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## Foundations of Bangladesh's Economic Development: Politics of Aid

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### Introduction

Bangladesh today with a population of nearly 160 million faces myriad development challenges. But it is far from being the 'basket case' that Henry Kissinger once described it as. Despite its still being poor and challenged, it has to its credit many successes particularly in the social sectors. It, in many ways, defies the 'Washington Consensus' wisdom that growth would lead to poverty eradication. It embodies the inverse of that thesis, for while its growth has much room for improvement, its poverty eradication has been impressive.<sup>2</sup> This was largely made possible through its skilful handling of foreign aid in the early years since its independence from Pakistan in 1971 following a bloody and destructive war. That was

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<sup>2</sup> See 'Bangladesh and Development: The Path through the Fields', *Economist*, 3 Nov 2012.

able to lay the foundations of the economy of contemporary Bangladesh, in which the need for foreign aid is vastly reduced. During the formative years external assistance was of critical importance. This study will examine how Bangladesh addressed the complexities of such dependence with a modicum of success.

Indeed initially aid was a primary foreign policy goal. One of the declared aspirations of Bangladesh's policy was 'securing international cooperation for accelerating the pace of economic and social development of the country'.<sup>3</sup> It was only to be expected, therefore that much of Dhaka's energies were expended in obtaining such 'international cooperation', an euphemism for 'foreign aid'. This was particularly true during the period of the country's First Five Year Plan (1973-1978), a special focus of this research.

## **The Need for External Assistance**

The war of independence that lasted from March to December 1971 had severely damaged the economy. There was an immediate need to repair some of the damage and provide short-term relief in the form of food and medical supplies. The Secretary General of the United Nations, in a global appeal, stated that US\$ 620 million would be required in 1972 alone, along with, among other things, the need to bridge the domestic food gap, which amounted to 200,000 tons of food grains every month<sup>4</sup> (the population was roughly half of what it is now).

In his first press conference as Prime Minister, Sheikh Mujibur Rahman appealed to all countries and international humanitarian organisations for assistance.<sup>5</sup> It was obvious that Bangladesh was prepared to obtain assistance from any source. Once the immediate needs were satisfied, Dhaka began to concentrate on development plans on a longer-term basis, beginning with a three-year concentrated programme (1972-75). The philosophical and the ideological framework of the leadership became an important element in determining sourcing and utilisation of aid. The leaders intended to build a 'socialist society'.<sup>6</sup> There was an obvious contradiction in trying to build a socialist system with non-socialist assistance (as the major donors were eventually Western and capitalist). This was a dilemma that planners

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<sup>3</sup> Statement by the Bangladesh Foreign Minister, Professor Shamsul Huq, *Bangladesh Times*, 11 September 1979.

<sup>4</sup> *Pakistan Times*, 18 February 1972.

<sup>5</sup> *Times of India*, 15 January 1972.

<sup>6</sup> See , for instance, *Bangabandhu Speaks: A Collection of Speeches and Statements made by Sheikh Mujibur Rahman* (Dhaka: External Publicity Division, Ministry of Foreign Affairs, 1972) pp 55-63,

confronted while formulating, and thereafter implementing, the First Five Year Plan (1973-78).

Earlier, during the Pakistan era (1947-71), the economic planning strategy was influenced by the Harrod Domar model.<sup>7</sup> It is one that advocates promoting rapid industrialisation under the ownership and control of the rising capitalist class with assistance from the government. It was presumed that the benefits of growth would 'trickle down' to the more depressed sections of the community. This continued to influence Bangladeshi planners, trained during the Pakistani period. However they were able to add rigour to the model by complementing it with a multi-sector input-output table and linear programming techniques.

In fact, in a memorandum presented to aid donors in 1974, the country's Planning Commission admitted that the First Bangladesh Plan did not envisage a sharp structural change.<sup>8</sup> The realisation of socialist objectives promised to be a very gradual process. The mode of development that the Plan proposed required high savings and investment, nearly 15%-20% of the Gross Domestic Product (GDP). In Bangladesh, it was essential that at least 10% of the investible funds had to be attracted from abroad.<sup>9</sup> The Plan, therefore, was structurally geared towards the requirement and receipt of foreign aid. In fact the Plan estimated that a net inflow of US \$2.4 billion would be required, during the five-year period, derived from import payments of US\$ 5.4 billion less export-receipts of US\$ 2.84 billion.<sup>10</sup> Direct appeals for international assistance were made and Bangladesh let it be known that it expected the international community to take up the challenge of treating it as 'a test case for development'.<sup>11</sup>

Thus, if there were any doubts in the minds of the Bangladeshi policy makers whether foreign aid should or should not be accepted, it was now dispelled by the planners. It is not that, as this paper will demonstrate, it did not generate any debate within the community. In the context of foreign aid, the relevant questions were: What were to be the sources of this massive support? What were to be the effects of such support on Bangladesh's economic

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<sup>7</sup> It was developed by Roy F. Harrod (1939) and Evsey Domar (1946), and was the precursor to the exogenous growth model. Later neo-classical economists pointed to its many shortcomings.

<sup>8</sup> *Memorandum for the Bangladesh Consortium, 1974-75* (Dhaka: Planning Commission, October 1974), p.6.

<sup>9</sup> Shaikh Maqsood Ali, 'Development through Foreign assistance, or Social Mobilization', Seminar Paper, Department of Economics, University of Dhaka, 10 November 1978.

<sup>10</sup> *Bangladesh: Development in a Rural Economy* (in three volumes), Vol.1: *The Main Report* (Washington: International Bank for Reconstruction and Development), p. 283

<sup>11</sup> *Some Thoughts on Development perspectives for Bangladesh: A Case for Concerted International Effort* (Dhaka: Planning Commission, u.d.), p.6.

sovereignty? What sort of debate would all this generate? And finally, what would be the implications for Bangladesh's total gamut of external relations?

## Sources of Aid

With socialism as a declared policy-goal, it was to be expected that there would be a high level of interaction in the economic field with the socialist countries. But Bangladesh's requirements were too massive for the socialist bloc of countries to satisfy. Neither the Soviet Union nor the East European countries could sustain for long the level of assistance that Bangladesh needed. Also, one other major socialist country, though not belonging to this bloc, but with potential as a donor, China, did not yet have any political relations with Bangladesh. It was unlikely to figure prominently as a source of aid in the immediate future. Moreover, socialist countries traditionally funded projects rather than commodity aid programmes, and for Bangladesh the need for the latter was more urgent.

There was little alternative, therefore, but to turn to the West. Even within this rather narrow group Bangladesh would have ideally liked to diversify its sources of aid to bring the level of influence that could be asserted by any donor to the minimal. But the chances of this coming to pass were growing slim, as donors were making known their preference for setting up an overarching Consortium of aid-giving countries.<sup>12</sup> The donors had broadly three reasons to favour such an arrangement: First this would cater better to individual donor specialisation; second, this would render the review process simpler as it could then be undertaken by a single agency, the World Bank; third, and finally, since it was such a Consortium that was providing funds to projects now in Bangladesh's territory from its Pakistan times, it was natural for the Consortium to continue its support, provided of course it was composed of more or less the same donors.

The principal fears of the Bangladesh authorities were three-fold. These were mainly political in nature. First, would such a body constrain its manoeuvrability in policy-making and consequently erode its economic sovereignty? Second, would such a Consortium impact too adversely its relations with its main allies, the socialist countries and India? Third would the

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<sup>12</sup> The World Bank suggested that many of Bangladesh's problems 'could be more easily tackled if it were possible to organize a Consortium of donor countries'. *Bangladesh: Development in a Rural Economy*, Vol.1, op.cit., p.287.

deepening of its dependence, as the formation of the aid-group would imply, be in consonance with its socialist character?

With regard to the first apprehension, contacts with such liberal donors as the Scandinavian countries and Australia generated the feeling that donors would eschew outright attempts to dominate policy-making. It even raised hopes that the generous terms of these donors would help to liberalise those of other less-generous ones. As to adversely impacting on relations with the socialist bloc and India, it eventually became apparent that, since these countries were unable to meet Bangladesh's requirements, they, in all fairness, would not be expected to object. As to the third fear, the Planning Commission hoped for a 'rapid reduction of dependence on foreign aid by the end of the Plan period', as domestic resources were expected to be mobilised appreciably by then.<sup>13</sup>

In spite of some suggestions from Dhaka that Bangladesh chair the Consortium, or that it be headed by a smaller donor (just as the Netherlands in the case of Indonesia), the World Bank was reluctant to deviate from the norm, and the Consortium or the Aid Group was finally organised under the Bank's auspices in September 1974.<sup>14</sup> The meetings were to take place in Paris, the Bank's European headquarters. Bangladesh's linkage with Western donors was thus institutionalised.

As of 31 March 1976, a large proportion of the total aid received was from Western sources.<sup>15</sup> From members of the Development Assistance Committee of the OECD the total funds received amounted to US\$ 3251.613 million, out of which US\$ 1516.228 million came as grant and the rest as credit. The undisbursed amount was only US\$ 900 million, which indicated speedy utilisation.

The second largest source was the cluster of international multilateral institutions, most of which were Western in origin. As of 31 March 1978, US\$ 1945.004 million were received from them, of which US\$ 693.734 million were in grant form and the rest in loans. Of the non-Western agencies the Organisation of Petroleum Exporting Countries (OPEC) gave US\$ 17.400 million, the Islamic Development Bank US\$ 7 million, and the Bank of Commerce and Credit International US\$ 6.5 million, all in loans.

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<sup>13</sup> Preface, *The First Five Year Plan, 1973-78*, op. cit.

<sup>14</sup> Interview with Professor Mosharraf Hussain, the Member of the Bangladesh Planning Commission, Oxford, 28 October, 1978.

<sup>15</sup> Data cited henceforth with quantum of aid received from different sources were obtained from the Bangladesh Planning Commission, Dhaka.

The socialist bloc – or the ‘Centrally Planned Countries’ as they were called, provided US\$ 504.465 million. Of that amount loans totalled US\$ 467.5593 million, and grants US\$ 260.251million.

Some Muslim Arab countries were a new source of donors. They offered US\$ 317.250 million – US \$ 105.26 million as grant, and US\$ 211.987 million in loans.

An analysis of the above figures shows that the amounts received from Western sources far outweighed those from others. There was no evidence to the effect that this trend was likely to change anytime soon. Moreover, the terms of assistance were favourable. In March 1978 the United Nations Conference for Trade and Development (UNCTAD) Ministerial Board endorsed the easing of terms under which assistance was to be accorded to Least Developed Countries (LDCs), of which Bangladesh was one. Future aid, mainly those from Western sources, was likely to be in grant form, and past debts were likely to be written off. Bangladesh could be assured of support either in grant form, or at least on very soft terms. Aid terms from the socialist bloc appeared to be on tougher terms. For starters, these were mainly loans, which meant they had to be paid back. Almost invariably also they were ‘tied’, in other words, the procurement had to be from those countries. These features combined to erode the quality of aid from socialist sources.<sup>16</sup>

Bangladeshi recipient agencies tended to favour Western sources of aid for several reasons:<sup>17</sup>

First, most of the recipient agencies had historical links with the donor sources dating back to the Pakistani era, when Western countries were the primary aid givers. These agencies were familiar with Western products as their projects had been using Western assistance for years.

Second, Western donors tended to provide a large proportion of their aid as grants, requiring no amortisation or repayment. Even when some of the aid from socialist countries was in the form of interest-free loans, the principal had to be repaid.

Third, Western countries remained the main source of the badly-needed commodity aid. A good example was food-grains, which could only be obtained from the United States (US), Australia and Canada.

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<sup>16</sup> Interview with Dr F Ahmed, Joint Secretary, External Resources Division (ERD), Government of Bangladesh 27 May 1976.

<sup>17</sup> The recipient agencies, which were the actual aid users, were different from the government ministry that negotiated the foreign aid (such as the ERD or the Planning Commission), and often had different interests. See John White *The Politics of Foreign Aid*, (London: The Bodley Head Ltd., 1974) pp.78-88.

Fourth, while aid from socialist countries was mostly ‘tied’, that from the West usually involved a wider region of procurement, enabling the recipient to ‘shop around’ in different countries for lower prices. Even if sometimes aid from Western sources was tied, because export trade in those countries was not state-controlled, the recipient could take advantage of the market mechanism in making procurements from those countries.

Fifth, as regards technical assistance i.e., training of the managerial cadres, offers from the West – in particular from English-speaking countries such as the US, Great Britain, Canada, Australia and New Zealand, understandably found greater favour.

These recipient agencies, therefore, tended to exert pressure on the principal government ministry negotiating foreign aid to gravitate more towards Western sources, a phenomenon that led to greater interaction of Bangladesh with the latter.

### **Aid and Economic ‘Sovereignty’**

All aid donors are usually interested in the optimal utilisation of the assistance they render. They also entertain their own notions as to how to maximise benefits from the aid they provide in the way they perceive it. As a result they are sometimes prone to indicate their preferences, or to go even further and to exert pressure on the recipient to conform to their wishes.

Such pressures from multilateral sources tended to be more intense than from the bilateral. There were, broadly, two reasons for it: First, the quantum of aid multilateral donors provided was much larger and hence they had greater leverage; second, since the major multilateral sources such as the World Bank (WB) and the Asian Development Bank (ADB) were apolitical agencies, they were less sensitive to the political approaches of the recipient.<sup>18</sup>

Several areas can be identified where donor-pressure had been exerted. The first such area is the organizational structure of the projects, and more important, of the government Ministries/Departments controlling the projects in question. For example, when the Bangladesh government accepted credit from the ADB for the rehabilitation of the Dhaka-Chittagong rail-links, it had to undertake to set up an autonomous

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<sup>18</sup> Of the windows of the World Bank, most dealings of Bangladesh were with its ‘International Development Association (IDA) whose loans were highly concessionary, and advanced to the poorest countries.

supervisory enterprise.<sup>19</sup> Again, with regard to a Fisheries project that the ADB partly funded, the Bank took very keen interest in the appointment of the Finance Director of the Bangladesh Fisheries Development Corporation, the government agency that controlled the project.<sup>20</sup> Therefore, we see that foreign funding agencies did not confine their interest to the narrow limits of the projects they funded, but extended it beyond to the relevant government departments. Such pressures did indeed undermine the government's autonomy in decision-making, adversely impacting on economic sovereignty.

The WB went several steps further and made comments on the total administrative structure of the government, suggesting means of improving it. Describing the system as 'inappropriate to economic management', a Bank Report purported to advise the political authority of the directions it ought to follow. The Report stated: "If Bangladesh is to grow it will have to decentralize decision making, and permit farmers, small traders, small industrialists, local government representatives, and public managers to respond to those signals through some combination of monetary rewards, social status and national sentiment."<sup>21</sup>

The World Bank has also proffered advice which was in direct contradiction of a policy the government was politically committed to. Bangladesh's Awami League government had chosen to give a tangible expression to its socialist aims by limiting the salaries of public officials. For the government there seemed to be some value in curtailing monetary rewards of the bureaucracy whose burgeoning power had been a traditional subject of public criticism. The WB, however, had the following comments to make on the subject: "The application of ceilings to incomes earned by the top echelon of the government managers, especially in periods of rapidly declining real incomes, constitutes a drag on efficiency and blunts initiative".<sup>22</sup>

Even though the pressure brought to bear was not direct as in this case, the distribution of the Report among other donors, and the correlation between the opinions of the donors and quantum of aid, was tantamount to the application of indirect pressure on the Bangladesh government.

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<sup>19</sup> ADB Railway Loan (Loan no. 215), Loan Agreement (Special Operations), 10 January 1975, p.9.

<sup>20</sup> Interview with Mr AKM Ahsan, Chairman Bangladesh Project Implementation Bureau, 6 June 1974.

<sup>21</sup> *Bangladesh: Development in a Rural Economy*, Vol.1, op. cit. p. 230

<sup>22</sup> Bangladesh: The Current Economic Situation and Short Term Outlook (World Bank, Report No. 710a-BD, 2 May 1975), p.1



A second such area was the all- important food sector, particularly the rationing system and the distribution of fertiliser.

The urban rationing system had been a fact of life in Bengal for decades, since the Second World War, and particularly the Bengal Famine during that period. Food-grains, procured externally, were distributed through a government rationing system in four large urban centres in Bangladesh, called ‘statutory rationing areas’. Every individual was entitled to a subsidised quota of food-grain. The public rationing system distributed the balance only after the urban requirements were met.

The principal beneficiaries of the rationing system were the urban middle classes – government officials, clerks, soldiers, merchants, traders, and industrial workers – the more politically articulate and potentially volatile sections within the community. The main consideration of the government in operating the system, as during the British Raj and Pakistan period, seemed political rather than economic.

Many donors, particularly the WB, had always been critical of this form of rationing. The Bank felt that “action is necessary to contain the ration program to those most in need. If the less needy were progressively diverted to the market for their food-grain requirements, it would decrease the amount of food the Government would need to distribute, ease the impact of the subsidy on the budget, and make the entire ration program more meaningful”.<sup>23</sup>

The Bank opposed the system on two counts. First, the distribution of subsidised food-grains tended to depress farm-gate price and therefore required additional countervailing action to maintain incentive price: and second, the industrial workers and the urban middle classes tended to benefit at the expense of the rural poor. In 1978 the government responded by raising the price of rationed rice from Taka 90 to Taka 100 per *maund* (40 kilos) and that of wheat from Taka 70 to Taka 80. Also, the government announced its intention that those having a monthly income of over Taka 1600 a month would be shifted from the ration shops to ‘Essential Supply Shops’ where the price would be between ration and market prices. The Bank Report commented that ‘these are welcome steps and the government is to be commended for having made them’.<sup>24</sup> The government also quite willingly signed the new Title III Food Aid agreement under Public Law 480 with the United States whose conditions

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<sup>23</sup> Ibid., p.9

<sup>24</sup> *Bangladesh: Current Economic Trends , The Main Report*, Vol.1 (Two volumes) (World Bank, Report No. 1931-BD, 10 April, 1978), p. iv

required that the grain imported be used, not in the rationing system, but in the free market operations.<sup>25</sup>

Pressure was also exerted by donors for the reduction of subsidies on fertiliser, which was also, in due course, complied with. The Bank argued that the problem with fertiliser usage was supply, rather than price, for two of Bangladesh's fertiliser plants, one at Ghorasal and the other at Fenchuganj, which were subject to intermittent break-downs. The users, who turned out to be the better-off farmers, would, in the Bank's view, be able to sustain a price-hike reasonably, as 'fertilizer was said to command a high premium in the black market'.<sup>26</sup>

The government relented as the following table will show:<sup>27</sup>

Year	% of subsidy
1973-74	22
1974-75	43
1975-76	53
1976-77	44
1977-78	42
1978-79	50

An analysis of the above table indicates a decline in subsidy starting base-year 1975-76. There was a rise in 1978-79, explicably so because two severe floods in 1978 resulted in extensive crop rehabilitation programmes demanding such increase. However, reduction of subsidy on fertiliser was by then an expressed policy of government.

A third area of donor pressure in the economy was on monetary and fiscal policy. The relevant donor agency here was the International Monetary Fund (IMF) of which Bangladesh became a member in June 1972, and on which there was considerable reliance for balance of payment support. The Fund insisted that the devaluation of the currency, the taka, was

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<sup>25</sup> Interview with Mr Abidur Rahman, Economic Minister, Bangladesh Embassy, Washington DC, 13 September, 1978.

<sup>26</sup> *Bangladesh: The Current Economic Situation and Short-Term Outlook*, op. cit., p. 4.

<sup>27</sup> Figures obtained from the Bangladesh Agricultural Development Corporation (BADC)

essential if exports of jute and jute goods, then Bangladesh's principal products, were to be gainfully made, if more non-traditional items were to be added to the export-basket, and if taka price of exports had to be raised as a measure of control.

The government was hesitant for three main reasons: First, because it thought that the importance of fiscal policy as a means of removing problems was exaggerated: second, because of the fear of the reaction of the politically conscious middle class to the inevitable inflationary consequences: and third, because it had hoped that rising oil prices (since 1974 concerted OPEC actions) would discourage synthetic substitute of the natural jute fibre and goods, which would preclude the necessity of devaluation to increase their exports.<sup>28</sup>

In the first Aid Group meeting held in Paris in October 1974 almost every donor emphasised the need for readjustment of the exchange rate. There was a general apprehension in the government that donor goodwill would be eroded if the taka was not devalued. There was need for further balance of payment support from the IMF which would be unfavourably disposed if its prescription were ignored. The devaluation was finally announced in May 1975 which, in the impression of donor officials, was 'a tardy recognition of the damage that was being done to the overall exchange rate'.<sup>29</sup>

It may be argued that sometimes, these pressures did indeed lead to desirable policy changes, which were supported by wide sections within the community. But the fact remained that these decisions were taken, not of the government's own volition (though there were those individual officials who might have been individually supportive), but as a result of pressures exerted by external donors. The extrapolation from this is that this undermined the government's autonomy of decision-making in these spheres, thus eroding the country's 'economic sovereignty'.<sup>30</sup>

## **The Domestic Debate**

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<sup>28</sup> Professor M Hussain, op. cit.

<sup>29</sup> Just Faaland and J. R. Parkinson, *Bangladesh: A Test Case of Development* (Dhaka: University Press Ltd., 1976), p. 57.

<sup>30</sup> Geoffrey Goodwin has argued that 'sovereignty cannot be eroded: it can only be extinguished'. 'The Erosion of Sovereignty?' in James Barker and Michael Smith (eds.), *The Nature of Foreign Policy* (Edinburgh: Holmes Mc Dougall: The Open University Press, 1974), p.56. That is, however, taking a very juridical and legalistic view of the concept of 'sovereignty'. In the present Working Paper it is used in a wider sense to imply the flexibility of a country, in this case Bangladesh, to make its own decisions.

The dependence on aid produced considerable debate within Bangladeshi policy-making circles. However, as is wont with regard to South Asian officialdom, public servants are often reluctant to make their views known. But, as in this case, some indication is provided in, at times interviews as some footnotes show, or in public seminars. During the period under review, an important such seminar was held in the Department of Economics, University of Dhaka, in November 1978, entitled 'Is Foreign Aid Essential for our Economic Development'. Critics of foreign aid were mainly drawn from the academic circles, whose remarks were more on a theoretical plane. Their fears centred on the 'exploitative dynamics of economic dependence'. They argued that 'underdevelopment' was a part of the 'capitalist system' and could not be cured with foreign aid, however great in volume. The obvious solution was, therefore, to opt out of the 'capitalist system'. In the opinion of Professor Abu Mahmood : 'If you don't have a theory of development, foreign aid may be necessary for the purpose of enriching the oligarchies, regime rotation, and their counter-insurgency programmes. There will be a tidal flow of foreign aid, loan investments and even outright grants in future for the perpetuation of external constraints and internal class-structure. That is the basic law of modern imperialism'.<sup>31</sup>

Professor A R Bhuiyya, another economist argued: 'Adoption of appropriate domestic monetary, fiscal, and commercial policies and seeking to obtain better terms in trading relationships with the developed and other developing countries ...might bring greater and more tangible benefits than foreign aid'.<sup>32</sup> Bhuiyya stressed that in addition to the purely economic arguments against aid, the latter tends to strengthen the hands of the small ruling oligarchy, 'thwarts efficient growth, creates undesirable inequity in society, and blocks progress'.

These academics were champions of the government's stated socialist commitments, which were being increasingly challenged by the real and existing situation on the ground. Their arguments were also in line and empathy with the prevalent neo-Marxist and 'dependencia' literature popular with left-leaning intellectuals at that time. These generally saw the dependence of the underdeveloped countries (satellites/periphery, in their terminology) on the developed countries (which they called 'metropolis' or 'centre') as a chronic condition of the

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<sup>31</sup> 'Are Foreign Aid and Loans Indispensable for the Socio-Economic Development of Bangladesh?' Seminar Paper at the Department of Economics, University of Dhaka, 10 November, 1978, p. 32.

<sup>32</sup> 'Foreign Aid and Economic Development: A Critique', Seminar Paper, Department of Economics, University of Dhaka., 10 November, 1978. P. 8

global economy.<sup>33</sup> In their view, such conditions resulted in the exclusive benefit of the Metropolis/Centre. Whatever economic growth did take place in the Satellite/Periphery regions was influenced by the needs of the Metropolis/Centre. Moreover development in the underdeveloped countries, they held, was usually uneven, resulting in the creation of pockets of development at the expense of pockets of underdevelopment, with their differences being progressively sharpened.<sup>34</sup> Any attempt of the developing countries to 'catch up' with the developed would be at the expense of continued dependence on external technology and taste-creation.<sup>35</sup>

To these theoreticians, the remedy lay in opting out of the capitalist system, if needs be, by a revolution.<sup>36</sup> Another possibility was by adopting such reforms as stimulating demand among more indigent groups for low grade consumer goods capable of being manufactured domestically. Such actions, to these thinkers (both local and international), could help stave off external penetration.<sup>37</sup>

The middle-class based government, just following a bloody liberation war that was akin to a revolution, preferred to avoid such radical prescriptions in practice. This in spite of some formal rhetorical endorsement. Indeed, the First Five Year Plan called for 'the removal of the capitalist system of income distribution of the private ownership of the means of production and of the pre-capitalist feudal forms of production'; it also stressed that the 'transformation' needed to be gradual, 'since too abrupt a dislocation at any one time may seriously disturb the production system'.<sup>38</sup>

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<sup>33</sup> To cite some examples of the body of influential 'dependencia literature': Johan Galtung, 'A Structural Theory of Imperialism', *Journal of Peace Research*, Vol.8, No.2 (1971), pp.81-117; Andre Gunder Frank, *The Development of Underdevelopment* (Monthly Review Press, 1970); Samir Amin, *Unequal Development: An Essay on the Social Formation of Peripheral Capitalism*, Trans. Brian Pearce (New York: Monthly Review Press, 1976); Celso Furtado, 'The Brazilian 'Model'', *Social and Economic Studies* (Jamaica, 1973), pp. 122-131.

<sup>34</sup> It is necessary to note the distinction between 'economic growth' and 'development'. While the former may be seen as a 'quantitative process' involving the extension of the already established structures of production, the latter suggests 'qualitative changes', and the creation of new economic and non-economic structures. For this view, see, D.F. Dowd, 'Some Issues of Economic Development and Development Economics', *Journal of Economic Issues*, Vol.2, No.3, (1967), p.153.

<sup>35</sup> Norman Girvan, 'The Development of Dependency Economics in the Caribbean and Latin America: Review and Comparison', *Social and Economic Studies*, Vol.22, No.1, (1973), p.26.

<sup>36</sup> See Gerard Chiliand, *Revolution in the Third World: Myths and Prospects* (Sussex: The Harvester Press, 1977), p.12

<sup>37</sup> C. Furtado, op. cit., passim.

<sup>38</sup> The First Five Year Plan, 1973-78, op. cit., p.2. At the end of the Plan Period, 1978, the government, aware of the weak data base for the formulation of a realistic Second Five Year Plan, as well as the inability to achieve some of the First Plan's objectives, decided to launch a Two Year Plan (1978-80) as a logical extension of the First Plan to bridge the period before the commencement of the Second Five Year Plan in July 1980. The two-year plan did not contain any new development philosophy.

Such a philosophical posture would entertain the notion of foreign aid. To this the senior civil servants, with a pragmatic outlook, were not averse. The then Permanent Secretary of the External Resources Division, MAMA Muhith (he is currently Bangladesh's Finance Minister, of a government advocating total free economy) argued: 'It is true that foreign aid promotes dependency relationship and perhaps stands in the way of hard decisions which warrant austerity. For Bangladesh hard decisions are extremely hard. Economic egalitarianism at this stage means distribution of endemic poverty. With the current trade regime that prevails in the globe it will not be possible to make both ends meet in a resource poor country like Bangladesh during the next ten or twenty years'.<sup>39</sup>

The dilemma of the policy makers, and their final choice of action, had been succinctly recorded by a former head of the Planning Commission, a key person in the crafting of economic policy, Professor Nurul Islam. To him, 'The most politically delicate choice was the relative dependency of the Plan on foreign aid: with the oft repeated emphasis on self-reliance and socialism, heavy dependence on foreign aid, particularly from non-socialist countries, especially the big powers created a political dilemma for Bangladesh. There was the choice on the one hand, of severe austerity: the brunt of such austerity would have fallen on the already impoverished masses, and this would have been partially politically palatable by a universally accepted regime of egalitarian consumption standards; this in turn would have required a degree of ideological motivation, not discernible in post-independence Bangladesh. On the other hand there was the option of seeking a large inflow of foreign aid from the rich, powerful nations which brought with it certain restrictions in political decision-making. Bangladesh opted for larger foreign aid'.<sup>40</sup>

At yet another seminar held in Dhaka in December 1979, Finance Minister Professor M N Huda signalled a continued reliance on foreign aid. He justified it with the argument that: 'Short-term need for external economic assistance and long term national objective of self-reliance are neither inconsistent nor mutually exclusive'.<sup>41</sup>

The debate was resolved in favour of the acceptance of foreign aid. This was due to two main reasons: One, the immediate massive needs of the country 'required a breathing space in the process of structural transformation of the economy' that only large-scale foreign assistance

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<sup>39</sup> 'Is Foreign Aid Essential for Development in Bangladesh?', Seminar Paper, Department of Economics, University of Dhaka, 10 November 1978.

<sup>40</sup> Nurul Islam, *Development Planning in Bangladesh: A Study in Political Economy* (London: C. Hurst & Co., 1977), p.8

<sup>41</sup> *Bangladesh Observer*, 29 December 1979.

could provide;<sup>42</sup> second, the middle-class-based leading elite tended to avoid more radical solutions in favour of more moderate ones, as is usually its wont.

## **Concluding Remarks and Implications for Foreign Relations**

The policy-decision of accepting external aid had several ramifications for the total gamut of Bangladesh's external relations.

First, it led to greater interactions with the Western world, despite the fact that its original source of support for independence consisted of the socialist countries and India. The major donors were all Western. The focus on the West in Bangladesh's foreign relations was, therefore, inevitable. As the volume of aid depended on the goodwill of the donors, such goodwill had to be preserved through good political and diplomatic relations with them.

Second, there was undermining of Bangladesh's sovereign status in the economic sphere due to pressures of external origin. Some, such as the pressure to reform the rationing system, or reduce the subsidy on fertiliser distribution might have led to results generally regarded as positive and beneficial, but still these outside pressures imposed constraints on the government's freedom of action in the determination of policies.

Third, there was a modicum of security hazard in exposing the country's entire economy to outside scrutiny and analyses, which, as a recipient, Bangladesh found impossible to avoid. The input-output tables which formed the basis of the First Five Year Plan gave the donor countries, which were also associated with its formulation vital knowledge about the most sensitive spots in the production relations of Bangladesh.<sup>43</sup> Disproportionate damage could therefore be inflicted if a donor turned hostile, by discreetly withholding aid to a critical sector in the economy, while at the same time not appearing to have committed an act of a magnitude that would attract wide attention.

Fourth and final, and this implication is relevant to foreign policy making, the central significance of aid relations to the national life accorded a preponderance in all policy making – including those in the area of external relations – to that segment of the policy makers and

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<sup>42</sup> Nurul Islam, *Development Strategy in Bangladesh* (Queen Elizabeth House, Oxford; Pergamon Press, 1978), p.94

<sup>43</sup> This point was stressed by Dr Sheikh Maqsood Ali, a former senior Bangladeshi official connected to economic policy-planning in his Seminar paper, Department of Economics, University of Dhaka, 10 November 1978.

bureaucracy that controlled foreign aid negotiations. With the effective use of foreign aid, Bangladesh's reliance on it greatly diminished to only around 11-12% of the total annual budget.<sup>44</sup>

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<sup>44</sup> Discussion with M. Musharraf Hussain, Bangladesh Cabinet Secretary, 12 March 2014.