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Economic Prospects of Pakistan and Bangla Desh

by Dieter W. Vogelsang, Hamburg

Pakistan was built upon a common religion as the ideological basis for forming a state, but the experiment foundered. The peoples of West and East Pakistan were too different for enabling this bracket to sustain natural divergencies over a geographical gap of nearly 1300 miles. The main cause for the split were the economic relations between the two parts of the state.

The two states, now separated, face an immensely difficult new start. But it is frequently overlooked that the dissociation effects Pakistan (i.e. West Pakistan) much more adversely than the new-born Bangla Desh, about which the prophets of doom assert that it is not economically fit for survival. Yet apart from the uphill struggle to overcome the damage wrought by war, life can really not grow much worse for Bangla Desh than it was in the past.

Bangla Desh: A New Balance Sheet

Any country, 85 p.c. of whose population are living from farming, is able to recover from war damage comparatively quickly. There was very little industry in former East Pakistan, and little of it has suffered grave destruction. Much of it has resumed operations a few weeks after the war already. The main problem occurs from the losses suffered by the infrastructure. The main arteries of traffic in Bangla Desh are its rivers, and they are blocked by ships that were sunk and by bridges that were blown up and still lie in the water. Also roads and railway lines have been torn up by mine explosions. In addition to reconstruction, the main problem for Bangla Desh is to strengthen and expand the network of transport vigorously. There are far too few roads and railway tracks, and the two main ports, Chalna and Chittagong, have long been much too small for the goods traffic that existed even before the war.

It bodes ill for the quality of the new government's economic wisdom that, after many years (when in opposition) of struggling for obtaining power, it has not yet been able to draft a programme for its economic policy. What Sheikh Mujibur Rahman and his ministers have stated about their economic intentions had often been self-contradictory. The only thing they seem to be in agreement about is that their economy is to be a socialist one. However, such mouthings from the Sheikh do not sound very convincing for, like

most of the other brains of his political party, his thinking is more that of radical nationalists than that of social revolutionaries.

What has so far been done in the field of economic policy were mostly improvisations. It was, of course, logical that West Pakistani holdings in Bengali textile and jute mills, in banks and insurance companies, have been sequestered and are now administered by the new state. In addition, it is intended to nationalise the lion's share in foreign trade. It was necessary to issue a new currency. Because it seems more than likely that India will be Bangla Desh's most important trade partner in the future, the new Rupee, at a conversion rate of £:R 18.9677, was placed on the same level of parity as the Indian Rupee. Mujib has also decreed that no salary may rise above R. 1 000 per month.

Structure of Farming and the Food Situation

Peasant farmers have been excused all land taxes up to April 1972. In addition, Mujibur Rahman decreed an agricultural reform which restricts individual landholdings to 34 acres. But this reform is futile, because it does not touch the real problem: only 0.4 p.c. of all farms consist of 25 or more acres. The actual difficulty is the prevalence of dwarf holdings, for 89 p.c. of all farmers work less than 7.5 acres, and 24 p.c. of them even less than one acre. This makes rural rationalisation through mechanisation, flood protection, irrigation, pest control, etc., almost impossible.

The main food is rice, and almost 90 p.c. of all land under the plough is used for growing rice. But Bangla-Desh has at no time been able to feed itself from its own crops, and in the past little had been done to increase rice yields. These, per acre, have not grown at all since 1960, although experts have found that, through using better seedcorn alone, total annual harvests might be increased by 2 mn tons. Through proper irrigation, especially in the northern parts of Bangla Desh, an additional winter crop might be made possible.

Adding the construction of dams and dykes to ward off storm floods and inundations by which, year after year, between 30 and 40 p.c. of the total arable land are affected, such measures might transform the starvation area of Bangla Desh into a food exporting country.

Problems of Industrialisation

Bangla Desh also needs urgently a strengthened industrial base, because this is the only way in which its population can ever hope to become moderately affluent. 90 p.c. of existing industries are engaged in processing jute. An economy built on such a shaky basis is profoundly unsound, especially as the jute and jute products trade, which in the past has earned about 75 p.c. of all export income of East Bengal, is subject to strongly speculative fluctuations. Synthetic fibres have made severe inroads into the jute market and will continue to do so, which means that Bangla Desh must not, in the long run, try to rely on this source of foreign currency only. It will be forced to diversify in order to achieve a viable structure of its exports in the future. A good, short-term, chance for diversification is offered by tea blending and fish processing.

It is true, however, that Bangla Desh cannot tackle and solve these vast problems from its own unaided resources. Substantial foreign aid will be needed for many decades to come until self-supporting growth will be achieved. The World Bank has already drawn up, several years ago, plans for effective reinforcement and protection of East Bengal's sea shore and river banks, and has more or less promised credits of US \$ 200 mn. Also in this field, India has already granted commodity aid equivalent to Rupees 250 mn, and now it intends to make available 2 p.c. of its national income for development aid to Bangla Desh from its national budget for 1972/73. Mujib also obtained large-scale economic aid during a visit to the Soviet Union. The West, on the other hand, has so far been reluctant to make promises of aid, but Bangla Desh may well expect support from the countries belonging to the Pakistan Consortium where, apart from the World Bank and the USA, the Federal Republic of Germany is the most important donor country. In the past, 80 p.c. of all foreign aid granted to Pakistan derived from this source.

New Markets for Pakistan

(Western) Pakistan's problems are of a totally different kind. Its food supplies have become secure through the "green revolution". Industrialisation has made fair progress, but there is much concern about its low level of exportable sur-

pluses, whilst Pakistan is heavily dependent on imports.

In contrast to its Bengali opposite number, the new Pakistani President presented a programme for a practical economic policy already during the election campaign of 1970. He described the aim of his party, the PPP (Pakistan People's Party), as building a classless society in Pakistan, representing a special form of Socialism, based on the political and social ideas of Islam. For the time being, Bhutto is still able to use martial law for enforcing his measures, which has been in force already since 1969, when social unrest had broken out.

However, his government can remain stable only on condition that he succeeds in improving social conditions appreciably because, in the course of rapid economic growth during the sixties, social justice fell by the wayside. This had been one of the main reasons for the overthrow of Aijaz Khan. Bhutto, one of the main instigators of the troubles of 1969, has not forgotten the lessons of the past, which is shown by the urgency with which he decreed the creation of a new social order. This, however, is still sketchy and incomplete. His most important measure was land reform: as of July 1, 1972, no landowner may have a bigger holding than 150 acres of irrigated or 300 acres of non-irrigated land.

However, any more equitable social system will have to make do with lower economic growth rates, the more so as the most important social promise of Bhutto's electoral programme, to secure every Pakistani of working age employment that is adequate to his capacities, will take very long to fulfil. At present, Pakistan is still short of about 10 mn jobs.

One of the crucial factors determining the increase of the people's wellbeing will be the question whether Bhutto succeeds in paring down the country's military spending drastically, as the military-budget, at 60 p.c. of total current expenditure ("above the line"), is among the highest of the world. It will be extremely difficult to carry through such savings against the resistance of the military caste but this will also depend on whether Pakistan manages to obtain a lasting settlement of the Kashmir problem from India.

Bhutto's most spectacular step, which he took immediately after his assumption of the presidency, was the so-called "nationalisation" of altogether 20 companies operating key industries with an overall value of about £ 80 mn. But all the propaganda accompanying this expected "blow against the 22 richest families" cannot conceal the fact that "nationalisation" is not the right term, since only management will from now on

be under direct government control. Apart from the fact that much of these industries had, all along, been in the sector of mixed economy (half-government, half-private), Bhutto has not confiscated the financial shares of either the large industrialists or the shareholders. His measure is intended mainly to increase the rate of ploughing back profits, and to prevent the draining of capital to foreign bank accounts. Whether he succeeds in his intent will depend predominantly on the quality of government-directed management and on the question whether Bhutto manages to get rid of ingrained corruption. On the other hand, it is taken for granted that banks and insurance corporations will soon be nationalised.

Demand for Foreign Investors

At any rate, his measure did not contribute to improving the atmosphere for investments. Private investors, both Pakistani and foreign, are still hesitant. The mere promise that foreign investments will not be touched by the government is hardly sufficient for attracting foreign capital. But this is of crucial importance for Pakistan since, during the second stage of its industrialisation, the country cannot possibly manage without out-

side capital. Consumption goods industries, whose development is a relatively simple affair, have largely been built up to requirements. During the late sixties, a start had already been made, manufacturing intermediate products and capital goods. But this attempt was progressively hampered by bottlenecks of lack of skilled labour, the narrowness of the home market, technological gaps, requirements of imported raw materials, etc. Such bottlenecks can only be broken by foreign partners who also supply knowhow. They will be attracted only by ironclad guarantees, the possibility of repatriating profits, the easing of import restrictions, etc.

In the face of disgruntled public opinion in the outside world, it will not be easy to replenish Pakistan's depleted currency reserves. But the country is heavily dependent on imports. Already in 1971, many of its production capacities were unused because the government, instead of importing spare parts, raw materials, fuels, etc., was buying armaments.

Since Pakistan has for many years favoured substituting its own products for imports, the effect of this policy has been the supply of low-quality home-produced goods at inflated prices, which could only be sold behind the screen of protectionism in the home market. This seems to make it impossible to replace the former East Pakistan market, which had absorbed, before the break-up of the country, 40 p.c. of all industrial goods made in West Pakistan. RDC (Regional Cooperation for Development) symbiosis with Iran and Turkey seems to be an especially difficult undertaking, since the three countries hardly complement each other through their production. Mutual trade exchanges have, so far, not reached more than 2 p.c. of total foreign trade turnovers of Pakistan. As things stand now, there seems also no chance for resuming trade with India, which has been dormant already from 1965.

All the manufactured goods which Pakistan exported in the past became competitive only through high government subsidies, which makes the prospects of further diversification appear faint. Hence the hopes, which President Bhutto does not want to give up, that Bangla Desh might, at least, be willing to cooperate economically, in spite of all the suffering imposed on the Bengalis.

Without foreign aid, the shattered economy of Pakistan cannot possibly be revived, but Pakistan, at the present juncture, seems to have very few solvent friends, except the Chinese People's Republic. The only bright spot on the horizon, therefore, appears to be the rapprochement between China and the USA. Whether Pakistan can materially profit from this is, however, still unpredictable.

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