Policyless Essential Entity

by S M Abu Zaker

OFF-SHORE banking is a new idea in modern banking system. It is essential for attracting foreign capital. So it is undoubtedly essential for Export Processing Zone (EPZ).

The so-called off-shore tax havens come in a variety of forms. First, there are those such as the Bahamas, Bermuda, the Cayman Islands, which have virtually no taxes and provide complete tax exemption. Second, there are those which impose taxes but do so at very low rates, such as Switzerland, the British Virgin Islands, and Gibraltar. Third, there are havens which tax income from domestic sources but exempt income from foreign sources, such as Hong Kong, Liberia and Panama. Fourth, there are those which allow special tax incentives and privileges for certain types of holding companies, including Luxembourg and the Netherlands Antilles. Fifth and finally, there are those countries which within limited areas allow exemptions and privileges for certain types of activity. Such as Export Processing Zones in Bangladesh.

The Bangladesh Export Processing Zone Authority (BEPZA) was set up in 1980 to attract foreign capital and technical know-how.

The Chittagong EPZ is the first Export Processing Zone (EPZ) in Bangladesh, which was established at Patenga not far from Chittagong Port. It became fully active in 1984. Another EPZ will be established at Savar, Dhaka in near future.

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The incentives provided at EPZ for various categories of investors include : (a) Tax Holiday for ten years (b) Duty-free import of machinery, equipment and raw materials (c) Duty-free export of manufactured goods (d) Complete exemption from divided tax for foreign nationals during tax holiday period (e) Full repatriation of profit and capital (f) Exemption from import policy restriction (g) Off-shore banking facilities etc.

To ensure the Off-shore banking facilities, an Off-shore Banking Unit of Agrani Bank was set up at Chittagong Export Processing Zone. It is the only one Off-shore Banking Unit in Bangladesh. But there is no reason to feel proud. It is locked from the inception. Because the Agrani Bank or any other bank does not know what it is and how to implement the off-shore banking.

There must have an off-shore banking policy in our country. The Bangladesh Bank is the only policy maker and responsible for it. There is no clarification or a proper policy has been executed by the Bangladesh Bank. Only for this policy or clarification, the existing Off-shore Banking Unit cannot operating and no other bank is coming forward to initiate off-shore banking in EPZ.

To attract the foreign investors, off-shore banking facility is a most important entity. Since there is no off-shore banking facility in CEPZ the foreigners and foreign entrepreneurs have been losing their faith and attraction. A foreigner or beneficiary of EPZ can purchase or sale the foreign currency with unlimited restriction through off-shore bank.

To use their repatriation of profit and capital facilities, a foreign investor depends on off-shore banking unit. Since there is no off-shore banking facility, a large number of foreign investors have not been coming forward to invest in EPZ.

An official of the Agrani Bank says that they cannot operate the Off-shore Banking Unit in CEPZ due to lack of proper policy or guideline. As a result the Off-shore Banking Unit of the Agrani Bank has been coming to a defunct unit. The official also says that there is an uncertainty in off-shore banking, whether the foreigners or investors of EPZ will come or not to Off-shore Banking Unit in lieu of foreign international bank, like the Standard Chartered Bank, ANZ Grindlays Bank, American Express etc. Because the foreigners and entrepreneurs of EPZ are maintaining their accounts or making all sorts of business with the foreign international bank. Facilities therefore, provides by the off-shore banking should obviously be more attractive than those of foreign international bank.

Export Processing Zone is playing a great role in our economy. It is also a part and parcel of industrial strength.

About 72 industries belonging to 12 countries and having a total investment outlay of US \$470.83 million were sanctioned by BEPZA. Of these 38 industries with a total investment outlay of US \$43.268 million were actually in operation. The employment figure for these industries was 9639.

Where export processing zones are operating in the world, the off-shore banking is prevailing there. The off-shore banking is an essential incentive for investors in the EPZ.

We hope that for the progress of our economy, the concerned authority would come forward with a pragmatic off-shore banking policy as soon as possible.

Bangladesh took part in ANUGA, the world food fair that meets every two years in Cologne, with a wide range of its food specialities. Seen here is a view of the Bangladeshi stand with its attractive wares. — Photo INP

India's Computer Export does not Look Rosy

by Prakash Chandra

WITH India's reputation of long train delays and cancelled airline flights, making the London Underground Ltd run efficiently seemed to be a tall order.

The company runs London's famous underground rail system where 460 trains criss-cross each other during rush hour. The trains currently carries 800 million passengers a year.

But it turned to CMC Ltd, a New Delhi-based computer company which beat six London firms in a bid for the job. The 15-year-old company after all has impressive credentials.

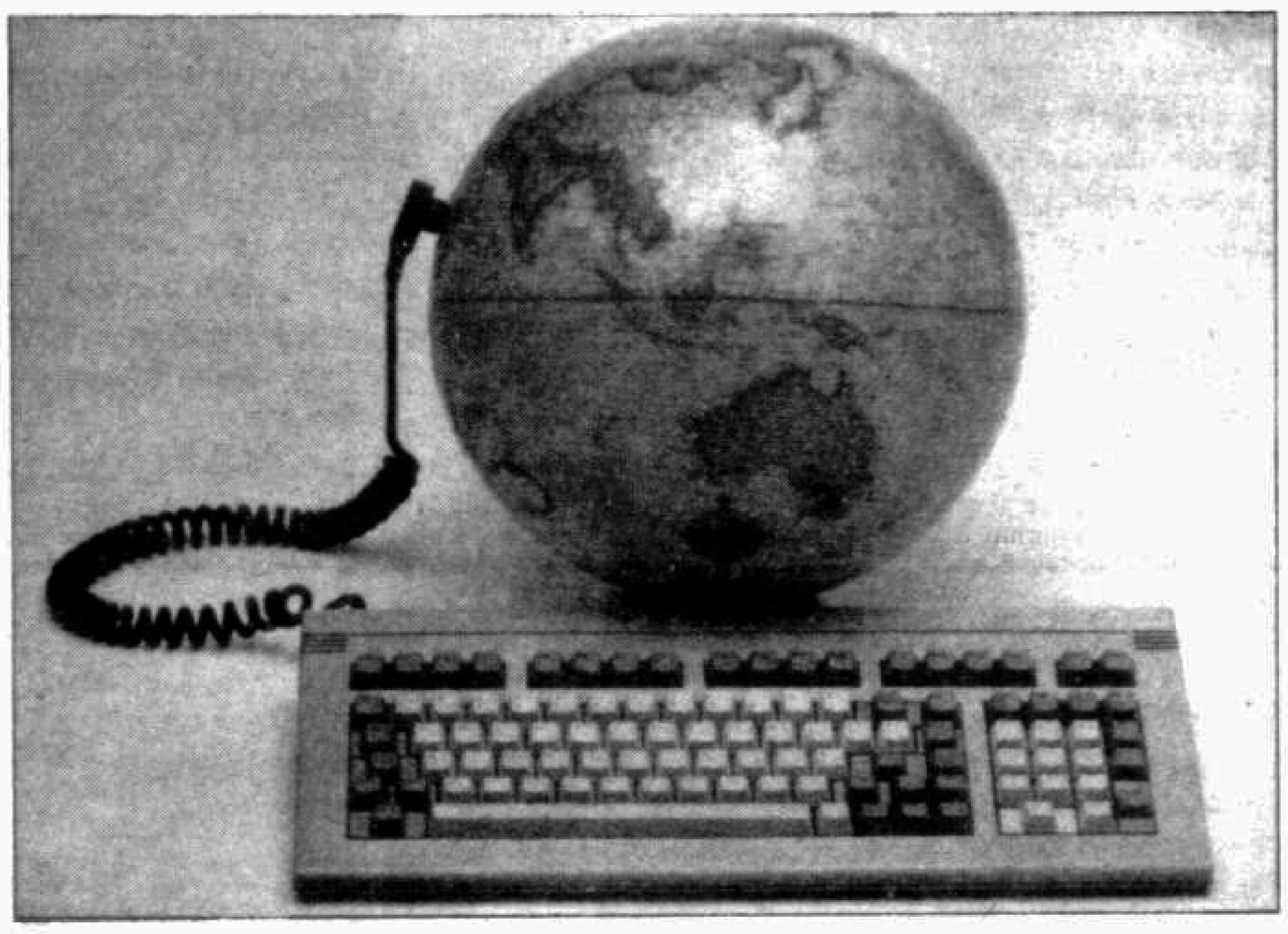
The CMC since 1978 has offered maintenance support to all IBM users in India. CMC also designed computer software for railways management, power distribution and weather forecasting for other developing countries.

In fact with US\$3 million from the UN Fund for Science and Technology, administered by the UN Development Programme (UNDP), CMC helped customise passenger reservation systems for Indian Railways in Bombay, Calcutta, Madras and New Delhi.

CMC designed a software package for the London underground train system. Installed in March 1991, it is easier to operate and maintain and afford greater flexibility and speed in updating train timetables. It took at least a month to change train schedules before. Now it takes only a few hours.

CMC represents a new breed of aggressive Indian software companies which have made it in the export market. Yet, according to some industry analysts, the 40 per cent growth rate may have to come down to 15 per cent during 1990-91.

India's computer industry is facing a crisis, mainly due to the harsh devaluation of the Indian rupee and the present government cash crunch (it has ordered a severe cutback on government orders for hardware).



But the World will need computers

Computer hardware exports decreased by 11.25 per cent because the Soviets, hit by a political and economic crisis, are also no longer buying computer systems and peripherals. During the year ending April 1991, the Soviets bought just 1,303.5 million rupees' (US\$45.7 million) of computer systems.

The computer hardware industry itself has shown a mere 19.59 per cent growth rate. Production went up from a little over 8,000 million rupees (US\$280.7 million) to 9,909 million rupees (US\$247.7 million).

But, according to Rajendra Pawar, president of the Manufacturers' Association of Information Technology, "I cannot see any positive indicators for the current year."

Another top industry executive, Mike Shah, says that 1991-92 may well see layoffs and bankruptcies. The industry is therefore looking for survival strategies.

"India's future lies in computer-aided design an computer-aided manufacture (CAD/CAM), to step up the country's exports to help tide over the industry's crisis," says a senior official at the Department of Electronics.

Now comes the UN Development Programme which will provide a US\$2.352 million assistance to the Bangalore-based Central Machine Tool Institute (CMTI) for the development of computer integrated manufacturing systems in the engineering goods sector which relies greatly for its growth and export potential on the machine tools industry.

Under the three-year project, which started in November, a new computer integrated manufacturing centre will be established at CMTI. The institute assists the machine : tool industry in design, development, research and automation.

An earlier UNDP assistance (in 1976-82) helped CMTI establish a Numerical Control Centre catering to the needs for acquisition of numerical control technology and its dissemination to the Indian metalworks industry.

The next step was to enable the metalworking industry to increase productivity by using CAD/CAM work stations. The UNDP helped implement this project.

The current project will train industry personnel in using a Computer Integrated Manufacturing (CAIM) network of software and databases, machine cell design and simulation, shopfloor data collection and interfacing materials handling and human resources to computers.

UNDP will help identify and procure the most appropriate state-of-the-art equipment necessary for the project. It will also arrange consultancy expertise from international organisations. The government will contribute 10 million rupees (US\$350,800) to the project. — Depthnews Asia

Nepal Investigates Rail Links with India

by Jan Sharma

LANDLOCKED Nepal has asked New Delhi for help in constructing a railway link between Nepali border towns and the Indian rail system in an effort to boost trade and commerce.

But critics of the proposal warn that a rail link would boost the inflow of Indian workers and eventually strengthen Indian dominance of the economy.

A team of Indian experts last year found the cost of linking Kathmandu to the Indian township of Raxaul, 250 kilometers (156 miles) to the south, 'exorbitant,' but many Nepalese officials are undeterred.

'Railways may be a costly capital investment,' says one official, 'but think of the enormous investment we are making in building and maintaining roads with World Bank loans.'

The World Bank and the Asian Development Bank are providing several million dollars for the repair of roads linking Indian border towns to Kathmandu, and Japan completing a road between Kathmandu and Sindhuli.

A recent study for the Asian Development Bank said that most equipment was nearing the end of its life and that if Nepal was serious about developing transport links in the region, a road would be a better bet than a railway.

Nepali Prime Minister Girija Prasad Koirala, however, says he wants to utilise hydro-electricity for railways in order to cut down the cost of transporting goods and services in the Himalayan kingdom.

Indian experts last year said a rail link between Raxaul and Hetauda, a bustling township in the foothills of the Himalayas, was feasible, and could later be extended from Hetauda to Kathmandu, depending on the findings of detailed feasibility studies.

The Raxaul-Hetauda link is estimated to cost US \$10 million, according to a report in the state-owned Gorkhapatra, a Nepali daily.

Nepal currently has two narrow gauge trans-border rail links, but both are in poor condition. The 47-kilometre (29-mile) Nepal Government Railway (NGR — nicknamed 'Never going railway') between

The World Bank and the Asian Development Bank are providing several million dollars for the repair of roads linking Indian border towns to Kathmandu, and Japan completing a road between Kathmandu and Sindhuli.

Raxaul and Birgunj, built in 1927, now operates on only seven kilometres.

And little effort has been made to revitalise the 52-kilometre (33-mile) Janakpur-Jayanage Railway (JJR) since it was built in 1937 to boost the export of timber for railway construction in British India.

These rail links were undercut by foreign-aided road projects. They belong in a museum, jokes Gopal Man Shrestha, former manager of the JJR.

Nepal has been pinning high hopes on proposals within the South Asian Association for Regional Cooperation (SAARC) to link the seven member-states with a broad gauge rail link. A "multimodal" transport network is also under consideration with SAARC, which groups Bangladesh, Bhutan, India, Pakistan, Maldives, Nepal and Sri Lanka.

Several UN agencies have recommended that Nepal make provision for an "intermodal" container service by using broad gauge railway flat cars, and that facilities for container traffic are needed at the border points at Biratnagar in the east, Birjung in the middle and Bhairahawa in the west — the three main routes for Nepal's trade with countries beyond India.

India's North Eastern Railway has completed the survey of the proposed Sunauli-Bhairahawa broad gauge rail link. The shortest, and most beneficial, rail link will be the 550 kilometre (343-mile) Calcutta-Biratnagar or 566-kilometre (353-mile) Calcutta-Kakarbhitta, Nepali officials said.

Nepal hopes to develop electricity-run locomotives as the best and cheapest. It annually imports 145,000 kilolitres of petroleum products to meet the demands of 3,500 vehicles imported into the country every year. PANOS

Thailand in world trade

In the early 1980s, high petroleum prices, rising international interest rates and global recession put strains on the balance of payments and slowed down economic expansion in Thailand. The Thai Government responded by imposing fiscal and monetary discipline, limiting public external borrowing, and giving greater emphasis to export performance through measures such as easier access to imported inputs and the switching from a fixed to a more flexible exchange rate régime.

Supported by a real effective devaluation of the Thai baht of an estimated 30 per cent between 1983 and 1988, an increasingly open business environment in Thailand and the recovery of the world economy, Thai exports picked up sharply after 1985. The ratio of Thai exports of goods and services to GDP increased to 39 1/2 per cent in 1990, up from 25 1/2 per cent in 1980. In the process, Thailand's production and export structure has become more diversified and resilient against adverse developments in world commodity markets.

Thailand's economic growth recovered from a low point of 3 1/2 per cent in 1985 to reach double-digit rates during 1987 to 1990. The initiative in investment activity shifted from the public to the private sector, reflecting greater reliance on market forces. Expanding investment and consumption induced a rapid increase in imports, in particular imports of raw materials, machinery and other intermediate products. In 1990, Thailand accounted for 0.9 per cent of world merchandise imports and 0.7 per cent of world merchandise exports (rank 23rd among world importers and 31st among world exporters).

Thai imports have outpaced Thai exports in recent years. Coupled with a terms of trade loss after 1986, this resulted in an increase in the current account deficit from less than one per cent of the GDP in 1987 to 7 1/2 per cent in 1990. However, Thailand is now better placed to cope with trains in the current account than in the early 1980s. Tight fiscal policy has led to a budget surplus equivalent to 5% of GDP in 1990, providing financial flexibility to the Government. Foreign investment inflows have contributed to a substantial balance of payments surplus in recent years. While long-term external debt increased to an estimated US\$16 billion in 1990, the ratio of long-term debt service payments to exports has declined from a peak of 22 per cent in 1985 to 10 per cent in 1990. In December 1990, foreign exchange reserves were equivalent to over five months of imports.

The improvement in Thailand's international competitiveness in the second half of the 1980s has reinforced the incentives provided by the Government to attract foreign investment. Net private foreign investment in Thailand has risen more than ten-fold since 1987. Investment inflows from abroad have contributed to the dynamism of Thailand's trade. Much of the foreign investment has been export-oriented, including processing and assembly projects.

Increasing linkages with the world economy have been accompanied by a major change in the product mix and regional pattern of Thailand's trade. At present, manufactures account for about two-thirds of Thailand's merchandise exports, up from slightly over one-third in 1980s. During the same period, the share of manufactures increased from about one half to three-quarters of total imports of merchandise.

While Thailand's export base is still relatively narrow, export diversification has progressed in recent years, including diversification into fisheries products, clothing items, leather manufactures, toys, jewellery and certain machinery. Import patters continue to reflect Thailand's heavy reliance on imported inputs, and the protection provided to domestic producers of many finished products, particularly consumer goods. Within a decade, the share of raw materials, intermediate products and capital goods in total imports of merchandise increased by about 25 percentage points to reach approximately 75% in 1990.

With a share of about 20% in 1990, the US has become Thailand's top export market, up from third place behind the EC and Japan in 1980. As for Thai merchandise imports, Japan, the traditional number one supplier, increased its market share to almost one-third, a gain of 10 percentage points during the 1980s. The EC has remained the second largest import source, with an estimated share of 15% of Thai merchandise imports in 1990. Trade with developing countries has remained relatively small. ■

French and European Firms on the World Market

by Luis-Felipe Carrer

TWO French economic newspapers, "L'Expansion" and "Le Nouvel Economist," recently presented the league table of the leading French and European firms, based on the latest figures available, corresponding to 1989. The results, which reveal the economic importance of the countries concerned, present a number of surprises and reveal certain general trends.

To begin with, there is no French firm among the ten major European industrial concerns. The first to appear on the list (the Renault automobile group) comes in 11th position on this league table established according to turnover figures. Yet France is represented by 21 firms among the top 100 European businesses. This figure is highly commendable and all the more so as it is three firms more than the previous year.

However, the country which crops up the most often on this list, Great Britain, (with 25 firms) lost three in the same period. It is followed by Germany which has 24 firms on the league table.

A good way behind these three stars of European business come nine other countries: Sweden with 7 firms, Italy and Switzerland both with 5 each, the Netherlands with 4, Belgium with 3, Spain and Norway both with 2 each and, finally Luxembourg and Finland each with one firm.

The scene changes if, instead of considering the turnover figures, one takes account of profits, or rather the relation between profits and turnover, in other words profitability. Almost half of the 43 European firms attaining a profit margin equal to or higher than 5% are British, and they sometimes reach exceptional figures, beginning with a firm from the food-processing sector, Hanson which, with 15.7%, is the European champion of profitability. 8 of these 43 firms are French: Renault and Peugeot (automobiles), Rhone-Poulenc (chemicals), Usinor Sacilor (iron and steel), Saint Gobain (packaging and building materials), BSN (food), Lafarge Coppee (building materials) and Air Liquide (industrial gases).

Curiously, only two German firms had profits of more than 5%, and there is one German group, Krupp, among the only three European firms to have made a loss, figuring on the league table of the 100 leading firms. But something that is not often realized should be borne in mind, the fact that Germany's industrial power is not based entirely on big firms.

It also depends on a host of small and medium-sized businesses, more modest in size but real fighters on the international market.

All these facts only take on their full importance, however, when seen in a context of time and place. Of the 500 top industrial firms in the world, barely a quarter are European, including 45 British, 35 German and 33 French. It is a fact that, for a few years, Europe has been losing ground on the world market, faced with the aggressive competitiveness of Asian firms.

Among the 80 leading industrial firms in the world, only 25 groups are from the EEC, whereas ten years ago, there were 29 of them. During that same period, their share of the market, which today stands at 31%, fell by 10 points.

Over the last decade, French firms have gained ground in Europe. However, during that time, European firms have been losing out in the world in terms of turnover or shares of the market. However, at the same time, they have become more profitable and more competitive. Are they moving back in order to leap further ahead?

Europe's industrial decline is particularly visible in a few important areas such as mechanics, a sector in which Europe only has 3 firms among the leaders (compared with 5 in 1979) and in which it accounts for fewer than a third of the total sales by the top 10 world groups (50% ten years ago). In the automobile sector, 5 EEC groups figured among the 10 world leaders in 1979 and together accounted for 33% of the total turnover.

Now there are only 4 and they only account for 27% while the three biggest Japanese firms in the sector have doubled their share of the market. Europe also shows a recession in textiles and electric goods.

However, if, instead of considering the turnover of these firms, we take account of their profitability and profits, we have quite a different picture. Compared with the constant slow down in the profits of American firms over the last 10 years, European firms have consolidated their profitability and it can be said that "Europe has gained in muscle-power, what she has lost in size". Peugeot-PSA, which does not figure in the world league table for firms with a leading turnover, is the fourth most important firm in its area for profits. The combined profits of four European firms, Daimler Benz, Fiat, Volkswagen and Renault, account for 37.5% of the profits of the world leaders in transport equipment.

In the food-processing sector, the 3 European multinationals figuring among the top 10 in the world, make more than half of the profits in this sector (43% in 1979).

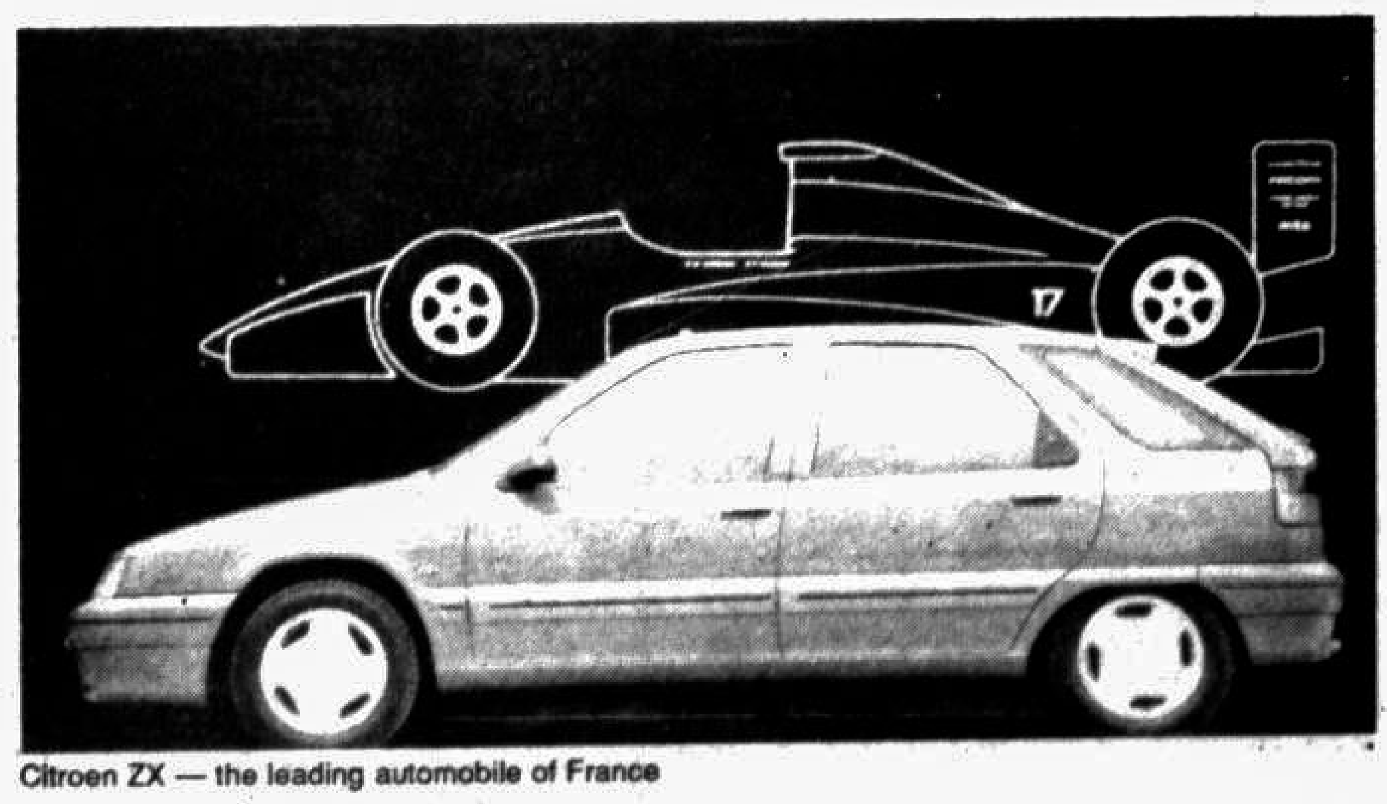
Metallurgy is the only area in which the remarkable growth in profitability goes together with an increase in the share of the market.

In general, European firms are better equipped to cope with any possible upset in the world economy, than ten years ago. This is particularly true for France which, because she had fallen a certain way behind in equipment and investments, as well as having alternating policies, has had to put in an even greater effort. Today, she is gathering the fruits of her tenacity.

The maintenance of the franc in the EMS, a rigorous policy of salary controls and an orthodox budget have created the necessary conditions for restoring health to her firms and increasing competitiveness.

This presents a solid base from which French industry, more and more closely involved with the rest of Europe, will contribute to winning back ground lost to Asia, on a world-wide market.

L' Actuelle en France



Citroen ZX — the leading automobile of France