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A CRITICAL EVALUATION OF THE INDUSTRIAL DEVELOPMENT POLICY IN BANGLADESH 1971-82.

In the modern era, participation of public sector in productive sphere as an entrepreneur is a fact of life both in the developed and developing countries. The productive activities undertaken by the governments of advanced countries, apart from providing varying degrees of public utility services, are meant to obviate the for developing countries which, upon independence, did not inherit a sound entrepreneurial base. So right from the start these governments had to shoulder two responsibilities, that of creating a class of indigenous entrepreneurs and that of handling the major requirements in the production field in order to transform the traditional agrarian society to a modern industrial one. However this objective met with varied success in different Third World countries because of different socio-economic realities and hence the adoption of different strategies of development.

In Bangladesh the industries sector though small and contributing only 10-11% to the GDP plays an important role in the economy. It provides essential consumer goods and key inputs for agriculture, and accounts for about 70% of foreign exchange earnings from export,[1] even though it failed to play its fullest role since independence for various reasons. Nonetheless, in Bangladesh's agrarian economy the industrial sector is destined to be the pioneer in growth and change in the desired direction.

This paper is an attempt to evaluate the industrial policies pursued by successive Governments of Bangladesh since 1971. As a backgrounder, the period of her political association with Pakistan (1947-71) is also presented. The first part deals with the industrial development policies of various governments since 1947; the

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1. Govt. of Bangladesh, Planning Commission: *The Second Five Year Plan* 1980-85 (Dacca: B.G. Press, 1980), XIII–1.

second part deals with successes and failures of the industrial policies in terms of their achievements: the sector's contribution to GDP, its growth rates, the extent of fulfilment of the physical targets set in the successive plans and in terms of social cost-benefit; and the third part deals with a brief review of the new Industrial Policy announced on June 1, 1982, and some policy suggestions.

I

Era of Pakistani Rule: Policy-Objectives

Before partition of the Sub-continent in 1947 the predominantly agrarian economy of the land-mass now comprising Bangladesh was dominated by British mercantile capital, Marwari (non-Bengali) and Bengali Hindu capital. While British mercantile interest was associated mainly with tea plantation and indigo cultivation, sugar and cotton textile industries were in the hands of Marwari and Hindu entrepreneurs, most of whom were based in Calcutta. Muslim burgeoisie were largely concentrated in landed interest, petty trade and commerce. After the departure of the British Raj and large scale exodus of Hindus after 1947, the Government of Pakistan announced the first Statement of Industrial Policy in April 1948 with the major objective of rapid industrialisation of the country[2]. The salient features of the policy were:

i) Suitable and active government intervention:
ii) promotion of private enterprise;
iii) public ownership to be limited to (a) arms and ammunition, (b) generation of hydroelectric power, and (c) manufacture and operation of railway, telephone, telegraph and wireless equipment.

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2. Govt. of Pakistan, *Statement on Industrial Policy,* cited by Qazi. K. Ahmad, "The Manufacturing Sector of Bangladesh—An Overview". *The Bangladesh Development Studies,* Vol. VI No. 4, (Autumn 1978), p. 386; and
Rehman Sobhan and Muzaffar Ahmed, *Public Enterprise in an Intermediate Regime* (Dacca: The Bangladesh Institute of Development Studies, 1980), p. 21.

As the then East Pakistan (now Bangladesh) lacked potential indigenous investors either of industrial or of trading background, the trade and industrial groups of West Pakistan origin started making successful inorads into the economy of East Pakistan under active patronage of the central government. For rapid industrial development, the Pakistan Industrial Development Corporation (PIDC, later on EPIDC) began functioning in 1952, and subsequently undertook poineering ventures in industries like jute, cotton, textile, sugar, paper and steel. When these industrial units reached a reasonable level of operational efficiency and profitability, they were gradually transferred to the private sector dominated by the mercantile families like Adamjee, Daud, Ispahani and others of West Pakistan. Their emergence as entrepreneurs was facilitated by government policy of extending generous support in the form of fiscal incentives, cheap credit, licence, export bonus scheme, tariff protection etc. With this end in view some other public corporations namely, the Industrial Finance Corporation, the Industrial Development Bank, the Industrial Credit and Investment Corporation, and the Small Industries Corporation, were created in the late 50's and early 60's.

Throughout the successive three Five-Year Plans (1955-1970) the thrust of the government policy remained the same: private enterprise was to be the main engine of development with public enterprise serving as handmaiden to the development of the private sector.[3] The public sector undertook the main responsibility of providing socio-economic and physical infrastructure facilities for the healthy growth of the private sector. However, the draft Fourth Five-Year Plan (1970-75) recognised the necessity for a new development strategy, different from the policy of seeking maximum growth through encouragement of private enterprise by public sector financing. Equity was to become a primary consideration along with growth and thus concentration of private industrial income was to be controlled. It called for a new industrial policy to define the sectors for private, public and mixed enterprises.

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3. See for detail Mahbubul Huq, *Strategy of Economic Planning in Pakistan* (Karachi: Oxford University Press, 1963); and Gustav F. Papanek, *Pakistan's Development—Social Goals and* Private Incentives (Massachusetts: Harvard University Press, 1966).

But it was too late. The ever widening disparity between the West and the East wings of Pakistan kindled fierce nationalism which subsequently led to the separation of the later in 1971.

Industrial Policy under Sheikh Mujib's Government

On independence, socialism was accepted as a national goal in Bangladesh. This meant that policies were to be pursued in the context of transition towards socialism. In March 1972 a total of 254 industrial enterprises in jute and cotton textiles, sugar, iron and steel, engineering and shipbuilding, chemicals, fertilisers and pharmaceuticals, oil, gas and minerals, paper ad paper products, food and allied products, and forest industries were nationalised.[4] As a result, over 85% of the total industrial assets in the country came under public ownership and management. It may be mentioned that in 1971, 36% of the modern industrial assets were already under public ownership. In the case of jute manufacturing, cotton textiles and sugar, all existing enterprises including units owned by Bengali entrepreneurs were nationalised. As admitted by the planners themselves, the industrial units owned by the Bengalis were taken over simultaneously in order not to allow them 'to grow into an exploiting class.'[5] Among the reasons behind the large-scale nationalisation programme, the following can be mentioned:

i) the political commitment of the Awami League during the election campaign of 1970;

ii) the government brought under public ownership and management all industrial units abandoned by their Pakistani owners with assets above Tk. 1.5 million;

iii) the government in its drive to build up socialism, wished to bring the commanding heights of the economy under public control for an accelerated growth and equitable distribution of income.[6]

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4. Govt. of Bangladesh, Ministry of Law and Parliamentary Affairs: (a) *Bangladesh Abandoned Property (Control, Management and Disposal) Order,* 1972: (b) *Bangladesh Industrial Enterprises (Nationalisation) Order,* 1972.
5. Govt. of Bangladesh, Planning Commission: *The Annual Development Plan* 1972-73 (Dacca: B.G. Press, 1972), p. 41.

As a consequence of the nationalisation programme, the share of private sector in the fixed assets of the moder industrial sector came down from 64% to around 15%. During January 1973 a new industrial development policy set a limit of Tk. 2.5 million on the fixed assets of new private enterprise, with permission to increase to Tk. 3.5 million out of invested profits. From January 1973 there would be a moratorium of 10 years on nationalisation of old units upto Tk. 2.5 million and of 10 years from the date of starting production for new units set up under the First Five-Year Plan (1973-78). Foreign investment would be permitted only in collaboration with the government, whose share in the equity would be at least 51%. Remittances of post-tax profits were allowed.

Accordingly, in the First Five-Year Plan (1973-78) private sector was assigned a relatively small role with an allocation of Tk. 503 crore or only 11% of the total financial allocation of Tk. 4,455 crore. Of this, Tk. 139 crore ((27. 7%) was earmarked for investment in private sector industry (Table-1) and the remaining Tk. 364 crore for other fields of private sector activity.

However, debates continued within the cabinet as to the extent and role of the nationalised industrial sector vis-a-vis that of the private sector. Soon the private sector lobbies which comprised of the old and the *nouveau riche* within the cabinet and outside began to make their impact so that the ceiling was raised to Tk. 30 million in the middle of 1974. In the new investment policy announced in July 1974, all industries except 18 (Annexue-1) were opened up for investment by private entrepreneurs and some liberalisations of regulations on foreign investment were announced.

Industrial Policy under Zia's Government

Following the change of government in November 1975, policy shift favouring private capitalism over socialism began to take place in Zia's government. In a revised investment policy announced in December 1975, it was recognised that in the interest of rapid industrialisation and mobilisation of investment funds, private

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6. Govt. of Bangladesh, Ministry of Finance; *Annual Budget 1973-74; Budget Speech of Mr. Tajuddin Ahmed* (Dacca: 1973), p. 7.

TABLE–1

Pattern of Development Outlay in Public and Private Sectors under the Successive Plans in Bangladesh.

(in Crore Tk.)

Plan	Public Sector	% of Public Sector	Private Sector	% of Private Sector	Plan Total	% of Total
First Five-Year Plan 1973-78 (in '72-73 prices)	3952 (89% of Plan Total)	100	503 (11% of Plan Total)	100	4455	100
Investment in Industry.	(738)	(18.7)	(139)	(27.7)	(877)	(19.7)
Two-Year Plan 1978-80 (in '77-78 prices)	3261 (84% of Plan Total.)	100	600 (16% of Plan Total.)	100	3861	100
Investment in Industry	(570)	(17)	(246)	(41)	(816)	(22)
Third Five-Year Plan 1980-85 (in '79-80 prices)	20125 (78% of Plan Total.)	100	5470 (22% of Plan Total.)	100	25595	100
Investment in Industry	(3275)	(16.27)	(1110)	(20.29)	(4385)	(17.13)

Sources: a) Govt. of Bangladesh, Planning Commission : *The First Five-Year Plan* 1973-78 (Dacca: B.G. Press, 1973), III-1, p. 32.

b) *The Two-Year Plan* 1978-80 (Dacca: B.G. Press, 1978), tab. 4. 1, p. 44.

c) *The Second Five-Year Plan* 1980-85 (Dacca: B.G. Press 1980), tab. 3.5, III-10.

entrepreneurs should play an expanded role within the framework of a planned economy.[7]

In accordance with this revised policy, the payment of compensation to the nationalised enterprises (exclusive of those owned previously by the Pakistanis) was started; a large number of small and medium-size abandoned industries was planned to be disinvested or sold out to the private enterprise. Attempts were made to streamline the operation, reduce management bottlenecks and strengthen organisational structure of the public sector industries.[8] The number of public sector corporations was reduced by merging the functionally related subsectors.

In the private sector, the ceiling on investment was raised to Tk. 100 million and altogether abolished in September 1978. Industries exclusively reserved for public sector were substantially reduced from 18 to 8 (Annexure-II). In these additional 10 fields preference was to be given to joint ventures between public and private sectors, although proposals for pure private sector were also to be considered. The reference to moratorium on nationalisation which was earlier raised to 15 years, was altogether deleted. Tax holidays, equity support and other incentives were reinforced, the scope of private sector operation in the import and distribution channels within the country broadened and the span of price control was reduced from 19 to 5 essential commodities.[9] In order to channel 'black money, earned in trade and distribution or through illegal means in the past, into productive investment, an assurance was given to treat it as 'white' if it was invested in industries or capital market or utilised even for paying for abandoned industrial units now to be gradually disinvested by the government.[10] Foreing private investment either in collaboration with government

7. Govt. of Bangladesh: *Some Policy Decisions* (Dacca: December 1975) p. 6.
8. Govt. of Bangladesh, Ministry of Finance: *Annual Budget 1976-77, Budget Speech of Major General Ziaur Rahman* (Dacca: 1976). p.3
9. Mohiuddin K. Alamgir, *Development Strategy for Bangladesh* (Dacca: Centre for Social Studies, 1980), p. 190.
10. Govt. of Bangladesh: *Some Policy Decisions* (Dacca: December 1975), p. 3.

or local entrepreneurs was welcome. Repatriation of foreign capital, profits, dividends, savings and salary was allowed.

In order to encourage and broaden the base of investment by mobilising savings, the Investment Corporation of Bangladesh (ICB) was established and the Stock Exchange market was to be reactivated in October 1976. The Investment Schedule for the private sector was announced in July 1976, earmarking Tk. 1,910 million both in domestic currency and foreign exchange for investment by private entrepreneurs into selected industrial fields in the remaining two years of the First Five-Year Plan period (1973-78). In short, after 1975 with the socialist interlude over, the country was back to a mixed economy framework with private capitalism receiving vigorous public sector support and promotional concessions.

Subsequently in the Two-Year Plan (1978-80), 16% of the total development outlay was stipulated for private sector investment, of which 41% (Tk. 246 crore) was earmarked for investment in industry. In the draft Second Five-Year Plan (1980-85) the overall share of the private sector investment was further raised to 22% of the Plan Total (Table-1).

II

Evaluation of the Policies and their Achievements

Pakistan period 1947-71

In 1947 there were only a handful of large-scale industrial units: a few cotton textile mills with 99,000 spindles and 2,853 looms; a few sugar mills with a total capacity of 39,000 tons; one cement factory with a capacity of 100 thousand tons and a number of jute balling presses.[11] Productive activities of the area included a variety of small and cottage industries. In 1949-50 contribution of the manufacturing sector to the GDP was only 3%, large scale enterprises contributing just 0.6% (Table-2).

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11. Atiqur Rahman, *A Study on National Development Strategies and complementarities, Bangladesh,* Theme II (Dacca: The Bangladesh Institute of Development Studies, April 1980), p. 12.

TABLE – 2

Share of the Manufacturing Sector in GDP of Bangladesh

(In Percentage)

	1949-50	1954-55	1959-60	1964-65	1969 70	1972-73	1977-78	1979-80	1980-81 (Prov.)
Manufacturing	3.0	4.2	6.0	7.5	7.8	6.6	10.4	10.0	10.2
Large Scale	(0.6)	(1.5)	(3.9)	(3.9)	(3.6)	(4.3)	(5.9)	(5.7)	(5.8)
Small	(2.4)	(2.7)	(2.1)	(3.6)	(4.2)	(2.3)	(4.5)	(4.3)	(4.4)

Sources : For data before 1969-70:

a) Alamgir, M. and L.J.J.B. Berlage, *Bangladesh: National Income and Expenditure* 1949/50–1969/70. Research Monograph No. 1 (Dacca: Bangladesh Institute of Development Studies, 1974), p. 167.

For data after 1969-70

b) *The Statistical Year Book of Bangladesh,* (Dacca: Bangladesh Bureau of Statistics, 1979).

c) *The Statistical Pocket Book of Bangladesh* (Dacca: Bangladesh Bureau of Statistics, 1979, and 1980.

The data shows that the contribution of the manufacturing sector to the GDP increased from 3% in 1949-50 to almost 8% in 1969-70. Prima facie it may appear to be impressive, but given the low base the extent of industrialisation was very low, in fact much lower than what was obtained in West Pakistan.[12] Even by 1964-65, the share of the manufacturing sector in GDP was only 7.5% in Bangladesh compared to more than 14% in West Pakistan.[13] This lopsided development in the industrial sector for over two decades of union wi.h Pakistan was amply manifest in the following areas. *First,* as a consequence of partition in 1947, the Bengali Hindu and Marwari interests were gradually replaced by the West Pakistani or immigrant bourgeoisie settled in West Pakistan. In 1970-71 non-Bengali business houses controlled 47% of fixed assets and 72% of private industrial assets, if public sector assets are excluded; in the case of jute textiles entirely based on domestic raw material, 44 out of 77 miles, particularly the larger ones, were owned and managed by the West Pakistanis.[14] Through a system of inter-locking interests in the banking and insurance sectors and control over the allocative apparatus of the then central government, the actual extent of influence exercised by the West Pakistanis was much more extensive than what could be guessed from the size of the ownership alone.[15] This lopsidedness was to bring about a sudden vacuum in industrial management immediately after liberation. *Second,* the pattern of industrial development was different in East Pakistan. Due to discriminatory policy of the central government, most of the capital and intermediate goods industries were established in West Pakistan. *Third,* the dependence on Pakistan for market and raw materials under a regime of protection did not in all cases encourage efficiency in operation and intensive capital utilisation; in 1969-70, capital utilisation in large industries in general hovered around 50% of the installed capacity.[16] This was inconsistent in a capital-scarce and

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12. Gustav. F.P., op. cit., p. 317.
13. V.K.R. Rao, *Bang'adesh Economy: Problems and Prospects* (Delhi: Vikas Publications, 1972), p. 72.
14. Rehman, S. And Muzaffar A., op. cit., p. 57.
15. Ibid., p. 58.
16. Govt. of Bangladesh, Planning Commission: *The First Five-Year Plan* 1973-78 (Dacca: B.G. Press, 1973), pp. 196-97, 359-60.

labour abundant economy, specially in the context of planned development.[17] *Fourth,* the desire for import substitution of industrial products led to the setting up of non-competitive industries. The high cost of the raw materials and intermediate products imported from outside as inputs for the local industries pushed up the price per unit of the local product higher than its international price per unit. So the domestic resource cost from the social point of view was higher than the money earned or saved in foreign exchange.[18] *Fifth,* the pattern of growth of the small and cottage industries during the Pakistan period was not in line with the requirements of the country. Despite their increase in number. the small and cottage industries declined in terms of percentage contribution to the GDP (Table-2). To some extent the increase in the share of the large industries was at the expense of the small and cottage industries; particularly, the expansion of haldlooms faced stiff competition from Pakistan's large cotton textiles.[19] There was considerable room for their coordinated development with the medium and large industries and for an effective use of the country's labour.

Bangladesh Period 1971--1981

After independence, the state of the economy particularly in the manufacturing sector was such that industrial output in 1972-73 (base year) was about 19% below the normal output of the pre-liberation period (1969-70). This was mainly due to disruptions in production because of physical damage caused by war, inadequate supply of utilities, transport bottlenecks, lack of entrepreneurial and managerial ability, labour unrest and loss of traditional markets for a few export products. These difficulties were reinforced by unfavourable world economic situation prevailing at the time.

At this stage, the commanding heights of the economy were taken over under public sector ownership as a step towards establishing socialism. But the subseauent functioning of the public

17. A.R. Khan, *The Economy of Bangladesh* (Delhi: Macmillan, 1973), pp. 58-72.
18. The list of socially unprofitable/profitable industries can be found in Mohiuddin K.A., op. cit., pp. 244-51.
19. World Bank, *Bangladesh—Development in a Rural Economy,* Vol. 1 (Washington: World Bank 1974) pp. 142-43.

sector industries did not live up to their assigned role in terms of generating surpluses and contributing to resources for development.

Of the ten corporations, the jute manufacturing industry, which is the biggest sector, along with the others–Paper and Board, and Tanneries had consistent losses. Seven other corporations earned profits but at widely varying rates, only four having profits of more than 10% of the gross receipts from sales.[20] The inefficiency and the financial loss in the public sector was mainly due to mismanagement and misappropriation of funds by the politically appointed and unmotivated officials who were given the charge to run the public sector industries. As a result during 1973-75 the manufacturing sector witnessed a negative compound growth rate of no less than 18% (Table-3).

TABLE–3

Growth Rates of the Manufacturing Sector at the end of the First Five-Year and the Two-Year Plan (FFYP and TYP)

Period	Annual Compound Growth Rate (%)
FFYP :	
1973-75	—18.0
1975-78	11.0
1973-78	— 0.3
TYP (1978-80)	6.8
FFY & TYP (1973-80)	1.7

Source : *Statistical Pocket Book of Bangladesh* (Dacca: Bangladesh Bureau of Statics, 1980), tab. 14.3, p. 753.

In Bangladesh, the potential profits of the nationalised sector were no less. On the production side, there was sufficient room for reducing cost and improving efficiency. And on the distribution side, the extent of 'scarcity premia' obtainalbe from the starved domestic market was quite high.[21] But the administrative-management problems, created rather than inherited, stood on the way of realisa-

20. Nurul Islam, *Development Planning in Bangladesh* (Dacca: University Press Ltd., 1979), p. 229
21. Mohiuddin K.A., op. cit., tab. III-7, p. 125.

tion of this potential. While neither production costs could be reduced nor efficiency of operation and management improved, the 'scarcity premia' were allowed to be collected by the limited number of unscrupulous distributors and retailers, better known as the 'brief-case businessmen' who were appointed by the corrupt politicians.

As a matter of fact, in the initial years after independence, the government failed to evolve an appropriate policy framework and institutional structure for the effective management of the nationalised industries with a view to promoting socialism. Among the leaders of the then ruling party, there was no unanimity and no firm commitment to the achievement of the ultimate goal of soialism through realisation of the professed ideas behind the nationalisation programme.

Retrospectively, therefore, it appears that it would have been wise to leave the Bengali ownership undisturbed in view of the existing shortage of management personnel. Besides, the electoral pledges of the Awami League in 1970-general election for nationalisation of large-scale industries (including jute, textile and sugar) were made in the context of Pakistan, for the nationalisation of these industries was considered then an important means of liberating the vital sectors of the Bangladesh economy from West Pakistani domination. But the Awami League Government failed to grasp the changed situation in independent Bangladesh. So most analysts now regard the action of nationalisation in that massive form as nothing more than a sudden spurt of enthusiasm of vague middle class ideas of social justice.[22]

However the performance of the public sector industries started improving somewhat since 1976 in view of the twin measures taken by the Zia government, that of reducing the exisiting management bottlenecks and of disinvesting some units of industries in order to lessen the burden of public sector. During the periods of Hard-Care Programme (1975-78) and the TYP (1978-80), the manufacturing sector witnessed an annual compound growth rate of 11% and 6.8% respectively, which resulted in an ultimate growth rate of only 1.7% during the whole period of 1973-80 (Table-3).

22. A.M.A. Rahim (ed.), "A Review of Industrial Investment Policy 1971-77", *Current Issues of Bangladesh Economy* (Dacca: Bangladesh Books International Ltd., 1978), p. 87.

TABLE–4

Production of Selected Industrial Items under Public Sector in FFYP and TYP

Items	Units	1969-70 (Actual)	1972-73 (Actual)	1974-75 (Actual)	Target for 1977-78	1977-78 (Actual)	Attainment as % of Target	1979-80 (Estimated)
1. Jute goods	'000' Tons	561	446	444	766	547	71.4	577
2. Cotton Textiles								
a) Yarn	Lakh lbs	1057	809	1913	1975	1070	54.2	1375
b) Cloth (Mill made)	Yds	599	584	846.3	1910	845	44.2	1175
3. Sugar	'000' Tons	93	19	98.47	148.4	175	117.2	139
4. Fertilizer (Urea, TSP, AS)	,,	101	—	105.2	1032	264	25.6	429
5. Steel (ingot)	'000' M. Tons	54	68	6.4	450	111	24.7	140

Sources : a) Govt. of Bangladesh, Planning Commission: *The First Five-Year Plan* 1973-78 (Dacca; B.G. Press, 1973), tab. II-6, p. 23.
b) *The Second Five-Year Plan* 1980-85 (Dacca: B.G. Press, 1980), tab. 1.6, 1.12.

The index of the manufacturing production (1969-70=100) which stood at 81 in 1972-73 increased to 108 in 1978-79.[23] It is apparent that there have been improvements in input supplies as well as labour discipline in the public sector corporations. But the overall performance of the public sector industries was lagging in varying degrees from achieving the physical target set by the First Plan (Table-4). The data shows that there was some progress in production of selected goods in 1977-78 compared to the level of 1969-70, but that hardly reached the plan target in percentage points, except for the sugar industry where the target was superceded by 17.2%.

Furthermore, public sector corporations still largely sustain losses only to compound the resource constraints in the wake of government subsidisation itself. Among the ten corporations in the productive sector, six made meagre profits while the remaining four incurred greater losses during 1981-82, which ultimately resulted in a total loss of Tk. 52.68 crore in the sector (Table-5). The data shows that the biggest corporations, namely the Bangladesh Jute Mills and Textile Mills Corporations incurred the highest losses. The prevailing situation in these corporations indicate that these unwelcome trends will continue at least for the near future.

The ceiling on private investment during the Mujib government meant that the role of the private sector would be limited to small and medium size industrial units. The policy declaration in respect of moratorium on nationalisation for 15 years was interpreted in terms of a mere temporary suspension and postponement of an impending expropriation. The intention of the state being interpreted as such and the financial institutions, key industries and large segments of import and distribution channels being already under direct state control, a sense of insecurity loomed large in the minds of the prospective entrepreneurs. Investment in fixed industrial assets was thought to be a risk. But whether mere ceiling on private investment sapped the entrepreneurial initiative in productive sphere in the early years after independence is a debatable issue.[24] There may be some rationale behind the argument, but certainly

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23. Govt. of Bangladesh, Palnning Commission; *The Second Five-Year Plan* 1980-85 (Dacca: B.G. Press, 1980), XII-4.
24. Nurul Islam, op. cit., p. 242.

TABLE–5

Financial Position of the Public Corporations in the Productive Sector during 1981-82.

Corporations	Profit(Loss	(in Crore Tk.)
1. Bangladesh Steel and Engineering Corporation	+ 1.64	
2. Bangladesh Sugar and Food Industries Corporation	+50.75	
3. Bangladesh Chemical Industries Corporation	+ 1.55	=+ 69.25
4. Bangladesh Forest Industries Development Corporation	+ 2.64	
5. Petrobangla	+12.34	
6. Bangladesh Freedom Fighters Welfare Trust	+ 0.32	
7. Bangladesh Jute Mills Corporation	−62.90	
8. Bangladesh Textile Mills Corporation	−54.22	
9. Bangladesh Mineral Exploration and Development Corporation	− 4.16	=−121.92
10. Bangladesh Small and Cottage Industries Corporation	− 0.64	

Source : *The Bangladesh Times,* Dacca, 2 July 1982.

it's not the whole truth. While there was a marked improvement in the investment activities in industry after 1976 when the private sector was given a more pronounced role, the overall private investment in manufacturing sector was relatively low, that is, Tk. 425.86 crore or about 26% of total private investment during the period 1973-80 (Table–6). The end result was even much more dissatisfactory. Table-2 shows that even the share of the manufacturing sector in GDP decreased from 10.4% in 1977-78 to 10.2% in 1980-81. The performance in small scale industries is even worse if we compare the level of 1980-81 with that of 1969-70. This clearly reveals that the lopsided development in the sector, as was the case during the Pakistan period, was not overcome in a dacade.

From 1972 to April 1982, 3600 crore taka were disbursed by different loan-giving agencies to set up industrial units. During this period, 5600 units were approved by the government of which only 30% became operational.[25] In other words, many of the remaining 70% may have to be written off as bad investment. These data reflect starkly the high rate of failue in our investment programmes to date.

TABLE–6

Private Investment in Manufacturing Sector during the FFYP and the TYP Periods.

Years	(in crore Tk.) Amount
1973-74	8.24
1974-75	13.32
1975-76	19.80
1977-78	97.50
Total (1973-78)	200.86
1978-79 (Estimated Actual)	105.00
1979-80(Estimated)	120.00
Total (1973-80)	425.86 (= 26% of the total Tk. 1648.13 crore invested under private sector).

Source : Govt. of Bangladesh, Planning Commission: *The Second Five-Year Plan* 1980-85 (Dacca : B.G. Press, 1980), tab. 9, 2, IX-4.

Therefore, notwithstanding the liberal policy package adopted by the Zia government to improve the investment climate for the

25. *The Bangladesh Times*, Dacca, 19 May 1982.

private sector, it was felt that investment activity has not been commensurate either with the role assigned to it or the development requirements of the country. A dispassionate analysis may suggest that the reason for inadequate response from the private sector has been the absence of a forward-looking entrepreneurial class in Bangladesh. As pointed out earlier, in Pakistan days few Bengali industrialists were dependent on state patronage and protection for their survival and profits. From the behaviour pattern of the new entrepreneurial class in Bangladesh since independence, it may be pointed out that they were not and still are not content with the margin of profit that usually accrues from an industrial undertaking. In fact, this entrepreneurial class which comprises mainly of the flourishing indenting merchants is hardly prepared to wait for usual gestation period required in a newly set-up industrial venture. Most members of the new entrepreneurial class found it much more profitable to divert the funds for speculative purposes, although such funds were procured on liberal terms for utilisation in industrial investment. This once led President Ziaur Rahman to regret that in spite of government support in loans, equity capital and incentives for private sector industries, not many chimneys emitting smoke were visible.

Another important aspect of the behaviour pattern of the new entrepreneurial class in most of the newly-independent nations is that they do not play the progressive role played by the rising capitalists at the dawn of capitalist development in Western Europe. After the 18th century industrial revolution, those newly-formed industrial capitalists spent less of their hard-earned profits on personal consumption and more on productive investments in anticipation of greater returns in future. But the etrepreneurial class in developing countries tended to spend the bigger slice of their earnings on conspicuous consumption and high living.

This negative approach towards productive investment on the part of the entrepreneurs was reinforced by some basic loopholes and administrative laxity in implementing the quite liberal industrial policy pursued by the Zia government, among which are the following :

a. The Zia government pursued an open-door import policy permitting at random both essential and non-essential consumer and intermediate goods which adversely affected the local industries. Emphasis should have been on import of capital goods, industrial raw materials and deficit consumer goods, with provision for early substitution of those imports.

b. The public sector corporations picked up only those units for disinvestment which incurred loss or had problems of other sort. The aim was to get rid of liabilities and keep control of units which were not in the red. So there was lack of enthusiasm among private investors to take over those industries. During Pakistan days it was the other way round.

c. Due to high profits available in trade and commerce, the investible funds were directed to this sector for getting a better and quicker return.

d. The remittance-money of Bangladeshi nationals working abroad was misutilised in non-critical implementation of the Wage Earners Scheme. The large amount of foreign currency earnings (second to our jute export earnings) was mainly used in buying land in cities and rural areas at an exorbitant rate, and in importing non-essential consumer and luxury goods, adding further to the inflationary spiral. Right from the start of man-power export to different countries the government should have had a well-defined mechanism for directing the badly needed foreign currency remittances towards productive activities.

e. Because of administrative, institutional and technical factors, the very slow process of disbursement of loans and the long time lag between sanction and disbursement discouraged many of the potential investors.

f. There was lack of proper supervision over the progress of the sanctioned projects in private sector by supervisory authority and loan-giving agencies. As a result, the unscrupulous borrowers could keep on getting loans producing only fake documents.

g. Influence-peddling specially by the politicians of the party in power strongly worked in getting big amounts of loans sanctioned for persons who were sham entrepreneurs.

h. There were high-handed corrupt practices in approving projects, sanctioning and disbursement of loans among the officials of the departments of industries and loan-giving agencies.

III

Industrial Policy Adopted by the Present Martial Law Government

The Martial Law Government announced on June 1, 1982 the industrial policy to be pursued by them. In his first ever public meeting with the industrialists and businessmen on April 9, 1982, the Chief Martial Law Administrator (CMLA) emphasized that "while the public sector will continue to play its due role, we intend to provide a more pronounced role to the private sector as well. New areas of investment will be further opened up provided private sector makes fuller use of the existing facilities and opportunities."[26] Accordingly, encouragement of private investment is declared to be one of the five economic targets spelt out by the CMLA.

Therefore, the basic philosophy behind the policy to be pursued by the present government, that is, achieving development through boosting private sector, remains the same as under the previous government. However there are some differences with the previous policy. The new industrial policy opened up the Jute, Textile and Sugar industries to the private sector under the concurrent list (which includes 13 fields of industries) where both public and private investments can take place. In order to limit the role of the public sector to the establishment of basic, heavy and strategic industries, the government reserved only 6 areas for public sector investments (Annexure-III). Further, the distinguishing feature of the new policy lies in its reinforcement of objectives and pragmatic steps to implement it in order to achieve the desired result.

With this end in view the government already initiated some measures intended to wipe out the anomalies, contradictions and administrative bottlenecks which previously stood in the way of

26. *The Bangladesh Observer,* Dacca, 10 April 1982.

a healthy industrial growth both in public and private sectors. To protect the local industries, the government announced an 8-point policy directive to rationalize the import (Annexure-IV). A total of 14 items that harmed locally produced goods were already banned from import, with provisions for further import ban. But while these steps are necessary, the decision-makers should also ensure against inefficiency, production of low quality goods or inflated price demands on consumers.

The committee appointed by the CMLA to carry out a sample survey of sanctioned industries in the private sector has already submitted its interim report. This was a dire necessity in view of the chaotic condition prevailing over loan disbursement and its utilisation by many of the loan-receivers. The government also took steps to further the disinvestment process, to simplify the procedure in sanctioning and disbursing loans so that the time lag between sanction and disbursement comes to a minimum, and increased the allocative authority of the loan-giving agencies. In order to encourage setting up of new industries under private sector, the government publicized a list of 19, then raised it to 41 fields of industry based on indigenous raw materials where no official permission will be required provided entrepreneurs import capital goods under Wage Earners' Scheme.

Some of the measures adopted already produced beneficial results. For instance, after the ban on import of foreign sanitary wares on 10th April, 1982 the sales of Bangladesh Insulator and Sanitary Ware Factory products shot up 6-7 fold.[27]

Actually, industrialisation of the country must proceed primarily on the mobilisation and utilisation of indigenous resources and technology. It is not that the previous governments had contested this basic truth. But the practice of these cardinal principles and policies had not been proper and effective. The present government so far seems intent on materialising this goal.

Some Policy Suggestions

Together with the measures already adopted by the government some policy suggestions may be made so that our economy can

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27. *The Bangladesh Times,* Dacca, 20 April 1982.

proceed along viable and sustained lines through industrial growth both in public and private sectors.

Public sector : It should be recognised that in the years to come, public sector will have a bigger role in Bangladesh economy. But many of the public sector corporations are still losing concerns eating up the huge government subsidies and bank-credit facilities. In such a discouraging situation, the government may make a vigorous drive to implement its policy of running public sector industries with the following elements in mind :

a. The administration of the public sector corporations down to the unit level management and execution of individual responsibilities should be tied up to the principle of accountability for the end-product of the industries concerned. For this incentives and punishments should be introduced.

b. Ways should be devised to run the public sector industries on commercial basis, together with their social responsibility. This includes, among other things, a realistic pricing policy of the products.

c. Support facilities such as utility services, timely and adequate support for necessary imports and export of produced goods should be arranged without flaw.

d. Rationalisation of the cost of production through improving productive efficiency and managerial skill should be achieved.

Private sector : It is clear that the mercantile/indenting class cannot be wishfully transformed into a forward-looking entrepreneur. After all, the growth of a stable entreprencurial class is a long-drawn process. So the government should continue to aggressively provide the support and stimulatory services to boost the private sector activities. On the other hand, the officials and entrepreneurs should remember that the incentives and concessions being given are at the expense of the general tax-payers.

Support activities :

a. There must be adequate arrangement of finance for working and fixed capital to meet the gap in equity capital.

b. For a harmonious and balanced development of all the regions, the government should support industrial growth centres at local level. With the establishment of Thana as the basic administrative unit as envisaged by the govrnment, the development process will be decentralised. It will help to establish agro-oriented industries, mobilise local resources and create employment opportunities in the rural areas.

c. Adoption of a policy of encouraging local consultants. This may be done by patronising local consultancy in public sector projects and making it obligatory for foreign consultants to bid only through association with local firms.

d. In the case of Bangladesh, factors like scarcity of raw materials, power failure, delay in the importation of materials or exportation of the finished goods, network of transport and communication, etc. impede utilisation of the already installed capacity of the mills and factories. So these impediments should be effectively removed.

e. Guidance must be provided to select and obtain machinery, so that the national economy can recoup its strength quicker on new industries that have short gestation periods and do not involve time-consuming costly transfer of technologies.

f. Tax relief and other subsidies should be offered to encourage erection of industries in less developed areas.

g. The Investment Advisory Board should play a more pronounced role in selecting industries to be set up in view of the availability of raw materials and managerial sill, demand of the produced goods both in the domestic and international markets.

h. In order to reduce the time interval between the sanctioning of loans and their disbursement it is necessary that the Income Tax Authorities should be instructed to take necessary measures for quick disposal of cases submitted by the private investors.

i. At present the under-writting operation of the Investment Corporation is too narrow. The liquidity of shares to be transacted in the Stock Exchange may improve with the broadening of operation of the ICB. National Investment Trust which existed in Pakistan may be organised to meet the liquidity of shares. Another way to make the shares attractive is to make the income out of dividends tax free. Presently dividend out of investment in Defense Savings Certificates is exempted from income tax. This provision may be made applicable in case of investment in industrial share as well.

Stimulatory activities :

a. The Management Development Centre can play a vital role in imparting entrepreneurial education and planned publicity of entrepreneurial opportunities.

b. Identification of potential entrepreneurs.

c. Motivation, help and guidance to new entrepreneurs.

d. Industrial research should be vigorously pursued so that new products and processes suitable to local condition can be evolved at a faster rate.

e. Training officers for creating local agencies for entrepreneurial counselling.

Conclusion :

In more than a decade of her existence Bangladesh saw quite a number of regimes propagating different high-sounding ideas of development. During the initial years there was nothing more than just flirtation with the egalitarian ideas of socialism. Then in the name of promoting the previously sapped private initiative through greater deregulation of the economy, the nation witnessed the squandering and extreme misutilisation of the scarce resources which only intensified dependence on foreign charity for her development budget. But certain basic statistics emphatically reveal that the quality of life of the overwhelming masses worsened, rather than improved as was supposed. Very recently the Export Promotion Bureau revealed that in 1980-81 the ever yawning trade gap amounted to Tk. 2645.3 crore, an increase of 1.13 crore over 1979-80.[28] It may be noted that our export earnings still hover around Tk. 1200 crores of which over 80% goes to pay for the oil-bill only. But how far can a resource-poor country like Bangldesh afford this state of staggering imbalance ?

As mentioned earlier. the dissatisfactory performance and shaky basis of the industrial sector are attributable not so much to the past governments' policy objectives as to their careless and lax implementation. It is heartening that the current government has finally come to grasp this basic truth. The success of the new policy lies in bridging the gap between what is preached and what is practiced. Above all, it is sincerity of purpose and devoted execution on the part of both the administration and private entrepreneurs that counts for the rapid industrial development of a country. One can only hope that both sides have learnt some sober lessons from the experience and mistakes of the past years.

28. *The Bangladesh Times*, Dacca, 17 June 1982.

Annexure–1

Industries Reserved for Public Sector under the Policy Announced on July 16, 1974

1. Arms & ammunition and allied defence equipments
2. Atomic Energy
3. Jute industry (sacking, hessian and carpet backing)
4. Textiles (exculding handlooms and specialised textiles)
5. Sugar
6. Paper and newsprint
7. Iron and steel (excluding re-rolling mills)
8. Shipbuilding and heavy engineering (including machine tools, assembly manufacture of cars, buses, trucks, tractors and power tillers)
9. Heavy electrical industry
10. Minerals, oil and gas
11. Cement
12. Petro-chemicals (fertilisers, 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 DET)
16. Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
17. Generation and distribution of electricity
18. Forest extraction (mechanised)

Source: Mohiuddin K. Alamgir, *Development Strategy of Bangladesh* (Dacca: Centre for Social Studies, 1980), p. 170.

Annexure-II

Key Industries Reserved for Public Sector under Policy Announced in December, 1975.

1. Arms and ammunition and allied defence equipments.
2. Atomic Energy
3. Jute Industry (sacking, hessian and carpet backing)
4. Textiles (excluding handlooms and specialised textiles)

5. Sugar
6. Air Transport
7. Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
8. Generation and distribution of electricity.

Source : A.M.A. Rahim (ed.), "A Review of Industrial Investment Policy 1971-77", *Current Issues of Bangladesh Economy* (Dacca; Bangladesh Books International Ltd., 1978), p. 105.

Annexure III

Industries Reserved for Public Sector under the Policy Announced on June 1, 1982.

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1. Arms and ammunition & allied defence equipments
2. Atomic energy
3. Air transport
4. Tele-communication
5. Generation excluding stand-by generation, and distribution of electricity (excluding rural electrification by Palli Bidyut Samity) and
6. Forest extraction (mechanised).

Source : *The Bangladesh Observer,* Dacca, 2 June 1982.

Annexure IV

8-Pt Policy Directives Announced on April 10, 1982 to Protect Local Industries.

1. Where goods produced in the country are sufficient to meet the country's needs all imports of these items should be banned, after careful examination of the level of country's demand.
2. Procurement agencies of the Government/Autonomous Bodies should obtain the first right to refusal from the Ministry of Industries before they can place orders for their requirements with foreign suppliers.
3. In terms of price, quality and specifications, the locally produced goods must endeavour to be competitive and acceptable to the procurement agencies.

4. Where it is proved that duties and taxes levied on imported finished goods are lower than those levied on imported raw materials, components and spare parts required for the same and similar finished goods, then these should be rationalised so as to bring them at par with or below those levied on the imported finished goods.
5. While negotiating aids, loans and grants for projects and commoditiies, no provision should be kept for import of those goods and services which are produced and available in adequate volume to meet the domestic demands or, for which capacities exist in the country. Instead of procuring finished products, built-in provisions should also be kept in the agreements and contracts to permit utilisation of aids, loans and grants for procurement of raw materials, spares, consumables, etc. for local fabrication
6. Stringent specifications, even where lesser ones can serve the purpose, are often designed to disqualify locally produced good, limiting thereby the sources of procurement. All procurement agencies of the Government will be required henceforth to prepare specifications in a manner which will enable local products to qualify.
7. Where supplies of locally manufactured goods, due to inadequate installed capacities, fall short of country's requirements, additional capacities should be set up on priority basis. These items should be identified for necessary follow-up action.
8. Imports of goods into the country should be regulated as to ensure that similar goods of local origin are not priced out of market. Both the fiscal policy and the quantum of imports will have to be coordinated with the level of local production so that no shortage is created within the country.

Source : *The Bangladesh Times,* Dacca, 11 April 1982.