# Dead end for Bangladesh's donor-dependent economy

by Ramtanu Maitra

Political agitations which paralyzed the Bangladesh capital of Dhaka this September should not be dismissed as yet another expression of irrational rage by students trying to steal the political limelight. Behind these more frequent outbursts of discontent is the people's disenchantment with the ever-weakening economy and a resulting deep sense of hopelessness. Unless real efforts are made to formulate and implement long-term programs, bucking the might of the donor countries and agencies—whose aid includes grants and credits—Bangladesh could plunge into total chaos. Dhaka must recognize now that the policies laid down by the donor agencies and international financial institutions are heading the country to a new form of slavery.

After changing a military ruler, Gen. H.M. Ershad, and giving public exposure to allegations of his corrupt practices, the nation went to the polls last year and elected a democratic government under the leadership of Begum Khaleda Zia, wife of a former President who came to power through a military coup. But the change in power has not changed Bangladesh's prospects.

Over the years, various governments have focused on only one task: feeding the population. Bangladesh leaders, not unlike the leaders of neighboring China, came to the conclusion that the way to stay in power is to keep the "iron rice bowl" intact. As a result, foreign aid and grants were used to import food.

This dependency has in turn seriously eroded Bangladesh's independent policymaking and the credibility of its political system.

At the same time, the world has relegated Bangladesh to the permanent status of an aid-dependent country. In fact, praise has been heaped upon successive Bangladesh governments by such agencies as the Asian Development Bank and the World Bank, for its policies of economic liberalization. Meanwhile, the depleted infrastructure of the country, the continuing infancy of its industrial sector, and the growing signs of a stagnating agriculture have pushed the poor to despair and millions are trying to flee the country as their only hope of survival.

Bangladesh has thus become a crisis for the entire region, and it is only in the regional context that Bangladesh's problems can begin to be solved. Even before any regional opportunities can be realized, however, the policies of the International Monetary Fund (IMF), the World Bank, and like

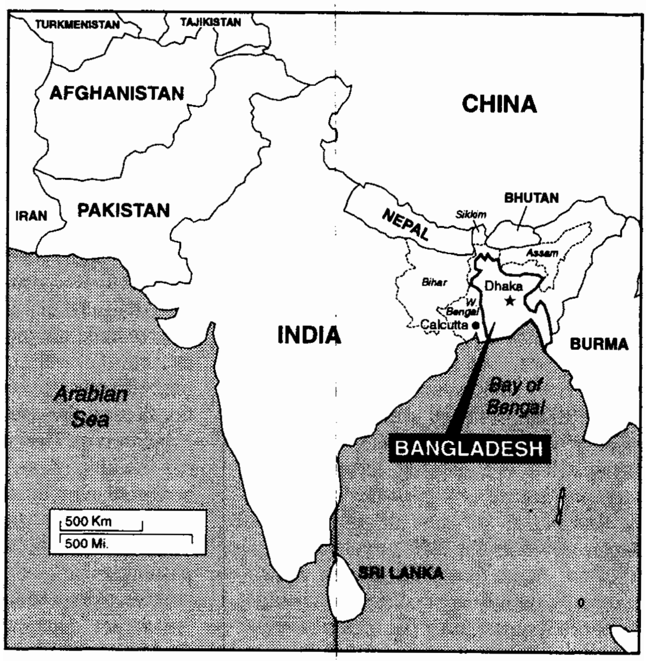
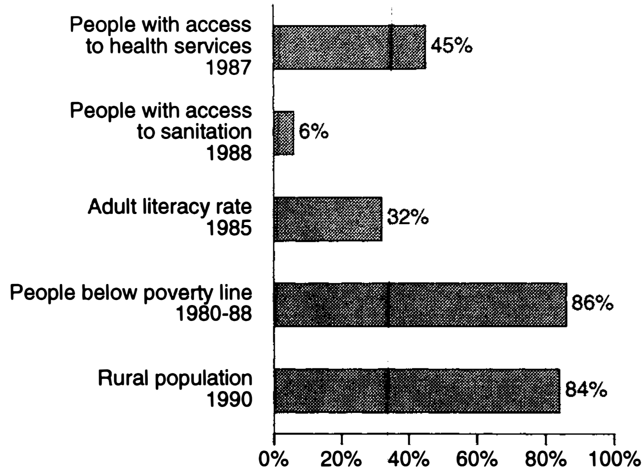


TABLE 1
**Bangladesh: basic indicators**

| Indicator | Year | Amount |
|---|---|---|
| Population | 1990 | 115.6 million |
| Land area | | 14.4 million hectares |
| Arable land | | 13.0 million hectares |
| Life expectancy | 1990 | 51.8 years |
| Children dying before age 5 | 1990 | 0.88 million |
| Malnourished children under age 5 | 1990 | 13.5 million |
| Children not in primary school | | 21.3 million |
| Under 5 mortality rate per 1,000 births | 1989 | 184 |
| Population per doctor | 1984 | 6,730 |
| Population per nurse | 1984 | 8,980 |
| Primary pupils per teacher | 1988 | 60 |

Sources: U.N. Human Development Report, 1991; Bangladesh Basic Information, 1992.

FIGURE 1
**Poverty in Bangladesh**
(percent of total population)




Sources: U.N. Human Development Report, 1991; Bangladesh Basic Information, 1992.

agencies, to systematically deny the means of development to nations such as Bangladesh, must be totally reversed. Bangladesh requires massive capital inputs, at the very least, in order to tap its tremendous agricultural potential and create the infrastructure that might be able to support its population and industrial development (see **Table 1** and **Figure 1** for the lack thereof).

Even so, among underdeveloped nations, aside from the post-Bretton Woods policies of the IMF, etc., Bangladesh has been hamstrung by the legacy of British colonialism. Bangladesh was originally the eastern section of the Indian state of Bengal. Aside from sharing the same language, the western and eastern components of Bengal represented a powerful economic potential in both agriculture and industry. In 1905, Bengal was divided by the British, ostensibly for communal reasons. Again, in 1947, Bangladesh was separated out of India as East Pakistan. For the British colonialists, the plan was to separate the agricultural lands of East Bengal from the industrial hub of West Bengal. Jute processing, for example, was set up in the British days in West Bengal, a part of India, while the jute was grown in East Pakistan. Beside choking the jute mills in India and affecting employment in West Bengal, the way was paved for capitalists from West Pakistan to come in and take over the jute industry from a distance of 1,000 miles.

While Bangladesh lacks mineral reserves, the adjoining Indian states of Bihar and West Bengal possess more than 60% of the subcontinent's coal, iron ore, and manganese reserves, besides such valuable ores as copper and uranium. On the eastern side, the Indian state of Assam is endowed with oil and various other mineral ores. Moreover, West Bengal was the hub of India's engineering industry, besides having Calcutta as a port, during the British days. Bihar mines were already opened and developed, serving the entire nation. By separating East Pakistan from this nexus of industrial potential, the British rulers had consciously created an agrarian country with a significant size of population. This is the source of its extreme dependency today.

## Government offers free trade

Under these conditions, the policies now touted by the Bangladesh elite represent a path to national suicide.

On June 18, Bangladesh Finance Minister Saifur Rahman presented the annual budget on behalf of the ruling Bangladesh Nationalist Party. The estimated budget deficit for the current fiscal year is taka 77.23 billion (39 taka=$1), and the government hopes that taka 62.1 billion of the deficit will be met through foreign assistance and the balance will be raised from new domestic sources gained by new taxes and budget cuts.

Saifur assured the Parliament that the government's economic policy is aimed at providing basic needs to the poor, creating more opportunities for people to develop their skills, and building an efficient and welfare-oriented economy.

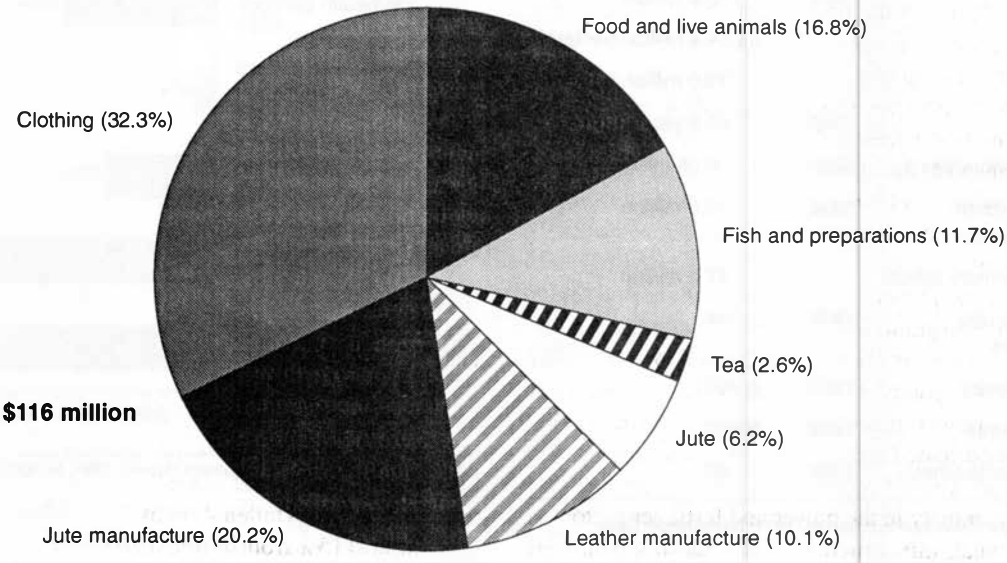
After mouthing this litany, Saifur put on his IMF-World Bank cloak. Pleading for an export-led growth strategy, he argued that such a strategy coupled with a liberal competitive economy and minimization of bureaucratic control would all lead to development.

He also warned his countrymen, 99 million of whom are living below the poverty line, "We have to bear in mind that there is no reform process without pain. All of us, including

FIGURE 2

**Distribution of Bangladesh's foreign trade**

(percent of total foreign trade)




Source: Bureau of Manpower, Employment and Training.

the industrial entrepreneurs, will have to respond to this challenge by increasing efficiency." He also promised that steps would be taken to remove the existing high tariff wall and other administrative barriers to free trade.

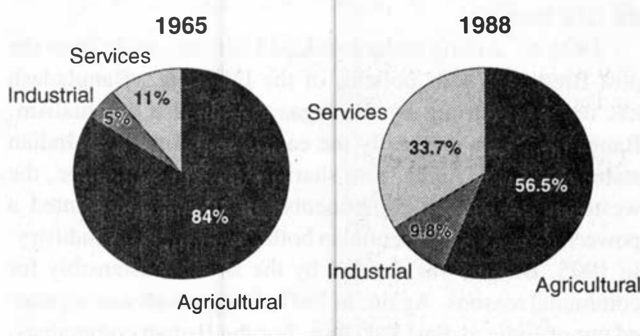
Saifur's speech did not reflect the reality of Bangladesh's economy. Only a few weeks after the speech, an advertisement appeared in a Bangladeshi newspaper: "Urgent. Investors wanted. Nationalized banks and financial institutions prepared to fund industrial projects on an emergency basis."

The lack of law and order in Bangladesh has prevented investors from risking their money. Bangladeshi banks are also having difficulties getting their money back from large borrowers, most of whom are politically connected. The bad debt situation had earlier forced the banks to deny large borrowers new loans unless old loans are paid back.

In short, the finance minister's export-led growth strategy has few takers. The country's export base continues to be dominated by agro-products (**Figure 2**). In 1985, when Bangladesh's total export was $1.0 billion, raw jute and jute products accounted for more than 60% of total exports. In 1989, the exports rose to $1.2 billion, while the contribution of jute and jute products dropped to 35%. However, the so-called non-traditional products that now dominate the export scene are also agro-based. Garments, tea, and leather, along with jute and jute products, constitute 85% of total exports. Even if exports are boosted, Bangladesh will be shipping out more agricultural products, made usable through application of low-technology and high-intensity manual labor and sold at

FIGURE 3

**Distribution of labor force**




Source: U.N. Development Program.

cut-throat prices in the coming years—a prescription for the continuing impoverishment of the Bangladeshi population.

Sadly, one of Bangladesh's biggest export items is labor, which goes abroad in order to support families with the remittances which are sent home.

## Weak infrastructure

A glance at Bangladesh's infrastructure shows why, despite large infusions of foreign assistance, Bangladesh has remained an agriculture-based nation (**Figure 3**).

Bangladesh's railroads consist of 2,818 kilometers of track, most of which is single line and narrow gauge. Almost the entire northeast has remained without railroads. For 13 years, Bangladesh has not built a single railroad. Instead, the money has been spent on building roads in a country which imports 80% of its crude oil. Donor agencies and countries, whose money was used to build these roads, influence the decision against rail-building.

Endowed with a weblike network of rivers, Bangladesh has some inland water transport. But inadequate water management has turned most of these rivers to dry drains during the summer and into overflowing, uncontrollable water-carriers during the monsoon season. Lack of attention in making inland water transport, the cheapest form of bulk transportation, a fast-growing infrastructural asset is another sign of successive governments' disassociation from problems of the physical economy.

The scene in the power sector is equally bleak. Heavily dependent on foreign grants in this sector, Bangladesh's present generation capacity is about 2,200 megawatts (MW), of which 1,864 MW capacity is located in the East Zone. Most of the country's power generation comes from natural gas. Bangladesh has estimated reserves of 15 trillion cubic meters of natural gas, of which 500 million cubic meters is being consumed daily, mostly in the power and fertilizer sectors.

With such weak infrastructure, Bangladesh's industrial sector continues in a nascent state. With only 9.8% of its labor force involved in the industrial sector, Bangladesh's industrial output is mostly related to agro-products directed for exports.

On the other hand, the service sector in Bangladesh has skyrocketed. This is due to policy influence from the donor agencies, which have pushed investment into private road transport, and public sector investments in health, education, and social services. Most of these service jobs are low-paying and act to perpetuate poverty.

## Agricultural success

However, for all this, Bangladesh remains an independent country because of its success during the 1980s in agricultural production. This sector alone provides 50% of the GNP, absorbs 75% of the labor force—if agro-product manufacturing is taken into account—and earns more than 50% of total export earnings.

Bangladesh is primarily a rice-growing country with about 13 million hectares (32 million acres) under cultivation. Rice is grown on 68% of cropped areas, yielding about 18 million tons of rice. Jute takes up 24% of cultivated land, while wheat is grown on 4% of the cultivated land.

In the 1980s, defying natural calamities, Bangladesh did achieve a significant growth rate in foodgrain production. Bangladesh's aggregate rice production grew from 15.7 million tons in 1980-81 to 18 million tons in 1990-91. However, due to lack of inputs, the rate of foodgrain production never caught up with population growth, and Bangladesh imported cereals throughout. In 1976, Bangladesh had imported 1.87 million tons and in 1990, imports stood at 1.73 million tons.

TABLE 2

**Outside foreign debt, by donor, as of June 1990**

(millions $)

| Donor | Debt |
|---|---|
| Belgium | $ 47.31 |
| France | 141.62 |
| Japan | 2,625.08 |
| Switzerland | 6.08 |
| United States | 782.16 |
| OECD total | 3,602.26 |
| OPEC | 265.25 |
| International agencies | 5,594.98 |
| Planned economies | 253.20 |
| Others | 93.69 |
| **Total debt** | **$9,809.40** |

Source: Bureau of Manpower, Employment and Training.

But the successes of the last decade have not been maintained. The government's target to produce 20 million tons of rice in 1991-92 has fallen short by 10%. Wheat production has fallen almost 15% from its mid-1980s high of 1.1 million tons.

With little irrigation available during the dry season and shortage of drainage when the rain swamps the country, Bangladesh's food production has remained enslaved to the vagaries of rainfall. Unless a productivity breakthrough is achieved, the country's dependency on foreign food will surely increase. Inadequate water management has allowed the rivers to silt heavily, causing increasing drainage problems and pre-harvest crop losses.

## The dependent economy

Bangladesh's weak infrastructure and pressures in the wrong direction coming from donor agencies have taken their toll. Even with substantial foreign aid and grants, Bangladesh has acquired a debt of $12.3 billion, 55% of its GNP. In 1980, Bangladesh's external debt was $4.1 billion.

Debt service payments of $350 million annually account for 22% of Bangladesh's total export earnings. What is pushing Bangladesh into a bottomless pit is its perpetual deficit in balance of payments in its external trade account. In 1989-90, the deficit was $2.24 billion; in 1990-91, the deficit fell to $1.75 billion, and the estimated deficit in 1991-92 was $1.51 billion. Bangladesh's trade deficit and debt payments together exceed the total export earnings of 1990-91.

Within the usurious framework of the IMF, Bangladesh can only improve its external account deficit by squeezing imports. Since about 50% of imports are caused by food and fuel imports, this squeeze will only exacerbate the economic crisis and will be politically unacceptable.

Bangladesh has become more and more dependent on foreign aid and grants over the years. On April 23, a World Bank-led aid consortium meeting in Paris had pledged $2.2 billion, which is more than Bangladesh's total annual export earning, in fresh aid and grants for the fiscal year beginning in July. This amount is in addition to $600 million promised recently to finance the long-term and medium-term action plan for flood protection. As a price to be paid, the finance minister has promised the consortium that Bangladesh will cut electricity distribution, reduce "excess" manpower, and improve marketing and management practices in the public sector units. The government has already decided to cut at least 100,000 government and public-sector jobs in the next three years.

Mobilization of domestic resources remains a severe problem. In 1989, a World Bank study showed that $4.6 billion of project aid could not be utilized by Bangladesh because the country could not raise the portion of local investment without which the projects could not be funded. The study later became a source of pressure on Bangladesh by the donor agencies to force a cut drastic cuts in government spending.

Government austerity, however, is beginning to meet resistance. Confronted with growing dissension within the trade unions, Prime Minister Begum Khaleda Zia said in December: "We want to build up a market economy infrastructure, and with this end in view we are giving special emphasis to the growth of the private sector." She warned the trade unions that "100% of industrial units [in the public sector] will be handed over to the private sector and export-oriented units will be encouraged." In fact, since 1975, the government has sold or returned to former owners 640 industries, reversing a trend that started shortly after Bangladesh had won independence from Pakistan in 1971, when the government nationalized almost all major industries and financial institutions. The trade unions, led by the largest union SKOP, claim that the privatization will result in large-scale redundancies and closing down of many industries.

In November, hundreds and thousands of jute mill and textile workers had uprooted railway tracks and barricaded roads, protesting the government's privatization schemes.

## Politics of aid

After the British departed from the subcontinent in 1947, Bangladesh became the eastern wing of Pakistan. Until independence in 1971, Bangladesh was dominated by industrial and feudal families of West Pakistan. Families such as Adamjee and Ispahani became household names in East Pakistan because of the control they exerted over its industry. These families succeeded in grabbing assets and establishing new assets in Bangladesh under the pretext of developing indigenous import-substituting capabilities. Thus, it created "domestic" entrepreneurs who after 1971, when Bangladesh became independent, left the country lock, stock, and barrel for West Pakistan. While these West Pakistani entrepreneurs had kept the foreign investors and multinationals at bay for two and a half decades, their abrupt departure in 1971 created a vacuum.

After 1971, the government of President Sheikh Mujibur Rahman nationalized most industries, creating an inhospitable climate for multinationals and foreigners. The period between 1971 and 1975 saw the rise of a state sector which became the instrument of the so-called nationalists in their quest for power.

The post-1975 period, which began with the murder of Sheikh Mujib (see accompanying article on page 25) and a series of military coups, produced a new affluent elite. This group draws its succor from military coups and has pushed the country firmly toward the West. Denationalization, or the privatization of the state sector units, in industries, trade, and banking has provided an opportunity for the new rulers to create a group of entrepreneurs who would work with the government and would also cooperate to bring in foreign investments.

In this context, foreign aid and grants have played a key role. Foreign assistance became the key source of capital infusion and as more foreign grants flowed in, it further enhanced the manipulative leverages of the powerbrokers.

How corrupt is this process? Dr. Rehman Sobhan, an eminent Bangladeshi economist who served as a member of the Planning Commission during 1972-74, has his own version: "Many state functionaries, however, seek more aid to serve as a cushion for their managerial inadequacies. Thus, for example, the capacity to ensure capacity utilization of mechanized irrigation facilities provided by the state to the farmers, generated pressure for more aid-financed import of irrigation equipment rather than for full utilization of installed capacity. Thus, new aid becomes the main source for expanding acreage under irrigation or even for maintaining current levels of irrigation. Aid in these situations becomes the soft option designed to mitigate the consequences of deteriorating operating performance within the economy. Given the contingent benefits which accrue to particular classes from aid, we can get some insight into the low and deteriorating performance of some state-run enterprises."

How does aid dependence affect national sovereignty? Economist Debapriya Bhattacharya has pointed out that the "overriding concerns of the donors, their normative biases and their perceptions of their own particular interests in Bangladesh" became dominant factors in economic policy. One study identified the World Bank and the U.S. Agency for International Development as the donors enjoying a near monopoly in the use of aid conditionality for forcing policy changes in Bangladesh.

Demands often came out openly. Speaking at the Dhaka Chamber of Commerce on Jan. 17, 1992, the U.S. ambassador to Bangladesh said that Bangladesh could not afford to continue to ignore the economic benefits of privatization. When the Bangladeshi foreign minister was grilled by newsmen about the conditions laid down by the donors, the minister agreed that the "conditions attached to the aid are tough" and some conditionalities make it difficult to decide where to utilize the money.

Privatization of the economy and selling off the public sector units, which Prime Minister Khaleda Zia has claimed as her government's independent decision, had long been the goal of the donor agencies. By 1989, one report says, as many as 640 enterprises have been denationalized under the allegation that state sector units are ill-managed causing low productivity. Although the argument has never been proven, in the sense that the private sector in Bangladesh performs any better, the uncritical acceptance of this viewpoint indicates the power and influence exerted by the donor agencies. The resident representative of the World Bank at Dhaka has noted that the "opportunity for aid-givers to impose their views on Bangladesh was made all too clear, when it became the accepted view that Bangladesh simply could not manage her economy without the assurance that large amounts of aid would be forthcoming."

## The growing crisis

Bangladesh's aid addiction does not end with only the domination of the donor agencies at economic policy making. Bangladesh has entered into a structural adjustment program in 1987 with the IMF and World Bank for a period of three years ending July 1990. The result: worsening performance of Bangladesh's physical infrastructure. Bangladesh's growth rate fell to 2.8%. The IMF diktat to enhance foreign investments into Bangladesh drew no response from foreign investors. Bangladesh's Prime Minister Moudud Ahmed, under President Ershad, took a much-publicized tour through the West urging investors to come to Bangladesh while assuring them that "Bangladesh would wipe the smile off the Asian tigers." His efforts drew a blank.

However, opposition to such aid addiction and kowtowing to the donors is gathering force. Dr. Iftekharuzzaman of the Bangladesh Institute of International and Strategic Studies, at a seminar in February 1992, attacked the government's aid-dependent development strategy and called for a self-imposed moratorium in its external resource inflow for a decade or two. He pointed out that the present strategy is "expanding and strengthening the network of an aid-sustained elite, which flourishes in its exclusive position by trading poverty while the poor continue to be poorer."

Short of such a drastic measure, Bangladesh's elite will be driven to sell the nation's labor power as a slave pool. The government has set up an export-processing zone in the port-city of Chittagong in southern Bangladesh which caters exclusively to export-oriented industry. Plans are afoot to set up similar export-processing zones in Dhaka and the coastal city of Khulna. Already, textile factories are churning out textiles for the world market, sold under all different national labels. Bangladeshi labor is, evidently, among the cheapest in the world—one to two cents an hour.

# The assassination of Sheikh Mujib

by Ramtanu Maitra

Bangladesh Prime Minister Begum Khaleda Zia's action in September against the cadre-based Freedom Party, led by two professed killers of the country's founding father, Sheikh Mujibur Rahman, could have a resounding impact on Bangladesh's body politic. Coming alongside memories of the vicious killing which wiped out all of Sheikh Mujib's family except two daughters who were abroad on that fateful day, leaving none to bury the dead, the action against the Freedom Party may open a political Pandora's box.

The arrested leaders of the Freedom Party were two of the four important members of a team of 15 that killed Sheikh Mujib in 1975. Both were given free passage by Ziaur Rahman, Begum Khaleda's husband who became President, only to be assassinated in 1982. The Freedom Party was formed in 1986 during former President H.M. Ershad's reign, and the two assassins were allowed to come back home to open a political office in Dhaka. Subsequently, Farooq Rahman, one of the two Freedom Party leaders, ran unsuccessfully against General Ershad in a presidential contest. The recent police raid gathered evidence showing that the assassins of Sheikh Mujib were involved in arms smuggling in collusion with the right-wing Islamic party, Jamaat-e-Islami. Jamaat is hated by the majority of Bangladeshis for lending support to the Pakistani Army during the liberation war of 1971. It is also widely known that Begum Khaleda's Bangladesh Nationalist Party had made political arrangements with the Jamaat during last year's general elections which had brought her to power.

To know the real story behind the assassination of Sheikh Mujib on Aug. 15, 1975, is important not only for the citizens of Bangladesh, but also for the people of the entire region. Once the veil is finally lifted from Sheikh Mujib's assassination, a number of events in the region that followed the assassination become clear.

The 1971 liberation war in which India, and Mrs. Indira Gandhi in particular, had played a key role, led to the formation of Bangladesh and the humiliation of the much-vaunted Pakistani Army. This result did not please Washington, and President Nixon made that known when he ordered the Seventh Fleet to enter the Bay of Bengal, ostensibly to help rescue the Americans stationed in Bangladesh. At the time, Washington's South Asia policy was firmly in the hands of Henry Kissinger. Under Kissinger's prompting, Pakistan