INDUSTRIAL POLICY IN BANGLADESH UNDER MUJIB:
A STUDY OF POLITICAL AND ECONOMIC DETERMINANTS

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Preface

Bangladesh is predominantly an agricultural economy. Industry accounts for only six per cent of the Gross Domestic Product of Bangladesh. Both under the manifest colonialism of the British and the masked "internal colonialism" of West Pakistan, it remained an object of exploitation only. Its industrial development never occupied the minds of the colonialists.

When Bangladesh became independent in 1971, it was natural to expect that the new leadership would give emphasis to industrialisation, given the lopsidedness of Bangladesh's economy. Industrialisation has generally been looked upon as the panacea for underdevelopment. This has been the case with all newly independent, underdeveloped countries of the world. Bangladesh was no exception in this respect.

But rapid industrialisation, especially when it is done under the aegis of a government, cannot be without an objective. And that objective, which takes shape in economic and industrial policy, cannot be formulated in isolation. Not only the socio-economic heritage of the country, but also the political perception of the rulers and their concern for legitimacy and acceptability by the masses determine the way the policy would be formulated. The Awami League of Bangladesh, under the stewardship of Sheikh Mujibur Rahman, came to assume power after the successful liberation struggle. But before the liberation struggle, in its Election Manifesto of 1970, and soon after the struggle, it championed the cause of a socialist state for Bangladesh. In particular, the development of the industrial sector on socialist principles was emphasized. The present study is an attempt at examining the industrial policy of Bangladesh during Sheikh Mujib's era and the factors underlying its formulation and implementation. In this context, the questions posed are: What was the focus of Pakistan's industrial policy and its implementation, and what were its consequences for East Pakistan? What was the condition of the industrial sector in Bangladesh in 1971? What policy was formulated by the Awami League Government of Sheikh Mujib for the industrial development of Bangladesh? How far were the ideals of Sheikh Mujib and the Awami League transferred into reality?

In the formulation as well as the implementation of any economic policy, both the objective economic conditions as well as the underlying political forces are inextricably interlinked. Accordingly this study attempts to examine the interplay of both the economic as well as the political forces shaping the formulation as well as implementation of industrial policy in Bangladesh.

Keeping in view the above mentioned points, the problem has been explored in the following order:

The first chapter will make a brief survey of the initial conditions of development in East and West Pakistan and examine how the industrial policy of Pakistan operated in that background and what effect it produced for the two regions.

The second chapter will try to evaluate the extent of loss suffered by Bangladesh during the liberation struggle of 1971 and the state of the industrial sector at the time of liberation.

The third chapter will be devoted to a delineation of the major industrial policy pronouncements of Bangladesh and observe shifts in policy, if any.

The fourth chapter will subject the industrial policy content to a critical analysis and examine its implication for socialism as professed by the Awami League of Sheikh Mujibur Rahman.

In the fifth and final chapter some concluding observations will be made.

This dissertation would not have seen the light of the day had it not been for the constant encouragement and painstaking guidance provided by my Supervisor Dr I.N. Mukherji, Associate Professor of South Asian Studies Division, School of International Studies. I express my gratitude and indebtedness to him. It won't be out of place to mention here that Dr Mukherji provided me most of the rare documents of Government of Bangladesh and other books and reprints of articles which expedited my work. I am also grateful to Prof. Sudipta Kaviraj of the Centre for Political Studies, School of Social Sciences, who gave me the original idea of working on the political-economy aspect of the industrial policy of India. When I joined the South Asian Studies Division, my field of study changed to Bangladesh. My friends Subrata, Priyankar and Ramesh helped me at different stages of the work, for which they deserve my sincere thanks.

Finally, I would like to thank the staff and Librarian of Jawaharlal Nehru University Library and Indian Council of World Affairs Library, New Delhi, for the help and co-operation extended to me.

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Chapter I

INDUSTRIALISATION POLICY IN PAKISTAN AND ITS IMPACT ON REGIONAL DEVELOPMENT UPTO 1971

In 1947 Pakistan was predominantly an agriculture-based economy. The areas which constituted Pakistan were industrially less developed than India. A class of industrialists had not developed there then. The few rich Muslims who migrated from Bombay and United Provinces in India and settled down in West Pakistan, and especially in Karachi or its adjoining places, were mainly traders. For a proper understanding of the industrial policy of Bangladesh, it is essential that we examine the characteristics of industrial policy formulated and implemented in Pakistan upto 1971. Accordingly this chapter examines the initial conditions of development in the two wings of Pakistan, the basic planks of industrial policy in Pakistan, and their impact on regional development.

I. A COMPARISON OF INITIAL CONDITIONS:

Human Resources:

Population can be both a constraint to development as also a vehicle of development. It becomes a hindrance when it is not used to explore the possibilities of development. In less developed countries where scope for development is ample and where mechanization has not taken place to a considerable extent, human resources play an important role in economic development. Between the two wings of Pakistan, East Pakistan's population was always more than that of the West. According to the 1951 Census, whereas the population of East Pakistan was 41.9 million, that of West Pakistan was 33.7 million. In terms of percentage distribution, a comparison between the population of East and West Pakistan gives a ratio of 55.41 : 44.59.

(a) Literacy: It is clear from above that East Pakistan had an edge over the West as far as population was concerned. But even though urbanization was lower in East Pakistan (4.3 per cent in 1951) compared to West Pakistan (17.8 per cent in 1951) the percentage of literacy was more in the Eastern Wing than in the West. According to the 1951 figures, 21.1 per cent of the population was literate in East Pakistan while in West Pakistan it was 16.4 per cent of the population.

(b) Human Skills : Entreprenurial and Administrative:

East Pakistan was mainly agricultural and 70 per cent of its population depended on agriculture. Though in West Pakistan also agriculture constituted not an insignificant part of the economy, the refugee traders from India had settled down here and thus contributed to its commercial development.

From East Pakistan's higher percentage of literacy, one would expect that it would have better representation in administration than West Pakistan. But that was not the case. Both in the military and civil administration, West Pakistan had an advantage. Its Punjabi population had traditionally contributed the majority of civil-military administration. It was called by the British "martial race". In 1948, whereas East Pakistan's representation in the Civil Service of Pakistan (CSP) was only 11.1 per cent, that of West Pakistan was 88.9 per cent. Bengali representation in the military was quite insignificant. Bengalis took more interest in politics. Thus one author called West Pakistan "governmental" and East Pakistan "political".[1] In fine, whereas East Pakistan had more population and literate people, West Pakistan had more skilled businessmen and administrators.[2]

(ii) <u>Material Resources</u>:

(a) <u>Capital Formation : Savings - Income Ratio</u>:

Data relating ~~to~~ regional saving and investment with regional product is not available for the initial years. But

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1 Charles Burton Marshall, "Reflections on a Revolution in Pakistan", <u>Foreign Affairs</u>, XXXVII (1959), 253, quoted in Rounaq Jahan's <u>Pakistan : Failure in National Integration</u> (Columbia University Press, 1972), p.20.

2 The whole discussion on human resources upto this point is based on Rounaq Jahan, ibid., pp.9-28.

the pattern given by the relation between the above three for the Second Plan period 1960-65 is quite indicative as may be seen from Table I below:

Table I

Regional Saving and Investment as
Percentages of Gross Regional Product (GRP)
1960/1 - 1964/5

	(GRP)		1960/1 - 1964/5				Current Prices			
	1960/1		1961/2		1962/3		1963/4		1964/5	
	East	West	East	West	East	West	East	West	East	West
Investment/ GRP	7.8	17.0	10.6	19.5	9.4	21.1	12.0	21.1	12.7	21.5
Saving/GRP	6.4	10.5	10.0	12.6	7.5	14.1	8.4	12.2	9.4	11.5
Percentage of Investment financed by own saving.	81.8	61.7	94.0	64.8	80.0	64.1	72.1	57.8	74.2	53.7

Source: S.R. Lewis, Jr., Pakistan : Industrialization and Trade Policies (Oxford University Press, 1970), Table 6.7, p.145. Original Source : J.J. Stern "Growth, Development and Regional Equity in Pakistan", Paper presented at the Development Advising Service Conference, Sorrento, Italy, (September 1967).

Thus, investment as a proportion of gross provincial product was consistently lower in East Pakistan than West Pakistan throughout the Second Plan period while the difference between the rate of savings of the two provinces was not that high. As is seen from the above table, East Pakistan provided a higher proportion of its investment from its own savings than did West Pakistan.

An alternative estimate of private saving and income ratio by province is given by Asbjorn Bergan based on analysis of income and expenditure data.

Table 21

Gross Private Saving as a Percentage of Gross Private Income by Region, 1963/4

	East Pakistan	West Pakistan
Rural Areas	12.0	9.2
Urban Areas	13.9	12.5
Combined	12.2	10.5

Source: S. R. Lewis, Jr. ibid., Original Source: A. Bergan: "Personal Income Distribution and Personal Saving in Pakistan, 1963/4", Pakistan Development Review, Summer 1967, Table XIV, p.186.

Bergan adds that the corporate gross profit figures are on the low side and also that personal income and saving figures for high income groups in West Pakistan are also low. If that is so then, Bergan Says, his urban saving figures for West Pakistan, and hence West combined and Pakistan combined are too low. And Lewis argues that actually Bergan understates the level of corporate saving and thus urban saving and total saving in both provinces.[3] Since most of the industries were located in West Pakistan, this error would affect estimates for West Pakistan more than that of East Pakistan. Though Stern (Table I) and Bergan (Table II) do not agree as to the rate of saving in East and West Pakistan and Bergan's study shows a higher private saving and income ratio in East than in West Pakistan, the fact that East Pakistan was financing all or nearly so of its investment from its own saving can never be disputed.

(b) Raw Materials:

Whatever industries were there in Pakistan in the initial stage were agro-based, both in East and the West. East Pakistan was one of the largest producers of jute and West Pakistan produced enough of raw cotton. Both the wings were endowed with natural gas resources, but lacked other raw materials needed for industrialization. Hence, in this respect the initial conditions for development was quite similar in both the wings.

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3 Stephen R. Lewis, Jr., Pakistan : Industrialization and Trade Policies (Oxford University Press, 1970), p.145.

(c) Foreign Exchange Resources:

Even though East and West Pakistan were more or less at par in raw material endowments for their industrialization, East Pakistan was a higher foreign exchange earner than West Pakistan because, jute had a wider international market than raw cotton. The following Table illustrates this clearly:

Table 9II

Foreign Trade and Exchange Earnings
(in millions)

	West Pakistan		East Pakistan	
	Exports	Imports	Exports	Imports
During 10-year period 1958-68	£820	£2,315	£1,153	£1,000
	(41%)	(70%)	(59%)	(30%)

Source: Statistical Abstract of Bangladesh, Economic Research Bureau, Society and Commerce Publications, (Calcutta, 1972), p.2.

It is seen from above that East Pakistan's export earnings were more and its import expenditure was less than that of West Pakistan.

(iii) Social Overheads and Infrastructure:

A comparison of social overheads between East and West Pakistan during the initial year 1947-48 shows that except in case of School, college and university enrollment, West Pakistan always had an edge over East Pakistan. This trend continued even upto 1957-58. As far as infrastructure is concerned, it was also less developed in East Pakistan.[4]

Thus, an overall consideration of the initial conditions of the two wings of Pakistan would bring out a picture in which the factor endowments, resource base and social and economic overheads would not prove to be too dissimilar. In certain fields East Pakistan had an advantage like, regional saving income ratio, population, literacy, higher foreign exchange earnings, whereas West Pakistan had an upperhand in skilled administrative and business personnel and infrastructural growth. We will now show as to how this advantage was turned by West Pakistan in its favour and how it gained immenesely from this manipulation to create a wide gulf in economic and industrial development between the two wings.

II. MAJOR INSTRUMENTS OF INDUSTRIAL AND ECONOMIC POLICY:

The two main presumptions of Pakistan's economic policy were:

(i) Private ownership; and

(ii) Bureaucratic control.[5]

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4 For figures see, Table II.15 in Rounaq Jahan, n.1, p.33.

5 Lewis, n.3, pp.3-4.

(1) Private Ownership:

Regarding the role of private ownership in the industrial development of Pakistan, the Second Five-Year Plan (1960-65) said:

It is a basic assumption of the Plan that for the implementation of the industrial development programme, reliance will be placed primarily on private enterprise. This assumption has been made not so much to reduce the burden on public finance as in recognition of the fact that private enterprise has a key role to play in the economic development of the country.[6]

But in the initial stages entrepreneurship was lacking in ~~the~~ Pakistan, especially in the eastern wing of the country. During the first few years of the formation of Pakistan, most of the consumer goods were being imported from India. But within a few years this channel closed down and goods had to be imported from abroad. As Arjun Sen Gupta points out, during the Korean boom, Pakistan's export earnings from raw jute and cotton increased substantially though, Pakistan did not devalue its currency alongwith India

6 The Second Five-Year Plan, 1960-65, Government of Pakistan, Planning Commission, (June 1960), p.225.

and the U.K. in 1949. But this boom was short lived and when export earnings fell, Pakistan responded with a policy of drastic economic controls. Import of consumer goods were almost forbidden.[7] This situation created a highly protected market for the consumer goods. Import of machinery and capital goods were cheaper since Pakistan maintained an artificially overvalued currency and imposed low tariff on capital goods. Papanek says that with high prices for consumer goods and low prices for capital goods 50-100 per cent profit was possible. (Thus, in 1950s there was very rapid private industrial investment, especially in consumer goods industries using relatively simple technology. Little heed was given to the consideration of efficiency. In this rat race for turning industrialists, the lead was naturally taken by immigrants from India.) The following

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7 Arjun Sen Gupta, "Regional Disparity and Economic Development of Pakistan", in V.K.R.V. Rao, ed., Bangladesh Economy : Problems and Prospects (Delhi, 1972), p.35.

Table demonstrates this quite clearly:

Table 4*

Percentage Distribution of Industrial Entrepreneurs and total population of Karachi by place of Origin

Place of Origin (1)	Small Scale (2)	Large Scale (3)	Total Col. 2+3 (4)	Total Population (5)
Total	100	100		100
I. Pakistanis by Origin	28.9	14.3	25.2	34.2
a) Natives	9.6	4.8	8.3	16.6
b) Immigrants	19.3	9.5	16.9	17.6
II. Migrants from India	70.8	81. 7	73.6	64.4
III. Migrants from other countries	0.3	4.0	1.2	1.4

Source: Lewis, n.3, p.45. Original Source: G.M. Farooq, <u>The People of Karachi : Economic Characteristics.</u>

The way to becoming industrialists lay through agriculture and trade or trade alone. As Lewis says:

Within groups both from India and Pakistan there is a clear progression over the generations from agriculturist to trader to industrialist, or from agriculturist to skilled labourer to manager or entrepreuneur. In terms of total number of Karachi entrepreneurs, the background of industrial entrepreneurs and managers is dominated by experience in trade and some experience in industry.[8]

(The private industrialization programme was actively aided by the Government. The Second Five-Year Plan of Pakistan declared that public sector should not reserve any complete industry. Rather it should fill the gap left by private enterprise because of investment risk.) Pakistan Industrial Development Corporation (PIDC) was entrusted with this task by the Government. The Plan further said:

The Charter of the Corporation enjoins it to divest itself at the opportune, time, of its investment in the undertakings that it promotes... It is strongly recommended, however, that should at any time private enterprise be found ready and capable of undertaking any or all of the industrial investment indicated in the Plan for the public sector, there should be no hesitation in allowing the private sector to do so. And as A. R. Khan points out, in case of disinvested East Pakistan enterprises the ownership invariably passed on to West Pakistani. Since they commanded resources and

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8 Lewis, n.3, p.45.

9 n.9, pp.225-26.

credit-worthiness. The private buyers purchased such enterprises not out of their own savings but "by cheap bank credit to which they had access in an oligopolistic banking system".[10] Thus public investment doubly benefitted the private enterpreneur.

(ii) Bureaucratic Controls:

In a country like Pakistan where initially little industrial development had taken place and where industrialization was both sponsored and aided by the government, control by government was natural. And, Government control, in effect, meant bureaucratic control over the whole development process. As Papanek says:

> Economic policies did have to take into account the wishes of the "New Class" of the civil service. Proposed changes in civil servants' prerogratives were strongly resisted.[11]

(a) Controls on Imports:

Import control was regulated by the government. This was effected through the policy of import licensing which was centralized. This assumed significance in view of the fact that Pakistan had to import a lot of things including consumption goods.

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10 A. R. Khan, The Economy of Bangladesh (Mac-Millan, 1972), p. 72.

11 Gustav F. Papanek, Pakistan's Development : Social Goals and Private Incentives, (Harvard University, 1967), p. 139.

(b) Controls on Investments:

Another related thing which came under bureaucratic control was proposals for new investments. The government provided incentives to private capitalists to set up new industries and the distribution of incentives mainly depended upon bureaucratic decisions. In the early years of Pakistan's development, bureaucracy had an upper hand vis-a-vis the entrepreneurs. Because it commanded education and experience which the latter ~~g~~ lacked. That the Government could control investment is testified by Papanek when he says:

> Using the tools at its disposal, and especially its control of investment funds and of all foreign exchange the government can influence and if necessary determine all significant economic decisions.[12]

(It need not again be emphasized that not only industrial licensing but also import of industrial raw material, machinery, which constituted foreign exchange component of the project, always invited government and thus bureaucratic control.)

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[12] Ibid., p.15.

(iii) Exchange rate policy : Over-valuation of Currency:

It has already been said above that Government of Pakistan did not devalue its currency alongwith India in 1949. Thus it artificially maintained a greatly overvalued domestic currency. Investors were allowed foreign exchange for the import of industrial machinery and equipment at the official exchange rate. This made import cheaper than what it should actually have been and export earnings fell. In this situation protectionism encouraged industrialization. Domestic-manufactures were high-priced and agriculture products were relatively cheap. Further, major inputs into industry were agricultural. Thus, the exchange rate policy of Government of Pakistan was one of the reasons for the transfer of substantial amount of income out of ~~the~~ agriculture and into manufacturing industry. These income transfers, which were heavily reinvested in industry were, as Lewis points out, a principal reason for the rapid overall rate of growth of industry in Pakistan.[13] It is needless to restate that the major beneficiary of this rapid industrial growth was West Pakistan.

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13 Lewis, n.3, p.16.

(1[illegible]) <u>Public Development Expenditure</u>:

The differences in the level of development of the two provinces was admitted by the Government. In May 1961, President Ayub in a press conference in East Pakistan admitted the existence of economic disparity and pledged the regime's commitment to its removal.[14] Even article 145(4) of the Constitution of 1962 solemnly declared:

"A primary object ... in formulating the plans ... shall be to ensure that disparities between the provinces and between different areas within a province, in relation to income per capita are removed, and that the resources of Pakistan, (including resources in foreign exchange) are used and allocated in such a manner as to achieve that object in the shortest possible time, and it shall be the duty of each government to achieve that object."[15]

Thus, the Government's pledge of ironing out disparities between the two provinces would have been expected to be carried out by equitable distribution of public development expenditure. But public sector allocation for East Pakistan during the Second Five-Year Plan and the first three years of the Third Plan never went beyond 49 per cent

14 Rounaq Jahan, n.1, p.68.

15 Ibid., p.69.

of the total, though its share went on increasing from year to year.) Figures also show an increase in the plan allocation for East Pakistan when annual averages are taken into consideration.

Table #5

	East Pakistan	West Pakistan	Percentage of Total East	West
Annual Average under Second Plan	1,251	1,539	45	55
1965-66	1,472	1,641	47	53
1966-67 (estimated actual)	2,190	1,960	53	47
1967-68 (estimates)	2,715	2,285	54	46
Annual average under Third Five-Year Plan	2,125	1,962	52	48

Source: Rounaq Jahan, n.1, p.73.

While it seems from above that East Pakistan overtook West Pakistan in public sector allocations during the Third Plan period, in fact, it was not actually so, Because it did not include, as Rounaq Jahan points out, the multi-million dollar expenditure for the Indus Basin Project, funds which would be spent totally in West Pakistan and which, if included in the Plan, would make West Pakistan's gross investment much higher than the East's.[16] Thus in public expenditure East Pakistan was discriminated against and this fact was sought to be camouflaged by the Government.

(b) Military Expenditure:

Though statistics on military expenditure are difficult to obtained, the fact that East Pakistan's representation in the armed forces, especially in higher echelons, was negligible and that most of the military installations were in West Pakistan, would go to prove that West Pakistan appropriated lion's share of the military expenditure. Since more people in West Pakistan were employed in the military, it endowed more people in West Pakistan with a better purchasing power than the people in the East. This widened the marker for industrial products and thus indirectly contributed to the more rapid industrialization of West Pakistan.

III. CHARACTER OF PAKISTAN'S BUREAUCRACY:

(1) Representation in senior positions : Formulation and implementation of policies

As has been pointed out above, Bengali representation

16 ~~Ibid~~ Ibid., p.76. Also see, M. Akhlaqur Rahman, "The Role of the Public Sector in the Economic Development of Pakistan", in E.A.G. Robinson and K. Griffin, ed., Economic Development in South Asia, proceedings of a conference held by the International Economic Association at Kandy, Ceylon (Macmillan, 1970), p.71.

in the civil service of Pakistan was very low, especially in the higher ranks. M. Akhlaqur Rahman cites this reason as one of the administrative reasons which hampered the implementation of the First Plan in East Pakistan.

The argument is based on the importance of the role of the leadership, initiative and actions of the executives in economic development, especially in the development of the public sector, of less developed countries. It is they who basically initiate, formulate and implement development schemes and policies.[17]

The senior bureaucrats were not only in a position to determine the way policies would be implemented, but also because of their proximity to the politicians and the policy making machinery, were in a position to influence policies themselves. They were sometimes the brains behind the formulation of policies.

(ii) Alliance with the capitalist class:

Papanek says that the civil service leadership in Pakistan came largely from families with a civil service background. He further says that unlike "governing elites" of

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17 Ibid., p.84.

other countries, they did not have land-ownership or business antecedents. From this Papanek mistakenly concludes:

> Their primary loyalty was to the nation, the government, their service, their family, or themselves, not to one of the major pressure groups seeking to influence government decisions.[18]

He further argues:

> Contrary to some simplified neo-Marxist analysis, the civil servant and therefore the government were neither subservient to nor allied with either landlord or business interests. Nor were they drawn from these groups. As a result, in Pakistan of the 1950's the government could dominate significant economic decisions without extensive ownership or direct control.[19]

Papanek's confusion arises because of his lack of understanding of the stages of growth of the capitalist class in Pakistan. His later comments confirm this confusion. In the 1950's, as has been said earlier, the capitalists were not in a position to control the state machinery effectively and thus could not influence government decision making process.

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18 Papanek, n.14, p.79.

19 Ibid., p.139.

The government thus seemed to be autonomous. Papanek in the same breath admits that "at least until 1958 the landlords of West Pakistan could block significant land-tenure changes".[20] But the supremacy of the landlords, to a great extent, passed into the hands of the newly emerging industrialists with the coming of the 1960s. This was, according to Papanek, "unmistakable".[21] Intermarriage had started between the families important in the civil service, the military, and the landed aristocracy. Youngmen from the families of civil servants also tended towards employment in industrial houses. Direct alliance grew more and more between bureaucrats and military and the industrialists. These relations were usefully turned in their favour in the 1960's by the West Pakistan traders who quickly converted themselves into industrialists.

IV. IMPACT ON INDUSTRIALIZATION:

(i) Diversion of foreign exchange resources from East to West Pakistan:

Though, as we have shown above, East Pakistan's export earnings and thus foreign exchange earnings were more than that

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20 Ibid., p.138.

21 Ibid., pp.140-41.

of West Pakistan, in inter-wing trade the latter had an advantage. Thus between 1964 and 1969 exports from West to East Pakistan amounted to Rs. 6,292 million and during the same period exports from East to West Pakistan were only Rs. 3,174 million.[22] This deficit in East Pakistan's intra-regional trade was illusory since the prices paid by it for its imports from West Pakistan were considerably in excess of international prices. Given the option to purchase from the international market from its foreign exchange earnings, it could have effected considerable economies in its cost of imports. In the sphere of international trade, on the other hand, East Pakistan consistenly maintained a surplus position in its balance of trade till the end of the sixties. Till the end of this period, while its exports were about 60 per cent of the total, its ~~ex~~ imports were only 30 per cent (see Table 3~~III~~). This clearly illustrates how a part of East Pakistan's foreign exchange earnings as well as the bulk of Pakistan's external assistance was employed for the industrialization of West Pakistan. Given the nature of bureaucratic controls over

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22 Source: <u>Statistical Abstract of Bangladesh</u>, Economic Research Bureau, Society and Commerce Publications, (Calcutta 1972), p.1.

imports and investments, and the close proximity of the entrepreneurs to the centralized licensing authorities in Karachi, it is no wonder that the bulk of the import licenses were issued in favour of imports into West Pakistan.

(ii) <u>Development through West Pakistani Entrepreneurs</u>:

West Pakistani industrialists extended their dominance over the East also. But their interest lay not in the industrial development of East Pakistan, but in reaping and repatriating dividends. Even in 1967-68 only 22 per cent of the total private investment of Pakistan went to the East and the rest to the West.[23]

(iii) <u>East Pakistan's narrow industrial base</u>:

The dividends of the West Pakistani industrialists reaped from East Pakistan were not being recycled in the investment channel in the East. Further, West Pakistan's percentage of investment from its own savings was less than that of the East and funds from East Pakistan were being diverted for the economic development of West Pakistan. Thus, East Pakistan was deprived of its rightful earnings and investment resources. As a

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23 Source: Rounaq Jahan, n.1, p.73. Original Source: Pakistan, Planning Commission, <u>The Mid-Plan Review of the Third Five-Year Plan</u>, 1965-70, p.35.

consequence, East Pakistan developed <u>a very narrow industrial base.</u>

Conclusion:

Our observation of the initial conditions of development reveals both differences and similarities in the two wings of Pakistan. The Eastern Wing had a slight edge over the West in respect of size and literacy of the population, whereas the West had more entrepreneurial and administrative skill as well as better developed physical infrastructure. Both the wings were equally deficient in the availability in indigenous raw materials needed for industrialisation. The Eastern Wing, however, had the advantage of greater earnings of foreign exchange through exports. It is contended here that failure of the Government of Pakistan to take due cognizance of these underlying differences led to the unequal spurt of industrialization in the two provinces. Industrial as well as economic policies in general based on private entrepreneurship and bureaucratic controls tipped the scales in favour of the Western Wing. (It was only after the mid-sixties that public development expenditure in the East had increased substantially.) But, considering the amount spent in the Western Wing in respect of Indus Basin development and military expenditure, one would doubt whether the former had gained a definite edge over the latter in this respect. When East Pakistan protested against this unequal access to resources. during the course of liberation struggle, the Pakistan army wrought havoc. How the losses sustained by the war of liberation exacerbated Bangladesh's underdevelopment, and how this posed special problems for the nation's industrialization, is examined in the next chapter.

Chapter II

THE INDUSTRIAL SECTOR IN BANGLADESH AT THE TIME OF LIBERATION

In the last chapter we have discussed the principal instruments of industrial and economic policy of the Government of Pakistan and have tried to indicate how their implementation led to unequal industrialization in the two wings. Consequently what Bangladesh inherited was a very narrow and fragile industrial base at the time of liberation. Even this narrow industrial base which Bangladesh inherited, was subject to the shocks and ravages of the nine-month war of liberation, from March to December 1971. As if the exploitation systematically carried on by the Western wing for the last 24 years was not enough, the Pakistani army wrought havoc during the nine months of the war to leave the Bangladesh earth 'scorched'. The Bangladesh guerillas had sometimes even to destroy infrastructures like bridges, roads, etc. purely as a means of self-defence. The shaping of industrial policy in newly liberated Bangladesh would have to take account not only of the narrow base of its industrial structure which it had inherited, but also of the immediate problems and dislocations caused by the ravages of the war of liberation. Accordingly, this chapter is devoted to an evaluation of losses sustained by the industrial sector of Bangladesh directly as well as indirectly following the war of liberation.

The devastations caused to the economy of Bangladesh during the nine-month liberation war cannot be measured in real terms. This is particularly so in case of loss of human lives. As Dr A.R. Khan puts it so succinctly, dislocations caused by the war were "disproportionate to the degree of fire-power employed".[1] He attributed it to the fact that Bangladesh for the first time in its history was experiencing a modern war. But still, some estimates of the physical losses sustained by the industrial sector of Bangladesh during the war of liberation can be given from a comparative study of the conditions of the industrial sector before and after the 1971 war. But even here we admit the following limitations:

(a) An assessment of after-war condition of the industrial sector can be based on replacement value of the losses caused to physical assets.

(b) The above cannot give the actual extent of loss since prices of physical assets at the time of replacement may have gone up by many times the original cost.

(As far as overall loss and damages to the industries in Bangladesh in the course of 1971 war is concerned, a survey by United Nations Relief Operations in Dacca (UNROD) put the figures at Taka 402.055 million, equal to nearly US $ 52.215 million.[2])

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1 A.R. Khan, The Economy of Bangladesh, (Macmillan, London, 1972), p.35.

2 Source: <u>Bangladesh : A Sourvenir on the First Anniversary of Victory Day, December 16, 1972</u>, Ministry of Information and Broadcasting, Government of the People's Republic of Bangladesh, p.100. Original Source: UNROD Information Paper. No.17, Vol.I, Table XIII, p.46.

But we shall be failing in our appraisal of the losses if we treat industries in isolation and attempt at a quantification of losses caused to them. A more important question would be, as Dr A.R. Khan argues, to find out the extent of loss caused to the 'productive capacity' due to the damage of physical assets.[3] As such we must still try to broaden our spectrum and assess infrastructural loss as well as loss of manpower, that is loss of factors contributing directly or indirectly to industrial production, and thus try to evaluate the condition of the industrial sector in Bangladesh at the time of liberation.

DIRECT LOSSES:

Industrial Plant and Machinery:

Manufacturing industries in Bangladesh remained relatively unaffected during the 1971 war. The Bangladesh Industrial Development Corporation's (BIDC) preliminary estimates put the loss of assets of Taka 10 crores. A good deal of it consisted of inventories, stores, chemicals, furnitures, etc. From this estimate, the Annual Plan document 1972-73 concludes that not more than 3 per cent of the total installed plant and machinery of the large scale manufacturing industries has been lost. (But the loss of spares and inventories affected industrial production in the months following liberation.[4])

3 Khan, n.1, p.36.

4 The Annual Plan 1972-73, Planning Commission, Government of the People's Republic of Bangladesh (Dacca, 1972), p.3.

INDIRECT LOSSES:

(a) Manpower:

An actually inestimable number of people died during the liberation war. Moreover, ten million had to flee to India and another twenty million were displaced. Their rehabilitation after liberation was a major problem. The loss of intellectuals was also not insignificant. Industries in erstwhile East Pakistan were not only established by the West Pakistanis, but were also manned by them. Skilled personnel and managerial hands were brought in from the West and only unskilled labourers were locally recruited. Even before and during the war the West Pakistani businessmen fled away with their money leaving Bangladesh industry bankrupt both in managerial and material resources. The void could not possibly be filled up immediately.

(b) Agriculture:

Agriculture is the major supplier of raw material to the industrial sector in Bangladesh. During the nine-month war there was an immediate and substantial decline in the output of rice, jute and tea. This was mainly because of the displacement of people. The tentative loss of output in this sector was estimated at Taka 379.05 crores. In addition, the total loss of physical assets in agriculture, food and other sub-sectors amounted to Taka 84.19 crores approximately.[5]

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5 Bangladesh: A Souvenir on The First Anniversary of Victory Day, December 16, 1972, Ministry of Information and Broadcasting, Government of the People's Republic of Bangladesh.

(c) Livestock and dwellings:

The importance of live-stock in an underdeveloped country like Bangladesh cannot be gainsaid. The primitive nature of agriculture and transportation, especially in rural areas, makes it indispensable. Though its loss during the war is impossible, to quantify, still it is no doubt substantial.

The loss caused to dwellings, factories and godowns was also considerable. Housing problem was aggravated during post-liberation days because shortages in housing prevailed even before liberation.

(d) Socio-economic Overheads:

But the most grievous loss suffered, as the Annual Plan document of 1972-73 records, was by the "already meagre economic overheads, transport, communications and power transmission".[6] These economic overheads are important sources of so-called "forward linkages". As Dr A. R. Khan says, if the supplies of the aforesaid economic overheads are elastic, industry, agriculture, and other types of economic activity are provided

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6 The Annual Plan 1972-73, Planning Commission, Government of the People's Republic of Bangladesh (Dacca, 1972).

with external economies. And if their supplies are inelastic at the margin, then profitability of the using industries tends to be low and economic growth is hampered.[7] Thus a discussion of the losses suffered by the economic overheads and infrastructures will give an insight into the extent of dislocation caused to the industrial sector by the war.

Road and rail transport system in erstwhile East Pakistan was sparsely developed and all 'expensive' programmes had been successfully put off by the Pakistani rulers in Islamabad. So Bangladesh inherited, what Dr. A.R. Khan calls, "an over-used and inadequate infrastructure with marks of patch work all over it".[8] Metalled road and railway route mileage together per square mile of territory in 1970 was 0.76.[9] To make matters worse, a total of 287 large and small railway bridges were damaged during the war, while signalling system and communication lines were badly disrupted. Small dislocations were quickly repaired but arterial railway network remained disrupted for quite sometime. Four major river

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7 Khan, n.1, p.77.

8 Ibid.

9 Pakistan Economic Survey, 1970-71, Ministry of Finance, (Islamabad).

bridges, those on Meghna (King George VI), Padma (Hardinge), Old Brahamaputra (Mymensingh) and Teesta remained to be repaired.[10]

The ports of Chittagong and Chalna suffered heavy damage and were blocked by Sunken Vessels. Inland waterways were also obstructed by a number of sunken river-craft. As has been already said, Bangladesh industry was heavily dependent on imports and stoppage of supply of maintenance imports entailed closure of many industries with depleted stocks.

In power generation total cost of damage amounted to above Taka 3.00 crore and loss on account of disruption of distribution facilities amounted to over Taka 18.00 crore (1 Crore = 10 million).

The above discussions and the figures quoted therein show the losses suffered by economic overheads and infrastructure which are incidental to and important pre-requisites for industrial development of a country. (They only indicate how difficult it was for Bangladesh to confront the post-liberation war situation with road and rail links ruptured, stocks of raw materials depleted and skilled and unskilled manpower lost.)

However, percentage loss as well as loss in value terms to various sectors and sub-sectors under public sector in the

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10 The Annual Plan 1972-73, Planning Commission, Government of the People's Republic of Bangladesh, (Dacca, 1972).

economy is as follows:

Table I

Loss to Public Sector

	Percentage loss in the public sector (Measured in terms of replacement value)
Transport	38.8
Power and natural resources	7.00
Industires	4.2
Social Welfare and Labour	6.9
Housing and Settlement	3.3.
Public Health Engineering	3.4
Water	2.3
Agriculture	26.2
Health	2.1
Education	4.7

Table 2

Public Sector	Amount in Taka (million)
Transport	1,226.58
Power and Natural Resources	226.29
Industries	134.70
Communication	50.85
Social Welfare	220.90
Housing and Settlement	107.62
Public Health Engineering	108.26
Water	72.66
Agriculture	841.90
Health	68.43
Education	150.00
Total	3,208.19

Source; both Tables I and II: Bangladesh : A Souvenir on the First Anniversary of Victory Day, December 16, 1972, Ministry of Information and Broadcasting, Government of the People's Republic of Bangladesh.

The transport sector was severely mauled followed by agriculture. But as has already been argued above, these various sectors and sub-sectors cannot be compartmentalised. They have to be taken as adjuncts of the industrial sector and then the import of their loss on industry can be fully realized.

(e) <u>Loss from Severance of Communication Links</u>:

As we are well aware, Pakistan was heavily dependent on foreign assistance and imports for its development. At the time of liberation Bangladesh did not start with a pipeline of aid ready to be disbursed. Before the flow of aid could begin, new contacts with donor countries had to be established. This involved protracted negotiations with the donor countries. Similarly, new contacts had to be established with foreign suppliers by the licensees both in the public sector and private sector. In the meanwhile shortages of vital raw materials and capital equipment led to considerable excess capacity in the industrial sector.

From the above, a consideration of the loss caused to actual industrial sector is only a small leap to get a total picture. All seem to agree that ravages wrought by the war in manufacturing industries was comparatively small and mild.[11]

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11 A. R. Khan, n.1, p.36 and <u>The Annual Plan 1972-73</u>, Planning Commission, Government of the People's Republic of Bangladesh, p.3.

LOSS IN INDUSTRIAL OUTPUT

While direct physical loss to the industrial sector of Bangladesh was modest, it was the indirect losses arising from the damage to the socio-economic infrastructure as well as the severance of communication links which had a more far reaching impact on the performance of the industrial sector. This will become apparent when we make a comparative study of the levels of production in selected industrial units in Bangladesh before and after the war of 1971. This is presented in Table 3 below:

Table 3
PRODUCTION IN SELECTED INDUSTRIES IN RECENT YEARS

Name of Industry	Unit of output	montly average output in 1969-70	Recent monthly output and time period	Recent monthly output as index of 1969-70 monthly output
Jute Textiles	Thousand Tons	48.3	40.9 in May 1972	85
Newsprint	Tons	2,978	1,986 in May 1972	67
Paper	Tons	3,518	1,568 in May 1972	45
Petroleum Products	Thousand Tons	99.1 in January 1971	75.5 in May 1972	76
Cement	Tons	4,417	3,238 average for April-May 1972	73
Fertilizer	Thousand Tons	7.9	3.3 average for March-May 1972	42
Steel Mills	Meteric Tons	3,238 in January '71	3,806 average for March-May 1972	118
Cotton Cloth	Thousand Tons	4,929	500 estimated average for January-May 1972	10
Cotton Yarn	Thousand Ponds	8,808	2,800 estimated average for Jan-May 1972	32
Matches	Thousand Gross Boxes	1,080	1,059 estimated for May 1972 for a sample	98

Source: The Annual Plan 1972-73, Planning Commission, Government of the People's Republic of Bangladesh (Dacca, 1972), p. 6.

It may be observed from the Table that except in case of steel, output in other industries declined, sometimes to the extent of 90 per cent, as in case of Cotton cloth, in the first half of 1972 as compared to 1969-70. Production in steel mill registered an increase which can be explained by the fact that the Chittagong steel plant, the largest unit in Bangladesh and Chronically sick, reached record output in many units.[12] From the above also the fruitfulness of our broad-based approach to the problem can be realized. Had it not been for other concomitant causes, the decline in industrial production in major industries of Bangladesh would not have been so phenomenal.

In short, erstwhile East Pakistan, which was sheathing with discontent under discriminatory policy followed by the Pakistani regime and tried to wriggle out of the clutches came out but limping. This was not unnatural especially when it had to undergo the experience of a modern warfare. The underdevelopment of Pakistani days was still pushed back by a few more years by the losses caused to industries, infrastructures and economic overheads during the war. The problem staring at the face of Bangladesh at the time of liberation was worse

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12 See, Rehman Sobhan: "Nationalization of Industries in Bangladesh : Background and Problems", in E.A.G. Robinson and K. Griffin, ed., The Economic Development of Bangladesh Within a Socialist Framework (Mac-Millan, London, 1974), p.199.

confounded. However, Bangladesh had to face the grim reality. The aftermath of the war required rehabilitation of the displaced persons which was quite a problem given the already empty godowns and stores, ruined dwellings and a large number of invalid people who bore the brunt of the liberation war. The cost involved in executing the large-scale rehabilitation programme was disproportionate to the size of resources at hand. Foreign aid was not also immediately guaranteed. Alongwith rehabilitation, developmental work had to be carried on, so that the economy did not stagnate and the seventyfive million people did not have to starve. For mass scale production of essential commodities, industries had to be revived and its wheels set in motion. This involved the formulation of pragmatic policies. The task ahead was, by any means, stupendous. How Bangladesh confronted the problems thrown up by the aftermath of the war, especially as far as it related to the industrial sector, would concern our attention in the next chapter.

Chapter III

SALIENT FEATURES OF INDUSTRIAL POLICY OF BANGLADESH

The economic policy of a newly independent nation is to a considerable extent conditioned by its historical legacy. Moreover, when the struggle for liberation involves substantial human sacrifice and major dislocation to the vital sectors of the economy, then the formulation of economic policy would have to take due cognizance of the prevailing objective conditions. In the previous two chapters we have been concerned with an examination of the aforementioned factors with respect to the industrial sector of Bangladesh. In this chapter we now turn to examine the salient features of Bangladesh's industrial policy as it evolved since liberation under Mujib's regime.

GOVERNMENT TAKEOVER OF ABANDONED ENTERPRISES:

On 26 December 1971, at a high level meeting presided over by the Finance, Trade, Commerce and Industries Minister, the Government decided to take over all the jute mills and other industrial firms of the absentee owners for their immediate commencement of operations. The meeting was attended by the Chairman of Jute Board, Advisor to the Ministry of Commerce and Industries, and Commerce Secretary. (This decision of the meeting was described as a step towards nationalisation according to the manifesto of the Awami League. Out of a total ownership of the entire commercial and industrial firms, 70-80 per cent belonged to the absentee management.) In accordance with this decision, the acting President of Bangladesh issued an order on 26 December 1971 authorising the Ministry of Commerce "to take over the management of and operate these concerns, firms and companies either directly or through the appointment of administrators or otherwise and generally conduct all ancillary matters and to carry out such other functions relating thereto as may be necessary from time to time".[1]

THE BANGLADESH INDUSTRIAL ENTERPRISES (NATIONALIZATION) ORDER 1972:

It was not until 26 March 1972 that the first step towards industrial development of Bangladesh through nationalisation of industries was taken. This step was taken with the promulgation of the Bangladesh Industrial Enterprises (Nationalisation) Order 1972. As a result of this first

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1 Bangladesh Forges Ahead : Policies and Measures, Ministry of Information and Broadcasting, Government of Peoples' Republic of Bangladesh, pp.1-2.

nationalization programme all jute, cotton textile and sugar factories and abandoned enterprises having Taka 1.5 million or more of assets were nationalised. Simultaneously a decision to handover abandoned enterprises having assets worth less than Taka 1.5 million to private or co-operative ownership was also taken.[2]

The Bangladesh Industrial Development Corporation(BIDC), which was entrusted with the responsibility of setting up and managing all public sector industries, was abolished. In its place ten sector corporations were set up each to manage nationalised and/or abandoned enterprises in the relevant sector. The ten sector corporations were:

(i) Bangladesh Jute Mills Corporation;

(ii) Bangladesh Cotton Mills Corporation;

(iii) Bangladesh Sugar Mills Corporation;

(iv) Bangladesh Steel Mills Corporation;

(v) Bangladesh Paper and Board Corporation;

(vi) Bangladesh Fertilizer, Chemical and Pharmaceutical Corporation;

(vii) Bangladesh Engineering and Ship-building Corporation;

(viii) Bangladesh Minerals, Oils and Gas Corporation;

(ix) Bangladesh Food and Allied Products Corporation; and

(x) Bangladesh Forest Products Corporation.

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2 A. R. Khan, <u>The Economy of Bangladesh</u> (Macmillan, 1972), p. 188.

Initially the first three corporations were set up and then other additions were made. The corporations were organized in a three-tier system. At the bottom were the individual industries which were under the sector corporations. The sector corporations in turn were controlled by the Ministry of Industry. Thus overall control of the industries lay in the hands of the government. Though it made inroads into the autonomy of the sector corporations, the chaotic after-liberation struggle situation definitely called for such control atleast in the interest of the better organization of industries.

(At the same time, one major factor in the process of production, that is, labour had to be given certain role in the running of the nationalised sector. Hence, in June 1972 workers' participation in management was announced.) According to this policy announcement two of the five members of the management board of each nationalised industry would be taken from among the workers of that industry.[3] The Nationalisation Order of 1972 was only a preliminary industrial policy statement. It left many things obscure. One of them was the dispersal of industries. The role of foreign investment in the industrial sector was also not stated. These ambiguities and uncertainties were sought to be removed by the industrial and investment policy of 1973.

3 Ibid., p.189.

INDUSTRIAL AND INVESTMENT POLICY 1973:

The most important industrial policy and the first ever industrial investment policy of Bangladesh was announced on 8 January 1973 by the Industries Minister Syed Nazrul Islam. This Industrial Investment Policy, defining the main areas for industrial development and establishing priorities could be enunciated only within the framework of the First Five-Year Plan of Bangladesh (1973-78) which was to be announced few months later.

The policy pronouncement emphasized the socialist commitment of Bangladesh. It distinguished between mixed economic systems where the role of the private sector is delimited in terms of industrial sectors, that is to say, under which the field of operation of private enterprise is strictly earmarked as compared to the policy adopted by Bangladesh which restricts private investment to small/ medium sized industrial units. This, the policy outline said, would prevent private entrepreneurs from growing into big capitalists'. It would also clearly define the area of operation in which the private entrepreneur can exercise his skill and limited capital in developing the economy.[4] Thus a major portion of the policy was devoted to the consideration of the role of the private sector in the economy of Bangladesh.

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4 Bangladesh Observer, 9 January 1973.

ROLE OF THE PRIVATE SECTOR:

The Government's Investment Policy restricted the role of private sector in Bangladesh to small and medium-sized units with assets not exceeding Taka 25 lakhs (i.e. Taka 2.5 million). This policy declared a moratorium on nationalisation of private sector units of the aforesaid size, for a period of ten years. This moratorium would apply to old units for a period of ten years from the publication of this policy and to new units to be established during the First Five-Year Plan period from the date of their going into production. However, these units would be free to increase their assets to Taka 35 lakhs with reinvested profit.[5]

Manufacture of arms and amunition was prohibited in the private sector. This was purely for security considerations.

A very interesting provision of the Policy was that the Government reserved the right to nationalise any enterprise in the private sector if it was continuously making loss or under-utilising its installed capacity due to neglect or mismanagement of the owners.

5 News Review on South Asia, Institute of Defence Studies and Analysis (New Delhi), February 1973.

SMALL AND COTTAGE INDUSTRIES:

Since Bangladesh was relatively underdeveloped as far as large-scale industry was concerned, cottage and small-scale industry had a major role to play in its economic progress. Therefore provisions were made for them also. The Bangladesh Cottage Industries Corporation (BCIC) was set up with the purpose of providing better design and technique, improved raw materials, credit, marketing and training facilities to them.

The Policy envisaged a complementary role for big and small industries. The large scale industries would subcontract production of spares and components to small units while the former would process the materials supplied by the small units and produce finished goods. Thus, it is assumed that small private sector units were expected to grow up as ancillary units of the large scale public sector industries.

Another corporation for the small industries, viz. Bangladesh Small Industries Corporation (BSIC) was created to act as a development corporation and supplement the efforts of the private sector through development of infrastructure.

There was provision for disinvestment of BSIC projects also. In this case an indirect reference was made to workers' co-operatives where no hired labour is employed. In case of disinvestment of BSIC projects, first preference would be given to the workers' co-operatives. In case of joint ventures, the associate of BSIC would get the preference.

ROLE OF FOREIGN INVESTMENT:

Lack of entrepreneurial resources in Bangladesh necessitated procurement of resources from elsewhere and foreign investment was the easiest means of availing it. Hence, the Industrial Investment Policy of 1973 recognised its utility. It was expressed in the following terms:

"Foreign equity investment had never played a significant role in the economy of Bangladesh during the last two decades. At liberation foreign capital controlled an insignificant part of fixed assets in the modern industrial sector. The major part of this investment was tied up in subsidiaries of international pharmaceutical companies and tea gardens which had been inherited from British India."

"The need for foreign investment to bridge the foreign exchange gap is recognised as is the need for importing both technology and management. At the same time it is seen that within the framework of a socialist commitment, foreign investment cannot play an unrestricted role in our economy".[6]

The apparent contradiction between the need for foreign exchange and commitment to socialism was sought to be resolved by incorporating certain restrictive devices in the Industrial Investment Policy.

The first proviso was that all new foreign investments were restricted to public sector only. In it also the Government reserved an upperhand for it by keeping 51 per cent of the equity share for itself and leaving the rest $ 49 per cent for the foreign investor.

Foreign equity participation in new private sector ventures was not allowed. In this case foreign collaboration was confined to patents and licences only.

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6 The First Five-Year Plan 1973-78, Planning Commission, Government of the Peoples' Republic of Bangladesh, (Dacca, November 1973).

In case of purely new projects foreign investors were required to give the full amount of the foreign exchange component of the project. If this exceeded 49 per cent of the equity as stipulated, then the excess foreign exchange had to be provided through loan on terms to be mutually negotiated. If the foreign exchange component of the project fell short of 49 per cent of the equity, the share of investors would be negotiable to enable them to have holdings equivalent to the stipulated amount.

BSIC may also enter into joint ventures with foreign private investors. But such units may not be disinvested to the foreign party. In case the foreign partner wanted to disinvest, the first option will lie with the BSIC who, in due course may disinvest it to workers' co-operatives.[7]

The terms and precise nature of association could be subject to negotiation and embodied in a management contract to be entered into by the public sector enterprise and the foreign investor.

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7 Bangladesh Observer, 9 January 1973.

Another important aspect of industrial development, namely efficient management and development of indigenous managerial skill through the help of the foreign investor, was also discussed in the policy proposal. It said:

> The sponsoring corporation being satisfied with the need due to absence of managerial talent, special know-how or continuous research feed back from mother plant, may ènter into management contract with foreign private investors for a designated period within which management of the enterprise is left for an agreed period to the foreign investors, during which local managerial skill will be developed.[8]

The final authority for sanctioning any foreign investment venture was to be the Investment Board.

Since foreign investment was so very essential for the industrial development of Bangladesh, the Policy decided to give certain incentives in the form of remittances to foreign investors. Thus, all foreign investment will be free to remit:

(a) All post-tax dividend on foreign capital.

(b) 50 per cent of net salary of foreign nationals subject to a maximum of £ 150 per month per individual.

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8 Ibid.

(c) Savings from earnings, retirement benefit and personal assets of the individual.

Repatriation of capital including capital gains and reinvestment out of profits was to be permitted. However, within the first 10 years from the commencement of production repatriation cannot take place in one instalment but will have to be spread over a 10-year period.

Government further expressed its willingness to enter into treaties to avoid double taxation.[9]

Additional incentives in the form of tax holiday for foreign investment in the joint ventures for a ~~period~~ period of five years after it goes into production was also promised provided that 50 per cent of the profits exempted from tax are ploughed back into the enterprise.

Exemption of export and import duties, sales tax and excise duty was also proposed in case of 100 per cent export based industries.

The policy kept sterling tea gardens outside the purview of foreign investment. Though no reason had been offered, it may be attributed to the fact that they already were huge foreign exchange earners.

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9 The First Five-Year Plan, Planning Commission, Government of the Peoples' Republic of Bangladesh, (November 1973), p. 264.

DISPERSAL OF INDUSTRIES:

Industrial activity in erstwhile East Pakistan had demonstrated a tendency towards regional concentration. This gave rise to unequal industrial and thus economic development of different regions. The reasons for the existing distribution of industrial activity of erstwhile East Pakistan were said to be the following:

(a) Access to government decision-making agencies. This was particularly relevant in the pre-liberation period.

(b) Costs of procurement of raw materials, cost of distribution and access to market.

(c) Relationship to the entire system of spatial linkages between a given plant and other industries and location of physical infrasturcture.

(d) In East Pakistan all these economic considerations operated in varying degrees. In the public sector, besides economic considerations, social and political interests also played a role."[10]

Thus, not onlyeconomic considerations but also political pressures carried weight in deciding past industrial location in the country. This anomaly had to be set right. An analysis

10 Ibid.

of the existing pattern of industrial location showed that:

(i) Industrial concentration was the most in the district of Dacca with large industrial complexes at Narayanganj, Demra, Tugi, Joydevpur, Ghorasal and Narsingdi;

(ii) Dacca was followed by Chittagong.

(iii) Other two concentration areas were Khulna and Sylhet.

(iv) The remaining districts fell far below the average degree of concentration.

To avoid the existing concentration of industries in particular areas, it was decided that Industrial Eastates will be the focal point for development of industries in the private sector. And in order to combine the objective of the utilisation of estates and geographical dispersal, both domestic and foreign exchange resources should be divided up for utilisation on the basis of location. The areawise allocation for the industrial estates were to be as follows:[11]

Location	Allocation of resources/ schedule provision
(i) Estates located in developed areas ... Dacca, Chittagong and Khulna	Not more than 20 per cent
(ii) Estates located in less developed areas (all other estates)	Not more than 50 per cent
(iii) Foot loose industries (Industries located outside industrial estates and excluding Dacca, Chittagong and Khulana)	Not more than 30 per cent

11 Ibid., p.271.

The financing agencies were required to disburse funds for projects situated in a particular area upto the limits allocated for that area.

Certain additional incentives and fiscal concessions were promised to the private sector for setting up industries outside industrial zones of Dacca, Narayanganj, Chittagong and Khulna. They were:

(i) The period of repayment of loan may be extended by an additional grace period of five years.

(ii) A tax holiday for a period of five years after the unit goes into production may be allowed provided 30 per cent of the profit exempted from tax is ploughed back into the industrial unit or invested in the purchase of Government bonds.

(iii) A higher percentage of debt equity than that obtained in the developed regions may be allowed.[12]

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12 Ibid., p.270

ORGANIZATION OF MANAGEMENT OF NATIONALISED INDUSTRIES

As a sequel to nationalisation of many industries, the organization of their management had taken a new three-tier form: the Minister-in-Charge, Sector Corporation and Scheduled industrial enterprise management. The governmental authority for the management of the nationalised industries would rest with the Minister-in-Charge who would own industries on behalf of the people and be accountable to the Parliament and the people at large.

According to Article 11(1) of the Nationalisation Order, the general direction and administration of the affairs and business of a corporation would vest in a Board of Directors which would act on behalf of the Corporation. Further:

"The Board shall be subject to the superintendance and control of the Government and shall be guided in the discharge of its functions, by such general or special instruction as may, from time to time, be given to it by the Government."[13] The corporations would be vested with the

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13 Article 11(2), The Bangladesh Industrial Enterprises (Nationalisation) Order 1972, (President's Order No:27).

function of control, supervision and co-ordination of the activities, business and affairs of the industrial enterprises placed under them.[14]

Thus the industrial enterprises were to act under the control and supervision of the sector corporations. The corporations were also entrusted with the task of setting up new industrial units.

But the three-tier system did not categorically state the duties and responsibilities of the different agencies. In all important matters the ultimate authority lay with the Government, that is to say, the Ministry of Industry. Thus, though the sector corporations were to supervise the business and activities of the industrial enterprises, the Government could also dissolve their Board of Directors and appoint new Directors.[15]

The Government reserved the right to transfer to a corporation such of the property, assets and liability and ~~sector~~ such officers and employees of the Bangladesh Industrial Development Corporation (BIDC) as it deemed fit.[16]

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14 Article 17(a), ibid., as amended by P.O.No:131 of 1972.

15 Article 5(b), ibid.

16 Article 26(1), ibid.

Thus, much scope was left for government interference, which, in effect, meant bureaucratic intereference, in the functioning of the sector corporations which would constitute the kingpin of the industrial development of Bangladesh.[17]

SHIFT IN INDUSTRIAL POLICY

Our above discussion of the industrial policy of Bangladesh indicates that the Government was trying to give a concrete shape to its policy framework. But within nearly one and a half years of the first major Industrial and Investment Policy formulation of January 1973, the Government came out with another revised list of policies which offered the promises of more lee-way to the private sector and more concessions to it.

The revised policy announcement of 16 July 1974 said as usual that foreign investment both in management and equity would be allowed in projects where technological and managerial gap existed and which will be considered necessary in national interest. But it lifted the previous ban on foreign

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17 For the useful discussion of management pattern of industrial enterprise, please see, Qazi Kholiquzzaman Ahmad, "Aspects of the Management of Nationalised Industries in Bangladesh", and Mohiuddin Alamgir, "Nationalised Industries of Bangladesh: Problems and Prospects", in The Bangladesh Development Studies, vol. II, n.3, July 1974.

equity participation in local private ventures where technical know-how was not locally available; technology involved was very complicated and capital outlay was high. It will also extend to industries based on local raw-material or wholly export-oriented industries.[18] The policy also provided that technical collaboration without equity participation was to be allowed in all types of industries.

The existing ceiling on private investment was also raised to Taka Three crores (30 million). The reason put forth lfor it was high increases in the prices of land, building and machineries and an expanded scope for investment in the private sector.

The moratorium on nationalisation of new industries was raised from ten to fifteen years from the date of their going into production.

Foreign investors were provided further concessions. The most important of them was that 50 per cent of the net salary of foreign nationals subject to a maximum of £200 per

18 Bangladesh Observer, July 17, 1974.

month per individual could be remitted home. Here the limit was raised from £150 to £200.

To provide better incentive for establishing industrial concerns in less developed areas, outside the industrial zones of Dacca, Chittagong and Khulna, the period of tax holiday was raised from 5 years to 7 years.

After providing for private industries and foreign investment, the July 1974 declaration gave an elaborate list of industries reserved for the public sector. The list included:

1. Arms and amunition and allied defence equipment.
2. Atomic energy.
3. Jute industry (sacking, hessian and carpet backing).
4. Textiles (excluding handlooms and specialised textiles).
5. Sugar
6. Paper and newsprint.
7. Iron and Steel (excluding re-rolling mills).
8. Ship-building and heavy engineering (including machine tools and assembling/manufacture of cars, buses, trucks, tractors and power tillers).
9. Heavy electrical industry.
10. Minerals : Oil and Gas.
11. Cement.
12. Petrochemicals (Fertilizers, PVC, ethylene and synthetic fibre).

13. Heavy and basic chemicals and basic pharmaceuticals.

14. Air transport.

15. Shipping (including coastal ships and tankers above 1000 DWT).

16. Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).

17. Generation and distribution of electricity.

18. Forest extraction (mechanised).[19]

The above policy was a major break from the policy of 1973 in that it not only increased the limit in private investment, but also earmarked certain industries exclusively for public sector. This meant that in Bangladesh private and public sectors were being distinguished not on the basis of size of investment alone, but also on the basis of reservation of certain types of industries for a particular sector. This principle was quite in conformity with mixed economies.

ROLE OF FOREIGN TRADE

The industrial sector in a country cannot be self-dependent especially when industrialisation is largely based on imported raw materials and capital equipment. In this

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19 Ibid.

context foreign trade has vital bearing on industrialization. In case of an undeveloped country like Bangladesh this is particularly relevant. At the same time Bangladesh had to export its products for earning foreign exchange which could be used in its developmental work. In Bangladesh, immediately after liberation, regulation of import was of vital importance to ensure the steady flow of urgently needed raw materials for the industrial sector. The private importers in Bangladesh before independence were mainly West Pakistanis. After their flight, a vacuum was created. This vacuum was filled mainly by the state agency, the Trading Corporation of Bangladesh (TCB) and the public sector industrial enterprises because of their greater participation in the industrial development of the republic. By the end of 1973, 80 to 90 per cent of foreign trade was conducted by the public sector agencies. Foreign trade was carried on mainly by the following three agencies:

(i) In case of raw materials, the sector corporations would import for the nationalised industries.

(ii) T.C.B. would undertake imports for the private industries.

(iii) For those commodities in which close contact between ultimate users and sellers was important, the responsibility for importing was left to the actual user or industrial enterprise.

Thus, in the initial stages, limited role was assigned to the private sector. Import trade was sought to be spread among a number of private traders to avoid concentration of imports in a few hands. But as more and more items of import were left to the private traders, corruption and selling off of import licences at a premium to regular traders started, thus defeating the original purpose of the government.[20]

Thus the industrial policy of Bangladesh started with avowed commitment to socialist principles. But subsequent changes in the policy package however revealed some relaxation of the Government's earlier enthusiasm for socialist ideals. The next chapter is devoted to a critical evaluation of the Government's industrial policy and factors underlying changes therein.

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20 For a detailed discussion of import policy please see, I.N. Mukherji, "Import Policy of Bangladesh", Foreign Trade Review (New Delhi), April-June 1975.

Chapter IV

A CRITICAL EVALUATION OF INDUSTRIAL POLICY

In the last chapter we have made a detailed study of the industrial policies of Bangladesh during the Mujib era. In this chapter we propose to examine critically the implications of these policies and the problems encountered in their implementation. This would involve us in picking up various elements of the policy package, the salient features of which have been discussed in the previous chapter.

It may be recalled that industrialisation in Pakistan took place mainly through an educated, urbanized Indian Muslim community who had migrated from United Provinces and Bombay in India and had settled down in and around Karachi. They were primarily traders. While Burki attributes their accelerated rate of conversion to an industrial capitalist class to the stoppage of flow of Indian goods to Pakistan after the "Trade War" of 1949, Professor Arjun Sen Gupta attributes it to the collapse of the Korean boom and the stoppage of imports from India.[1]

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1 Shahid Javed Burki, "Politics of Economic Decision-making During the Bhutto Period", Asian Survey, Vol. XIV, No. 12, December 1974, p.1130 and Arjun Sen Gupta, "Regional Disparity and Economic Development of Pakistan", in Bangladesh Economy : Problems and Prospects, V.K.R.V. Rao, ed., (Delhi, 1972), p.35.

Their economic ascendancy continued for ever, even when the "natural leaders" of Pakistan, the landlords, came to hold reins of power after the murder of Liaquat Ali Khan in 1951.[2] The formation of the Public Sector Pakistan Industrial Development Corporation (PIDC) could do little to arrest their rise. As has been pointed out in Chapter I, majority of the industries in erstwhile East Pakistan were also controlled by the West Pakistani capitalists. But during the five-year period ending in 1970, the PIDC in East Pakistan had divested itself of many going concerns.[3] The reason offered for this was that once an enterprise becomes viable, i.e. starts yielding profits, it should be transferred to private hands and new ventures should be started with the sale proceeds. Since, East Pakistan entrepreneurs lacked resources compared to their West Pakistani counterparts, most of the disinvested enterprises went into

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2 Burki, n.1, p.1131.

3 A.R. Khan, The Economy of Bangladesh (Macmillan, 1972), p.72. Also see, A.R. Khan, "Bangladesh : Economic Policies Since Independence", South Asian Review, Vol.8, No.1, October 1974, p.17.

the hands of West Pakistani industrialists. But, as we have shown in Chapter-I, during late-1950s and early 1960s, i.e. during the reign of President Ayub Khan, it was publicly admitted that disparity existed between the Eastern and Western wings and the necessity for removing it was felt. As Rehman Sobhan has pointed out, during the last five years of United Pakistan, a new class of Bengali capitalist was created under state patronage.[4] But they constituted a minority, as can be seen from the table below:

Table 1

Public Sector in Bangladesh as on 26 March 1972

Name of source	No. of enterprises (including under construction)	Value of fixed assets (Takkas million)	Share of fixed assets in percentag
1. Formerly under CPIDC/EIDC	53	1700	48
2. Abandoned by Pakistani	111	1047	29
3. Jute and Cotton Mills owned by Bengalis	75	810	23
4. Total	239	3557	100
5. Abandoned units under Takas 1.5 million	400	214	

Source: Rehman Sobhan, "Nationalisation of Industries in Bangladesh: Background and Problems", in Robinson and Griffin, ed., The Economic Development of Bangladesh within a Socialist Framework (Macmillan, 1974), p.188.

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4 Rehman Sobhan, "Nationalisation of Industries in Bangladesh: Background and Problems", in E.A.G. Robinson and K. Grittin, ed., The Economic Development of Bangladesh within a Socialist Framework (Macmillan, 1974), pp.184-85.

Thus it is clear that even though a capitalist class was emerging in East Pakistan towards the end of its association with West Pakistan, it was small and hence, in the overall context of the economy of Pakistan, was subordinate to West Pakistani industrial capitalist class. It was some sort of an internal colonialism in which "metropolitan" ownership of the Western wing prevailed over the East. In this situation it is very natural for the nascent capitalist class in East Pakistan to hanker for its dominance and assertion and thus to breakaway from Pakistan. But during the nine-month long liberation struggle in 1971, which was spearheaded by the peasants, workers and, middle class intelligentsia and to which Awami League of Sheikh Mujib provided leadership, the attitude of the capitalist class was what can best be called "apathetic".[5] This can be attributed to their sense of uncertainty about the outcome of the struggle which ensued in March 1971. They wanted, true to their class character, to be on the safe side. But in the process they lost the goodwill of the masses and emerged with an weakened bargaining leverage after the liberation struggle. Since the workers actively

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5 See Rehman Sobhan, ibid., p.185, and Nurul Islam, Development Planning in Bangladesh : A Study in Political Economy (London, 1977), p.219.

involved themselves in the struggle, it was not possible for the Awami League to wish them away. Here it would be pertinent to examine the class character of Awami League briefly.

The Awami League was formed in 1948 as an opposition to the communal Muslim League of Pakistan. But it could never assume a national character. It remained within the confines of the East Pakistan borders. Prof. Nurul Islam calls it a "liberal democratic party with socio-democratic leanings", in terms of its economic philosophy.[6] As long as the East Pakistani economy was dominated by the capitalists of the West, the Awami League could capitalize on its opposition to big capital. This was done more in order to win over the support of the majority of the toiling masses and to pose a Bengali nationalist character. This did not antagonize the upper class Bengalis because, as we have said before, they were not in a position to control the economy. As Prof. Islam points out, there was a contradiction between its opposition to "Big Business" and support for the workers, which became evident after liberation.[7]

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6 Nurul Islam, ibid., p.21.

7 Ibid., p.22.

(a) In the post-liberation period, the Bengali capitalist class was trying to replace the West Pakistani capitalists who had left. To go all out against it would mean alienating the nascent ascending bourgeois for whom it stood and who formed the backbone of the party.

(b) By supporting the cause of the East Pakistani labour force against the profit-hungry West Pakistani industrialists, the Awami League had created an image for itself which it would tarnish by going against the workers.

Because of this above contradiction, Awami League had to assume a socialist stance. (Akhlaqur Rahman points out that until the elections of 1970, the Awami League had not developed a fascination for socialism. And the fascination developed with the election of 1970 to counteract Maulana Bhasani and the revolutionary Bengali youth.[8]) The Election Manifesto of the Awami League in 1970 said:

Concentration of wealth and control of the key sectors of the economy by a privileged coterie cannot be prevented by progressive taxation and by regulatory measures alone. In

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8 Akhlaqur Rahman, "Roads to Socialism-II, The Awami League Road", Holiday Weekly, (Dacca), 19 August 1973.

order effectively to meet these problems, it is necessary to nationalise the key sectors of the economy and to ensure that future development in key areas is in the public sector.[9]

This socialist stance was another attempt at taking the wind out of another's sail, and it succeeded tremendously as was shown by the election results of 1970. It naturally came to assume the unrivalled role of the leader of the Bengali nationalist upsurge against West Pakistani domination.

The Constitution of Bangladesh which was promulgated in 1972 also emphasized its faith in socialism. Article 10 of the Constitution solemnly declared:

> A Socialist economic system shall be established with a view to ensuring the attainment of a just and egalitarian society, free from the exploitation of man by man.[10]

The Constitution also declared emancipation of the toiling masses, peasants and workers from all sorts of exploitation as one of the fundamental responsibilities of the State.[11]

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9 Bangladesh Documents, Ministry of External Affairs, Government of India (New Delhi), p.71.

10 The Constitution of the People's Republic of Bangladesh, Constituent Assembly of Bangladesh, 1972.

11 Ibid., Article 14.

Removal of inequality between man and man and between region and region and attainment of uniform level of economic development throughout the Republic was accepted as a fundamental principle of state policy.[12] Without mincing words, the Constitution asserted work as a right and duty of the citizens and said that payment would be made on the basis of "from each according to his abilities to each according to his work", which is a high water-mark of socialist principle.[13]

Not only the Manifesto of the Awami League and the Constitution of the country emphasized socialism as one of the governing principles, but also the first five-year plan of the country hammered on the same point. It said:

> The removal of the capitalist system of income distribution, of the private ownership of means of production relations is a necessary pre-condition for socialist development.[14]

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12 Ibid., Article 19.

13 Ibid., Article 20.

14 First Five-Year Plan of Bangladesh, 1973-78, Planning Commission, Government of the People's Republic of Bangladesh (Dacca, 1973),

But this was at variance with the Constitution which said that ownership would assume three forms: state ownership, co-operative ownership and private ownership.[15] This anomaly was sought to be explained away by Sheikh Mujibur Rahman by saying that through a private sector would also exist side by side, "formation of private monopolies will not be allowed."[16] An impression was given through this statement that private ownership could not grow into monopolies, which is a totally false and misleading impression. Later events show that private owners of means of production grew into big capitalists.

The policies contained within themselves many lacunae. The Nationalisation Order of 26 March 1972 set an arbitrary floor-level of Taka 1.5 million worth of fixed assets for nationalisation of industries. Most of the big jute, sugar and cotton textile industries were already under public sector or were abandoned by West Pakistani industrialists. Bengali-owned big industries were a handful only. Given the weak position of the Bengali capitalist class, it was not difficult for the Government to deprive them of their industries. At the same time enough scope was left for

15 Ibid., n.11, Article 13.

16 Hindustan Standard, 21 January 1972.

manipulation of balance sheet and reduction of the value of the fixed assets to avoid nationalisation. High depreciation in cost could play the trick.

Workers' participation in management was provided for, but at the same time the effect of it was sought to be blunted by banning strikes in the nationalised sector.[17]

Though selected industries were taken over by the Government, the management remained in old hands. The managers of private enterprises could not be expected to turn socialists overnight. Thus the control of the productive machinery still remained in private hands. Not only that, since they were holding key positions, the private ~~as~~ managers could allocate dealership licences to chosen traders and thus reap the benefit especially in a scarcity situation which prevailed in Bangladesh. There was no control on it. As A.R. Khan puts it:

The act of nationalisation did nothing to impair such control. Indeed, the nationalised enterprises continued to be managed and controlled by their former owners. In a period during which very little financial and industrial discipline survived and anything could be blamed on the recent

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17 "A Presidential Order issued in Dacca on 28 May prohibited strikes and unfair labour practices in the nationalised enterprises for six months", Bangladesh Observer, 29 May 1972.

turmoil, this constituted an unprecedented opportunity for private management to pursue its private objectives.[18]

Though there was no direct reference to disinvestment of the public sector industries once they became viable, as A. R. Khan argues, there was nothing to preclude it also.[19] The increase in the limit of the worth of fixed assets in private sector industries from Taka 1.5 million in 1972 to Taka 2.5 million in 1973 and then skyrocketing of it to Taka 30 million in 1974 gives further credence to this argument. The increase in limit of size of the private sector from Taka 1.5 million to Taka 2.5 million was marginal which could have been explained away by putting forth the argument of price rise, non-availability of inputs in the local market etc. But the twelve fold rise of limit from Taka 2.5 million in January 1973 to Taka 30 million in August 1974 was just meteoric. To add to that came moratorium on nationalisation for 15 years and foreign equity participation in private industry.

The reason for all this was to give more scope to the private sector to grow. As Prof. Nurul Islam observes:

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18 A. R. Khan, "Bangladesh : Economic Policies Since Independence", South Asian Review, Vol.8, No.1, October 1974, p.17.

19 Khan, The Economy of Bangladesh, n.4, p.153.

"The average size of new industrial enterprises was about Taka 1 million in 1973/74 and Taka 1.84 million in 1974/75. The low average size of investment, in spite of the fact that costs of investment had increased since 1972 when the ceiling of Taka 2.5 million was fixed, contradicted the hypothesis of lack of viable investment opportunities within the ceiling."[20]

So the reason for increase in limit lay somewhere other than rise in prices. As Prof. Nurul Islam points out, by 1974 many factors had contributed to the accumulation of surplus funds in private hands.[21] One of the reasons being high profits resulting from domestic and external trade, including, trade in contraband goods and smuggling across the border of jute and other exportables Further, abandoned enterprises and buildings abandoned by Pakistanis were illegally occupied by private persons, ~~sometion~~ sometimes under political protection. Rent and sometimes illegal sale proceeds obtained from such property went to fatten the purses of the illegal occupants.

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20 Nurul Islam, Development Planning in Bangladesh : A Study in Political Economy (London, 1977), F.N.23, p.254.

21 Ibid., p.244.

Further, even though 80 per cent of foreign trade was nationalised, private traders had also a role to play in import and export business. For that "licenees" and "permits" were to be issued to the traders. Here the spoils systems worked very well. Awami Leaguers could claim lion's share of the licenses and permits because of their political upperhand. This actually happened and Talukdar Maniruzzaman testifies to it. He wrotes

"The major portion of permits and licenses were given to Awami League workers who sold their licenses to professional traders. This provided them with "unearned income", most of which was not invested in productive enterprises."[22]

The ill-gotten money earned from the above illegal sources had to find some way out in which that could be legalized. So pressure was exerted on the government to increase the limit on private investment and widen its scope. But whether the existing opportunity for investment in the industrial sector was adequate to absorb the money generated in illegal transactions was not taken into consideration. What was favoured and desired by the private owners of investment

22 Talukdar Maniruzzaman, "Bangladesh in 1974 : Economic Crisis and Political Polarization", Asian Survey, Vol. XV, No.2, February 1975, p.118.

resources was to revert to the preliberation policy of "sponsored capitalism" under which government would liberally finance and extend fiscal facilities to the private sector to grow and where the private sector would be given chance to experiment in industrial investment with government subsidy. Prof. Islam says, "They (the private investors) were eager to ensure that private enterprises were not confined merely to the small-scale industries - a small island in an industrial sector owned by largely by the government, which remained publicly committed to the establishment of socialism."[23]

The demand for raising of limits on private investment was strengthened by foreign investors and aid agencies which advocated for a bigger role for the private sector in the industrial development of Bangladesh than was provided for in the Five-Year Plan. Thus, the World Bank recommended raising of the ceiling to Taka 10 million or removing it ~~tog~~ altogether.[24]

That the Government succumbed to the pressure of the new rich in Bangladesh is evident from the above mentioned frequent shifts in policies. It went to such an extent that whereas the policy pronouncement of 1973 defined private sector

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23 Islam, n.6, p.244.

24 Islam, Ibid., pp.246-47.

on the basis of size, the 1974 policy delimited the role of the public sector. In the initial stages of a socialist economy, private sector does play a role, but it is gradually abolished. In Bangladesh a reversal of the above process was to be observed.

The complementarity of public and private sector was much emphasized in the industrial ~~scope~~ and investment policy. Here a scope was given to the private sector to develop as ancillary to public sector. Private sector was to supplement and not to supplant the public sector. But as the scope of operation of the private sector was widened by increasing the limit on private investment, the supplanting of public sector in the long run was not inconceivable.

The Government also reserved the right to nationalise any private industry that was consistently making loss due to mismanagement or negligence on the part of the owners. The plea of "mismanagement" is extremely facile. No capitalist would like to mismanage his industry. It is only when because of market compulsions under a capitalist economy he is thrown off balance, the Government comes to his rescue and nurses his sick industry and hands it over to him once it becomes viable. Thus, under a mixed economy, the Government not only grows a private sector under its shade, but also nourishes it whenever necessary. The above provision of the Industrial and Investment Policy was meant exactly to further this objective.

The Industrial and Investment Policy of 1973 tried to highlight Bangladesh's socialist commitment by posing its industrial policy against that of mixed economy systems. But here the logic lacked maturity. That private capital in Bangladesh was confined to small and cottage industry was solely because of the fact that private capital had not reached its commanding heights. The Awami League tried to kill two birds in one stone; containing the working class and laying the foundation for a healthy growth of capitalism. The economic system was not a shade different from mixed economies; albeit, it was a mixed economy where the private sector was relatively weak. "A critical dividing line", Prof. A.K. Bagchi says, "between the fully socialist economies and underdeveloped mixed economies with apparently similar strategies of development is that the former can directly alter the distribution of incomes between different occupational groups or the distribution of the means of production between different sectors so as to make them conform to the strategy of development, but the latter can try to do so only through a cumbersome apparatus of fiscal, monetary and physical controls supplemented by the market mechanism".[25]

After evaluating the content of Bangladesh's industrial policy, we now turn to examine the efficacy of the same in terms of industrial performance. Here also a gap existed between the profession and performance of the Awami League Government in Bangladesh. Thus capacity utilisation in some major industries did not even touch 80 per cent by 1974/75. The following table shows that:

Table 2

Degree of capacity utilization (percentages) of selected industries of Bangladesh

Industry	1972/73	1974/75
1. Bangladesh Engineering and Shipbuilding Corporation	51.65	59
2. Jute Manufacturing Industries		
(a) Hessian	61.62	68
(b) Sacking	76.17	72
3. Sugar	46.67*	58

*1973/74

Source: Gul Afroz and Dilip Kumar Roy, "Capacity Utilization in Selected Manufacturing Industries of Bangladesh", The Bangladesh Development Studies, Vol. IV, No. 2, January 1976, p. 286.

25 A. K. Bagchi, "Long-Term Constraints on India's Industrial Growth, 1951-1968", in Robinson and Kidron, ed., Economic Development in South Asia (Macmillan, London, 1970), p. 171. Emphasis added.

Though the authors of the article mentioned at the bottom of Table 2 attribute under-utilization of capacity of war ravages of 1971, paucity of foreign exchange, failure in power supply etc., in the same breath they attribute it to "bottlenecks for domestic demand" created by "unco-ordinated imports of goods and resources despite the existence of adequate indigenous availability".[26] Giving a sample of losses due to other reasons, the above authors say:

In 1973/74, for the jute industries under Khulna zone, the loss in loom hours on an average was 56095, due to mechanical and maintenance trouble, 6184 due to strike gheraos, 42,289 due to weaver shortage and 54,372 due to yarn shortage.[27]

Prof. I.N. Mukherji also gives an estimate which points at poor performance in the industrial sector. He says that in 1972-73 the G.D.P. was 12-14 per cent lower, in real terms, than the GDP of 1969-70. Further:

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26 Gul Afroz and Dilip Kumar Roy, "Capacity Utilization in Selected Manufacturing Industries of Bangladesh," The Bangladesh Development Studies, Vol. IV, No. 2, April 1976, p. 286.

27 Ibid.

Given the growth in population, the GDP per capita was as much as one-fifth lower than three years earlier. Even by the middle of the First-Five-Year Plan (1973-78) and after an investment of Taka 1400 crores, the overall level of production and the per capita income level was below that of 1969-70.[28]

There was under-utilization of capacity in jute and cotton textiles, sugar, steel, paper and board, fertilizer and chemical industries which amounted to Taka 550 crores.[29]

Thus, most of the losses were caused by failure on account of administrative and managerial deficiency. This buttresses our previous argument that given the contradiction in the Government's policy, the situation could not have been any better. From his analysis of the nationalized industries in Bangladesh, Mohiuddin Alamgir concluded:

"... in order to avoid the internal conflict it is recommended that in Bangladesh the political, technical

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28 I.N. Mukherji, "Constitutional Developments in Bangladesh," Foreign Affairs Reports, (ICWA, New Delhi), Vol. XXIV, No. 10, October 1975, pp. 162-63.

29 Ibid.

and administrative cadres should all be ideologically and politically motivated.[30] But whether a party, which in effect upholds the interests of the capitalist class can motivate the masses by its ideology is doubtful.

Thus, Bangladesh under the Awami League of Sheikh Mujib started with a promise of socialist transformation of the country. In this chapter we have laboured to show how that promise contained within itself grains of contradiction which is evident from a brief discussion of its performance also. Our contention here is that the path of development pursued by Pakistan after 1947 and that by Bangladesh after liberation has tended to converge. The difference lies in the fact that whereas in Pakistan the path of capitalist development was open and blatant, in Bangladesh it was veiled. The veil could hide little. As it was natural, with the passing of time the picture came out in greater relief within the short period of three years, between 1972 to 1975. It brought to light the path Bangladesh was set to follow. It was heading towards a capitalist economy for which the way lay through the 'dual' or 'mixed' economy.

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30 Mohiuddin Alamgir, "Nationalized Industries of Bangladesh: Problems and Prospects", The Bangladesh Development Studies, Vol. II, No. 3, July 1974, pp. 716-17.

CONCLUDING OBSERVATIONS

When Pakistan was separated from India in 1947, the much publicized basis of partition was religion. Former East Bengal, with its Muslim-majority districts also joined Pakistan as its eastern plank.[1] Little did the leaders of East Bengal realize at that time that a weak bond like religion could not be the basis of formation of a State.

The affluent and educated Muslim community of Bombay and United Provinces in India, who were mainly traders, were disgruntled under the economic regime of the Hindus.[2] They hoped to obtain economic leadership in an economy solely controlled by them. This demand was masked under religion and presented through the Muslim League platform. This was

1 Here an anomaly was involved. Whereas Muslim majority Murshidabad district remained in India, Hindu dominated Khulna district went over to Pakistan. The reason behind it was the Farakka barrage. See Government of India, Partition Secretariat, Partition Proceedings (New Delhi, 1950), vol.6, (Reports of the Members and Awards of the Chairman of the Boundary Commission), p.50.

2 This sentiment of the Muslims in India is expressed by Prof. Kalim Siddiqui as follows: "While the political preponderance of the Muslims passed to the British, the economic advantage within India passed to the Hindu... While the Muslims sulked in mosques, the Hindus overtook them in administration, in industry and in commerce". Siddiqui, Conflict, Crisis and War in Pakistan (Macmillan, 1972), p.29.

added by the whimpering of the Muslim Bengalis, most of whom were peasants under Hindu landlords.[3] This was also used as a weapon by the Muslim League and the merchant class behind it. It is interesting, but not strange, to find that East Bengali leaders like Fazlul Huq and H. S. Surhawardy were the prime movers behind the plan for the partition of India and the creation of Pakistan. They might have been prompted by promised prospects of personal gain, but due to their ignorance and lack of foresight, they could not read into the plot behind the whole move for the creation of a Muslim Pakistan. They jumped into the fray alongwith the majority Bengali Muslims behind them. It did not take much time for the people of East Pakistan to be disillusioned. Very soon the plot started unfolding itself.

3 For this again we quote Prof. Siddiqui: "The New economic order in India was mainly concerned with supplying raw materials for the manufacturing industries in Britain. The output of Indian agriculture was controlled by men Lord Bentick in 1829 called 'a vast body of rich landed proprietors deeply interested in the continuance of the British dominion and having complete command over the mass of the people.' These were the Hindu proprietors created by the Permanent Land Settlement of 1793 introduced by Lord Cornwallis. These landlords and Zamindars expropriated the peasants by impounding as much as 50 per cent of the produce as 'ground rent'. After paying the land revenue, the zamindars sold the produce to the exporters of Bombay and Calcutta. Often the peasants, mainly Muslims in Bengal and Bihar, received no payment whatever and the price paid by the exporter was pocketed by the landlord and the suppliers between them. Ibid.

After the formation of Pakistan, the affluent trading classes who had settled down in West Pakistan took advantage of the opportunities which came up and started converting themselves into industrialists. This was facilitated by their proximity to the seat of Government in West Pakistan and liberal state patronage. Thus, even though there was little disparity in the factor endowments of East and West Pakistan, the disparity between the two wings over time increased. This was because of the nature of policies and their implementation by the government, which resulted in the enrichment of West Pakistan at the cost of East Pakistan. This proved to be nothing less than colonial domination. Domination spilled over in the cultural field also and Bengali language was sought to be relegated to a secondary position even though it was spoken by the majority of the people in Pakistan. The Awami League fought on these issues with the West Pakistani establishment and thus carved out a place for itself among the masses of East Pakistan. The culmination of its long drawn struggle was the war of liberation of 1971. In the aftermath of the war, Bangladesh emerged with a devastated economy. The war ravages pushed the already underdeveloped economy of Bangladesh still backward.

Here one thing to be marked is that while in pre-partition India, the Muslim League made an issue out of an insignificant factor like religion, in the struggle of the Awami League in Pakistan, economic issues were given prominence. Moreoever, the Awami League, to counteract the left forces in the country and to enlist the support of the youth, the peasants and the militant workers in the country, tried to give a socialist angle to its economic policy. This was naturally carried forward to independent Bangladesh and found a place in the 1972 constitution also. It was in the field of industrial development that socialism was sought to be given a major role to play. As Prof. Nurul Islam says:

> It is in a way paradoxical that the debate on the future pattern of the economic system was conducted on and around the investment policy in the industrial sector, a very small segment of the economy of Bangladesh.[4]

When it came to facing the reality, the Awami League ran into troubled waters. It is true that soon after liberation, Bangladesh inherited a war ravaged economy and the immediate problems of rehabilitation and reconstruction would pose a formidable challange to any government. As against this it must also be borne in mind that once links with donor countries were established, Bangladesh received massive inflow of foreign aid, which more than offset the damages caused by the war. It was thus

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4 Nurul Islam, Development Planning in Bangladesh : A Study in Political Economy (London, 1977), p.262.

not due to lack of resources, as such, but due to their misuse as well as maladministration that some of the vital industrial sectors continued to remain depressed relative to pre-liberation levels of production. Thus, even though we take into account the legacy of the underdeveloped, devastated economy bequeathed to Bangladesh, it is inexplicable as to how the industrial policy can involve so much of blatant hypocrisy and reduce the whole thing to a facade of socialism. Whereas industrial policy and its implementation in Pakistan consistently marched towards the capitalist path of development resulting in progressive regional disparity, in Bangladesh one observes considerable ambivalence as well as vacillation in the formulation and implementation of industrial policy. As in Pakistan, so in Bangladesh, capitalism was being fostered by the State. And, in both cases traders turned industrialists taking undue advantage of the scarcity situations and aided by the government policy. Finance was handy-from unaccountable sources, and where it was not forthcoming from public financing agencies. In some cases private capital grew at great cost to public.

Not only that the Awami League had increased the discontent among the workers by facilitating a freer growth of private capital, but it also indirectly initiated a process of progressive pauperization of the peasants. This was the natural consequence of protectionist policies in favour of industry and the resulting tilting of terms of trade in favour of industry. The Pakistani experience was again being repeated.

But before the Awami League could be destroyed by the rising volcano of discontent, on 28 December 1974 a state of emergency was declared in Bangladesh. This was followed by a stifling of political activity. On 25 January 1975, Bangladesh switched over from parliamentary to presidential form of government by virtue of the fourth constitutional amendment. Sheikh Mujibur Rahman assumed presidency. Bangladesh was declared a one party state. On 24 February 1975, the only party of Bangladesh, the Bangladesh Krishak Sramik Awami League (BAKSAL) was formally launched. All other parties stood automatically dissolved. Sheikh Mujib took all these steps in a haste to contend voices of discontent, to check the progressive erosion of his power and authority in a polity where the contending forces were poised against him.[5] Crisis was temporarily stalled, but in the process Mujib lost his balance.

In a developing country which has suffered under colonialism, the rulers have to choose between rapid economic

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5 For a discussion of the progressive diminution of the image of Sheikh Mujib in the public eye see, Rounaq Jahan, "Bangladesh in 1972 : Nation Building in a New State", Asian Survey, vol. xiii, no. 2, February 1973.

growth at the cost of sacrificing the so-called distributive justice or, growth with justice.[6] While Pakistan followed the former path, Bangladesh sought to follow the latter because of the objective conditions prevailing at the time of liberation which have been discussed above. But this requires maintaining an equilibrium between contending classes in the society. The managers of state affairs, or those who form the government, while safeguarding the interests of the ruling classes, throw fringe benefits to others so that discontent does not break out. In this arrangement the garb of socialism works wonders. But if the ruling classes feel that their interest is not being properly safeguarded, they do not delay in toppling the government, whereas in case of other classes it requires a lot of organization and mobilization. Viewed in this light, Sheikh Mujibur Rahman's industrial policy upto 1974 suited the nascent capitalist classes very well because it helped

6 For a fuller discussion on this theme see, Md. Momtazur Rob Chowdhury, "Towards Just Society", Bangladesh Observer, 8 April 1972.

their consolidation and growth. They were also weak in the initial stages. Mujib could resist the demands of the masses. But once he failed to keep pace with the demands of the ruling classes for more rapid growth than what he was affording and took an authoritarian turn to cling to his position, the inevitable consequences followed.

Sheikh Mujib could have, if he had so wished, curbed the emerging capitalist class in the very beginning given his stature and the following among the masses. It looked as if the Nationalisation Order of March 1972 was intended for this purpose. But as we have seen, there were loopholes in foreign trade policies, in the distribution of permits and licences, and in the allocation of dealerships. In these spheres political patronage appears to have been distributed to the workers of the party in power. It was through these channels that the private traders got the opportunity to obtain and amass ill gotten gains in conditions of acute scarcity. Once the wealth had been amassed, this class acquired power to influence government decisions. The Government too realised that rather than allow the wealth to be wasted in building up real estate or to be diverted to speculative channels, it would be better to legitimise their investment in relatively productive areas in the private sector. Further, administration of nationalised industries in many cases remained in the hands of the old managers who were not committed to the socialism of the Awami League. Also frequent political interference in the day to day operation of the nationalised sector could only result in their poor performance.[7] This, in turn, provided a ready-made execuse to the government for bringing in private administration by giving wider scope to private capital. The raising of the investment ceiling to Taka 30 million is a logical corollary of this. This naturally raised the expectation of the capitalist class. Mujib, who was now being apprehensive of the outcome of his earlier commitment to socialist objectives, tried to contain this trend through authoritarian principles. But it was too late. The forces generated indirectly through his own policies had become too dominant to be contained.

That the capitalist class had become quite dominant is easily illustrated by the subsequent shifts in industrial policy following the assumption of power by the military regime.

7 Article 135(2) of the Constitution of the People's Republic of Bangladesh provided that a civil servant could be dismissed or demoted in rank without giving him an opportunity to show cause. While this was designed to serve the laudable objective of preventing pro-Pakistani and corrupt bureaucrats from amassing ill-gotten wealth, in practice, this was used as a leverage by the authorities in power to subserve their selfish ends.

in August 1975. The ceiling on private industrial investment was raised to Taka 100 million and joint partnership between domestic private and public sector was also allowed.[8] Thus the scope of operation of the private sector was further widened. Not only that; it could also initiate moves to encroach upon the field of public sector. It legalised black money accumulated over the years by the trading and industrial classes through corrupt practices provided the same was invested in new concerns or for buying up of dis-invested concerns. Subsequently, decisions were taken to disinvest or transfer into private hands public sector industrial units whenever found suitable without limit as to the size of such concerns.[9] An interesting thing which Prof. Nurul Islam points out is that the industrial policy of 1975, contrasted with the industrial policy of 1974, did not contain any reference to socialism.[10] The inevitable thing had come to stay.

Thus Bangladesh after Sheikh Mujibur Rahman followed a classicial method of economic and industrial development,

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8 Nurul Islam, n.2, p.18.

9 Ibid., p.250.

10 Ibid., ~~mx30~~ footnote 30, pp.254-55.

where 'distributive justice' is overlooked for the further consolidation of capitalism. The whole process, as we have tried to show, was unleashed by Sheikh Mujib and his Awami League who could not cope up with the pace of capitalist development and thus crumbled under the pressure of their own creation.

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