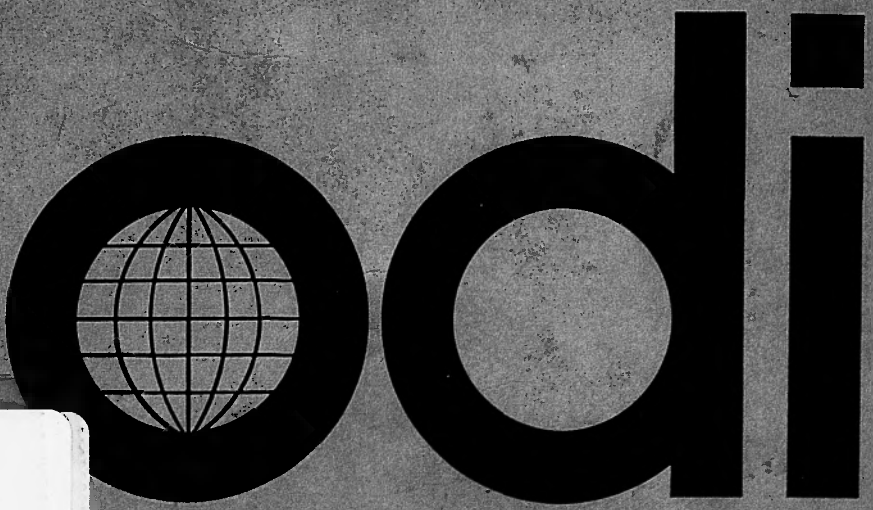
Overseas Development Institute

Economic Prospects of Bangladesh

Austin Robinson



Even before the massive upheavals of 1971 and 1972—flood, war, crop failure—the eastern wing of Pakistan was one of the poorest countries in the world. Income per head was only about $70: with gross national product rising at about 4½% a year, and population at almost 3%, even this low level was hardly improving. Imports of food were increasing, while earnings from the major export—jute—were stagnant. In 1971 and 1972 flood and war caused tremendous damage to the transport system and seriously disrupted agriculture, on which 80% of the population depends for a livelihood. The establishment of political independence meant that the whole machinery of a separate state had to be created. The question now is whether Bangladesh can ever escape its grinding poverty.

Economic Prospects of Bangladesh examines this question and comes up with only moderately hopeful answers. It defines the immediate and longer-term problems facing the economy, and assesses the chances of achieving steady and continuing growth. It underlines the enormous effort that this new State must make if it is to reach even the modest rate of expansion recorded in the years immediately before independence. It argues that donor countries can—and should—contribute to this effort by more generous grants and loans to restore imports of essential food and consumer goods, by more flexible project and programme aid, and by improved access for Bangladesh's exports.

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Preface

May I explain briefly the genesis of this study of the economic prospects of Bangladesh? It grew out of the natural curiosity of an economist who found himself on four occasions during 1972 and 1973 in that country, usually for short visits, but early in 1973 for a couple of months. During the period of hostilities some of us, who had been associated with the former Pakistan Institute of Development Economics in Karachi and the removal of the greater part of it just before the war to Dacca, joined together to create the Society of Friends of Dacca University, designed to succour those university teachers and academics who had to flee to India and other countries. In that capacity I visited Dacca and other universities of Bangladesh, and inevitably found myself wondering about the future of the country. This study represents my attempts while in Dacca to answer my own questions. I have inevitably relied greatly on the work of my friends still in the Institute—more greatly indeed than my occasional detailed acknowledgements indicate. I have talked with those members of its staff and other friends who are now working in the Planning Commission and they have seen my first drafts; but deliberately I have avoided the possible embarrassment of any knowledge of the plan they have been writing. I have benefited, nonetheless, from the opportunities given by a conference held in Dacca by the International Economic Association to see many of the problems of developing Bangladesh through their eyes. My sympathies with Bangladesh in the difficulties that are confronting the country will be apparent. I have striven, for all that, to think objectively and realistically about its problems.

E. A. G. R.

September 1973

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Chapter 1

Short-term Problems of Damage and Reconstruction

If one is to look at the longer-term prospects of Bangladesh, one must inevitably start from the short-term situation and the economic and physical aftermath of the war which gave Bangladesh its existence as a separate and independent country. The most acute and immediate problems were those of food supply and transport—the two closely interrelated. When I first visited after the war in May 1972, foodstuffs were beginning to arrive in the ports just fast enough, if all went well, to carry the country through the next few months until the *aman*[1] rice crop of 1972 was to be harvested. The acute problem seemed then to be that of securing that the food should be transported and so distributed from the ports that no pockets of very serious shortage emerged.

The chief war damage had been done to the transport system. When the war ended some 287 railway bridges and culverts were damaged and the communication lines disrupted, and about as many road bridges needed repairs or replacement. All but a few of these had been sufficiently repaired within the next four or five months for traffic to be able to move except during the monsoon. The exceptions were, however, most serious. Four major railway bridges were down and disrupted the railway system. These were: the Hardinge bridge over the Padma mouth of the Ganges, connecting both India and the Bangladesh port of Khulna in the south-west with Rajshahi and the north-western area of Bangladesh; the bridge over the river Tista, linking north-western Bangladesh not only with its own outlying districts but also with the Indian railway system between West Bengal and Assam; the Mymensingh bridge over the old course of the Brahmaputra in north-eastern Bangladesh; the King George VI bridge over the river Meghna near Dacca, linking Dacca with the port of Chittagong. In their economic effects the temporary losses of the Hardinge bridge and the King George VI bridge were much the most serious. In both cases they had interrupted large and important traffic flows from Bangladesh's only two ports to the related consumption areas. In addition they have broken what were in effect the two railway systems of the country—broad gauge to the west of the Brahmaputra and metre gauge to the east connected only by ferries—into five temporarily unconnected systems, some without adequate

[1] See p. 7.

repair and maintenance facilities, and has imposed long and circuitous routes even to such destinations as can still be reached.

The repair of these bridges represented in each case a major engineering operation. In the case of the Hardinge bridge, Indian Railways undertook responsibility for the lesser repairs through Messrs. Braithwaite, Burn and Jessop of Calcutta, using material, much of it available in India, to erect a temporary single track span to replace the fallen Span 12 while permanent repairs are made. Single track operation had been restored by late 1972. The damage to three spans of the Meghna Bridge between Dacca and Chittagong could not be repaired on a temporary basis; it is expected that the work which had been entrusted to Messrs. Braithwaite, Burn and Jessop, will be finished by autumn of 1973, when the permanent repairs of the Hardinge bridge may also be complete. The Mymensingh bridge was reopened in February 1973.

The road system had also suffered severely during the war and very large numbers of minor bridges and culverts had been either destroyed or damaged by traffic. Temporary repairs and improvisations were quickly made. But many of these improvisations could not be expected to survive monsoon conditions and have needed more permanent repair.

A country so broken up by rivers and deltas as in Bangladesh has inevitably depended on ferries to cross not only the main rivers, the Brahmaputra and Jamuna, the Ganges or Padna, and the Meghna, but innumerable other minor rivers and channels also. A great many of the ferries that carried vehicles and passengers have been sunk, many of them beyond repair, and those that have survived cannot carry all the traffic thrown on to them by the destruction of the bridges.

The main internal transport system of Bangladesh has always been the water transport of the rivers. It is said that 'before hostilities some 300,000 country boats operated on 5,000 miles of navigable inland waterways . . . these together with the power craft handled some 17 million tons of cargo annually'.[1] Many of these were lost.

The war damage to the telecommunication system has also been serious. Partly as the result of this war damage, partly for more inherent and long-lasting reasons, the telecommunications of the country are now grossly overloaded and difficulties of communication add to the problems of creating and maintaining a more efficient administrative system and a better distribution of necessary goods and agricultural inputs.

The damage outside transport and telecommunications is, however,

[1] Ambassador Erna Sailer's Report on the Mission of High Level United Nations Consultants to Bangladesh, March–April 1972, Volume II, Sectoral Report IV p. 5.

less than might have been feared. Industrial damage has largely taken the form of the pilfering of stocks of goods and of office equipment and furniture. It has been estimated by the Industrial Development Corporation that the damage to plant in large-scale manufacturing did not amount to more than 3% of the total value, and for industry as a whole that is probably the order of magnitude. Damage to housing is considerable in a few towns where there was heavy fighting. But damage is hard to find in Dacca, and is nowhere remotely comparable to that in parts of Germany and England in 1945.

The damage to agriculture was, as in Europe, ephemeral. The short-term interruption of agriculture (as will be explained below) has been serious. One of the more serious effects of the war was that plough bullocks were driven off and scattered, and slaughtered in considerable numbers. It has been estimated that there was a shortage of some 500,000 bullocks when normal cultivation was restarted at the beginning of 1972. But the long-term damage is slight and quickly overcome if the normal flow of imports can be restored. In total, the war-damage, though considerable in value, does not represent more than can be made good with a year or two's normal capital formation. The transport bottlenecks and the need to create new trade channels may restrict production for a longer period. But in more general terms, once the difficulties (grave as they are) of the next year have been overcome, Bangladesh should be in a position to tackle the acute and immensely difficult problems of development that face it.

Chapter 2
Short-term Problems of Food Supply

The problems of food supply have been and remain critical. Bangladesh has been the victim of three successive disasters, cumulative in their consequences: the cyclone of November 1970, the war of 1971, and most recently the monsoon failure of 1972. In order to appreciate their effects it is necessary to set them against the foodgrain supplies needed to maintain the Bangladesh population. This cannot be measured precisely, partly because of uncertainties of the exact population (it is twelve years since the 1961 census and the extent of the war casualties is not known precisely); partly because a minimum average ration for survival is not a precise concept and assumes an equality of distribution which can never be achieved in practice. It is usually assumed that 15oz per head per day, or about 342lb per head per year, is in practice required, though a perfectly equally distributed 14oz per head per day (319lb per head per year) might theoretically be enough to provide a minimum calorie intake. The 1973 population, if there had been no war, had been forecast to be about 74·5m in 1970–1 and about 78·9m in 1972–3. There is reason to think that (as has happened in other Asian countries during 1961–71) these were slight over-estimates. Allowing for war casualties and population losses, the 1972–73 population is believed to be 74–75m. The effects of alternative estimates of population and requirements per head are shown in Table 1.

Table 1

Foodgrain requirements of Bangladesh on the basis of alternative assumptions of population and consumption

Population m	Consumption per head per day (m tons per year)		
	14 oz (319 lb per year)	15 oz (342 lb per year)	16 oz (365 lb per year)
74·0	10·54	11·30	12·06
74·5	10·61	11·37	12·14
75·0	10·68	11·45	12·22
75·5	10·77	11·53	12·30
76·0	10·84	11·60	12·39
76·5	10·91	11·68	12·46
77·0	10·98	11·76	12·55

11·5 tons probably represents the right order of magnitude for 1973, but if, not improbably, war casualties have in fact been overestimated, this figure may be on the low side.

If one is to understand the problems of supply, one must

understand, even if superficially, some of the complications of Bangladesh agriculture. The overwhelmingly most important foodgrain is rice. Wheat is grown in relatively small amounts, and outside the urban middle class is consumed only somewhat unwillingly when imported in emergency.

The problems of growing rice are largely dictated by the timing of rainfall and inundation. Rains in April and May accompanied by storms provide the traditional opportunity to cultivate. The monsoon comes between June and September. After its early phase the rivers overflow the land and inundation in the later stages may be anything from inches to many feet. There are three seasons in any year in which rice can be cultivated, which to some extent overlap so that the same land cannot carry all three:

(1) the *aus* crop, with ploughing and sowing as soon as the early rains permit in late March or April, is harvested from the end of June until August; excessive rain or inundation by an early monsoon can damage the crop; this crop is almost simultaneous, and thus competes for land and labour with the jute crop;

(2) the *aman* crop, the main rice crop, which is sown in May and June and harvested in November and December; the crop is partly broadcast but principally transplanted; in most areas it receives and benefits from inundation, sometimes to the extent of several feet, during the monsoon and from the deposit of new silt brought down by the rivers; when, as in 1972, the rains are belated and planting has to be delayed, production can be greatly reduced.

(3) the *boro* crop, sown from November to January, and transplanted and harvested between February and May; it depends either on rain in February and March or on irrigation—increasingly the latter.

There are no available statistics of the extent and depth of inundation. In very general terms it has been estimated that 30% of the total cultivated area is flooded annually to depths of three feet and above; two-thirds of the cultivated area is flooded to a depth of more than one foot; about 15% of the cultivated area is flooded to a depth of more than six feet and cannot be cultivated for an *aman* crop during the monsoon period. The uncertainties of timing and depth annually result in considerable failures and losses of crops, as well as damage to property.

Dry-season crop cultivation is limited to land which retains moisture or which can be irrigated. The area can be, and is being, extended by increased irrigation facilities and tubewells. A study by Dr. S. R. Bose[1] of the Bangladesh Institute of Development Economics states

[1] This will form Chapter 5 of *Economic Development of Bangladesh*, A. Robinson and K. Griffin (eds.), the record of the International Economic Association Conference held in Dacca during January, 1973, to be published by Macmillan during 1974.

that a total of about 15m acres is regarded as potentially suitable either for irrigation IRRI (International Rice Research Institute) *boro* or for transplanted *aus*.

The *aman* crop, since it is inundated, presents different problems from the *aus* and *boro* crops. The earliest of the new varieties of rice developed by the IRRI (in particular the famous IR8) were not suitable for the extreme conditions of the *aman* crop in Bangladesh. Later varieties, especially IR20 and its derivatives, have been introduced and are suitable where inundation does not exceed one foot. The recently created Bangladesh Rice Research Institute near Dacca is working on developments and hybrids with traditional Bangladesh varieties which will stand deep inundation. But until lately the *aman* crop has been principally composed of traditional varieties, with little or no use of fertilisers beyond the annual deposit of silt. A great effort is now being made to distribute, wherever suitable, the IR20 and other improved *aman* varieties and the fertiliser required for them.

Until lately the main use of improved varieties had been for the *aus* and *boro* crops. The original IR8 was not popular in Bangladesh, partly because its longer period of growth made it difficult to fit into the seasonal cultivation patterns, partly because it was susceptible to local diseases. Newer varieties have overcome these difficulties and are now being distributed.

The increase of rice output over the past twenty years has come principally from increases of acreage and yield of the *aus* and *boro* crops. The *aman* crop has remained more constant in acreage and has fluctuated principally in yield per acre, with no steep upward trend of yield such as has occurred with the use of new varieties and fertilisers for the *aus* and particularly the *boro* crops. Table 2 shows the history of recent crop years.

When the war ended in December 1971 and a Bangladesh government became responsible for averting famine the situation was grave. The *aman* crop of 1971, cultivated and harvested during the progress of the war had yielded some 5·5m tons[1]—about 12% below normal, but a remarkable achievement in the circumstances. The early estimates of the UN Relief Operation Dacca (UNROD) Mission showed a need to bring in approximately 1·4m tons to cover consumption in 1972 and a further 600,000 tons if stocks were to be built up to the level regarded as the safe minimum, making a need for 2·1m tons in all before the harvesting of the *aman* crop, in November–December 1972. The actual imports during 1972 amounted to 2·4m tons—approximately 1·5m tons by sea, of which UNROD provided 655,000 tons. Another 900,000 tons were received from India over the land frontier; without this Indian help, food could not have got

[1] After deduction for seed and waste.

Table 2

Acreage and production of rice crops

	Area (m acres)				Production (m tons)				Yield per acre (lb)			
	Aus	*Aman*	*Boro*	*Total*	*Aus*	*Aman*	*Boro*	*Total*	*Aus*	*Aman*	*Boro*	*Total*
1947–48	4·50	13·35	0·76	19·01	1·43	4·99	0·32	6·74	655	937	940	794
1959–60	5·94	14·29	0·92	21·15	2·09	5·99	0·40	8·48	789	939	974	898
1960–61	6·30	14·58	1·01	21·80	2·50	6·57	0·45	9·52	888	1010	996	974
1961–62	5·87	14·08	1·01	20·96	2·33	6·65	0·48	9·46	888	1158	1078	1012
1962–63	5·19	14·22	1·07	21·48	2·20	6·03	0·48	8·73	797	952	1007	910
1963–64	6·59	14·60	1·07	22·26	2·66	7·29	0·51	10·46	904	1118	1067	1052
1964–65	6·64	14·60	1·05	22·80	2·50	7·26	0·57	10·34	843	1077	1221	1015
1965–66	7·32	14·67	1·14	23·13	2·92	6·80	0·62	10·33	893	1038	1218	1001
1966–67	6.96	14·06	1·39	22·41	2·67	5·92	0·83	9·42	851	943	1576	948
1967–68	8·22	14·68	1·53	24·43	3·07	6·81	1·11	10·99	834	1039	1627	1007
1968–69	7·66	14·40	2·01	24·07	2·68	6·87	1·61	11·16	785	1069	1791	1039
1969–70	8·46	14·84	2·18	25·48	2·96	6·95	1·90	11·81	784	1049	1952	1038
1970–71	7·88	14·18	2·42	24·48	2·86	5·91	2·19	10·96	813	934	2027	1003
1971–72	7·42	13·00	2·40	22·62	2·34	5·96	1·78	9·81	706	980	1661	971
1972–73												
(programme)	(7·70)	(14·51)	(2·60)	(23·11)	(2·56)	(7·60)	(2·56)	(12·72)	(744)	(1173)	(2206)	(1233)
(actuals) *a*					(2·20)	(5·20)	(2·00)	(9·50)	(640)	(818)	(1901)	(921)
1973–74					(2·50)	..	..	..	(727)	..	..	..

a Government estimates; estimates of the UN 'Chandler' Mission are: *aman* 1972, 5·67 m; *boro* 1973, 2·10m; *aus* 1973, 2·50m; total December 1, 1972 to December 1, 1973, 10·17m tons.

to some of the hardest hit areas. At the end of December 1972 the stocks in store were about 200,000 tons, well below the safe limit.

When the UNROD operation was mounted it was conceived as a one-year task. The programme of production aimed to achieve an output of 12·72m tons of rice in 1972. On that basis as soon as the 1972 *aman* crop was harvested, the worst worries would have been at an end; without imports, total availability of foodgrains would have been about 11·92m tons and foodgrain consumption per head per year would have been about 356lb, on the assumption that there was no change in stocks.

The disasters of the summer of 1972 have widely falsified those hopes. In part this may have been due to the failure to distribute improved seeds and fertilisers as effectively as the ambitious programme required. But the main cause of the disaster has unquestionably been the failure of the monsoon to develop in its normal pattern. Rainfall was in total some 40% less than normal and the inadequacy was particularly serious in June, July and August. Estimates of the effects on the *aman* rice crop have varied. The report of the Chandler Committee puts the 1972 *aman* crop at about 5·6m tons as compared with the planned target of 7·6m tons—a short-fall of about 2·0m tons, or 19% below normal and 27% below target; less optimistic estimates suggest about 5·3m tons—or about 23% below normal and 30% below target.

Whatever the final truth may prove to be (and most recent evidence appears to support the pessimists) two things are already very clear. Firstly, Bangladesh is back where she was at the beginning of 1972 and has lost a valuable year. Secondly, the position this time is very much more difficult. The Chandler estimates suggest a total shortfall of supplies before the harvesting of the 1973 *aman* crop of about 2·5m tons if provision is to be made of 11·5m tons of foodgrains for consumption and another 300,000 tons for a very necessary increase of stocks.

Since the Chandler report was written, the effects of the monsoon failure of 1972 on the *boro* crop of 1973 have become even more evident. There is very much less surface water than usual in rivers, streams, channels, ponds, to be lifted by low-lift pumps for the irrigation of the *boro* crop, and in consequence the area planted and the yields per acre are both likely to be less than had been planned. In addition there have been fairly numerous cases, much publicised in the Bangladesh press, of shortages of promised pumps, of diesel fuel, of fertiliser. Even if, as is likely, these are exaggerated in the perspective of the country as a whole, the prospects for the *boro* crop are not bright, and estimates current at mid-February 1973 put the gap at between 2·8m and 3m tons for the year as a whole.

To acquire 3m tons in 1973 is a very different problem from the problem of 1972. In 1972 Bangladesh, with the help of the UNROD

Table 3

Foodgrain supplies and availability

	Production of rice (m tons)	Availability of rice from production*a* (m tons)	Imports of rice (m tons)	Availability of of wheat from production*a* (m tons)	Imports of wheat (m tons)	Total availability of foodgrains (m tons)	Population	Availability per head per year (lb)	Percentage of total derived from imports
1948/49	6·74	6·19	0·40	0·02	0·10	6·71	41·9	358	7·4
1959/60	8·48	7·79	0·46	0·03	0·15	8·43	53·9	351	7·2
1960/61	9·53	8·75	0·46	0·03	0·23	9·48	55·6	382	7·3
1961/62	9·47	8·70	0·21	0·04	0·20	9·14	57·3	351	4·4
1962/63	8·73	8·02	0·54	0·04	0·89	9·50	59·1	360	15·1
1963/64	10·46	9·61	0·35	0·03	0·66	10·64	60·9	391	9·5
1964/65	10·34	9·50	0·10	0·03	0·25	9·88	62·8	352	3·5
1965/66	10·34	9·50	0·38	0·03	0·54	10·45	64·6	362	8·8
1966/67	9·42	8·66	0·43	0·05	0·67	9·81	66·5	331	11·2
1967/68	10·99	10·10	0·31	0·05	0·71	11·75	68·4	366	9·1
1968/69	11·17	10·26	0·24	0·08	0·83	11·41	70·4	363	9·4
1969/70	11·82	10·86	0·50	0·10	1·05	12·44	72·4	385	12·4
1970/71	10·97	10·08	0·32	0·10	0·90	11·46	74·5	345	11·2
1971/72	9·81	9·02	0·66	0·10	1·07	10·85	(73·5)*b*	(330)*b*	15·9
1972/73	(9·25)	(8·50)	(2·90)*c* (1·90)*d*	(0·10)	*c*	(11·50) (10·50)	(75·0) (75·0)	(342) (314)	

a Production less 8·1% for seed and wastage.
b The figures depend on the allowance made for the reduction of consuming population consequent on some 10m refugees at peak in India. Allowing for normal growth of population, the average population dependent during the year on Bangladesh supplies was probably between 73 and 74m, with an average availability of about 330 lb.
c To provide a total supply of 11·5m tons, imports of rice and wheat amounting to 2.9m tons are estimated to be needed.
d Implications if only 1·9m tons of rice and wheat can be acquired.

Mission, backed not only by the United Nations but also by an immense volume of world goodwill, was able to acquire, ship and distribute, as has been said above, some 2·4m tons of foodgrains; of this India provided 900,000 tons; about 700,000 tons was provided in the form of aid through UNROD. In 1973 the UNROD Mission, unless last-moment thoughts lead to a change-of-mind, will have been much reduced in scale. Bangladesh will be left to handle the greater part of the problem on her own. She has exhausted the aid available in the form of foodgrains. The whole Asian world, like Bangladesh, has suffered from the crop failures of 1972. India has near-famine conditions in several states and has no foodgrains to spare, while Pakistan has been hit by severe floods. The normal rice exporters, Thailand and Burma, have far less than usual available for export. The normal importers, such as Indonesia, are seeking to buy abnormal amounts. Rice is virtually unobtainable except for cash, and Bangladesh is short of cash. The problem can only be solved in terms of wheat, and it will be far from easy to acquire wheat in the amounts that Bangladesh will need, or to finance its import if found.

By mid-May 1973 Bangladesh had succeeded in acquiring about 1·3m tons by purchase with its own funds. It has been promised a little under 600,000 tons in the form of aid. There were hopes—but no more than hopes—of securing a further 500,000 tons. This leaves the country at least 600,000 tons short of what is required to rebuild stocks and provide an average of 15oz a day. If there is no rebuilding of stocks, the supplies in sight would provide a little more than 14oz per day, or with normal supplies of other foods (which in last year's conditions cannot be assumed) an average of about 1,700 calories a day. There is reason, moreover, to fear that in conditions of shortage the distribution of consumption about the average becomes more unequal and that a large number will fall seriously below the danger line.

These are very grave and pressing problems. If they cannot be solved with international co-operation there are very real dangers of shortages emerging on a scale that will at the least imply very serious malnutrition.

Chapter 3
The Short-term Situation outside Agriculture

Outside agriculture, the economic situation in Bangladesh is in many ways reminiscent of that in the UK in 1945-6. It is that of an economy in which individuals are raring to go, but there is a shortage of almost everything, so that getting going is peculiarly difficult. Shop shortages are, for the moment at least, increasing rather than diminishing. Shortages of goods that were formerly imported either from abroad or West Pakistan are becoming greater as stocks are exhausted. Simple conveniences of life and near necessities, such as cigarettes and pharmaceuticals, have been increasingly difficult to obtain. Imported goods are unobtainable except by the most fortunate.

The reasons for this are obvious. The most immediate effect of the war was the severance of all the links with Pakistan. This severance took two forms. First, imports of goods from Pakistan came to a very quick end. Second, the Pakistani entrepreneurs who owned or were in charge of factories in what is now Bangladesh disappeared. During the twenty-five years of the existence of Pakistan, Bangladesh had represented a captive market in which enterprises set up in the western wing of the country had very considerable preferences. For about 40% of all imports, and something like 70% of all imports of non-food consumer goods, Pakistan was the source of supply. Thus when this source was cut off, at best a new source had to be found. More probably, with the immediate need to find means to pay for foodgrain imports, supplies had to be foregone or greatly reduced.

These Pakistani imports had covered not only a wide range of consumer goods but also intermediate goods for a number of Bangladesh industries. Not only the imports of cotton piece goods but also those of raw cotton and of yarn for use by the large handloom weaving industry of Bangladesh had come exclusively from Pakistan. Almost all the tobacco used for manufacture in Bangladesh, as well as the manufactured tobacco, had come from Pakistan. A large proportion of cement and other building materials had come from that source. The same was true of a wide variety of similar intermediate goods. And most of these imports had been ordered from Pakistan sources by agents or traders who were in effect dealing with other traders within what was then the same country and the same currency area. There were no traders with experience of buying and handling imports from world markets.

Thus new sources have had to be discovered and new trade links improvised, in many cases by people without experience of such operations. Meanwhile, and inevitably, shortages have become greater as stocks of consumer goods have been exhausted. And equally inevitably, prices of many of these goods have soared, contributing to inflationary pressures. For in contrast to the situation in the UK in 1945-6, Bangladesh had not reached the present situation slowly over a long run of war years during which a machinery of control and rationing and fair distribution could be built up.

The severance of the links with Pakistan brought the need also to improvise quickly a range of new national institutions. The existing system of air communications disappeared, leaving behind, however, a considerable Bengali staff, and a new national airline, Bangladesh Biman, had quickly to be brought into existence. A new central bank had to be brought into operation, with a separate currency system and exchange control, but initially with an inadequate and unorthodox complement of assets. Foreign economic relations had to be revised to reflect the new political realities—with amity towards India replacing hostility, and hostility replacing interdependence with West Pakistan.

The loss of Pakistani entrepreneurs and managers left Bangladesh with a large number of businesses, large and small, with manufacturing capacity, a labour force dependent on it, and in some cases—those of the jute industry in particular—a responsibility for earning a very badly needed income from exports. This managerial vacuum reinforced the already existing determination of Awami League politicians to take over into a large public sector all the bigger industrial and commercial undertakings.

During January 1973 a new industrial development policy was announced. Its principal feature was that it set a limit of Takas 2·5m (approximately £130,000) on the fixed assets of new private enterprise, with permission to increase to Takas 3·5m (approximately £185,000) out of invested profits. There will be a moratorium of ten years from January 1973 on nationalisation of old units up to Takas 2·5m, and of ten years from the date of starting production for new units set up under the first Five-Year Plan. New investment must be financed by one of various approved methods. There are certain essential industries listed in which the government considers there to be scope for private enterprise. Foreign investment will be permitted only in collaboration with the government, whose share in the equity will be at least 51%. The foreign investor will be expected to provide the whole of the foreign exchange component of the project; if the foreign exchange component exceeds the value of 49% of the equity, there will be consultations with the government about the terms on which the excess should be financed. Remittances of post-tax profits

will be allowed (a dividend of 15% annually should be declared) together with 50% of net salaries of foreign nationals up to £150 a month, and savings at the termination of service. It is claimed that the policy is intended to give foreign investors maximum incenitves to operate in Bangladesh in those areas in which they are needed, and more generally to encourage small-scale private enterprise in those sectors in which it will not conflict with the overall objective of making Bangladesh a socialist state.

Meanwhile managements have been improvised for all the undertakings which had lost them. Those in charge have sometimes been ex-civil-servants with administrative experience. They have sometimes been Bengali staff of Pakistan-owned concerns. They have sometimes come from banking, commercial or legal businesses. They have served to fill the vacuum. But one may perhaps wonder whether they possess the go-getting energies that made some of their predecessors at the same time successful and hateful to the Bengalis. The industries of Bangladesh are beginning to return to normal but it is becoming increasingly clear that manufacturing output in 1972 was much further behind 1969/70 than had originally been supposed, and that 1969/70 levels of production are unlikely to be restored before 1974. Preliminary estimates of the shortfall below 1969/70 are as follows:

Table 4

Industrial output of calendar year 1972 as compared with 1969/70

(percentage change)

Jute manufactures	—30
Cotton yarn	—48
Cotton weaving (handloom and mill)	—38
Paper and newsprint	—53
Cement	—53
Fertiliser	—15
Cigarettes	—46
Petroleum	—15
Sugar	—74

Jute manufacturing, with its indigenous source of supply of its main material, is relatively well placed, but suffers from diversion of acreage to food crops. The cotton industry suffers from protracted difficulties in finding new sources of cotton and yarn supply in the face of a world shortage of cotton yarn and an embargo on yarn exports from India. Other industries have suffered in differing degrees from shortages of inputs and from lack of clear managerial direction.

Chapter 4
The Economic Resources of Bangladesh

Any discussion of the future development of Bangladesh must start from a realistic view of the limitations imposed by its national resources. It is at present, as it always has been, a primarily agricultural country. In 1961, at the time of the last census, 85% of the actively occupied population were engaged in agriculture. Only 4·3% were then engaged in manufacturing and about 9% in services of different kinds. In the past ten years the proportion engaged in manufacturing may have risen to about 8%—a figure which would even so be much below the 13·4% of West Pakistan in 1961. What is important is that even now the proportion occupied in agriculture is probably nearer to 80 than to 75%.

This concentration on agriculture is in part an index of Bangladesh's present backwardness. But it reflects also the very limited resource base of the country. In general such mineral resources as exist are almost wholly confined to the hill areas of the extreme south-east and north-east. There is no coal at present exploited, but a little peat. The steel production in Chittagong is based on the melting of scrap and imported pig-iron. There are some local iron ores in the Chittagong hills which, if technical difficulties can be overcome, may prove usable. There is a serious shortage of stone, and roads have to be built by the circuitous process of making bricks and breaking them down to make a hard road base. Limestone is worked only in the north-east around Sylhet, and cement must elsewhere either be imported or made from imported clinker.

The one important resource is the natural gas, first discovered in considerable quantity in the neighbourhood of Sylhet and now developed for power production and the manufacture of fertiliser; it had already before the war been piped to the Dacca area. A new discovery has lately been reported in the neighbourhood of Chittagong. While no oil has yet been found on a commercial scale, there are considerable hopes of its discovery, and oil companies are understood to be negotiating arrangements for exploration in the strip off the mouths of the Ganges-Brahmaputra. Valuable as an oil discovery would be, even without it the natural gas now known to exist will provide an adequate energy base for such industrial development as is now within sight.

What more may exist is largely unknown. There are reports of the discovery of a rich deposit of coking coal in seams of considerable thickness, with limestone above it, at Dainpurhat near Bogra in the north-west. But at present geological survey is very incomplete, and

how far the mineral resource base of a modern economy may exist is no more than speculation.

Thus certainly the shorter-term, and probably also the longer-term, future of Bangladesh seems almost inevitably to be that of a primarily agricultural country. Industrial development must in the main take for the present the form of processing agricultural materials or of manufacturing such other products as can economically be based on imported inputs of materials, and in some areas also on imported energy. At present almost all capital equipment must be imported. Thus what Bangladesh must try to sell to the world must be the comparative advantages represented by a potentially prolific tropical agriculture and a plentiful, low-paid, but not at present highly-skilled, manpower. Such advantages have in the past been well embodied in her exports of raw jute and jute manufactures. But these have in recent years been little better than static, and if the Bangladesh economy is to provide for the growing needs of a rapidly growing population, they will need to be supplemented by other exports.

In the first stages, industrialisation is likely to take the form of meeting the needs of the internal market, and in particular of replacing in the internal market the lost imports from Pakistan. There are promising opportunities for developing the manufacture of agricultural equipment, including small pumps and engines, automobile parts, small marine engines, and the like. It will be possible to develop production of a wide variety of minor consumer goods, and there is a great need for manufactures which can serve as rural incentive goods, if not only the production but also the marketing of increasing quantities of foodgrains are to be stimulated. Shoes, bicycles, pottery, cooking equipment and the like, as well as textiles, which can be made in small-scale industry with a very low capital-output ratio, are more important than prestigious modern industrial white elephants.

Chapter 5

The Problems of Longer-term Planning: Agricultural Development

It is against this critical short-term background that the Bangladesh Planning Commission is working on its first longer-term plan. Its Deputy Chairman and working head is Dr. Nurul Islam, formerly Director of the Pakistan Institute of Development Economics in Karachi, which was transferred to Dacca shortly before the war and has now become the Bangladesh Institute of Development Economics. The Planning Commission membership and professional economic staff is largely drawn from professors of economics in Bangladesh universities, the staff of the Institute, and Bengali escapers from the Islamabad planning organisation. The group, thrown a year ago into the unaccustomed responsibilities of planning and administration, has quickly acquired experience and authority and is now vigorously attacking the problems of making a plan, but must inevitably deal also with the day-to-day crises of a short-handed administration working in conditions in which it is difficult to take a long view and in which decisions are, perhaps inevitably, overcentralised.

Table 5

Differences between incomes and growth of incomes in East and West Pakistan 1949/50 to 1969/70

	1949/50	1959/60	1964/65	1969/70
Gross domestic product (Rupees m at 1959/60 prices)				
East Pakistan	11473	14245	17881	23219
West Pakistan	12992	16228	21872	29484
West Pakistan as % of East Pakistan	113·2	113·9	122·3	127·0
Population (*m*) ..				
East Pakistan	42·3	53·9	62·8	72·4
West Pakistan	35·8	45·0	52·2	59·9
West Pakistan as % of East Pakistan	83·9	83·5	83·1	82·7
Income per head (Rupees at 1959/60 prices)				
East Pakistan	271	264	285	321
West Pakistan	366	361	419	492
West Pakistan as % of East Pakistan	135	137	147	153

Annual growth rates (%)	1949/50 to 1959/60	1959/60 to 1964/65	1964/65 to 1969/70
Gross domestic product			
East Pakistan	2·2	4·6	5·4
West Pakistan	2·3	6·1	6·2
Population			
East Pakistan	2·5	3·1	2·9
West Pakistan	2·4	3·0	2·8
Income per head			
East Pakistan	—0·3	1·5	2·4
West Pakistan	—0·1	3·1	3·3

Source: Economic Survey of East Pakistan, 1969-70, Government Press Dacca, 1970, pp. 102-3; unpublished studies by Dr. M. Alamgir, Bangladesh Institute of Development Economics.

It is impossible in present conditions for them not to have in mind the circumstances in which Bangladesh came into existence, and the expectations which they have engendered: a period of relative neglect of the then eastern wing of Pakistan, its slower growth and industrial backwardness, its lack of adequate infra-structure, transport facilities and energy supplies, its very heavy dependence on agriculture, its present shortage of imported consumer goods.

The backwardness of the then eastern wing of Pakistan showed itself in the relative incomes per head in the two wings, in their growing rather than diminishing disparity, and the discrepancies between fixed capital investment. It was growing anger over this that contributed greatly to the final rupture. In one sense this situation is now irrelevant to future policy. In another it has created hopes and expectations that are not irrelevant and has established criteria by which any plan or achievement is likely to be measured.

Table 6 shows in more detail the chief sources from which the gross domestic product of Bangladesh has been derived and their growth over the years from 1949-50, soon after the creation of Pakistan, to 1969-70, the last normal year before Bangladesh itself became independent. The heavy dependence on agriculture even as late as 1969-70 is at once apparent, and also the slow growth of agriculture. The year 1965-6 was affected by a severe cyclone and the more rapid recent growth of the period 1964-67 to 1967-70 is in part at least a recovery of somewhat more normal conditions (the cyclone of November 1970 affected the crop year of 1970-71). Small-scale industry, with handloom cotton weaving as an important component, has grown almost *pari passu* with agriculture, and agricultural incomes provide its chief demand. 'Other activities', which include as principal components construction, transportation, public utilities, trade and commerce, public administration and defence, and ownership of dwellings, have grown only slightly more rapidly than gross domestic product. Growth in large-scale manufacturing, starting from a very

Table 6

Gross domestic product of Bangladesh at constant 1959/60 factor cost

	Agriculture	Manufacturing large-scale	Manufacturing small-scale	Other activities	Total GDP	Agriculture as % of total GDP
Taka m						
1949/50	7,392	69	403	3,609	11,473	64·4
1950/51	7,803	85	412	3,775	12,075	61·3
1951/52	7,880	101	421	4,065	12,467	63·2
1959/60	8,546	406	506	4,787	14,245	60·0
1960/61	8,987	466	520	4,965	14,938	60·1
1961/62	9,446	520	534	4,383	14,883	63·5
1964/65	10,084	633	577	6,587	17,881	56·4
1965/66	10,339	841	592	6,853	18,625	57·4
1966/67	10,375	932	607	7,277	19,191	54·1
1967/68	11,336	1,036	622	7,701	20,695	54·8
1968/69	11,162	1,161	638	2,190	21,151	52·8
1969/70	12,286	1,335	658	8,940	23,219	53·0
Annual growth rates (%)						
Av. of 1949-52 to av. of 1959-62	1·6	18·5	2·4	2·1	2·0	
Av. of 1959-62 to av. of 1964-67	2·7	11·6	2·6	7·9	4·2	
Av. of 1964-67 to av. of 1967-70	4.1	13·6	2·6	6·2	5·3	
Av. of 1949-52 to av. of 1967-70	2·3	15·7	2·5	4·4	3·3	

small base in 1949-50, has averaged nearly 16% per annum over the whole period, slowing down somewhat in recent years.

It is obvious that, with so large a component of agriculture, and of activities related to the handling of agricultural products, of agricultural inputs, and the provision of agricultural wage-goods, the rate of growth of the economy must principally reflect the future growth of agriculture. Unless this can be accelerated no practicable increase of other activities and of fixed investment in them can significantly change the overall growth rate.

Almost all cultivable land is already cultivated. The total area cultivated, including fallow, is approximately 22·5m acres. The total cropped area in 1969-70, including multiple cropping, was 31·8m acres; the measure of multiple-cropping—the average number of times each acre was cultivated during the year—was 1·41; this figure has been increasing steadily over the years and represents the best opportunity for increasing acreage under crops.

Of the total cultivable land, about 66% is under rice during the *aman* season—almost all land which is not covered by perennial crops or made uncultivable by excessive inundation; including the perennial crops, about 15·7m acres, or about 70% of all cultivated land, is then in use. The total area in use during the *aus* season (the early rainy season) is about 11·5m acres; a limit to the area that can be

used at this time is out by the extent of inundation before the *aus* crop can be harvested in July or August. The total area in use in the *boro* season is about 5m acres; the extent is limited by water supply and can be (and is being) increased by facilities for irrigation in various forms, but especially by low-lift pumps to lift water out of the innumerable rivers and channels and by tube-wells. It is in the *boro* season that the greatest opportunities for improvement exist.

Table 7

Acreage and production of various crops 1969/70

	Acreage (m acres)	Production (m tons)
Rice	25·49	11·82
Aman	14·84	6·95
Aus	8·46	2·96
Boro	2·18	1·90
Other *boro* or *aus* season crops		
Wheat	0·30	0·11
Other cereals	0·27	0·09
Jute	2·46	1·32
Gram and pulse	0·90	0·29
Oilseeds	0·86	0·38
Tobacco	0·11	0·04
Perennials		
Sugarcane	0·41	7·40
Tea	0·11	0·03
Fruits	0·38	1·58
Others	0·47	..
Total	31·76	..

A study made by Dr. S. R. Bose of the Bangladesh Institute of Development Economics for a meeting of the International Economic Association,[1] on which I have drawn heavily in the preceding paragraphs, sets out the various potential sources of agricultural improvement. They fall into two broad groups: the first the extension of acreage, principally in the *boro* season, involving both better drainage and improved irrigation facilities; the second the improvement of yields involving distribution of improved varieties of seeds, more fertiliser, and better cultivation and better use of available resources.

The opportunities for further increase of *boro* acreage are considerable. About 7m acres are capable of irrigation while less than 1m are at present irrigated. Farmers are crying out for better flood control and more irrigation facilities. What has been lacking has been the administrative capacity to carry out the improvements that are known to be needed. A Rural Works Programme made an excellent start in 1965. It made good progress over the next few years, and development plans were initiated and carried out. It collapsed completely in 1970

[1] A. Robinson and K. Griffin (eds.), *Economic Development of Bangladesh*, to be published by Macmillan in 1974.

and has recently been a dead letter. Its revival, or some scheme to harness local initiative, local know-how and an element of do-it-yourself, is urgently needed. The difficulties are very real. If one reads the swan-song of Akhter Hameed Khan who created the Comilla scheme, *Tour of Twenty Thanas*,[1] written at the beginning of 1971, one is brought up against the limitations imposed by red-tape, the resistance of the money-lenders, and the lack of local leadership and administrative capacity. But this is the central problem of accelerating agricultural development: how to achieve it in detail in 65,000 villages and on 6m holdings in a country in which less than half the adult population is literate.

By any normal standards Bangladesh agricultural yields are extraordinarily low. Table 8 shows yields in a number of other countries. Part of the difference is no doubt ascribable to the special circumstances of Bangladesh. But in large part the differences reflect the present backwardness of Bangladesh agriculture. This has been particularly the case in respect of use of fertiliser. The relative consumptions in Bangladesh and the other countries show how far Bangladesh fell behind them in 1969-70.

The issue that is most hotly debated at present is the place that land reform could and should take in any agricultural policy for the future. The present distribution of size of agricultural holdings is not as unequal as in many other countries. Of the total farm area in

Table 8

Yields of various crops in Bangladesh and selected countries 1969/70

('000 kg per hectare)

	Bangladesh	India	Thailand	Taiwan	S. Korea	Italy	Japan	Mexico
Rice	11·6	16·6	18·7	39·9	46·0	53·0	56·4	28·6
Aman	11·8							
Aus	8·7							
Boro	21·9							
Wheat	8·7	12·1	..	21·0	24·0	23·3	20·7	28·4
Jute	13·4	13·5	12·0	17·4	..	..	..	..
Gram and Pulses	4·5	4·6	..	12·8	10·0	30·7	17·1	25·0
Tobacco	9·1	7·8	10·9	20·6	18·4	16·6	21·3	15·0
Sugarcane	444	483	335	736	..	..	584	625
Use of nitrogenous fertiliser: kg per hectare of cultivated area (*a*)	9·2	7·6	64·6	190·5	138·6	36·7	160·1	16·3

(*a*) Defined as arable land and land under permanent crops

Source: F.A.O. Production Yearbook 1970, Tables 21, 465 and 1.

[1] Akhter Hameed Khan, *Tour of Twenty Thanas.* Pakistan Academy for Rural Development, Comilla. 1971.

1968 only some 5% was in farms of over 25 acres and only 16% in farms of over 12·5 acres. On the other hand 57% of all farms were of less than 2·5 acres, and with growing population and subdivision the proportion of very small farms is increasing; of the total farm area 21% is in farms of less than 2·5 acres, and 51% in farms of less than 5 acres.

In general small farms use land—the scarcest commodity of Bangladesh—more effectively than larger farms. They employ more manpower and more fertiliser per acre and they give higher yields per acre. If the larger farmers were obliged to pay out rent for the land they use corresponding to the true scarcity of the land, they would be under pressure to change and improve their methods.

What is absolutely clear is that agricultural improvement confined to larger farms and richer cultivators will not solve the problem. But the necessary improvements—low-lift pumps, tube-wells, drainage schemes, and embankments—are beyond the individual means of small farmers. In the past, technical improvements, particularly those associated with pumps and drainage, have been largely concentrated on the larger farms. This needs to be changed. There are four potential solutions. The first is land reform; the second is some form of private enterprise by which water is pumped and sold to cultivators; the third is public service fulfilling the same function; the fourth is co-operative enterprise.

Land reform alone does not solve the problem of 'lumpy' investment too large for the individual cultivator; it needs to be complemented by one of the others. A widespread system of private enterprise village water supply is antipathetic to the present political mood of Bangladesh, where the problem is visualised as that of creating a socialist economy based on individual peasant agriculture. The choice appears to lie between some kind of public service and some kind of co-operative organisation. Both are difficult. Both assume efficient local administration, efficient repair of engines, pumps, and equipment, smooth and efficient distribution of fertilisers and seeds. And these, as Akhter Hameed Khan's impressions[1] make clear, are the things that in the past it has not been legitimate to assume. Whether a new and vigorous national leadership can find new ways of solving these problems is the great question.

In these circumstances, what rate of growth is it proper to assume for agriculture over the next five years? It is tempting to be brave and to assume rapid growth. It is clear that the problem is not primarily one of persuading reluctant and conservative cultivators to adopt new methods—that has been overcome—but of remedying administrative limitations. Some of these are matters of inadequate transport, of

[1] Akhter Hameed Khan, *op cit.*

supplies and spare parts stuck in Chittagong, of lack of local repair facilities and trained engineers in the field. Some are matters of red tape, reluctance to delegate responsibility or to accept delegated responsibility. A vigorous and national administration may be able to cut through these difficulties. But these have been the endemic diseases of the past. An annual growth of agricultural output of 4% was achieved during 1964-65 to 1969-70. Is it greatly over-optimistic to believe that 5% may be possible over 1974-75 to 1979-80 if the new government concentrates its efforts on agricultural growth?

There is another way in which the objectives of agricultural planning may be approached. Over the past twenty-five years, as was stressed earlier, Bangladesh, an agricultural country singularly ill-provided with any but agricultural resources, has slowly been drifting into dependence on food imports, financed and made possible largely by an inflow of capital. Her present ambition is to develop with a minimum of aid, and to develop without loading herself with a heavy dead-weight of unnecessary debt. This can only be possible if the dependence on food imports is eliminated and the earnings of jute and tea—her only substantial exports—are devoted primarily to financing the purchase of capital goods for development. These problems will be discussed more fully below. Here what is relevant is the implication for agricultural development.

If one starts with a normal consumption of 11·5m tons of foodgrains 1972/73 and assumes a growth of about 5·5% a year in gross domestic product, divided about equally between growth of population and growth of income per head, the foodgrains requirement for 1978/79 would be about 14·7m tons, when allowance is made for the income elasticity of foodgrain demand. The comparable starting point in a normal year of foodgrain production would be about 11m tons of rice and wheat (about 10·85m tons of rice and 150,000 tons of wheat) after deduction of the normal allowance for seed and waste. An increase of foodgrain production from 11m tons to 14·7m tons over a six-year period represents an annual growth of about 4·9%; to provide for growth of output *pari passu* with growth of demand (i.e. still leaving the 500,000 tons deficit implied at the beginning), would require about 4·2%; anything less would imply a drift increasingly into deficit. Apart from jute and tea, most other agricultural products are catering for home markets growing as least as fast. The need for added agricultural exports (which represented in 1968/69 only about 6% of all agricultural output) is evident. Thus circumstances demand, and announced policies have in effect declared, the attempt at an annual agricultural growth of about 5%.

Chapter 6
Development outside Agriculture

If one conceives a five-year plan for Bangladesh as essentially agriculture-led and concentrated on agriculture—as it surely must be—it is necessary to approach the rest of the plan as subsidiary to, and dependent on, the central needs of agriculture, and employing the resources not required for agricultural development. It is right, therefore, to consider first what volume of capital formation is required to implement the agricultural part of the plan and then to proceed to see what opportunities can be seized with what resources remain.

In general, requirements of agriculture are not large. A study of these problems made by Dr. A. R. Khan[1] assumes no more than an incremental capital-output ratio of 0·77—very far below the ratio of around 3·0 to 4·0 that applies more generally to public utility and industrial development. It is not clear exactly what this would cover. Much of the improvement of drainage, embankment, rural transport and the like which is so necessary probably lies outside the assumed boundary of strictly agricultural investment. To be on the safe side, I shall assume an incremental capital-output ratio of 1·0 for agriculture. This would imply increased investment in rural works programmes and the like which minister not only to agricultural productivity but also to much-needed rural employment.

With a 5% growth of agricultural production, this would imply at 1959/60 prices (which I shall use throughout) an increase of agricultural value added, and on the basis of the 1·0 ratio, an equivalent expenditure on capital formation in agriculture, of 34% over a period 1972/73 to 1978/79. This would represent an average investment per year of about Takas 806m at 1959/60 prices. If, as I shall show, a total saving of the order of Takas 3,200m at those prices is likely to be available, what other developments are possible?

Projections to 1978/79 have been made at three alternative rates of growth of 5·4%, 5·9% and 6·4% a year and the implied levels of fixed capital formation and of required imports have been calculated. The three alternative rates of growth are assumed to be based on the sectoral rates of growth shown in Table 9. Obviously other variations are possible, but these alternatives represent roughly three consistent patterns and strategies of possible development at different rates, which would be somewhat modified in any actual programme of development.

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[1] 'Capital-Intensity and the Efficiency of Factor Use: a Comparative Study of the Observed Capital-Labour Ratios of Pakistan's Industries', *The Pakistan Development Review*, 1970, pp. 232-63.

Table 9

Assumed sectoral rates of annual growth 1972/73 to 1978/79

(percentages)

	A	B	C
Agriculture	5·0	5·0	5·0
Large-scale industry	8·0	12·0	16·0
Small-scale industry	6·0	7·0	7·0
Other activities	5·5	6·0	6·5
Gross domestic product	5·4	5·9	6·4

The implications of these assumptions, as they would affect fixed capital formation and non-foodgrain imports, are worked out in detail in Table 10. It must be borne in mind that the imports calculated represent those which would be expected on the basis of the 1968/69 structure of the economy.

Table 10

Alternative levels of visible imports in 1978/79 on the basis of 1968/69 relationships

(Takas m at 1959/60 prices)

	1972/73 (normalised)	1978/79 with 5·4% growth (A)	1978/79 with 5·9% growth (B)	1978/79 with 6·4% growth (C)
Gross domestic product generated in	23,219	31,844	32,766	33,747
agriculture	12,286	16,463	16,463	16,463
large-scale industry	1,335	2,119	2,635	3,253
small-scale industry	658	933	987	987
other activities	8,940	12,329	12,681	13,044
Annual fixed investment in				
agriculture	614	823	823	823
large-scale industry	428	678	1,264	2,082
small scale industry	39	56	69	69
other activities	1,230	1,695	1,902	2,120
total net investment	2,311	3,252	4,058	5,095
replacements	580	813	1,015	1,274
total gross fixed investment	2,891	4,065	5,073	6,368
Imports required				
capital goods (= 33% of fixed investment)	964	1,355	1,691	2,123
non-food consumer goods (= 3% of GDP)	697	955	983	1,012
intermediate goods (=45% of output of manufactures)	896	1,373	1,630	1,908
Total of non-food imports	2,557	3,684	4,304	5,043
Non-food imports as % of GDP	11·01	11·57	13·14	14·94

In any choice between alternative strategies the decision will necessarily rest on the implications of the alternatives in respect of the consequences for the balance of payments, for the savings required, and for the inflow of foreign capital that would be necessary to fill the probable gap in respect of whichever of these was likely, after suitable and practicable policy changes, to prove larger.

If the implications for the balance of payments are to be examined, it is necessary to start by considering the recent trends of Bangladesh imports and exports.

Chapter 7
The Trends of Imports and Exports

During the 1960s Bangladesh, like many developing countries, became structurally adjusted to a large annual inflow of capital. But, even apart from that, it is not easy to see a pattern of rapid industrial growth, if that were to be attempted, without a large volume of imports because, for the time being, there is hardly any local manufacture of machinery and industrial equipment and the import content of capital investment is high. At the same time, unless tastes change, or until manufacture is developed, there is a considerable import content of personal consumption which has been met in the past through the import of Pakistani consumer goods to the captive market of Bangladesh. An unpublished study of Bangladesh development by Dr. A. R. Khan has assumed an import content of capital investment of about 33% overall and almost 40% for non-agricultural investment (even this figure is low by Indian experience at the same stage of development); the import content of non-food consumption is around 10%.

The drift towards dependence on imports and capital inflows during the 1960s and its effect on the economic structure can best be seen in Table 11 which analyses the balance of payments of different years. Between 1959/60 and 1969/70 the ratio of imports to gross domestic product slowly rose from a little under 11% to something around 13%. At the same time the ratio of exports to gross domestic product progressively fell from around 10·5% to around 9·5%. Thus the balance of payments gap grew from almost nothing in 1959/60 to about 3·5% of gross domestic product at the end of the decade.

This change, as can be seen, arose partly from a failure of export receipts to develop *pari passu* with faster economic growth. The figures to enable one to calculate the exact trends of changes of the volume of exports to different destinations are somewhat uncertain, but over these years the volume of exports to world markets outside Pakistan would appear to have been growing by about 1·5% annually; the volume of exports to Pakistan markets was growing about 6% annually; the volume of total exports was growing about 3·3% a year. Over the same period the volume of imports from non-Pakistan sources was growing about 7% a year; the volume of imports from Pakistani sources was growing about 3·6% a year; the total volume of imports was growing about 5% a year.

The prospects for exports are peculiarly difficult to guess. In the past, jute and jute manufactures have been responsible for about 90% of exports to world markets. Hides and skins have made up about

Table 11

Current account balance of payments of Bangladesh in various years 1959 to 1970

(current prices)

	Imports from Pakistan	Imports from other countries	Invisible payments	Total payments	Exports to Pakistan	Exports to other countries	Invisible receipts	Total receipts	Deficit
1959/60 Takas m	569·34	655·0	343·4	1,567·8	362·4	1,080·0	83·3	1,525·7	–42·1
% of GDP	(3·92)	(4·51)	(2·37)	(10·80)	(2·50)	(7·44)	(0·57)	(10·51)	(–0·29)
1964/65 Takas m	874·5	1,702·0	436·4	3,012·9	537·1	1,268·0	257·5	2,062·5	–950·4
% of GDP	(4·22)	(8·21)	(2·11)	(14·54)	(2·59)	(6·12)	(1·24)	(9·95)	(–4·59)
1968/69 Takas m	1,385·2	1,823·4	628·7	3,873·3	870·5	1,542·7	408·1	2,821·3	–1,016·0
% of GDP	(4·62)	(6·08)	(2·10)	(12·80)	(2·90)	(5·15)	(1·36)	(9·41)	(–3·39)
1969/70 Takas m	1,666·9	1,813·1	(659·0)	4,139·0	923·4	1,670·1	(423·5)	3,017·0	–1,122·0;
% of GDP	(5·31)	(5·78)	(2·10)	(13·19)	(2·94)	(5·32)	(1·35)	(9·61)	(–3·58)

half the remainder. The total tonnage of Bangladesh jute exports has been growing by only about 1·5% a year, though the increased proportion of manufactures has increased real earnings somewhat faster. The Bangladesh share in world trade in raw jute has fallen from 93% in 1959 to 89% in 1969. Its share in world production of jute and kenaf, after falling from 50·1% in 1948–52 to 33·9% in 1961–5, has risen to 36·3% in 1967–70. India's share has been falling; Thailand's output of kenaf, after rising in 1961–65, has since been static; the chief increase has been in the non-competitive production of Mainland China.

The competitive position of Bangladesh jute was affected by the overvaluation of the Pakistan rupee, only partly offset by the export bonus scheme. But the main underlying cause has been the decline in the use of jute as a packing material, only partly mitigated by its increased use for other purposes. It is difficult to predict a future growth of jute exports by more than some 2 to 3% a year, as a result of an increasing share in world trade, unless some arrangement with India completely alters the picture.

It is equally difficult to guess what may be the future growth of other exports, including those that previously went to the captive market in West Pakistan. The principal components of the exports to that market were tea (about 30%), jute manufactures (about 15%), and paper and board (about 13%). The Bangladesh tea industry, selling in the captive market, has become a relatively high-cost producer, with a higher employment per lb of tea than its nearest competitors. It will no doubt be able to dispose of its output in other markets, but at present is doing so at very considerable loss. It remains to be seen whether replanting, reorganisation, and some elimination of marginal production can restore prosperity to the industry. The remaining former exports to Pakistan, such as leather, matches, and a few minor manufactures, can no doubt also find world markets. But it remains to be seen whether it will be easy, even with the considerable assistance given by devaluation, to find markets which will grow as fast as or faster than the captive markets of the past. The much closer relations with India may provide opportunities in that market, but will provide also opportunities for increased imports over a very long and very imperfectly controlled frontier. For planning purposes it is very difficult to assume an annual growth of exports much greater than the 3·5% of the past; even that may prove optimistic. What is obvious is that exports and imports cannot continue to grow at the widely divergent rates of the past without creating an impossibly large gap to be bridged by any potential aid.

On the basis of 3·5% annual growth what are likely to be the foreign earnings of the future? Arithmetically they are set out in Table 12.

Table 12

Export earnings projected on the basis of 3·5% annual growth

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
Takas m at 1959/60 prices	1,800*a*	1,863	1,928	1,996	2,066	2,138	2,213
US dollars m at 1959/60 prices	544	563	583	603	624	646	669
US dollars m at 1972/73 prices	633	655	678	701	726	751	778

a It has been assumed that the starting point in 1972/3 is about equivalent to 1969/70.

Before drawing any conclusions from these formal calculations it is necessary to have various considerations in mind:

(i) Projections of imports and exports on the basis of a system of constant prices implicitly assume that the terms of trade are constant throughout the period. That is always a dangerous assumption. It is particularly unrealistic in the case of Bangladesh to assume a continuation of the terms of trade as at 1959/60. In the first place there have been two devaluations since 1959/60: the first, together with sterling, in 1967 and the second, by two-thirds, early in 1972 shortly after the creation of Bangladesh. These have in large measure offset heavy rises of costs and prices and have restored the original competitiveness of jute and other exports, despite the removal of previous export subsidies, though at the price of some reduction of the purchasing power of a given volume of exports.

(ii) Until the end of 1971 Bangladesh was a captive market for Pakistan exports of a variety of consumer goods. These could have been bought more cheaply in world markets and will in future be bought (apart from the consequences of devaluation) on more favourable terms. These purchases (apart from foodgrains) represented about 37% of total imports in 1968/69. On these imports the gain from greater freedom probably exceeds the effect of devaluation.

(iii) West Pakistan provided a captive market for certain products of Bangladesh. By far the most important of these was tea. This represented in 1968/69 11% of total Bangladesh exports. The sales in world markets are being made on very much less favourable terms than were then available.

(iv) The calculations of imports and exports have deliberately excluded invisible imports and exports. For 1968/69 invisible payments have been estimated to exceed invisible receipts very considerably. It is impossible on the basis of available information to guess how much of this excess was the consequence of payments to West Pakistan for defence and what are now regarded as 'colonial' administrative services. It is equally impossible to quantify other government expenditure made in Bangladesh for similar purposes, or profits made by West Pakistani businesses which were transferred to West Pakistan or

abroad. On the other hand Bangladesh, as a separate nation, now has to bear the cost of her representation abroad, her membership of international agencies and so on. In 1968/69, invisible payments of Bangladesh were Takas 629m, representing about 0·21% of GDP, and invisible receipts Takas 408m, or about 0·13% of GDP. Any error involved in assuming that by 1978/79 these factors will balance is not considerable.

(v) When these various factors are taken into account and a very rough attempt is made to quantify them, they would appear to come very near to cancelling out, with a possible slight movement in the terms of trade favourable to Bangladesh. The net difference is so small and so uncertain that I prefer to neglect it.

Chapter 8
The Need to Change the Pre-Liberation Structure

The various ingredients of the potential balance of payments at alternative rates of growth may thus be assembled. Table 13 shows alternative estimates for the year 1978/79 for imports, all of them based on the 1968/69 pattern of relationships between imports and the various constituents of the economy.

Table 13

Estimated imports, exports and balance of payments
(Takas m at 1959/60 prices)

	1972/73	1978/79 A	1987/7 B	1978/79 C
Assumed growth rate of GDP (%)		5·4	5·9	6·4
Export earnings	1,800	2,213	2,213	2,213
Imports other than food grains	2,557	3,684	4,304	5,043
Imports of food grains	..	—	—	—
Invisible balance	..	—	—	—
Current account deficit (Takas m)		—1,471	—2,091	—2,830
(US $ m at 1959/60 prices)		—444	—704	—855
(US $ m at 1973 prices)		—516	—819	—994
Exports as % of GDP		6·95	6·75	6·56
Imports as % of GDP		11·57	13·14	14·94
Deficit as % of GDP		4·62	6.39	8·38

Certain things are at once obvious. The Bangladesh economy could not possibly be developed on the basis of the 1968/69 pattern of structural relationships without running into serious gaps both in savings and in foreign exchange. If one takes the figures from tables 10 and 13 one can see the implied gaps, as shown in Table 14 below.

It will be seen that, even with development biased as has been assumed towards agriculture, on the basis of past structural relationships large gaps, estimated at about 7% of GDP for savings and 6·4% for foreign exchange, in the case of growth of about 6%, appear to be opening up. If capital inflow in the form of aid is dictated by the larger of the two gaps, an inflow of about 7% of GDP or about US $ 900m at 1973 prices would be needed by 1978/79.

It is necessary, therefore, to ask how far these gaps can be closed by policy changes such as might be acceptable to government and

Table 14

Savings and foreign exchange gaps in 1978/79 on the basis of 1968/69 relationships

	1978/79 A	1978/79 B	1978/79 C
Assumed growth rates (%)	5·4	5·9	6·4
As % of GDP			
Fixed investment	12·76	15·48	18·87
Allowance for stock formation	1·28	1·55	1·89
Total investments	14·04	17·03	20·76
Domestic savings rate of 1966/67 to 1968/69	10·06	10·06	10·06
Savings gap	3·98	6·97	10·70
Exports	6·95	6·75	6·56
Imports	11·57	13·14	14·94
Foreign exchange gap	4·62	6·39	8·38

public opinion in Bangladesh. Certain policy changes are, indeed, already in train. But before trying to measure the required policy changes there are certain more practical considerations that need to be considered.

A calculation of import requirements such as has been set out and such as is normally made for planning purposes measures the need for imports if everything goes right. But in fact imports perform two functions, one of which is frequently forgotten: imports fill the regular and annually recurrent needs of a country for goods which it does not possess or cannot produce economically; imports fill the gaps when particular sections of production have gone wrong, or failed to develop as they should, so that bottlenecks have emerged —without such imports other developments would be delayed and the whole progress of the economy impeded. Countries which have failed to make adequate allowance for this second need for imports (India for example) have found themselves in continuing balance of payments difficulties. It is true that a foreign exchange reserve will cover such imports. But in practice, these failures are not rare and occasional but regular and recurrent. The foreign exchange gaps calculated and set out above are almost certainly underestimates.

The import calculations made above have assumed implicitly that all imports from West Pakistan other than foodgrains will be replaced by imports from other sources. It is the present policy to replace them to the greatest practicable extent by development of Bangladesh capacity. To that extent change of the 1968/69 structure is already in train.

The present mood of public opinion in Bangladesh very laudably seeks to limit so far as possible dependence on aid, and particularly on aid from capitalistic countries which might involve political strings

or constraints on their freedom; it would, that is to say, prefer a line of policy which would diminish aid by 1978/79 to a level that is wholly consistent with such freedom.

Though attempts have been made to estimate future savings, this is in fact difficult to do, even on the basis of existing policies, policy instruments, tax rates and other factors. The extent to which large-scale industry, most of which is now in government hands, will succeed in making profits or be allowed to make them in face of pressures to hold down prices, is, as always, uncertain. An estimate made by Dr. Alamgir[1] would suggest that the savings ratio, on the present basis, might be approximately 7% by 1978/79.

If one assumes that a 3·5% rate of annual growth of exports cannot be substantially increased, the possible instruments of policy are three:

(i) to reduce the 1968/69 propensities to import;
(ii) to increase the 1968/69 propensity to save;
(iii) to reduce the rate of growth of GDP to one which is consistent with feasible and acceptable inflow of capital.

[1] See his paper on 'Resources for Development' which will form Chapter 4 of *Economic Development in Bangladesh*, to be published by Macmillan, London, during 1974.

Chapter 9
Possibilities of Import-saving

The possibilities of import-saving are very considerable. Indeed steps are already being taken in this direction in consequence of the hiatus in the flow of imports caused by the abrupt severance of all trade with Pakistan and the scarcities resulting from it. There is general expectation that Bangladesh will do its utmost to replace the Pakistan imports, so far as practicable, by internal production. It is relevant, therefore, to consider how far it is practicable.

Table 15

Imports into Bangladesh in 1968/69

(Takas m at 1968/9 prices)

	From foreign countries	From West Pakistan	Total	% of total imports
Foodgrains	342·2	129·2	471·4	14·9
Cotton and cotton yarn	9·6	219·0	445·7	14·2
Cotton piece-goods	—	217		
Vegetable oils and fats	56·1	130·6	186·7	5·9
Rubber and manufactures	10·7	—	10·7	0·1
Tobacco and manufactures	—	123·6	123·6	3·9
Coal, coke etc.	48·0	—	55·8	1·8
Petroleum and products	7·8	—		
Iron and steel manufactures	267·1	—	267·1	8·4
Building materials (cement)	27·1	69·9	97·0	3·1
Machinery, apparatus and vehicles	631·9	63·4	695·3	22·0
Chemicals, drugs, dyes	175·4	53·8	229·2	7·2
Paper, board etc.	13·0	—	13·0	0·4
All others *a*	277·3	293·0	570·3	18·0
Total	1,866.2	1,299·6	3,165·8	100·0
Totals at 1959/60 prices	1,781·8	1,240·8	3,022·6	
% of total	58·9	41·1	100·0	

a Including under 'foreign countries' foreign merchandise reconsigned from West Pakistan

Source: Derived from Tables 3.3 and 3.6 in *Statistical Bulletin of Bangladesh*. Bureau of Statistics, Dacca. March 1972.

No great technical difficulties would exist in replacing certain Pakistani imports of the past, and it is sometimes argued that, apart from policy dictated from Islamabad, they would have been replaced. Imports of vegetable oil, raw and manufactured tobacco, certain chemicals, drugs and pharmaceuticals can in some cases be replaced

on the basis of already existing capacity, sometimes with moderate new investment.

A more difficult problem is presented by imports of cotton piece-goods, cotton yarn and cotton. Bangladesh has a large and under-employed cotton handloom industry, and with heavy rural and small-town unemployment there is a strong desire to see it much more active. The taste of Bangladeshi consumers, and particularly the women, favours Bangladeshi handwoven cloth and the industry can, if it proves necessary, be expanded considerably with a very low capital-output ratio. In these days, however, hand-spun yarn is wholly uneconomic and the traditional skill has virtually disappeared. As a short-term measure, attempts will be made to buy cotton from new sources and expand mill spinning in Bangladesh so far as is practicable, importing the residue in the form of yarn. In the past the cotton used came from Pakistan, and it is a complication that existing spinning capacity is adjusted to cottons of that type and there are only limited sources from which it can be bought. With the pressing need to save imports (cotton yarn and cloth represented about 14% of all imports in 1968/69) it is relevant to ask whether the necessary cotton can be grown in Bangladesh. In the eighteenth century, the famous Dacca muslins were produced from locally grown cotton, handspun as well as handwoven. The growing of cotton died out during the nineteenth century under competition from lower-cost Indian and other sources and from mill-spun yarn. The possibilities of growing cotton in Bangladesh have never been competently and professionally reappraised in recent years since the science of cotton breeding and its adaptation to local conditions was developed and applied to such a country as Uganda. It would be good sense to provide for such an appraisal within the overall programme for the agricultural sector.

In Table 16 an attempt has been made to see what saving of imports would result from a policy of replacing lost imports from Pakistan by domestic production. The figures represent little more than guesswork. But the orders of magnitude are indicated. In very broad terms Pakistani imports represented in 1968/69 43% of all non-foodgrain imports. If half of these could be replaced by domestic production without imported inputs (vegetable seeds, tobacco, for example), and half could be replaced by domestic production with intermediate inputs equivalent to 50% of the value of the import, the saving of imports would obviously be 21·5% plus 10·75%, or 32·25%. The estimated practicable saving is about three-quarters of this. Not all of this may be practically possible. On the other hand, there are considerable imports from countries other than Pakistan which, with devaluation, it is now economic to replace by domestic production.

Table 16

Estimates of possible import-saving 1978/79

(Takas m)

	A	B	C
Capital goods			
Imports on basis of 1968/69 relations	1355	1,691	2,123
Possible saving	115	140	177
Implied import	1,240	1,551	1,946
Intermediate goods			
Imports on basis of 1968/69 relations	1,373	1,630	1,908
Possible saving	510	606	709
Implied increases consequent on other savings *a*	255	263	270
Implied import	1,118	1,287	1,469
Consumer goods			
Imports on basis of 1968/69 relations	955	983	1,012
Possible saving	510	525	540
Implied import	445	458	472
Total Imports			
Imports on basis of 1968/69 relations	3,683	4,304	5,043
Possible saving	880	1,008	1,156
Implied import	2,803	3,296	3,887
Reduction in calculated imports (%)	23·9	23·4	22·9

a i.e. necessary imports of intermediate goods to permit savings on manufactured consumer goods.

If one returns to the earlier balance of payments calculation with this import-saving in mind as a possibility, one gets the results shown in Table 17, which is in fact an amended and adjusted version of Table 13.

Table 17

Estimated imports, exports and balance of payments on the basis of self-sufficiency in foodgrains and import-saving as shown in Table 16, 1978/79

(1959/60 prices)

	A	B	C
Assumed growth rate of GDP (%)	5·4	5·9	6·4
Export earnings	2,213	2,213	2,213
Imports other than foodgrains	2,803	3,296	3,887
Foodgrain imports	—	—	—
Invisible balance	—	—	—
Current account deficit			
(Takas m)	–590	–1,083	–1,674
(US $m at 1959/60 prices)	–123	–226	–350
(US $m at 1973 prices)	–143	–263	–407
Exports as % of GDP	6·95	6·75	6·56
Imports as % of GDP	8·80	10·05	11·52
Deficit as % of GDP	1·85	3·30	4·96

Chapter 10
Possibilities of Raising the Savings Ratio

In such a very poor country as Bangladesh it is always difficult to be completely realistic about the practical problems of increasing saving in order to permit the capital formation needed for progress. In the years 1966/67 to 1968/69, as was indicated above, the average level of domestic saving has been estimated by Dr. Alamgir to have been approximately 10·2% of gross domestic product. The sources of this saving are shown in Table 18 below.

Table 18

Sources of savings 1966/67 to 1969/70

(percentages)

	1966/67	1967/68	1968/69	1969/70
Non-corporate private sector	60	57	57	63
Corporate sector:				
non-financial companies	7	8	12	5
financial companies	3	3	3	4
Government sector	30	32	28	28
Total gross national saving	100	100	100	100

Dr. Alamgir has made projections of possible savings through the coming five-year plan period in his paper for the January 1973 International Economic Association conference. His estimates have very properly been based on existing policies and existing tax arrangements and tax rates. They necessarily assume rates of return and potential gross savings in the large new public sectors. It is possible that his assumptions are somewhat conservative in this and other respects. But they suggest that, on the existing basis, the domestic savings ratio may be considerably lower than it was in the past when there was a rich non-corporate private sector, much of it in present terms expatriate, providing three-fifths of total savings. His estimates on these assumptions would give savings ratios as follows (I have extrapolated an estimate for 1978/79):

Table 19

Estimated savings ratios on the basis of existing policies

(percentages of GDP)

1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
5·30	5·69	6·10	6·57	7·06	7·41

It is clear that there is need for considerable rethinking of the tax system and of the policies of public sector industries in respect of earning profits, and making them available for general development, if the assumptions on which the above estimates are based are realistic. There are, however, certain mitigating considerations. Much of the investment envisaged in an agriculture-led development will be at the farm or village level. The green revolution, if it is successful, can yield very considerable gains to the cultivator, and the experience of the Comilla experiment has shown that, where the cultivator is investing in things under his own ownership and control, he will provide a significant part of the required capital from his own savings. The same applies equally to much of the small-scale industrial development.

With such uncertainty about the existing starting level and probable tax policies in the future, it is very difficult to calculate realistically the potential savings gap. It is, perhaps, legitimate to reason that Bangladesh has in the past demonstrated the possibility of supporting a 10·2% savings ratio and to assume that suitable policies can at least restore that level. Can they increase it? It is hoped that gross domestic product can increase between 1972/73 and 1978/79 by 37% to 45%. If population is assumed to grow by 2·8% a year, income per head will grow over the period by 16 to 23%, or about 2·5 to 3·5% a year. It is not unreasonable to believe that a marginal savings ratio of about 20% of the increased income per head can be 'saved' either voluntarily or compulsorily under the stimulus of suitable taxation policy. Thus the savings ratio of 10·2% of 1966–69 should be capable of being increased at least to 10·7 to 10·9%. In fact Bangladesh should be capable of raising the domestic saving ratio to 11·5%. The current Indian plan assumes a ratio of domestic saving to gross domestic product of 11·9%. The ASEAN group of countries achieved in 1968 a ratio of 12·6%. A figure of 11·5% is the middle point of a range of 11% to 12% suggested by Dr. A. R. Khan in his book *The Economy of Bangladesh.*[1]

[1] A. R. Khan. *The Economy of Bangladesh.* Macmillan, London, 1972.

Chapter 11
The Savings and Foreign Exchange Gaps

What are the implications of the analysis of import-saving and protection of domestic savings for the savings and foreign exchange gaps set out on the basis of the 1968/69 structure of the economy in Table 14? Table 20 below makes the various amendments and adjustments consequent on the discussion in the last two chapters.

Table 20

Savings and foreign exchange gaps in 1978/79, with increased saving and import-saving

	A	B	C
Assumed growth rates in GDP (%)	5·4	5·9	6·4
Percentages of GDP			
Fixed investment	12·76	15·48	18·87
Allowance for stock formation	1·28	1·55	1·89
Total investment	14·04	17·03	20·76
Estimated domestic savings rate	11·50	11·60	11·70
Savings gap	2·54	5·43	9·06
Exports	6·95	6·75	6·56
Imports	8·50	10·05	11·52
Foreign exchange gap	1·85	3·30	4·96

It will be seen that a growth rate of 6·4% a year would require an inflow of foreign capital equivalent to nearly 5% pf GDP to cover the estimated foreign exchange gap. This is much larger than the inflow received on average during the years 1966–69, which was about 3·5%. It is estimated that a growth rate of 5·9% might be consistent with an inflow of capital of about 3·3% of GDP; if the savings gap must be covered, a growth rate of 5·4% might be consistent with an inflow equivalent to about 2·5% of GDP.

As high a growth rate as 6·4% seems likely to be impracticable. The effective choice would appear to be between a growth rate of about 5·4% and one approaching 6%. In making a final decision of policy it would be necessary to have in mind the various practical considerations to which reference was made earlier.

(i) These formal calculations of imports are most probably underestimates. They assume a very successful policy of import-saving and that no imports will be needed to maintain programmes in danger of breaking down through delays in domestic production in other projects. Provision needs to be made for this.

(ii) The assumed growth of exports to world markets by an average

of 3·5% a year is optimistic, and possibly over-optimistic. While the expansion in exports to the sheltered market of West Pakistan has in the past been considerable, the growth in the volume of exports to world markets during the 1960's was less than 1% a year.

(iii) The assumed savings rates would appear to be conditional on the complete overhaul of the tax and revenue systems and a firm policy of inducing public-sector industries to make, and make available for general development, substantial profits and gross saving.

(iv) Heavy dependence at this stage of development on capital inflow will build up a large capital debt to be serviced and reduce the net inflow, after interest payments, in later years when the need for imported capital equipment is likely to be great.

(v) While a limited inflow of capital from countries politically sympathetic to Bangladesh may be obtained without 'strings', the larger the required inflow, the greater the probability that onerous or politically difficult conditions will be attached to loans.

No foreign commentator is entitled to do more than indicate what policy may be in the interest of Bangladesh. There are good reasons to think that a careful appraisal of the situation will lead to a decision not to attempt more than 5·5% annual growth. If this study has been over-optimistic on what is practicable in the field of agriculture, a programme of 5% annual growth might be more realistic. A hard-headed forecast of actually likely achievement, rather than a discussion of reasonable and not impracticable objectives, would probably result in lower figures.

Chapter 12
The Period 1972/3 to 1978/9

This far we have been concerned with the broad strategy of a development plan and with the destination that it is reasonable to attempt to reach by 1978/79, as the first year after the end of the present plan period. It is now necessary to go on to study the resources that may be necessary to help Bangladesh through the transition of the plan period itself. This is more than usually difficult to estimate because of the wholly abnormal situation from which the country starts—in a sense a double abnormality, due in the first place to the war and in the second to the very serious crop failure of 1972, which dislocated the plans made to recover from the war.

In the early summer of 1972, before the failure of the monsoon and its effect on the 1972 *aman* rice crop became evident, the Planning Commission published its short-term Annual Plan for 1972/73, designed to carry the country through, until the Five Year Plan could be worked out. The main purpose of the Annual Plan was to set out in its proper perspective an ambitious agricultural plan, designed to produce a little over 11·6m tons of foodgrains and make the country self-sufficient from the time that the *aman* crop of 1972 was harvested. With that as the centre of the plan, a programme of development expenditure, and of use of foreign exchange resources was worked out, with estimates of export earnings. In the very abnormal circumstances of 1972 no attempt was made to estimate the actual gross domestic product of 1972/73. Much capacity was standing idle temporarily from lack of materials, top management, and marketing organisation, and similar factors. It is more relevant to relate the various magnitudes, as has been done elsewhere in this study, to what would have been the 1972/73 gross domestic product in normal circumstances.

If one assumes that the normalised 1972/73 gross domestic product so defined would have been about Takas 40,800m at the prices used for the planning calculations (it is clear that they were assumed to be 30% above those of 1969/70), the various principal elements in the plan were as follows, as percentages of the normalised GDP:

Table 21

Principal elements of the Annual Plan for 1972/73

(percentages of GDP)

	Domestically financed	Financed by foreign capital	Total
Development expenditure	3·08	9·17	12·25
Exports	6·36	—	6·36
Imports	6·36	9·17	15·53

Thus for 1972/73 the savings gap represented 9·17% of a normalised GDP, or 74% of total investment. The foreign exchange gap represented 59% of total imports; only 41% of imports were expected to be financed by exports. These figures reflect, of course, what was then expected to be a single abnormal year during which Bangladesh was being rescued by UNROD and a wide variety of other forms of aid. Since the estimated foodgrain gap until the harvesting of the 1973 *aman* crop is of the same order of magnitude, it is probably right to regard the situation of 1973/74 as not widely different from that visualised for 1972/73.

It is reasonable to assume that when the initial burst of urgent rehabilitation is complete, as it will be by late 1973, capital formation will increase progressively to about the ratio of GDP visualised for 1978/79, with a steadily rising volume of investment representing a slowly rising ratio to GDP. It is very much more difficult to guess how quickly financial and tax reforms and the emergence of savings from the operations of public sector undertakings can be expected to build up the rate of savings to the levels desirable for 1978/79. It is perhaps realistic to assume that by 1973/74 they will reach the level estimated by Dr. Alamgir to result from existing arrangements and tax rates and will be adjusted over the following years progressively to reach the 1978/79 situation.

It has been assumed that exports will build up *pari passu* with GDP for the next two years and then grow a little slower (by 3·5% annually against 5·4%) and thus fall as a proportion of GDP.

It is very much more difficult to estimate the probable trend of imports; those representing necessary capital equipment, raw materials, and intermediate goods are a corollary of the growth of the economy; those representing consumer goods, in theory at least, are residual and may be restricted when foreign exchange is scarce. But with such a long open frontier smuggling sets an inescapable limitation on the state's ability to restrict in practice. The demand for imported consumer goods in various years will chiefly depend on the rate at which import-saving capacity can be developed. It largely exists already in the cotton handloom industry, provided that yarn is available. Small-scale industry is already being improvised to fill certain gaps. Larger scale capacity either exists or can be quickly extended for a variety of drugs, dyes and other chemicals, and for light engineering goods. It has been assumed that after the end of 1973, when the present acute shortage of imported goods has been met, the import ratio can be brought down quickly to the level represented by pre-war imports from all sources, including Pakistan, and thenceforward progressively reduced to the 1978/79 ratio.

On these very tentative and uncertain assumptions the savings and foreign exchange gaps might be estimated to be approximately as

shown in Table 22 below.

Table 22

Estimates of percentage shares of savings gaps and foreign exchange gaps 1972/73 to 1978/79 with 5·4% growth

(percentages of GDP)

	1972/73 Annual Plan	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
Total investment	12·3	12·3	12·6	12·9	13·3	13·7	14·0
Domestic saving	3·1	5·3	8·0	9·0	10·0	11·0	11·5
Savings gap	9·2	7·0	4·6	3·9	3·3	2·7	2·5
Exports	6·4	6·5	6·6	6·7	6·8	6·9	7·0
Imports	15·6	15·5	12·0	11·0	10·0	9·4	8·8
Foreign exchange gap	9·1	9·0	5·4	4·3	3·2	2·5	1·8

It must be stressed that both these gaps could be affected by changes of policy, more vigorous or less vigorous than have been assumed. A weak government could find it difficult to narrow either of the gaps beyond the point assumed to be reached in 1974/75. A strong government, determined to minimise Bangladesh's dependence on the capitalist world and able to face the unpopularity of higher taxation, might more quickly close the gaps to those shown here for 1976/77 and later years.

There is, moreover, one underlying assumption which, even if reasonable for 1978/79, may not be realistic for the intervening years—that invisible payments and receipts will balance. There is not enough evidence available for an outside commentator to analyse prospects. It is possible that a significant addition needs to be made for this.

If one is concerned with the implications for United Nations and world policies, it is more helpful to translate these figures into US dollars. Because of the rapid changes in the value of the Taka it has been safer to work thus far in 1959/60 Takas, in terms of which most of the relevant data were available, and in terms of ratios to the gross domestic product at some at present unknown system of prices. Table 23 presents the underlying estimates of Table 22 converted into 1972/73 US dollars.

Table 23

Estimates of savings gap and foreign exchange gap 1972/73 to 1978/79

(at constant 1972/73 prices converted into US dollars m) *a*

	1973/72 (Annual Plan)	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	Totals for years 1973/74 to 1977/78
Estimated gross domestic product	5,175	5,455	5,755	6,065	6,395	6,735	7,100	
Total investment	635	670	715	760	805	855	910	
Domestic saving	160	170	460	545	640	740	815	
Savings gap	475	500	255	215	165	115	95	1,250
Exports	330	350	380	405	435	465	495	
Imports	800	845	690	665	640	635	625	
Foreign exchange gap	470	495	310	260	205	170	130	1,440

a Converted at Takas 7·9 = US $1 and rounded

Chapter 13
The Outlook for Bangladesh

The question that one is constantly asked is: 'Is Bangladesh viable?' To that question an economist has no answer. What is the alternative to viability? Death? Has any country ever died? It can be poor. It can be static. But can a country not be viable? There are, however, several closely related questions that can be asked, and to which an answer should be attempted. Can Bangladesh continue with the structure of the past and the trends of the past, with increasing food imports and static exports of its main product? Can Bangladesh hope to move into a phase of steady and cumulative growth? Can Bangladesh hope to escape the grinding poverty of the past? To these questions answers will be attempted.

To the first question this study has already provided the intellectual answer and the Bangladesh government has in effect provided the practical answer. The structure of the economy as it was in 1968–69, together with the trends of 1959 to 1969 and the growing inability to feed herself, would lead Bangladesh into widening balance of payments deficits, ever-increasing need for inflow of foreign capital if it was to be kept going, and ever-increasing debt obligations, which would sooner or later exceed the inflow. That structure cannot survive and needs to be changed; the present agricultural policies of self-sufficiency and industrial policies of developing small-scale industries are designed to change it.

To question whether Bangladesh can escape from grinding poverty into cumulative growth is very much more difficult to answer. At present Bangladesh is the text-book example of Malthusian stagnation. Almost nothing has been said so far in this study about population and the problems presented by population growth. But these are right at the heart of the detailed application of any development strategy. The central problem is whether resources available for consumption can grow faster than population.

Between 1901 and 1961 the population of Bangladesh rose from 29m to 59m. Since the 1961 census the further increase is, as has been indicated earlier, somewhat uncertain; there was no 1971 census. But the working assumption is that the population is now about 75m. With the population of two hundred years ago this part of Bengal was, as eighteenth-century travellers recorded, a rich country. With 29m it was still prosperous. With 75m it is one of the poorest countries in the world.

Over the whole period since 1901 the average annual growth of population has been about 13·8% a decade. But over recent years

the growth has greatly accelerated. From 1901 to 1931 it was about 7·2% a decade. From 1951 to 1961 it was 20·7% a decade. The estimates for 1961 to 1971 suggest about 30·2%.

This overwhelming population increase is the consequence of a nineteenth-century birth-rate and a twentieth-century death-rate. The birth-rate of 1901–11 was 54 per 1,000; that of 1962–65 was 50 per 1,000. The death-rate of 1901–11 was 46 per 1,000; that of 1962–65 was 19 per 1,000. The natural rate of growth had increased from 0·82% a year to 3·15% a year, implying a doubling of population every 23 years.

Even if, as is believed, it has since slightly declined, an annual growth of population by 2·8% to 3·0% means that an annual expansion of gross domestic product by 5·4%, such as has been estimated above, implies a rise of no more than about 2·5% in income per head. If, not at all impossibly, the growth actually achieved is nearer to 5% a year, income per head will rise only about 2%. Moreover acceleration of the growth of GDP if it is to be achieved, must mean devoting an increasing proportion to investment, and a growth of consumption per head at a slower rate than GDP per head. If, over a ten-year period, the savings rate was to be increased to the level necessary to support unaided cumulative industrial growth, the annual growth of consumption per head might be little more than 1%.

These formalistic arithmetical calculations fail, however, to emphasise the chief impact of the population explosion. In the Malthusian sense Bangladesh is already overpopulated. As a paper by Professor Duza[1] shows, in 1960 a Bangladesh family of six persons was supported by 2·5 acres of available cultivated land. In 1980 a similar family will be supported by about 1·1 acres. If one extends his calculations to 1990 it will then be supported by 0·8 acres. While a successful green revolution may still make life tolerable on the basis of 1·1 acres, it is unlikely to permit the maintenance at present standards on the basis of self-sufficiency with 0·8 acres. Looking ahead to 2000, well within the adult life of those now starting work, one reaches figures which must almost inevitably imply 'misery', malnutrition and a consequently rising death-rate. One finds oneself inescapably echoing Malthus's own language.

This is one practical aspect of the population problem. A second aspect is equally damaging to growth of income per head. With population growing by about 1·8m a year, the labour force has been rising by about 600,000 a year. Creating jobs for these 600,000, together with the large army of unemployed and underemployed existing already, both in the rural areas and among the urban population—at a guess numbering as many as 2 or 3m—presents the

[1] Professor Badrud Duza, 'Population Policy in Bangladesh', Paper for I.E.A. Conference, January 1973.

most formidable problem confronting the economic planners today. There is some underemployed fixed capital, but when normal conditions are restored, there is little, and creating jobs involves investing capital.

If the objective is set of absorbing the 600,000 annual increase of the labour force and of reducing annually the existing unemployment to the extent of 400,000 by creating annually 1m new jobs outside agriculture, what would this imply? It has been estimated that in large-scale industry the investment required to create a job is about Takas 20,000; in medium-scale industry the investment required per job is about Takas 6,000; in small-scale industry with present techniques the investment required per job is about Takas 1,500. The total net fixed investment resources likely to be available outside agriculture in any year may be of the order of Takas 2,400m, or about Takas 2,400 per job if 1m jobs are to be created.

This implies that it is only if most of the development takes the form of small-scale industry and services of low capital-intensity is it likely to be possible to make any substantial inroad on the present unemployment and underemployment. A simple calculation will show that if investment were spread equally between large-scale, medium-scale and small-scale development, jobs would not be created to match the growth of the labour force; it is only if more than half of all investment is concentrated on small-scale activities that any progress at all will be made in reducing unemployment and underemployment.

There is, moreover, an additional consideration. Not infrequently investment which increases employment directly, reduces employment in other activities. Investment in tube-wells may reduce employment on working hand-pumps; investment in buses may reduce employment of bicycle-rickshaws. Not all investment which is in itself desirable leads to a net increase in employment. This consideration makes it additionally important to concentrate much of the development on potential small-scale activities.

In the past no progress has been made in solving the problems of non-agricultural employment. During the decade 1951 to 1961, the total labour force rose by 35·4% (agricultural by 38·8% and non-agricultural by 18·4%). At 1961 a larger, and not, as one would expect, a smaller, proportion of the whole labour force was dependent on agriculture. Non-agricultural employment was rising by only 1·7% a year. In the absence of a 1971 census only crude comparisons can be made for the decade down to 1971. Non-agricultural employment was certainly growing faster. But it is doubtful whether it was growing faster than the working population.

On the other hand, if Bangladesh were to confine herself to creating jobs that simply used traditional technologies and embodied no technical progress, so that output grew simply in proportion to jobs,

total GDP would grow only about 4% a year and output per head of population little more than 1% a year. The technical advances of the green revolution provide some escape from this impasse in the field of agriculture. But what is very badly needed is a set of advancing industrial technologies with low capital-intensity.

This problem is not unique to Bangladesh. It is the problem of India, of almost all the backward countries of Asia. It is a problem to which advanced countries have hitherto made almost no contribution. The economists assume that, having said in non-quantitative language that development be labour-intensive, they have made their contribution. The engineers, concerned with perfecting capital-intensive technologies, have not faced the problems of very low capital intensity. The great Foundations, which through the elimination of malaria and the techniques of the plant-breeding institutes have altered the face of Asia, have not tackled with equal vigour these difficult technical problems of industrial development. (A research institute at Hyderabad in India is apparently the only institute tackling them.) It is all too easy to come up with solutions which are merely inefficient—which give large employment while producing far less than would a similar investment in modern machinery. One only needs to be told the difference between the monthly output of a pre-industrial-revolution handloom, such as is widely used in Bangladesh today, and a crude Bangladesh version of a jacquard loom to appreciate the perils of travelling backwards through technological history.

Bangladesh finds itself, that is to say, in the cleft stick in which all these poor developing countries find themselves. It probably should be creating well over 1m new jobs a year, if the green revolution is to bear full fruit in permitting the manpower in agriculture to be reduced and that in other activities to be increased. The known small-scale techniques in the industries which would readily employ this manpower are not only more labour-intensive than those of other countries. They are also in a number of cases more capital-intensive, measured in terms of the amount of capital required to produce a given yardage of cloth, or whatever is relevant.

It is possible to calculate which industries can most effectively be expanded to give employment and to move nearer to full employment.[1] But creating employment in such industries may only be possible if the exchange-rate is very widely different from that of today, or if Bangladesh is in a position to use administrative methods to prevent imports from establishing relative prices which could make employment cruelly ill-rewarded in practice, however well it might be justified

[1] Using a system of shadow wage rates, exchange rates and prices, i.e. one which reflects the true scarcities. See *The Economy of Bangladesh* by Azizur Rahman Khan, London, Macmillan, 1972, pp. 107-27.

by the true opportunity cost of the employed labour.

What does all this mean for prospective standards of life in Bangladesh? If one attempts to measure at the present official exchange rates, the average income per head in Bangladesh is about $70 at 1973 prices. This puts it among the ten or dozen poorest countries in the world. If one adopts the criterion suggested by Professor Chenery of asking oneself how many years, at present and probable future rates of growth of income per head, it will take for Bangladesh to reach the standard of income per head which he was prepared to regard as tolerable and desirable[1]—a level of about $800 at 1965 prices, or say $900 at 1973 prices (roughly the level of Spain)—the period involved is of the order of 125 years, on the assumption of an increase of income per head by 2% a year; it is still almost 90 years, if one assumes 3% increase a year.

It is only when population growth can be considerably reduced towards the 1·25% or thereabouts a year of the advanced countries that there is any real hope of making the initial break-out from this Malthusian impasse and moving on towards self-sustained cumulative growth of income per head at rates which the more advanced countries have been able to achieve.

[1] See, for example, G. Ranis (Ed.), *The Gap between Rich and Poor Nations*, Macmillan, London, 1970.

Chapter 14
What Can Donor Countries Do to Help Bangladesh?

What can donor countries most usefully do to help the development of Bangladesh within the general limits imposed by their resources and their obligation to other developing countries? And in particular what can the United Kingdom do?

I would put first a sympathetic understanding of their problems, and support when needed and legitimate in their relations with the world and with the United Nations. For a great many developing countries over the last twenty years not only physical and financial but also moral and political help has come from the USA. And whatever criticisms recipient countries may level at US aid, and at real or supposed strings and pressures which have been associated with it, countries have in the past shown little hesitation in accepting it, and their actual development has reflected the advantages they have derived from it.

Similar support is not available to Bangladesh, and this for three reasons. First, for reasons that are familar and need not be discussed here, the USA has ceased over the past year or two to be regarded in UN agencies, and in particular throughout Asia, as the central fount of moral leadership and the first friend of the developing nations. It may be more healthy that the smaller and poorer developing nations are no longer to be regarded as satellites and have to work out to a greater degree their own salvation. For a new and exceedingly poor nation this creates, none the less, great problems.

Second, and for more specific reasons, Bangladesh relations with the USA are, for the moment at least, particularly difficult. During the war with Pakistan, the US government appeared to the Bangladeshi population to ally itself with Pakistan, which was at the time the channel of communication and negotiation with Peking. Rightly or wrongly, Bangladeshi public opinion regards the USA as hostile and as allied to recent colonial rulers in all that concerns the settlement of outstanding political problems.

Third, Bangladesh economic policy, in reaction against what have been regarded as the extortions of the brash capitalism personified by Pakistani entrepreneurs, has swung toward a moderate socialism with a large public sector. Wrongly, it may be, but none the less understandably, a majority of intelligent Bangladeshis believe that the brash capitalism that they are exorcising was forced upon them by American aid administrators and economic advisers. They do

not expect their economic policies to be consistent with American ideological preconceptions for more than a limited period, and in their present frame of mind would not be at all prepared to modify the policies that they believe to be right in order to buy American support.

It is not easy to state with precision what exactly are the economic philosophies of Bangladesh. If one asks, the answer one gets depends very largely on the person to whom one is talking. Some, perhaps a majority, will tell one that the model is something like Yugoslavia, that is, some sort of compromise between socialism and capitalism. For the moment at least there is no question that a small-scale peasant agriculture rather than ambitious collectivisation represents the agricultural policy. Small-scale industry will be encouraged. It is only when one reaches the key positions of industrial power that public ownership would appear to be intended. Others, when one asks the same question, will quote to one as their model the economies of the United Kingdom or of France—a mixed economy with a large but not complete or all-pervasive public sector.

The present difficulty of stating the economic philosophies of Bangladesh arises principally from the fact that they have not yet been fully worked out. At the end of the recent conference of the International Economic Association in Dacca some of us had an interview with Sheik Mujibur Rahman. He was asked what was meant by Bangladesh socialism. His answer was 'socialism as we shall practise it in Bangladesh'. This was not just a quick and clever answer to a difficult question. It reflected the essentially practical and pragmatic attitude of Bangladesh today. The model is not the USSR, nor Yugoslavia, nor Britain. They are playing it by ear and are deliberately feeling their way.

What is essentially more important is that, since the USA is unready to give the overall support which Bangladesh needs, the country is looking particularly to the UK. The links of education, language, trade, institutions are powerful. They will welcome our friendship and understanding. But they are determined that Bangladesh is theirs and independent and that they and no one else shall govern its future.

Sympathy, understanding and occasional political support do not represent, however, the limits of what we can and should be doing. There are other much more practical forms of help.

First, the economic implications for Bangladesh of the past disastrous year must be clearly thought out. If December 1972 and the harvesting of a normal *aman* crop had marked the turning point on the road to normality, Bangladesh would have emerged with a large part of its emergency food requirements in 1972 covered by UN and other aid, and with financial reserves available to build up a more normal flow

of trade, to finance the import of essential industrial inputs, and to meet some of the acute shortages of goods. As things have now worked out, Bangladesh has had to throw into the purchase of foodgrains during 1973 all its available financial reserves. With the world shortage of foodgrains, these could be bought in many cases only by immediate payment of cash. This has meant the most severe limitation of all other purchases and has inevitably imposed very short-term views of all such expenditures.

And in turn these shortages of goods have pushed upwards the prices of many of the products which affect the cost of living, not only as it is measured but also, where goods have disappeared into a quasi-black-market, as it is felt. The inevitable result is heavy inflationary pressure. The pressure has come not so much, in the initial stages at least, in the ways now familiar in western countries, through attempts to raise real standards by raising money incomes, but rather through shortages both of foodgrains and of other consumer goods relative to existing and conventional incomes and wages, with consequent rises of prices in markets that it is almost impossible to control. For neither Bangladesh nor any other Asian country has the administrative strength and experience to handle such problems with the forest of controls and rationing schemes that European countries were able to build up during the war years. If inflation is to be controlled and prevented—as is very important—from becoming a galloping race between prices and wages, some help in building up a normal inflow of consumer goods and in replenishing central bank reserves with that in view is very desirable.

The repercussions of these shortages of financial reserves also need to be borne in mind. It has been inevitable that in the present short-term situation the authorities in Bangladesh have felt obliged to use all aid that could possibly be so used to meet their need of greatest priority —the averting of famine. They have felt themselves to be very seriously short of funds for such use. They have received from a number of countries promises of project aid which will be valuable to them only if they have overcome their short-term difficulties and are themselves in a position to finance their own part in the project concerned and to devote to it the domestic resources of organisation, transport facilities, and the like which are for the moment so scarce. For the time being such aid does relatively little to help them where they most feel the need for help.

British aid to Bangladesh has taken a form rather better adjusted to their short-term needs, even if not, perhaps, those for which they would most have liked to have been able to use it. The UK has made available in all about £12m in the form of grants for relief over a first period of twelve months. Of this about £1·4m represented the contribution to the UNROD operation to provide food for Bangladesh

during 1972; this was available to buy foodgrains anywhere in the world where the UNROD operation could buy it. The remainder of the £12m was tied to expenditure on British goods and services. These funds could be used, within that limitation, on any British goods that the Bangladesh authorities might wish to purchase, and could help to establish an initial flow of imports in advance of the rebuilding of Bangladesh's flow of exports. So far as grants were concerned, when the Bangladesh authorities had indicated their needs the Crown Agents were employed to purchase and organise transportation.

In addition to the £12m of grants, Bangladesh has been given two interest-free loans—the first, of £4·8m, in February 1972, and the second, of £2m, in May 1973. In the case of expenditures against the loans, which again are tied to British goods or services, the Bangladesh authorities are responsible for procurement. Initially they have been somewhat slow in placing orders. The UK has in addition provided Bangladesh with technical assistance to the extent of about £750,000 within the funds generally allocated to these programmes.

In conditions in which the first need of Bangladesh has been for foodgrains, the UK has, apart from the initial £1·4m, found itself unable to help as much as it would have liked. In recent months attempts have been made to acquire from British sources some 18,000 tons of grain, but barley was unacceptable and other grains unobtainable.

UK aid, that is to say, has not been able to meet the urgent need for foodgrains. But it has been available in the form that can best serve (once famine is averted) to get the economy back into more normal operation and to diminish the inflationary pressures due to shortage of more general consumer goods.

If one looks at these problems more widely, what are the implications? I would argue that, in the particular conjuncture of disasters that have hit Bangladesh, aid in total from all sources has been so inadequate as to run serious risks of permitting a galloping inflation, and certainly so inadequate that specific forms of assistance, even on quite a small scale, by voluntary and unofficial aid-giving bodies have been able to produce results wholly disproportionate to the sums of money involved. For example, the very small amounts of instantaneously available money provided by the Society of Friends of Dacca University have been able to help that university and the other universities of Bangladesh to overcome some of their short-term difficulties, as have the small expenditures through the British Council.

In more general terms, the present situation is such that a perfect balance between the needs of the present and the needs of the future is almost unattainable. The establishment of priorities when famine is an uncertain, but not at all an unreal, possibility is a task that

no group of economic planners can hope to discharge without criticism. And when claims of very high priority must be rejected, any decisions must seem to those with a slightly different view of priorities or a slightly different set of expectations to be wrong-headed, demanding criticism and political opposition.

It is always difficult for one who concentrates attention on a single developing country not to be so impressed by the problems of that country as to forget the equally grave and urgent problems of other developing countries. In 1973 we are all conscious of the special difficulties of Maharashtra and other parts of India, of African countries which have suffered from failures of rainfall very similar to those of Bangladesh. Indeed the problems of Bangladesh stem in large part from the initial agricultural difficulties of the USSR and the world shortages of foodgrains that the Russian crop failures have provoked. But Bangladesh is alone in encountering these difficulties at the moment that it is emerging from the serious consequences of war and in the throes of bringing into existence a new nation with new and inexperienced institutions. Britain should take some greater account temporarily of these singularities and not merely add Bangladesh to the list of indigent developing countries or be over-frightened of establishing precedents. In collaboration with other donor countries, Britain should find some effective way of helping Bangladesh to build up again its necessary financial reserves and to begin to be in a position to establish more rapidly the normal flows of trade necessary for its development. If London does not take a lead in this, in the present state of Bangladesh relations with the USA, nothing will happen.

Looking further ahead, there may well be useful initiatives which Britain and other donors can take, over and above general balance-of-payments support. But if project or sectoral aid is envisaged, the situation in Bangladesh underlines the need for a radical review of conventional aid practice. The country's reliance on small-scale agriculture, and its formidable job-creation problem, together emphasise the irrelevance—perhaps harmfulness—of tying project aid to imports of capital items. Tying in this way would distort Bangladeshi projects towards those which use capital at the expense of labour, or increase the difficulties of spending aid, or both. Project aid for Bangladesh, if it is to be of any direct help with the problems foreseen in this study, must be very flexible indeed with regard to local costs, and also to recurrent expenditure.

The prospects for Bangladesh would, of course, be much brighter if the export forecasts made in this study could be improved. One factor will be the country's ability to devote resources to the production of exportable items. Another, equally important, will be the extent to which it is allowed the opportunity to sell its goods in the major markets of the world. British capacity to give any special help

to Bangladesh in this area is now severely circumscribed. Such benefits as the Asian Commonwealth countries received from the Commonwealth preferential arrangements have been considerably eroded over the past two or three decades: first as a result of the creation of the European Free Trade Association, whose members received treatment at least as favourable as that of Commonwealth countries; second, as the result of the Kennedy Round negotiations in which duty rates, and thus preferences, were cut on a number of products, including textiles, that were important to developing Commonwealth countries; third, by the introduction of the British Generalised Scheme of Preferences in favour of all developing countries. And now Bangladesh's trade prospects are threatened further as a result of Britain's accession to the EEC. True, its exports of raw jute will remain duty-free. But its manufactured textile exports are likely to be affected by UK membership of the Common Market. If one assumes, as one almost certainly must, that something not widely different from the Community model of the General Scheme of Preferences is finally adopted,[1] manufactured jute exports will be affected. Under the existing British tariff, jute fabrics have entered Britain duty-free, but have been subject to quota restrictions. Under the EEC scheme a tariff of 15% to 22% is levied (the level depending upon the width and weight of the fabric), and there is a system of 'voluntary' export restraint. The quota in Britain and the arrangements in the EEC are both designed to protect Dundee in the one case, the Belgian producers in the other; of the two, the EEC barriers are probably more formidable. Both make it more difficult for Bangladesh to pursue as actively as it would wish a policy of substituting manufactured jute exports for raw jute exports. Both encourage the substitution of synthetics.

India, similarly affected, has negotiated with the EEC an independent agreement by which the EEC reduces its tariffs by 60%, except in the case of carpet-backing where it will be 50%, in exchange for an undertaking by India to restrict its exports of all the various categories of jute manufactures to 'reasonable levels'. Bangladesh can probably negotiate a similar agreement, and there is unlikely to be serious objection to Britain continuing to admit Bangladesh jute manufactures for a period free of duty but subject to quota. But it is far from clear whether Bangladesh can substantially increase its exports of jute manufactures to Europe unless the European market is growing more rapidly than seems likely.

More generally Bangladesh is yet another example of a developing country with great need and anxiety to grow faster, to import from western countries more capital goods for that purpose, and to export

[1] See Peter Tulloch, *The Seven Outside: Commonwealth Asia's Trade with the Enlarged EEC.* Overseas Development Institute, London, 1973, pp. 6-12 and 38-44.

to western countries more simple manufactures to pay for these. The trade problems which in the long run are likely to affect Bangladesh most seriously are those which will limit its power to expand exports and force it back into internal import-saving in a market which, at present levels of income, is too small for efficient development, outside a limited number of industries.

For the time being one continues to watch the progress of Bangladesh with great anxiety. By the time that this is published, in autumn 1973, we shall know whether the 1973 monsoon has been normal and the 1973 *aus* and *aman* crops have yielded enough to enable development to proceed on something more like a long-term basis, or whether, as one now fears, natural disaster may be bringing the inevitable train of political disturbance and short-term improvisation.

One's fears are reinforced by a factor that is very important, though seldom discussed. Bangladesh, like many other Asian countries but in this case belatedly, is going through the throes of a final escape from colonialism—from the colonialism of the Mogul empire, from the colonialism of the British, from the colonialism of the Punjabis. Over the centuries the Bengalis have been ruled by others and have resisted rule. The first instinct of a Bengali is to oppose authority, to oppose the establishment, to criticise. A tradition of opposition and criticism, of being against the establishment, is deeply inbred. The democratic exercise of authority and responsibility is something new, something difficult. We who have inherited the traditions of living for centuries in democratic countries, have ingrained in us the rules of the democratic game—the constant importance of reaching democratic solutions through a process of reasonableness and compromise (even in democratic countries, there are times when these qualities are not very evident).

It is natural for a foreign observer of Bengal today, if brought up in the democratic tradition, to be impatient of the carping criticism, the inclination to build up an image of an oppressing government, the reluctance to hammer out and advocate a satisfactory and workable compromise, that he finds in the Press, among students, in much that he hears and meets. He will find himself wondering why a country which is so nearly united under an inspiring leadership should appear in practice to manifest such deep divisions, such acute personal antipathies, and such apparent reluctance to work together for development and to overcome the disasters, both political and natural, of the past five years. One needs to be very patient and very philosophic to remember that democracy is not an easy system and all over the world has shown itself a very exotic and delicate organism. Any economist, anxious to see rapid and effective development, is apt to pray for a strong government. All too often it is apt to become a wrong government. Bangladesh needs time to work out its own tradition

for itself, to learn mutual trust and the importance of earning trust by disinterested public spirit and scrupulous honesty throughout an administration that is Bengali and no longer subservient to any colonial power.

Epilogue—November 1973

As this goes to press there is news that the King George VI bridge, connecting Chittagong and Dacca, has been re-opened (and re-named) late in September, so that it is now possible to clear foodgrain and other imports through the port very much more quickly and in larger volume. The yield of *aus* rice crop of 1973 was much reduced by abnormal floods. On the other hand the 1973 *aman* rice crop gives promise of being well up to normal levels. It is unofficially reported that rice prices have ceased to escalate, and there is good hope that these critical months will have passed with serious shortages, indeed, but without famine.

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