in the region, the latter supporting the liberation war of Bangladesh. The U.S. administration went to the extent of openly opposing the creation of independent Bangladesh. In doing so, the U.S. gave arms and ammunition to Pakistan, provided diplomatic and political support for Pakistan in the U.N. and other international forums, and even went to the extent of sending nuclear-

armed warships (the 6<sup>th</sup> fleet) to the Indian Ocean to intimidate India and the USSR, which supported the Bangladesh liberation movement.

### **The 1971 – 1975 Period**

In spite of the U.S. support for Pakistan, Bangladesh finally achieved its independence in 1971. Naturally, because of these events, the relationship between the U.S. and Bangladesh began extreme ‘hostility’ towards each other during the early 1970’s. This hostile relationship continued up until 1975, even though the U.S. officially recognized the existence of Bangladesh as an independent nation in 1972 and it made some gestures to ease tensions and improve relationship with the administration in Bangladesh. The then Bangladesh administration headed by Sheikh Mujibur Rahman and his ruling Awami League party viewed these U.S. gestures with a great deal of suspicion and apprehension. As a result, the relationship did not improve on a substantial scale.

### **The Post-1975 Period**

The relationship between Bangladesh and the U.S. changed dramatically in 1975 after a bloody military coup in which Mujibur Rahman, the then head of the government, and many of his family members and followers were killed and a new administration headed by Khondoker Mushtaque Ahmed took over power. Since then, every successive governments including the Zia Regime, the Ershad regime, the Khaleda regime, the Hasina regime, and the current Khaleda regime in Bangladesh has maintained a very friendly and cordial relationship with the U.S. Thus, it appears that the Bangladesh-U.S. relationship has evolved over time from a state of ‘friendship’ to ‘hostility’ and then to ‘friendship’ from the pre-independence period to the current time period. It is also expected that the current friendly relationship will continue in the future.

## **MOTIVES FOR AID**

### **The Recipient Perspectives**

Motives for aid can be discussed from two perspectives: Donor motives and the Recipient motives. The recipient perspectives are discussed first. There could be a number of motives at work here, some being economic reasons and others being non-economic reasons. Firstly, foreign aid may be desired to promote economic growth of a country. To achieve this lofty goal, the country needs to mobilize sufficient domestic savings to achieve a target rate of growth. However, Bangladesh faces serious deficiency in this respect. This deficiency is known as the domestic savings gap, which is measured by the difference between domestic savings ratio and the domestic investment ratio. For Bangladesh, this gap has remained quite high over the years (Islam, 1999). Note that the savings ratio has remained quite low since independence. As a result, it is argued that foreign resources may complement this acute savings gap.

Secondly, another major resource gap is the foreign exchange gap (also known as the trade gap), which can be measured by the difference between the import ratio and the export ratio. The import ratio remained consistently at a much higher level than the export ratio for all the years since 1972 (Islam, 1999).

It is argued that foreign resources can complement this resource gap as well.

Thirdly, Bangladesh lags behind most other countries in terms of access to modern technology and know-how. A foreign aid program can be designed to mitigate this severe growth-inhibiting problem. Fourthly, a country may seek foreign assistance in

terms to knowledge, expertise, managerial, and marketing skills in order to help the country to explore, extract, process, and market its natural resources such as petroleum, coal, and natural gas, etc. Fifthly, Bangladesh needs foreign resources to deal with natural and other calamities such as recurring floods, cyclones, tidal waves, famine, hunger, malnutrition, and disease. Sixthly, a country may seek aid from a donor country to protect and secure its own country from some external threats from any neighboring countries. Finally, the political, bureaucratic, and military establishment of a country may seek foreign assistance to maintain their grip on power and to promote their own 'self-interest', i.e. to promote their own narrow personal well-being by using various corrupt practices in using and allocating aid resources.

### **The Donor Perspectives**

There could be a number of motives for a donor country to give aid. A few of them are mentioned below. Firstly, there could be a purely humanitarian motive involved. A donor country may give aid to Bangladesh to deal with different natural calamities facing the country such as flood, cyclone, tidal waves, famine, hunger, malnutrition, and disease, among others. A donor country may give food or other items as aid to deal with such human catastrophes. Secondly, a donor country may take a genuine interest on the help a poorer recipient country to achieve economic development. For this purpose, a donor country may provide food aid, commodity aid, project aid, and to provide assistance towards technology transfer. In this regard, a donor country may also use aid as a tool to pressure the recipient governments to adopt and promote healthy economic policies for the country. These two motives can be considered as 'altruistic' motives for giving aid.

Thirdly, a donor may help a recipient country with the purpose of promoting its own self-interest such as to advance its own geopolitical, strategic, and military interests. In this context, a donor country may also give aid to support and maintain an oppressive and autocratic/dictatorial regimes, which are friendly to the policies pursued by the donor country. Examples may include military aid and or aid to combat terrorism. Fourthly, a donor country may be motivated to give aid to a recipient country purely to promote its own economic interests abroad. For example, foreign aid can be given to a country, which is interested to buy good and services from the donor country or to allow the donor country citizens and businesses to have easier access to various natural or other resources of the recipient country. Fifthly, a donor may be motivated to give aid to a country in order to secure political and diplomatic support from the recipient country towards the policies of the donor country in the international forums. These last three motives can be considered as the donor pursuing its own 'self-interest' through its foreign aid program. In other words, the donor is using foreign aid an instrument to promote its own foreign policy.

### **THE U.S. AID TO BANGLADESH: TREND AND COMPOSITION**

During the initial years after independence, Bangladesh received foreign aid from only a handful of countries and international agencies including the U.S. Later, it has successfully diversified its aid sources. Figure 1 shows the trend in U.S. aid to Bangladesh in relation to total aid disbursed to the country from all donor sources combined. Although the relationship between Bangladesh and the U.S. was hostile during the early 1970's in the aftermath of the country's independence, the amount of U.S. aid to Bangladesh slowly increased. The amount of U.S. aid significantly increased immediately

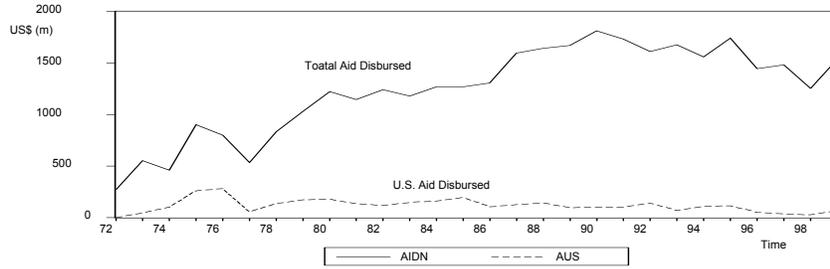
after the 1975 military coup, which resulted in a pro-western and pro-U.S. government in Bangladesh. The amount of aid reached from the U.S. reached its peak in 1976, but the aid amount started to decline since then. This trend continued up until recent years. It is also observed from Figure 1 that the U.S. aid followed a consistent path of decline even though the total aid disbursed to the country was increasing at least up until 1990. From this time period, however, the total aid started to decline as well. It thus appears that the share of U.S. aid relative to aid disbursed to Bangladesh went down steadily since 1976. As a result, Bangladesh has become more dependent on aid from sources other than the U.S.

From Figure 2, it is obvious that Japan has replaced the U.S. as the largest aid donor country since 1986 (Fig. 1). Japan's share in total aid (shown by SJAP in Fig. 1) has increased from a meager 2.7% in 1973 to 18.5% in 1990. On the other hand, the U.S. was the largest donor country up until 1979 (see SUSA in Fig. 1). Reaching a peak in 1976 (35% of total aid), the U.S. share declined significantly to about 8.0 % in 1986, making it the second ranking donor country. Its share continued to decline further, and by 1989, with a share of 5.5%, her ranking declined to the third position after Canada. The aid share from Canada has increased from a low of 2.7% in 1972 to a recent high of 5.7% in 1990, slightly over the U.S. share for this year (Islam, 1999).

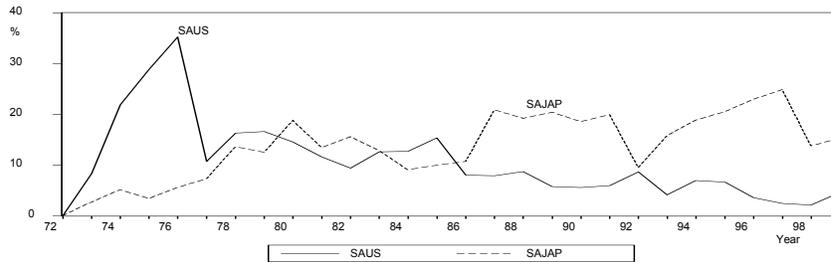
Figure 3 shows the trend in U.S. aid in the form of loans versus grants. This figure shows that the loans took the dominant form of U.S. aid between the time periods 1975 to 1979. After 1979, however, grants became the dominant form of aid from the U.S. As a matter of fact, loans have virtually disappeared from the portfolio of U.S. aid to Bangladesh since 1990.

Figure 4 gives the breakdown of U.S. to Bangladesh into three categories: food, commodity, and project aid. Historically, the U.S. aid package have been dominated by food aid compared to the other two types of aid. This phenomenon can be explained by the fact that Bangladesh has been a food

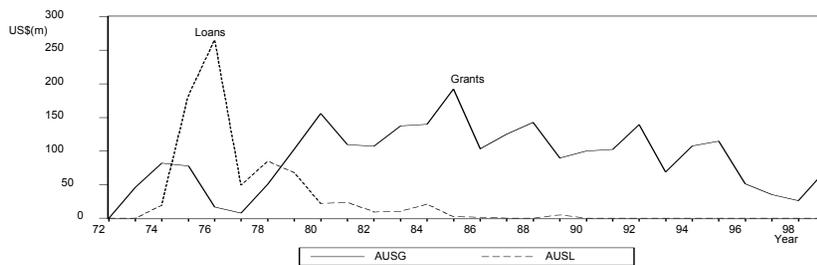
**Figure 1: Foreign Aid from the U.S.: 1971 - 2000**



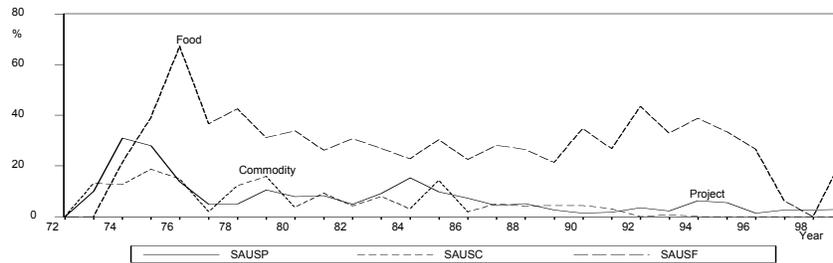
**Figure 2: Share of Foreign Aid: U.S. versus Japan: 1971 - 2000**



**Figure 3: U.S. Foreign Aid: Grants versus Loans: 1971 - 2000**



**Figure 4: U.S. Foreign Aid by Type of Aid: 1971 - 2000**



deficient country since its independence and, therefore, relied heavily on food aid from the U.S. It is to be noted here that the amount of food aid along with other categories of aid has declined over the years. The reduction in the dependence on food aid has been possible due to increased food production and supply from within the country. Bangladesh needs more commodity and project aid to promote industrialization. However, these two categories of aid significantly declined over the years, with project aid from the U.S. virtually disappearing in recent years.

#### **THE U.S. AID CLIMATE**

As it appears from the previous discussion, the magnitude and the relative share of U.S. aid to Bangladesh has declined consistently over the years. One may wonder what could be possible reasons for this trend. One major reason is the dramatic changes that have taken place over the last few decades in the U.S. aid climate. There was strong support for the U.S. foreign aid program during the 1950's, 1960's, and even during the 1970's. This support came from economists, political leaders, policy makers, and think tanks with liberal ideological orientation. However, this support has weakened significantly during 1980's due to growing disenchantment and opposition to this program. The opposition came from some other economists, political leaders, policy makers, and think tanks with conservative ideological orientation. Because of these attacks, public opinion in the U.S. has also shifted somewhat against the U.S. overseas aid program. As a result, the overall U.S. annual aid budget appropriated by the U.S. Congress has dwindled over the years. It is not surprising, therefore, those countries as Bangladesh has been receiving less and less foreign aid from the U.S.

## **CONCLUSION**

It was clear from previous analysis that the magnitude of U.S. to Bangladesh is on a steady decline. It was also observed that the composition of U.S. to Bangladesh has also changed over the years. Bangladesh is not receiving many loans. Similarly, it is not receiving much project aid either. The country is still receiving food and commodity aid, mostly in the form of grants. As the U.S. aid climate continues to deteriorate further, the prospects of getting more U.S. aid to Bangladesh seems very unlikely. As a result, if the country wants to attract more foreign aid, it needs to look elsewhere, i.e. from other donor countries and agencies.

However, there are a number of areas where there could be strong mutual interdependence between Bangladesh and U.S. such as exports, imports, foreign aid, foreign investments, technology transfers, labor migration, natural gas explorations, participation of Bangladesh in U.S. led U.N. missions, U.S. war on terrorism, to name a few. If Bangladesh can utilize these issues to its own favor, it can attract more foreign direct investment from the U.S. Further, with the backing of the U.S., Bangladesh can obtain more aid from various international organizations such as the I.M.F., and the World bank. These can definitely help Bangladesh complement various resource gaps, even though official foreign aid from the U.S. would be dwindling. Increased trade opportunities with the U.S. and increased labor migration to the U.S. with concomitant remittances, additional resources could be generated to mitigate various resource shortfalls facing the country.

## **REFERENCES**

- Islam, A. (1992), "Foreign Aid and Economic Growth: An Empirical Study of Bangladesh", **Applied Economics**, 24, May pp. 541-544.
- Islam, A. (1999), "Foreign Assistance and Development in Bangladesh", in Gupta, K.L. (ed), *Foreign Aid: New Perspectives*, Kluwer Academic Publishers, Boston/Dordrecht/London, ch. 12, pp. 211 – 231.
- United Nations Development Program (2002), *Human Development report*, United Nations, New York.

