Bangladesh Economy

Financial constraints hit urgent investment

by Paul Zykofsky

Aside from a few small factories on the outskirts of Dacca, the capital, the entire country of Bangladesh is a vast stretch of green fields—mostly paddy fields—interrupted by occasional large rivers, irrigation canals, and small groves of trees where villages are located.

Agriculture is indeed the mainstay of the Bangladeshi economy, accounting for 55 percent of Gross Domestic Product and employing approximately three-fourths of the total labor force. Eighty-five percent of the population still lives in the rural sector.

However, Bangladesh's agricultural potential is still far from being realized. At present approximately 15 million tons of food grains, primarily rice and an increasing amount of wheat, are grown every year. But the yields per acre, which average half a ton, are among the lowest in the world. The reasons are straightforward: lack of proper irrigation facilities and fertiziler.

While abundant rain falls on Bangladesh and flows through its numerous rivers, including the Ganges, Brahmaputra, and Meghna rivers—estimated to total over one billion acre feet—the flow is concentrated in the monsoon period. Half the year is virtually dry. Only by building water storage facilities and increasing electrical capacity for pumping groundwater can this problem be overcome.

At present, out of a total cultivated land area of 22.4 million acres, irrigation capacity is about 4.5 million acres and reportedly only about 3 million acres are actually irrigated. Furthermore, with installed power capacity in the country at a low 750 megawatts, only 7 percent is used for irrigation based on groundwater pumping. In areas where irrigation facilities have been improved, as in the eastern Comilla district I visited, yields have increased rapidly to close to 3 tons per acre and employment has also increased substantially, given the capability to grow 2 to 3 crops per year.

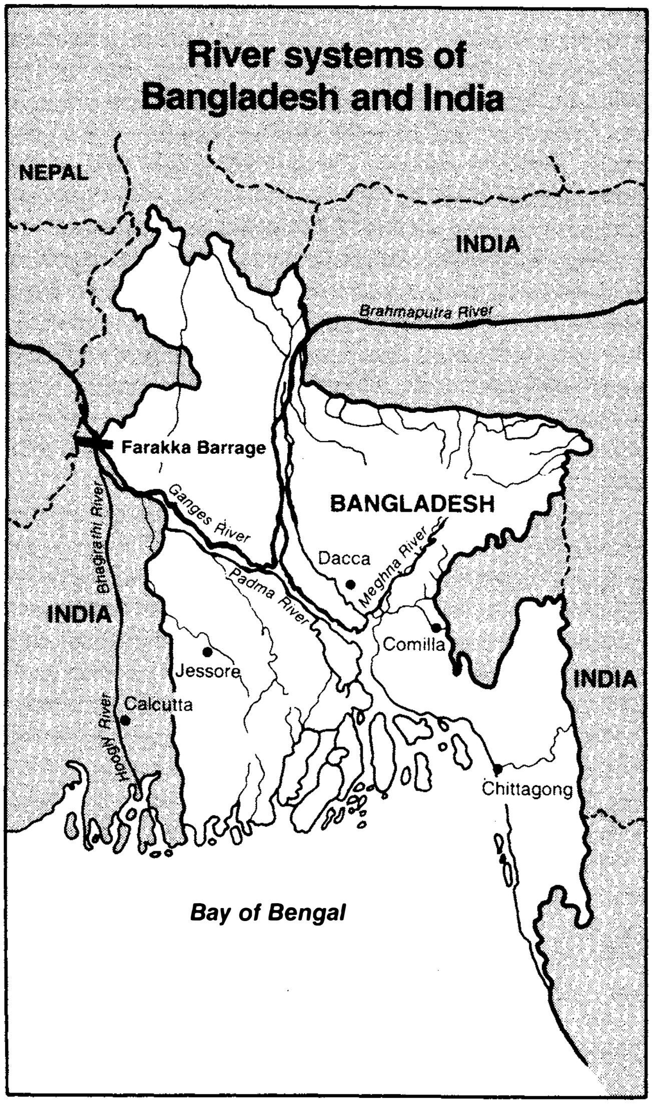
The precarious nature of Bangladesh's food production, however, is shown by the situation this year. After achieving record food grain production of 15 million tons during fiscal 1980-81, the government had set a target of 16.2 million tons for 1981-82. However, due to pest attacks and drought, food grain production this year is expected to reach only 14.5 million tons. The resulting shortfall of 2.1 million tons will have to be filled with food stocks and imports if Bangladesh is to avert a famine.

Growing rumors of possible food shortages, spurred by a 100 percent increase in the price of rice during January, compelled the Food Minister to issue a statement in early February assuring the country that food needs would be met.

According to government figures the 2.1 million-ton shortfall will be met from stocks of 1.23 million tons and food aid of 1.1 million tons. However, some observers report that food stocks are in fact only 0.8 million tons and that aid disbursements may be lower—in which case famine will result in some areas.

Resource constraints

Bangladesh exemplifies the way in which the deep-



ening crisis in the international economy leads to genocidal conditions in the developing nations. Aside from the danger of food shortages, Bangladesh, which relies on foreign grants and loans for 64 percent of its development budget, is being severely affected by the drying up of aid monies and by the collapse of markets for its exports.

The International Monetary Fund was the first to put the squeeze on Bangladesh. Last July it stopped disbursement on a three-year $936 million dollar (800 million Special Drawing Rights) loan from the Extended Fund Facility because of increased government spending and the continuation of various commodity subsidies, primarily on food and fertilizers. Only $270 million had been disbursed when the loan was cut off and no progress seems to have been made following negotiations with an IMF delegation which visited Bangladesh in November 1981. Because of the loan cutoff Bangladesh was forced to borrow $200 million on the international money markets at commercial interest rates of 15-16 percent instead of the 3 percent charged by the IMF, and further commercial borrowings are expected.

The situation has been compounded by a slowing down in the disbursement of foreign aid due to the general deterioration in the aid climate. While the government had expected to receive $1.7 billion in foreign grants and loans—compared to $1.3 billion last year—this amount has not materialized. The slowing down of foreign aid used to finance basic imports has in turn lowered government revenues, 70 percent of which are generated from customs duties, excise taxes, and other revenues associated with foreign trade.

Government revenues have also been affected by the collapse in the international price of, and demand for, Bangladesh's largest export item—raw jute and jute products (used for carpet backing and sacking), which account for close to 70 percent of total exports. In 1981, for example, the average unit price of Bangladesh's exports declined by 13 percent. Simultaneously the average unit price of imports was up 19 percent, so that despite a marginal $18 million dollar increase in Bangladesh's import bill to a total of $2.55 billion, net imports sank.

As a result of all these resource constraints, the government has reportedly been forced to cut back this year's annual development program by about 10 percent. If the IMF does not resume disbursement of the $936 million loan soon, the government may have to cut back even further.

In the longer term, government officials I spoke to outlined how the lack of financial resources had forced them to scale down many of their development plans. The original 1980-85 plan envisioned a 7 percent annual rate of growth requiring $17 billion dollars over the five-year period. But as a result of resource constraints, targets are being reduced by about 15 percent. In the crucial area of irrigation, officials noted that emphasis had shifted away from "more desirable" large projects toward small and medium ones. As a result the Five-Year Plan target of producing 20 million tons of food grain by 1985 will not be reached. Plans to augment installed power-generating capacity from the current 750 megawatts to 1,030 megawatts by 1985 have also been scaled down.

Natural gas resources

The discovery of large despoits of natural gas in the eastern part of the country can provide an impetus for Bangladesh's development. At present, gas reserves are estimated at 10 to 11 trillion cubic feet, although government officials indicate that this is a "rough and conservative" figure. Power stations east of the Brahmaputra River have been converted to use gas, but it will take some time before this energy source can be used in the western part of the country, because there is no bridge across this mighty river. Plans are under way to build gas-based power stations on the eastern bank of the Brahmaputra and transfer energy to the western part of the country with large high-voltage towers spanning the river. This will help reduce Bangladesh's dependence of foreign oil imports, which currently eat up 60 percent of export earning.

Gas is also being used as a feedstock for fertilizer production, and three major foreign investment projects have been approved which will use gas in the production of urea fertilizer, methanol, and sponge iron.

Although at present industry only accounts for 8.4 percent of GDP, the government has tried to promote growth in this sector and to attract foreign investment. Most large industrial projects involve foreign partners or investors, primarily from the United States, Europe, and Japan. The five-year plan envisions industrial investment totaling $1.32 billion, with foreign investment making up more than half of that. A foreign investors' forum held in Dacca in January with the help of UNIDO drew about 100 foreign businessmen from around the world.

However, the assassination of President Ziaur Rahman and the political instability which has followed it, have had an effect on foreign investors, and some projects have been postponed. A Japanese diplomat indicated to me that businessmen in Japan—which last year became the largest aid donor to Bangladesh—are watching the situation carefully and will suspend any major new investments until they are confident that there is a stable government in office which is committed to economic development.