

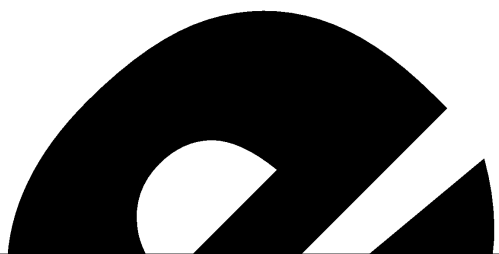


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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Economic Prospects for Bangladesh

Secret

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January 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1972

INTELLIGENCE MEMORANDUM**ECONOMIC PROSPECTS FOR BANGLADESH**Introduction

1. The new nation of Bangladesh, with 65 million to 70 million inhabitants and 10 million ex-residents who may return from India, faces formidable economic problems. It is the world's eighth most populous nation and one of the poorest, with an average per capita output of roughly \$65 annually. During its 24 years as the East Wing of Pakistan, output grew slowly and living standards stagnated. The area, also known as East Bengal, has been unable to grow enough food for its people for more than a decade. The civil war that began in March and last month's war with India have left the transport and distribution system in ruins, and extensive reconstruction will be necessary before normal economic activity can resume. This memorandum reviews the economy's characteristics and economic prospects.

DiscussionBackground

2. Bangladesh largely lacks the human, institutional, and physical resources needed for significant economic progress. It has a predominantly agricultural economy, with the industrial sector -- mainly jute processing and tea estates -- accounting for only about 9% of gross domestic product in 1970. With an area the size of Arkansas but 40 times as many people, Bangladesh is frightfully overcrowded. Population growth of about 3% annually continues to intensify pressure on the land and makes it difficult to maintain -- much less improve -- living conditions.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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3. The country is mostly a flat, alluvial plain with rich soil and a favorable crop-growing climate, but agriculture is handicapped by hydrologic extremes and devastating storms. Three of the world's largest rivers - the Ganges, Brahmaputra, and Meghna - flow through Bangladesh. Large areas are flooded annually, sometimes causing extensive crop and property damage. In October or November the rains stop, the land drains, and the rivers shrink. By February, drought generally has set in, and irrigation is required until May for good crop growth. This marked hydrologic cycle necessitates both flood control and irrigation works to realize the land's full potential.

4. Improvement in water control has been slow. Little progress has been made in flood control because it is extremely expensive and requires large government-directed projects. Much of the rice area has some form of irrigation, but it usually receives too much water in the wet season for the new high-yield seed varieties. The number of lowlift pumps used to water fields when streams are low increased from about 6,500 in 1968 to some 18,000 in 1970, but the portion of the rice land irrigated with pumps nevertheless remains small.

5. Because of population growth, per capita foodgrain availability generally has been lower in recent years than in the early 1960s despite increased production and imports. Between fiscal year (FY) 1961* and FY 1971, foodgrain production increased by 16%, to 11.2 million metric tons, and imports rose from 590,000 to 1.6 million tons (see Table 1). Population jumped by nearly 40% during this period, however, and foodgrain availability per capita dropped from some 430 to 390 pounds annually. Production in FY 1971 was hurt by heavy monsoon rains in August 1970 that brought the worst flooding since 1954 and by a cyclone and tidal wave in November that inundated much of the coastal area.

6. Industrial growth averaging 7% annually since 1950 reflects mainly development of jute manufacturing, now the largest industry in employment and production. The industry has developed entirely since British India's partition, which separated the jute manufacturing plants in India from the jute fields in East Bengal. Most jute operations have been owned and managed by West Pakistanis. More than half of the raw jute crop was processed domestically in FY 1971, and nearly all jute manufactures were sold abroad or to West Pakistan.

7. The region is not self-sufficient in textiles and other basic consumer goods, large quantities of which were imported from such industrial centers as Calcutta before partition and from West Pakistan since then. The food

* Ending 30 June of the stated year.

Table 1

Bangladesh: Foodgrain Production, Imports, and Availability

Fiscal Year ^{a/}	Thousand Metric Tons						Foodgrain Availability	
	Production			Imports			Total ^{b/} (Thousand Metric Tons)	Per Capita (Pounds)
	Rice	Other Foodgrains	Total	From West Pakistan	From Rest of World	Total		
1961	9,670	50	9,720	10	580	590	10,310	430
1962	9,620	60	9,680	310	380	690	10,370	420
1963	8,860	70	8,930	190	1,140	1,330	10,260	400
1964	10,620	50	10,670	50	880	930	11,600	440
1965	10,500	50	10,550	340	290	630	11,180	410
1966	10,500	60	10,560	250	540	790	11,350	400
1967	9,580	80	9,660	160	730	890	10,550	360
1968	11,170	80	11,250	260	750	1,010	12,260	380
1969	11,340	110	11,450	260	770	1,030	12,480	400
1970	12,110	120	12,230	490	1,250	1,740	13,970	440
1971 ^{c/}	11,140	110	11,250	320	1,300	1,620	12,870	390

- a. Ending 30 June of the stated year.
b. Excluding changes in stocks.
c. Preliminary estimates.

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and beverage industries are poorly organized and managed, and their productivity is generally low. The most modern industrial facilities include some chemical plants, pulp and paper mills, a petroleum refinery, and a steel mill that utilizes imported scrap.

8. Bangladesh's combined foreign and interwing trade has been in deficit since 1964. The area typically has had substantial deficits in trade with West Pakistan and, in addition, has had deficits in its foreign trade since 1968 because of stagnating exports. About three-fourths of exports consists of raw jute and jute manufactures (see Table 2). Imports embrace foodgrains, other consumer goods, various industrial raw materials, and most of the needed machinery and transport equipment.

9. The low educational level has been an important constraint on economic development. The literacy rate is only 20% to 25%, and relatively few students go beyond elementary school. In 1961, only one-sixth of the literate population had more than six years of education. The educational situation probably changed little during the 1960s because of shortages of teachers and facilities as well as popular indifference.

10. Public finances have been handled primarily by the Pakistani central government in Islamabad, and budget data for the region generally have not been available. In recent years, Islamabad's receipts from and current expenditures in the East Wing probably have about balanced. As part of Pakistan, however, the region had been receiving a substantial net inflow of foreign aid, probably on the order of \$150 million annually.

Consequences of the Fighting

11. The civil war that began last March slowed economic activity by disrupting the internal transport system and reducing the capacity of the port of Chittagong. Both the Pakistani army and the Bengali insurgents inflicted heavy damage on transportation links, including the vital Dacca-Chittagong rail line. In addition, civilian transport equipment was confiscated extensively for military use. Heavy fighting at the port of Chittagong early in the war and, subsequently, labor shortages and the movement of army supplies held non-military dock activities well below normal.

12. Despite the civil war's disruptions, foodgrain shortages were averted because some private stocks were available and the refugee exodus swelled from 5 million in June to about 10 million in November. Moreover, about one million tons of foodgrains were offloaded at the ports between March and November, most of it being shipped to food-deficit areas.

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Table 2

Bangladesh: Interwing and
Foreign Trade, FY 1971

	Million US \$		
	<u>Interwing^{a/}</u>	<u>Foreign</u>	<u>Total^{a/}</u>
Exports	<u>84.6</u>	<u>263.4</u>	<u>348.0</u>
Jute, raw	0	105.3	105.3
Jute manufactures	12.8	136.3	149.1
Leather	2.3	9.0	11.3
Paper and paperboard	9.6	0	9.6
Tea	28.9	0	28.9
Other	31.0	12.8	43.8
Imports	<u>145.0</u>	<u>330.9</u>	<u>475.9</u>
Foodgrains	26.3	75.2	101.5
Cotton, raw	14.0	0.6	14.6
Chemicals, drugs, and fertilizers	5.7	62.7	68.4
Cotton textiles	28.5	3.4	31.9
Machinery and transport equipment	4.4	68.8	73.2
Fuels	0	27.5	27.5
Animal and vegetable oils	2.4	23.4	25.8
Tobacco	15.9	0.1	16.0
Other	47.8	69.2	117.0
Balance	<u>-60.4</u>	<u>-67.5</u>	<u>-127.9</u>

a. Various studies indicate that the official rate of the rupee -- 4.76 to the US \$1 in FY 1971 -- overvalues the rupee by about 100%. The Pakistani rupee in interwing trade thus has been converted to dollars at the rate of 9.5 to 1.

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13. The 1971 jute crop, harvested in August and September, was about 20% smaller than the previous year's, mainly because of the civil war. In March and April, when jute is normally planted, the insurgents encouraged jute farmers to plant foodgrains instead (jute land generally being suitable for rice cultivation). Their purpose was to reduce the earnings of jute manufacturers and exporters -- mostly West Pakistanis -- as well as to increase the food supply.

14. Industrial activity virtually halted in the early months of fighting and remained well below normal throughout the civil war. The jute manufacturing industry, for example, reportedly was operating at only 50% of capacity in November. Workers fled to the countryside or to India, and many West Pakistani factory managers returned home.

15. Except for emergency food imports, East Pakistan's foreign trade as well as trade with the West Wing slowed dramatically. Exports to foreign countries from March through November fell by about one-third and imports by one-half from the previous year's levels. At the same time, exports to the West Wing dropped by about one-fourth and imports by almost one-half.

16. Prices in East Pakistan climbed sharply in the early months of the civil war but subsequently fell somewhat. By June, most commodity prices in Dacca had stabilized at 20%-30% above pre-hostility levels. Greater price rises were averted by the massive population exodus from urban areas to the countryside and by the huge refugee movement to India.

17. India's invasion of East Pakistan on 3 December brought more destruction and again drastically depressed economic activity. In the two weeks of fighting, dock areas were bombed and several petroleum installations destroyed. The retreating Pakistani army blew up bridges in an attempt to slow the Indian advance, while the Indian air force tried to cut off the Pakistani retreat by bombing bridges and ferries. Even greater damage was prevented, however, by explicit Indian army orders to preserve transport links when not detrimental to the war effort.

Prospects

18. Economic prospects for Bangladesh are grim both for the immediate future and over the longer term, as indeed they long have been for this region. Several months, at least, will be needed to restore even a semblance of economic normalcy. Some parts of an infrastructure that was inadequate to begin with must be rebuilt. The probable return from India of millions of refugees will further strain supplies of food and other essentials. A moderately effective public administration will be difficult to establish even with Indian assistance. Long-term development faces severe

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handicaps. Natural resources are few and financial reserves non-existent. With most of the people already near the subsistence level, it is virtually impossible to invest a larger share of output. Little slackening in the rapid population growth can be expected for many years, barring famine. Some scarce technical and managerial skills have been lost during the months of fighting and incidental violence, and more will be lost with the departure of most remaining West Pakistanis. It also remains to be seen whether the government will be sufficiently stable and constructive in its economic policies to make good use of such resources as the region has or can obtain abroad.

19. The Bangladesh government clearly is going to be strapped for cash - especially during its first months. There probably was a heavy flight of capital to West Pakistan throughout 1971, and Islamabad recently has taken several steps to keep funds in West Pakistan and foreign banks from falling into Dacca's hands. The economic disarray arising from the fighting makes normal tax collection difficult. At the same time, pressure for increased government outlay will be great because of reconstruction and refugee needs. Because the area is so poor, raising revenues for essential public services and high-priority investment projects will remain a serious problem. The government will, however, gain a significant new source of funds as it implements the nationalization goals announced in early January.

The Food Grain Situation

20. Bangladesh will need large foodgrain imports in 1972 and over the longer term probably faces greater food deficits than in recent years. The refugee exodus, neglect of crops induced by the civil strife, and lack of seed and fertilizer are expected to reduce the rice crop to 9 1/2 million to 10 million tons in FY 1972, compared with 11 million the year before. The full effect of the prospective reduction has not yet been felt, because the winter crop (usually about 60% of annual output) is now being harvested. As usual, the needs of districts that normally have deficits (see the map) will have to be met partly by imports. Humanitarian concern in foreign countries probably will assure that additional foodgrain supplies arrive soon, and India could, if necessary, draw on its estimated 7-million-ton stock to help meet emergency needs. In any case, effective distribution of food supplies will be difficult even with the aid of Indian and United Nations personnel already in the area. In the long run, only massive foreign investment in water control systems promises to permit foodgrain production to keep pace with population growth and, perhaps, narrow the deficit.

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21. In attempting to maintain export earnings, Bangladesh will benefit from its natural (although long neglected) trading relationship with eastern India. Historically, East Bengal and the adjacent Indian state of West Bengal - which includes Calcutta - formed a natural trading area. Before the breakup of British India, East Bengal provided food for Calcutta's population and raw materials for industry in exchange for manufactured goods, fuels, and construction materials. Following partition and the erection of tariff barriers, West Pakistan replaced West Bengal as the region's major trading partner.* India can supply Bangladesh with various items previously obtained from West Pakistan - such as cotton and tobacco - together with certain types of machinery and transport equipment and possibly coal, cement, and other construction materials. Conversely, India probably can absorb at least some of the goods previously sold to West Pakistan, which made up only one-fourth of the area's total foreign and interwing sales in FY 1971. Among the best possibilities are paper, fish, and raw jute.

22. Exports will be hampered at least temporarily by damage to manufacturing plants, shortages of inputs, and changes in ownership and management. The new government has already taken over the management of almost half the jute mills and many other industrial firms. To facilitate industrial and commercial recovery, Dacca may call on India for technical and managerial assistance. Bangladesh would benefit considerably if New Delhi responded, as seems likely.

23. The new nation's export earnings will be affected heavily not only by how trade with India develops but also by trends in the world jute market. To increase export earnings, traders have been shifting to jute manufactures, but 40% of foreign exchange earnings in FY 1971 still came from raw jute. Burlap exports have declined drastically in recent years in the face of competition from synthetic and paper packaging, and a further decline is in prospect. Bangladesh's mills have been adjusting to this shift by converting to the manufacture of carpet backing, for which rising demand is likely for the next several years, at least.

Import Requirements and Foreign Aid

24. Bangladesh needs sharply higher imports in the next year or two in order to undertake pressing reconstruction and rehabilitation tasks. Even to meet the most critical requirements, the area will have to obtain increased

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quantities of food, industrial materials, and equipment. Because export earnings probably will remain below normal for some time, the area's foreign aid requirements clearly will exceed the roughly \$150 million it has been receiving annually as a part of Pakistan. Indeed the new government in Dacca announced in early January that it was seeking \$2 billion in aid for relief and reconstruction.

25. Considering its circumstances, chances are good that Bangladesh will receive substantial aid, although it is impossible at present to determine how much. Most major Western aid donors are likely to respond favorably to aid requests because the need is great and a relatively conservative government is in prospect. India and various Communist countries also are possible aid sources, and a trade and technical assistance agreement with the USSR already is under discussion. Bangladesh's independence does raise some troublesome foreign aid issues, however. Aid to Pakistan that was earmarked for the East Wing will have to be renegotiated with the Dacca government. Moreover, Dacca is likely to disclaim all debts contracted by Islamabad -- including those incurred for aid to the East Wing -- and it remains to be seen how creditors would react to such a declaration.

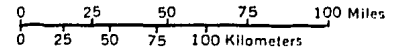
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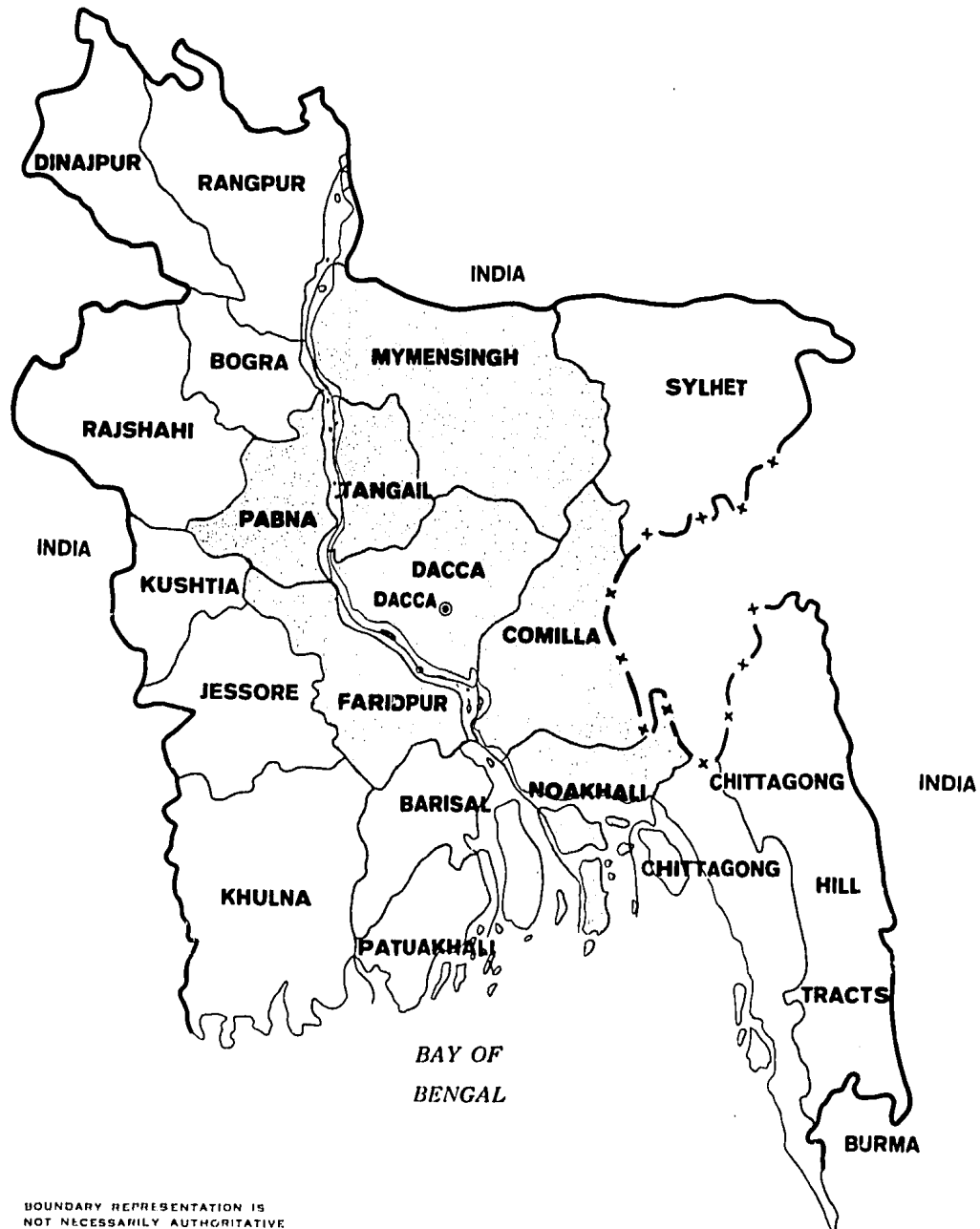
Bangladesh

Surplus and Deficit Food Districts

- District boundary
- Surplus food district
- ▨ Deficit food district



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BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITY

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