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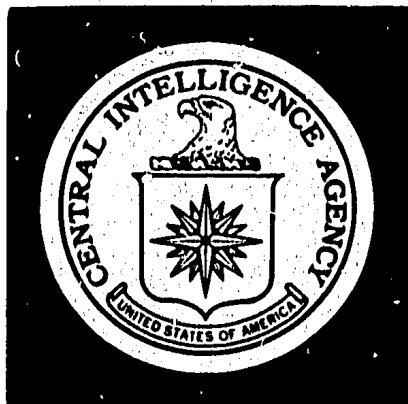
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DIRECTORATE OF
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Intelligence Memorandum

The Deteriorating Economic Situation In West Bengal

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ER IM 70-128
September 1970

Copy No.

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CENTRAL INTELLIGENCE AGENCY
 Directorate of Intelligence
 September 1970

INTELLIGENCE MEMORANDUM

The Deteriorating Economic Situation
In West Bengal

Introduction

India's industrial state of West Bengal and its capital, Calcutta, have been the scene of numerous disorders and serious labor unrest for the past several years. The collapse of the Communist-controlled state government early this year led to the imposition of national government control over the state, which constitutionally could remain in effect until March 1973. This memorandum reviews and assesses West Bengal's economic development since Independence, describes its current economic situation, and discusses some of the economic consequences of the recent political unrest. It also evaluates the prospects for improvement in the next several years.

Background

1. The Indian state of West Bengal (see the map), created when East Bengal was split off in 1947 to form East Pakistan, lies on the Ganges River Delta in Eastern India. Most of the area is low and flat and periodically subjected to droughts and floodings. It is heavily overpopulated, even by Indian standards, with the second highest population density among India's 17 states -- about 1,300 people per square mile in 1970.* While most of the approximately 45 million

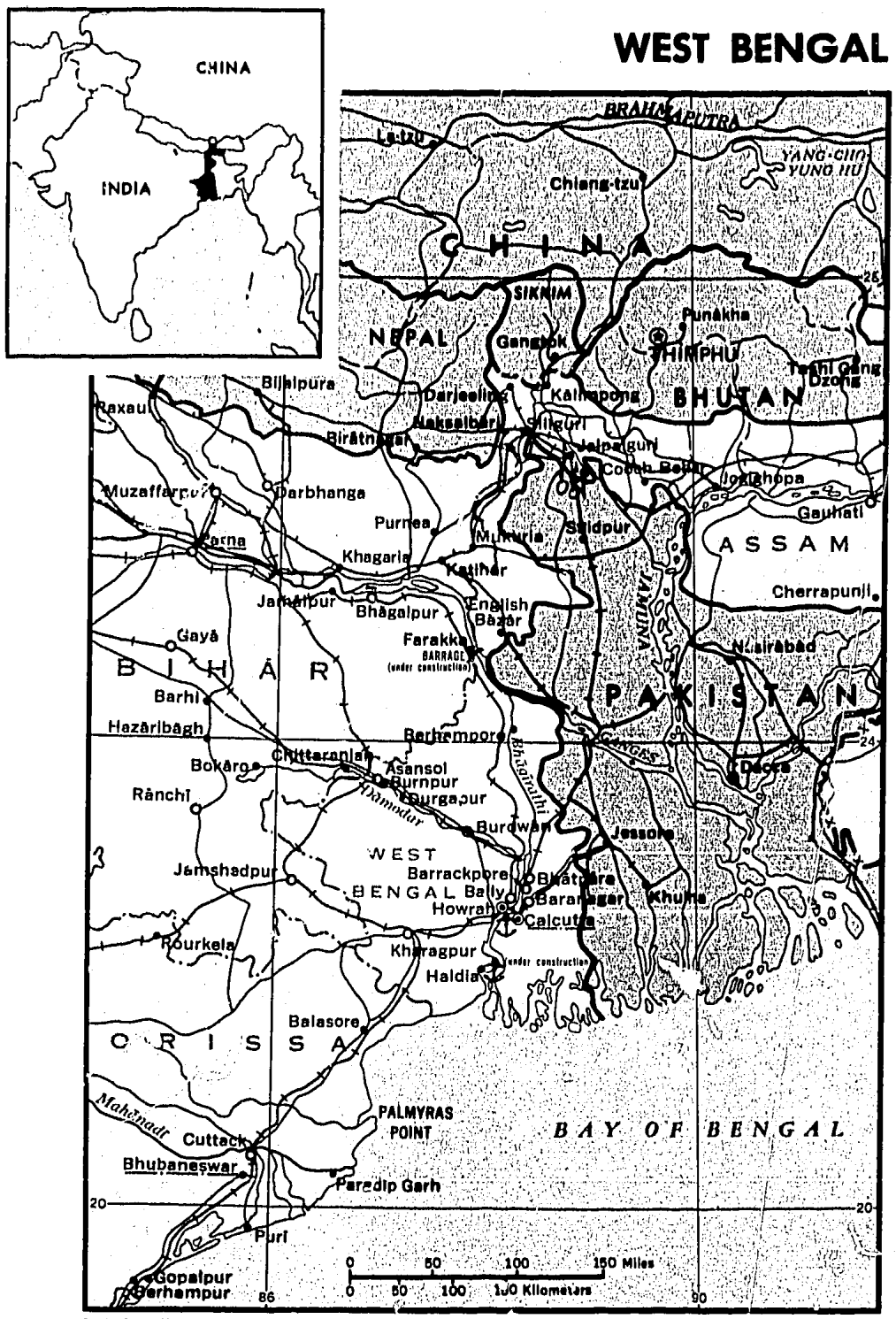
* *The state of Kerala has a population of 1,375 per square mile, but less than half West Bengal's population. Kerala is also the only other state with strong Communist parties.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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West Bengalis are subsistence rice farmers, the modern economy, with the exception of the two steel mills, is concentrated in Calcutta, which accounts for nearly all of the state's industry and commerce. Jute manufactures, West Bengal's largest industry, employs about one-fourth of the industrial labor force. Almost two-fifths are employed in various engineering industries. Cotton textiles, food processing, and other consumer industries employ most of the remainder.

2. At Independence, West Bengal was India's wealthiest state. Although per capita income was only about \$100 per year, it was nevertheless about 60% above the national average (see Table 1). As the leading industrial state, West Bengal accounted for 28% of the nation's total industrial production. Its colonial heritage included the sub-continent's largest engineering, chemical, and transport equipment industries as well as a monopoly on producing jute manufactures -- the nation's leading export. Its port, Calcutta, serviced about 40% of all international traffic handled by Indian ports.

Economic Trends, 1951-69

3. West Bengal's economic progress since Independence, however, has been much slower than the national average, and by the late 1960s its economic importance had declined dramatically. National income in West Bengal grew by 50% during 1951-67, compared with 73% for India as a whole. At the same time, agricultural production increased by less than 50% in West Bengal, compared to about 90% in all India. West Bengal's industrial production grew about 50% during the same period, compared with 300% for all India, and its share of the nation's industrial production fell by one-half to 14%. Calcutta's share of total port traffic fell to only 16% in 1967. The state's per capita income, while still about 25% above the national average, actually was about 4% lower in 1967 than in 1950 and was surpassed by four other states -- Gujarat, Haryana, Maharashtra, and Punjab.

4. West Bengal's agriculture has been virtually untouched by the so-called "green revolution" in India.* Foodgrain production in West Bengal -- which

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makes up 90% of agricultural production -- is dominated by rice. Following the nationwide droughts of 1965 and 1966, foodgrain production in India as a whole reached a record high in 1967 -- 7% above the 1964 level. In West Bengal, however, production actually was 6% lower in 1967 than in 1964. Whereas high-yielding varieties of wheat were quite successful in other parts of India in spurring foodgrain output, such varieties of rice seeds had little success. High-yielding rice seed imported from the Philippines has not adapted well to local growing conditions and is susceptible to local diseases. Moreover, its requirements for controlled water generally cannot be met in India's rice-growing regions.

5. Some of West Bengal's industrial decline had occurred by the mid-1960s and, therefore, preceded both the nationwide recession and the state's political and economic turmoil of the latter 1960s. The state's share of industrial production had already declined by one-fourth to 21% by 1964. In part, West Bengal's relative standing was affected adversely by the more rapid industrial buildup in many other states promoted by New Delhi's investment policies which encouraged the regional dispersion of industry to promote a more equitable distribution of income. Since central planning started in 1951, West Bengal's share of the nation's development expenditures has declined steadily from 11% during 1951-55 to 5% during 1966-68. While per capita expenditures almost tripled for all India, they increased less than 50% for West Bengal (see Table 2). In addition, West Bengal's jute industry was adversely affected by Indian government policies and by increasing competition in world markets from both synthetics and Pakistan's more modern jute industry. Production of jute goods grew only 35% during this period.

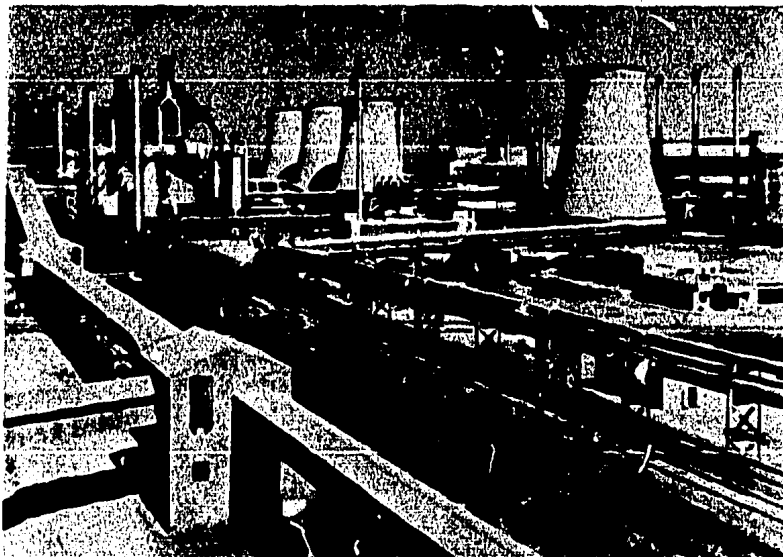
6. Since the mid-1960s the state's economic deterioration has sharply accelerated. The 1966-67 nationwide recession, caused by India's worst drought of the century, had a severe impact on West Bengal's industry where production plummeted by about 30% between 1964 and 1967. The decline was most severe in heavy engineering industries -- for example, railcar construction, steel castings, structural fabrication, wire and cable, and machine tool industries were all operating at 30% to 40%

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of capacity. Output of jute manufacturing declined 17% in 1966 alone because of poor jute crops and the cutoff of imports from Pakistan after the 1965 Indo-Pakistan hostilities. In many industries, such as steel, the situation was exacerbated by rival labor unions fighting for control of major industries, thus disrupting production and lowering efficiency. With unemployment and labor dissatisfaction mounting, a Communist-dominated coalition government was elected in West Bengal in 1967 and was reelected in 1969. Inter-party rivalry within the coalition since then has led to political instability and terrorist activities in both urban and rural areas.

7. By 1969 the nation's industry generally had recovered from the recession -- industrial production was 12% greater in 1969 than in 1965, its pre-recession peak. However, West Bengal's industry was still depressed. Output of jute manufactures declined another 20% from 1966 to 1969 mainly because of small jute crops brought about by diverting one-fourth of jute lands into rice production and because of reduced prices paid for jute in 1967-68 while record prices were paid for rice. The price differential recently has been reduced somewhat but not enough to make many rice producers switch land back to jute. Jute output has remained so low that about 50% to 60% of



Iron and Steel Plant at Durgapur

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broadloom capacity was idle in mid-1970. Despite India's critical shortage of steel, West Bengal's two steel mills in 1969 were producing less than in 1968 (see Table 3) and were operating at an average of only about 60% of capacity, primarily because of worker strikes. As a result, by mid-1970 industrial employment had fallen by an estimated 40,000 from its already low 1967 level of approximately 850,000. Although official estimates place unemployment at 20% of the total labor force, the situation in urban areas is substantially worse.

8. The political turmoil that has rocked West Bengal since 1967 has been accompanied by numerous work stoppages and a flight of capital funds to other states. The number of mandays lost as a result of industrial disputes in West Bengal increased from less than 4 million in 1967 to 10 million in 1969 -- 60% of the nation's total. Labor disputes often take the form of illegal *gheraos*, in which managers are forcibly detained in their offices without food until a settlement is reached. Multiple strikes by rival unions even within the same plant have seriously affected all sectors of industry, causing many plants to close permanently. Such an atmosphere has destroyed investor confidence, and new private investment in the state's industry reportedly has been negligible for the past two years. The main offices of many industrialists, including India's second largest, the Birlas, have moved from Calcutta and relocated in New Delhi, Bombay, and other Indian cities. Capital is leaking out of West Bengal as industrialists purposely allow local plants to run down while investing elsewhere in India.

The Special Problem of Calcutta

9. Calcutta, West Bengal's capital and principal industrial area, has been the locus of the state's political disorders and economic deterioration. The population of the city and its environs is at least 7 million and perhaps as much as 10 million, constituting India's largest urban concentration. The city is slowly choking as a result of overcrowding and neglect. Political disputes among the state's many competing Communist and leftist parties often turn to violence. Moreover, Calcutta as well

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as rural West Bengal has been plagued by the disruptive activities of Maoist revolutionaries -- the Naxalites, who take their name from a peasant uprising in West Bengal's Naxalbari district in 1967. The Naxalites employ violent methods -- assassinations, bombings, and forcible land seizures -- to disrupt urban and rural life, discredit the government, and bring on an armed revolution. There are probably some 26,000 people in India connected with the Naxalite movement, and estimated membership in West Bengal ranges from 5,000 to 12,000 with 4,000 reportedly in the Calcutta area. Crippling strikes, emigration of capital, and immigration of refugees from East Pakistan -- although subject to large annual fluctuations, more than 100,000 arrived in the first six months of 1970 -- all have combined to exacerbate an already critical unemployment problem. Millions of people live in the squalor of the world's worst urban slums while more than a hundred thousand sleep in streets. Health and sanitary conditions are the poorest in the world. At least half the water in the city is so polluted that it is unfit for human consumption. This and open sewers, which often overflow, make Calcutta a major breeding ground for such epidemic diseases as cholera, smallpox, and tuberculosis.



Homeless and Destitute Indians Sleeping on a Sidewalk in Calcutta

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10. The continuing deterioration of Calcutta's harbor and port facilities has added to the city's economic woes. Calcutta lies 126 miles from the Bay of Bengal on the navigationally difficult Hooghly River that is silting up at a rapid rate. Despite constant dredging, the river channel is narrowing and the water level is dropping, so that the larger ocean-going vessels cannot reach the port. As a result, traffic handled by Calcutta's port dropped from 11 million tons in 1964 to 7 million tons in 1969, actually less than in 1950 (see Table 4). Construction of the Farakka Barrage across the Ganges River, currently under way, is intended to divert water to the Hooghly River and thereby flush out the accumulated silt.* An additional port also is under construction at Haldia, 56 miles downstream from Calcutta, to accommodate large bulk carriers of iron ore, wheat, and petroleum. When completed, Haldia will add some 13 million tons to West Bengal's port capacity and free Calcutta to handle more general cargo. However, the Barrage, scheduled for completion in 1971, is already far behind schedule, and Haldia is not even scheduled to be finished until 1975.



CALCUTTA WATERFRONT—Boats and ships share the polluted waters of the Hooghly River, which provides two-thirds of the city's drinking water and, despite chemical treatment, is "a sure source of a whole catalogue of gastrointestinal infections."

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Outlook

11. West Bengal's economic progress has been slow and living conditions are actually worse now than they were in 1950. Until 1967, its decline relative to other states reflected primarily New Delhi's encouragement of industry in poorer states and the unsatisfactory performance of the important jute industry. The lack of significant economic progress over such an extended period created an atmosphere of discontent that most likely was a crucial factor in the election victories of the state's Communist parties. Since 1967, political instability and the disruptive behavior of Communist-dominated labor unions have accelerated West Bengal's economic deterioration.

12. Despite efforts to correct them, most of West Bengal's problems, and particularly those of Calcutta, are essentially insoluble, at least in the short run, and in the next few years will probably get worse. The already massive unemployment will most likely increase, aggravated by more factory closures and rapid population growth. A continuing inflow of refugees from East Pakistan seems certain as pressures on the land and persecution of the Hindu minority there continue. In addition, world demand for Indian jute manufactures -- West Bengal's leading industry -- will remain sluggish because of competition from Pakistan's more modern jute mills and increasing competition from synthetics. Moreover, recent political instability in West Bengal and Communist-inspired labor unrest have destroyed investor confidence in the state. Recent indications suggest that the Communists are still gaining strength and will most likely dominate West Bengal's government for some years to come. Private investment, as a result, will continue to flee West Bengal for more stable and profitable locations, such as New Delhi and Bombay, causing a further erosion of the state's industrial base. Finally, India's Fourth Five-Year Plan (1969-73) provides for spending in West Bengal only 3.2 billion rupees (\$427 million) -- less in real terms than during the Third Plan (1961-65) -- with the largest amounts allocated to irrigation and flood control, agriculture, and power. While West Bengal has more than 8% of India's population, it is allocated less than 5% of planned expenditures. The average annual per capita outlay of 16 rupees, compared to 26 rupees for all India,

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is by far the lowest of any Indian state. About 70% is to be financed from central government grants and 30% from state revenues. However, the resources necessary to finance New Delhi's share are based on an unrealistically high economic growth rate for the nation as a whole and will probably fall short of plans.

13. The central government probably cannot mount more than a token effort toward solving Calcutta's immense problems during the 1970s. Sufficient developmental resources to solve or measurably reduce Calcutta's problems simply will not be available in a country whose annual per capita income probably will remain well below \$100. Moreover, even larger competing claims from all quarters on New Delhi's available resources will sharply limit what can be spent in Calcutta. Most other states can argue that West Bengal, despite its problems, has a higher per capita income than theirs.

14. Recognizing Calcutta's need for additional help, New Delhi has approved two separate development plans for Calcutta which, like many Indian development plans, are high on ideals and low on funds. A plan to arrest decay in Calcutta was drawn up in 1966 envisioning expenditure of 1 billion rupees (\$133 million) over a five-year period. Only half of this amount is likely to be spent, however, because of lack of resources, fragmentation of municipal authorities, and political instability. The latest plan, approved in May 1970, proposes the expenditure of 1 billion rupees over five years on sanitation, transport, slum clearance, and housing to supplement the 400 million rupees (\$53 million) provided in the Fourth Five-Year Plan but is to be financed exclusively by West Bengal and as yet unspecified foreign assistance. As with the earlier plan, it is doubtful that the beleaguered state will even be able to raise its share of the funds, much less successfully administer the program. Moreover, even if the plan could be successfully implemented, it is far too small to make any significant improvement and, at best, could only slow the deterioration.

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Table 1
 Population, Total Income, and Per Capita Income
 in West Bengal and All of India
 for Selected Years

	<u>1950</u>	<u>1960</u>	<u>1964</u>	<u>1967</u>
West Bengal				
Population <u>a/</u> (million)	26.3	34.9	38.9	41.4
State income <u>b/</u> (billion rupees)	12.4	16.1	19.4	18.6
Per capita income <u>b/</u> (rupees)	471	462	498	450
India				
Population <u>a/</u> (million)	361	439	483	511
National income <u>b/</u> (billion rupees)	106.9	147.5	202.9	185.0
Per capita income <u>b/</u> (rupees)	296	336	420	362

a. Population data are official figures which are generally considered to underestimate the true population.
b. At constant 1960/61 prices.

Table 2
Average Annual Development Expenditures
in West Bengal and All of India a/

	Actual 1951-55	Actual 1956-60	Actual 1961-65	Actual 1966-68 b/	Planned 1969-73
West Bengal					
Total (million rupees)	308	312	601	546	645
Per capita (rupees)	10	9	17	14	16
India					
Total (million rupees)	2,914	4,284	8,330	10,173	13,213
Per capita (rupees)	7	10	19	20	26

a. Excluding direct expenditures by the central government through its ministries, such as education, health, and other services, as well as public sector enterprises. Such data are not available on a state-by-state basis. Also omits ad hoc central government appropriations excluded from the Plans. The limited available information suggests that inclusion of such data would not alter the comparison significantly. Data are for fiscal years beginning 1 April of stated year.

b. Annual average of actual expenditures for 1966 and 1967 and planned expenditures for 1968.

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Table 3
Steel Ingot Production in West Bengal
and All of India

<u>Year</u> ^{a/}	<u>Thousand Metric Tons</u>		
	<u>West Bengal</u> ^{b/}	<u>Rest of India</u>	<u>Total</u> ^{c/}
1949	290	992	1,282
1960	1,082	2,230	3,312
1961	1,396	2,786	4,182
1962	1,733	3,559	5,292
1963	1,999	3,835	5,834
1964	1,956	4,066	6,022
1965	1,791	4,415	6,206
1966	1,651	4,796	6,447
1967	1,529	4,641	6,170
1968	1,600	4,720	6,320
1969	1,500	4,700	6,200

- a. Fiscal years beginning 1 April of stated year.
 b. Indian Iron and Steel Company at Burnpur and Hindustan Steel, Limited, at Durgapur.
 c. Five integrated steel mills which account for over 97% of all steel ingot production in 1967.

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Table 4

Gross Weight of Cargo Handled in Calcutta
and All Indian Ports

<u>Year a/</u>	<u>Million Tons</u>	
	<u>Calcutta</u>	<u>All of India</u>
1950	7.6	19.2
1951	9.7	22.5
1952	9.8	21.8
1953	8.2	20.2
1954	7.9	20.6
1955	8.2	24.3
1956	9.0	27.4
1957	10.3	31.5
1958	9.4	29.2
1959	9.8	31.4
1960	9.5	33.4
1961	9.3	40.2
1962	10.2	42.4
1963	10.9	46.2
1964	11.1	48.3
1965	9.9	50.5
1966	10.1	53.6
1967	9.0	55.2
1968	7.9	55.2
1969	7.0	59.2 est.

a. *Fiscal years beginning 1 April of stated year.*

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