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## THOUGHTS & INITIATIVES

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BDI

6042 Pennwood Court  
Bethel Park, PA 15102  
USA

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Thoughts & Initiatives i

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## EDITOR'S NOTE

We have written in previous issues of this journal that at the current stage Bangladesh's economy is primarily faced with a demand problem and not a supply problem, although the popular perception may oftentimes be quite the contrary. The demand problem manifests itself through the suppression of existing local demand of high value-added products such as manufactured goods. This suppression is enacted through the imposition of an anomalous tax structure. The suppression of this local demand, which is synonymous with the institution of the anomalous tax structure, is principally linked with the foreign aid-financed projects. Bangladesh is forced to import high value-added products from the donor countries because of the conditionalities contained in the foreign-aid package, even though capabilities to produce these goods locally may exist. Only lip service is provided to the adoption of so-called free market principles. The local entrepreneurs, who would undertake production of domestic value-added manufactured goods, do not have a chance of competing against imported goods because of unfairly high tax on inputs, low tax on finished goods and other unfavorable conditions of domestic production existing in Bangladesh, such as, lack of adequate capital available to productive entrepreneurs, lack of institutional R&D support, lack of steady and reliable power source, value-added tax (VAT), and so on. Thus, the fact that the supply side is capable does not amount to any positive changes in the economy (and thus the society) because the demand side is artificially constrained.

The status quo is supported and maintained by the local traders and the government bureaucrats. These interest groups may argue: first, the government cannot do without the revenue that is generated off the high tax on inputs; and second, the producers of consumer goods need low-tax machinery imports in order to sustain consumer goods production sector. However, it would be relatively simple to prove that a fair tax structure and the promotion of local production of high value-added products would not only outweigh these so-called benefits but would also start the kind of economic activities that will take Bangladesh out of the vicious cycle of poverty and underdevelopment. This argument is equally applicable to other developing nations as well.

The local traders and the government bureaucrats are widely known to act as local agents for foreign capitals and multinational corporations and as such the above arguments that they may put forth are in fact irrelevant. Many a times these rent-seeking classes are known to put blame on the incompetence and inadequacy of the supply side, which is unfounded. This is simply because the supply side in Bangladesh has enough capacity, active or idle, to satisfy bulk of the local demand, although the quality of products may not at the current stage be high enough to effectively compete in an internationally open market place. In principle, however, access to the existing local demand **is the key** to open the floodgate for vigorous domestic R&D which in turn is supposed to take the production process to the next higher level.

Since these rent-seeking classes act as local agents for multinationals and do not have any interest in the health of national economy, it would be pointless to try to take any of their arguments seriously. This is because any long-term stable, irreversible and substantive economic development must include the domestic production capacities, invariably including R&D capabilities, of high

value-added products, such as, manufactured goods. Nonetheless, it would be worthwhile to take this opportunity to dispel all the misunderstandings surrounding this issue. Also, the supply side capacities, in use or idle, can be properly documented in the process of this investigation. We therefore suggest here the ways to prove the point that the recommended course of local production of high value-added products, such as, manufactured goods, by releasing the domestic demand, is better than the status quo of importing high value-added finished goods at low import tax and imposing high tariff on inputs.

The basic idea is to compute monetary gains obtainable (1) for following the current and (2) the recommended economic course for, let us say, a ten year period. The monetary gain must be defined in a reasonable fashion in order to get a fair comparison. Ideally the entire machinery manufacturing sector should be considered as the domain of study. However, on a smaller scale, only one or two of the important machinery manufacturing industries such as power-loom or pump, may also be studied for the comparison. In the following, we try to provide a brief but systematic list of essential steps that could be followed to perform the comparison.

(1) *Survey of current status*: A major portion of the study would consist of surveying the existing conditions of these industries. The studies such as "*Machinery Manufacturing in Bangladesh: an industry study with particular reference to technological capability*" by M. Mozammel Huq, K. M. Nabiul Islam and Nazrul Islam are just the beginning of this type of work. Similar studies with much more thoroughness need to be conducted which, among other things, should focus on the following aspects of these industries:

- (a) Make an accurate assessment of existing local demand of the product,
- (b) Give a breakdown of the demand that is satisfied by the local manufacturers and that satisfied by import,
- (c) Record the import tax imposed on the finished product,
- (d) Make an assessment of the existing capacities, active as well as idle, in these industries,
- (e) Prepare detailed lists of the inputs required to manufacture each product,
- (f) Determine the quantity, source and price of the inputs,
- (g) Record the import tax imposed on the inputs that are imported,
- (h) Record the amount and level of institutional support, such as, R&D, finance, domestic as well as international marketing provisions, received by the local manufacturers.

(2) *Study of the status quo*: The above survey would allow one to quantify the gain for the following items:

- (a) The money to be earned in ten years from the total import tax on the inputs. Note that the bulk of the gain for this side would supposedly come from this import tax.
- (b) The money to be earned from the direct domestic sale of the product for the remainder of the demand which would be very small or negligible.
- (c) The revenue to be earned from the import license fees.

The gain thus computed for each item can then be added together to get the total gain. It would also be important to record the number and categories of people who are and would be benefitted from this gain. It is widely known that the benefits for following the economic status quo remain confined to the rent-seeking classes and their cronies and do not reach the ordinary people.

(3) *Study of the recommended course:* The computation of the gain to be made for following the recommended course would also be facilitated by the above survey. The gain on this side can be computed from the direct sale of the high value-added goods in the domestic market. The most important gain would, however, come from a widespread linkage effect unleashed by the true establishment of the local industries to produce the high value-added product. The release of the existing demand is likely to create further domestic demand for these and other manufactured goods and services. In effect, it would start a chain reaction that is likely to sweep the country and affect almost the whole population. The computation of gain must carefully take these linkage effects into account.

Furthermore, in order to get a fair comparison, one should quantify other broader linkage effects that would include:

(a) Improvements in health care, (b) Reduction in child mortality rate, (c) Increase in life expectancy, (d) Increase in per capita income, (e) Institutionalization of higher education and R&D capabilities, (e) Increase in real literacy rate, (f) Spread of electric power, telecommunication, water supply and sewerage system to a wider range of population, and so on.

Understandably, it would not be easy to quantify all these effects produced by the mobilization of the industries capable of producing the high value-added products. It should also be noted that a broad cross-section of common people would be affected by this type of industrialization. It can safely be predicted that the recommended economic course will produce a much higher gain and will therefore be a better choice.

It may be superfluous to point out that it is not a question of how easy or difficult it is to prove this point. The lives of millions of people are at stake. At present, the per capita income in Bangladesh is only about US\$220 per year against the highest of \$36,000 (Switzerland). The life expectancy is about 56 years compared to 80 in some countries. If fifty six is subtracted from eighty, one can see that a whole generation (24 years) of living disappears from people's lives (genocidal proportions!). By proving that the recommended economic course is preferable, we will not just be proving a point, we will be taking an action to put a stop to this indirect genocide. We urge researchers in economics and other social science fields to pick up and actually perform this study.

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## NOTE TO CONTRIBUTORS

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### References and Notes

1. It is well-known that there are questions in different professional circles regarding the "transparency" and "accountability" of the NGO's.
2. Rashid, S., "Migration and Bangladesh's Economic Development", Thoughts & Initiatives (A BDI Journal), Vol. 2, No. 2, December 1995.
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4. Woronoff, J., *Asia's 'Miracle' Economics*, M. E. Sharpe, Inc., New York, Second Edition, 1992.

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