

A Descriptive Study of the United States - Bangladesh Economic Relations

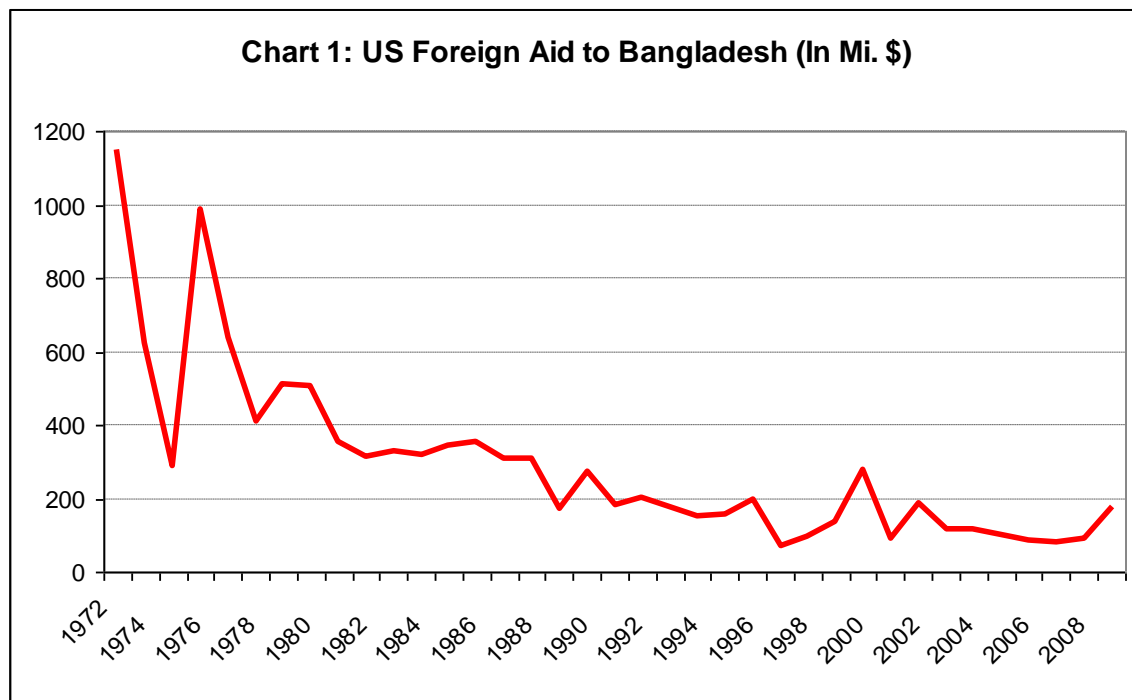
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I. Introduction

The United States relations with any particular country may be driven by political, economic, military or humanitarian considerations. That said, it is a well-known adage in international relations, “no country is your perpetual friend, and no country is your perpetual enemy.” Although the United States did not support Bangladesh during its 1971 Liberation struggle, it became the largest donor in 1972 by providing \$1,151.7 million in foreign assistance to rebuild the war-torn Bangladeshi economy. After this initial troubled relationship, the U.S.-Bangladesh friendship has improved over time. The U.S. Department of State website characterizes, “U.S.-Bangladesh relations are excellent.” As the title of this paper indicates, the discussions here will be limited to the economic relations between the two countries.

II. U.S. Foreign Aid to Bangladesh

Like any donor country, the U.S. may offer financial aid for political, economic, military or human considerations. The U.S. has provided a total of nearly \$11 billion to Bangladesh from 1972 through 2008, which has continued to decline since 1972, (Chart 1). Most of the U.S. foreign aid in the early 1970s was allocated for the reconstruction of the war-torn country and emergency relief.



Source: <http://qesdb.usaid.gov/gbk>

The U.S. economic assistance is now focused on long-term development that includes stabilizing population growth, protecting human health, promoting economic growth, and building democracy. Since 1972, the U.S. has provided about one-half in food assistance under Titles I, II, and III of PL-480 (congressional “food-for-peace” legislation). The continued decline in U.S. economic assistance reflects that the ‘donor-recipient’ relationship has now transformed into ‘equal partners.’ In addition, Bangladesh has been unable to receive huge American foreign assistance because it is not as important as Israel, Egypt or Pakistan, in terms of political or military interests to the U.S.

III. How and Will Bangladesh Become A Beneficiary of the Millennium Challenge Account?

Apart from the traditional source of U.S. economic assistance, the U.S. government established the Millennium Challenge Corporation (MCC) in 2004 to aid those countries that have good governance, economic freedom and invests in people. MCC’s Millennium Challenge Account (MCA) is an innovative foreign assistance program geared to poverty alleviation through sustainable economic growth.

For a country to be selected as eligible for an MCA assistance program, it must demonstrate a commitment to the rule of law, investment in its people and economic freedom, as measured by 17 different policy factors. The 17 factors used in fiscal year 2009 under those three broad categories and the sources of data are listed below. (The two-lettered abbreviation represents the respective factors and reported in Table 1).

*** Ruling Justly**

Political rights (PR) – Freedom House
 Civil liberties (CL) – Freedom House
 Control of corruption (CC) – World Bank Institute
 Government effectiveness (GE) – World Bank Institute
 Rule of law (RL) – World Bank Institute
 Voice and accountability (VA) – World Bank Institute

*** Investing in People**

Immunization rates (IR) -World Health Organization
 Public expenditure on health (PH) – World Health Organization
 Public expenditure on primary education (PE) – United Nations Educational, Scientific and Cultural Organization (UNESCO) and other sources
 Girls’ primary education completion Rate (GP) – UNESCO
 Natural resource management (NR) (before 2007, it was cost of starting a business) – Center for International Earth Science Information Network (CIESIN) and Yale Center for Environmental Law and Policy (YCELP)

*** Encouraging Economic Freedom**

Regulatory quality (RQ) – World Bank Institute
 Land rights and access (LR) - (it was cost of starting a business in 2006 and 2007; and credit rating in 2005 and 2004) International Fund for Agricultural Development and International Finance Corporation
 Business start-up (BS) – International Finance Corporation
 Trade policy (TP) – Heritage Foundation
 Inflation rate (IN) – International Monetary Fund
 Fiscal policy (FP) – International Monetary Fund

Table 1 shows the MCC’s scorecard for Bangladesh. The scorecard uses a formula to assess the performance of a country in three policy categories encompassing 17 factors.¹ (The green color indicates the country meets the performance standard, while the red does not).

Table 1: MCC’s Score Card for Bangladesh

FY	Ruling Justly						Investing in People					Economic Freedom					
	PR	CL	CC	GE	RL	VA	IM	PH	PE	GP	NR	RQ	LR	BS	TP	IN	FP
09	R	R	R	G	G	G	G	R	R	R	R	R	R	R	R	G	R
08	G	G	R	G	G	G	G	R	R	G	R	R	R	R	R	G	R
07	G	G	R	R	R	G	G	R	R	G		R	R	G	R	G	R
06	G	G	R	G	R	R	G	R	R	G		R	G	G	R	G	G
05	G	G	R	G	G	G	G	R	R	G		R	G	G	R	G	G
04	R	R	R	G	G	R	G	R	R	G		R	G	G	R	G	G

Source: www.mcc.gov

The MCC’s Board of Directors meets once a year to select MCA eligible countries that are above the median on at least half of the indicators in each of the three broad categories and above the median in the corruption indicator. The Board may consider additional information and take into account lack of timely or accurate data to select the countries that will be eligible for MCA assistance. The annual selection for eligibility in a given year is independent of the country’s performance in previous years.

Analyzing the Table 1 data, it is clear that Bangladesh has failed to meet the MCA eligibility since the index was inceptioned in 2004. In 2009, Bangladesh met the performance standard in three out of six indicators in the “ruling justly” category, only one out of five indicators in the “investing in people” category, and two out of six in the “economic freedom” category. Bangladesh did not meet the standard performance consistently in controlling corruption, public expenditure on health, public expenditure on primary education, regulatory quality, natural resource management, and trade policy. The Bangladesh government should also focus on pursuing a prudent fiscal policy. It is unlikely that Bangladesh will win the MCA eligibility any time soon because it has been ranked to be at the top of the Transparency International’s Corruption Perception Index for the last several years.

Although the amount of foreign assistance channeled to MCA eligible countries is usually small, the MCA eligibility of Bangladesh would boost its image in the international community.²

IV. U.S. Foreign Investment in Bangladesh

Bangladesh still relies on foreign capital to finance its annual budget and economic development. This foreign capital may flow in terms of foreign aid and/or investment. Given the fact that the amount of U.S. foreign aid has declined significantly, the importance of U.S. foreign investment can hardly be exaggerated. Compared to big neighbors, the U.S. foreign investment in Bangladesh has been small. The amount of U.S. investment peaked at \$700 million in 1999, due to massive investment in oil and gas sectors. The U.S. is among top four investing countries in Bangladesh.³

¹ Under the score/ranking, is the median score for the respective income group. If the country’s score is above (below) this group median, it meets (does not meet) the performance standard as evident by the green (red) color.

² The amount may vary from country to country. For example, Senegal will receive \$13.39 million, while Mozambique will receive \$506 million over five years.

³ http://dhaka.usembassy.gov/09.13.05_us_bangladesh_relations.html

In a March 28, 2004, speech before the Foreign Investors Chamber of Commerce and Industry, the U.S. Ambassador to Bangladesh very articulately portrayed the prospects of the U.S. direct investment in Bangladesh and the reasons for the dramatic decline of large investments by international gas and oil companies in the late 1990s.⁴ He admits the government has taken a liberal investment policy but much remains to be desired. Americans view the investment potential in Bangladesh to be enormous because its market is huge. However, he cited some instances where the American investors had bitter experiences. For example, in one instance an American investor bought land and started to build a multi-story office and shopping complex in Gulshan in 2000. The project had to be abandoned because RAJUK revoked the license it had previously granted. The issue was still not resolved despite the court's ruling in U.S. investor's failure. Bangladesh has not been able to reap the benefits of investment from Colgate-Palmolive, American Hospital, Tyco and the Seattle-based SSA Marine. To attract private direct foreign investment, Bangladesh needs a stable, economically dynamic, and democratic government, market-oriented economy, and a literate workforce. Bureaucratic delays, the lack of transparency, a weak and inefficient judicial system, and political influence on trade and commerce, barriers to international and regional trade, inadequate physical infrastructure, and telecommunications are discouraging foreign direct investment.

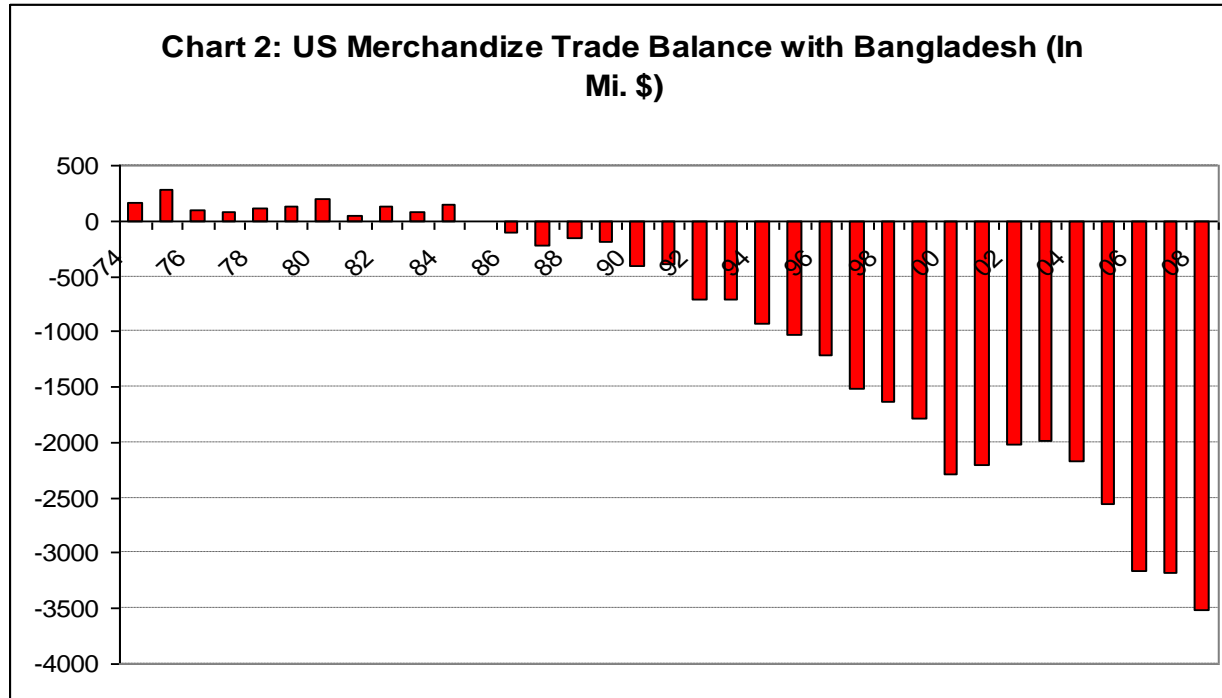
Immediately after assuming office in January 2009, Bangladesh Prime Minister Sheikh Hasina has sought more cooperation from the U.S. in the power and energy sectors because the government wants to fulfill its election pledge to provide more electricity to the people.

A delegation headed by Oregon State governor visited the Bangladesh Embassy in Washington DC on February 25, 2009. The governor expressed interest to develop bilateral relations on a number of issues including disaster management, education and marine resources.

V. U.S. Merchandize Trade with Bangladesh

From 1980 to 2008, U.S. imports from Bangladesh increased nearly 39-fold, or grew 15 percent annually. U.S. exports to Bangladesh increased 1.6 fold, or grew at an annual pace of 2 percent. The U.S. merchandize trade surplus with Bangladesh turned into a \$8.3 million deficit in 1985, and stood at \$3.5 billion last year, (Chart 2). The U.S. merchandize trade deficit with Bangladesh ranked 31st among its top deficit countries in 2008.

⁴ http://dhaka.usembassy.gov/03.28.04_foreign_investment_chamber-of_commerce.html



Source: International Financial Statistics *online*, and Yearbooks

Interestingly enough, U.S. imports from Bangladesh grew 12 per annum since 2005 when the textile quota system was removed compared to 6-7 percent annually from 1995 through 2004 when the quota was in place. U.S. imports from Bangladesh were eight-fold compared to exports last year.

Will Bangladesh's Ready Made Garments Receive Duty-Free Access to U.S. Markets?

In response to the long held view that the U.S. is the only major developed country not providing duty-free access to all least developed countries and America's belief that the best strategy to pull millions of people out of poverty is trade, that is, trade is better than aid, US Congress passed the African Growth and Opportunity Act (AGOA) in 2000 that allowed duty-free access to substantially all products imported by the U.S. from 49 poor countries mostly in sub-Sahara Africa. Bangladesh and several other poor countries were excluded from this trade legislation. Thus, Bangladesh and other least developed countries lobbied very hard with the U.S. government and Congress to ensure that their goods enjoy duty-free access to U.S. markets. As a result, the Trade Relief Assistance for Developing Economies (TRADE) Act of 2005 was introduced in U.S. Congress that would provide tariff relief to fifteen of the world's poorest nations, including Bangladesh and Afghanistan. This bill was superseded by another bill, New Partnership for Development Act (NAPA) introduced in October 2007. If the bill were to become a law, it could be an important foreign policy tools in a region where Islamic extremism and instability are serious concerns- a view that the U.S. recognized after 9/11 that U.S. trade and security interests are interlinked.

The law ensures that the preferred countries exporting garments to the U.S. will be exempted from import tariff if they are fabricated with U.S.-made yarns, and those not using U.S. yarn are also eligible for zero tariff import duty as long as they are no more than 11 per cent of the total U.S. garment imports. The quota percentage will be increased by 0.3 per cent per year to 14 per cent in 2014.

Every year, Bangladesh faces U.S. tariffs in the amount of \$496 million on just \$3.4 billion worth of exports. If these tariffs were removed, millions more people would find employment in Bangladesh. This tariff relief would be better for Bangladesh than the paltry foreign assistance it receives from the U.S.

The passage of the bill remains uncertain. Although President Obama has repositioned as a free-trader since taking office, Democrat-led Congress is reluctant to support free trade amid concerns that U.S. workers and businesses are not getting a fair share in the global marketplace. In addition, interest groups have intensified its opposition against the bill.

VI. Conclusion

After the initial set-back during the 1971 Liberation War, the bilateral relations between the United States and Bangladesh have improved significantly since then. The donor-recipient relationship has been transformed into one of equal partnership. The economic relationship is centered mostly on the merchandize trade, followed by foreign assistance and direct private investment. U.S. imports from Bangladesh would likely rise if America provides Bangladesh goods duty-free access to U.S. markets. Bangladesh needs to drastically reduce corruption, and address a number of issues before she can become eligible to receive economic assistance under the MCA. In addition, Bangladesh has to develop and implement investor-friendly policies to attract private direct investment from the United States.

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