

## Share trading declines sharply over the week

By Sohail Manzur

With the country facing a serious political crisis over Opposition's threat to quit the parliament, share trading in the Dhaka bourse has declined significantly last week.

Absence of foreign investors due to Christmas festival and year ending holiday mood have also been attributed by the market operators as the major reasons behind the fall.

Some of the analysts also felt that diversion of about Taka 100 crore to the primary market due to the opening of three new issues of Taka 30 crore has contributed to the dullness of the secondary market.

The market capitalisation of the companies listed with the Dhaka Stock Exchange (DSE) ranged between 40.60 to 40.70

during the week till the end of trading on Thursday. It was 40.65 at the close of business previous week and 42.95 on the last day of November.

The All Share Price Index, which went up to over 895.00 points during the last month ranged between 840.00 and 845.00 points during the week. The index started with 843.61 points on Saturday and ended with 845.65 points on Thursday.

On an average 50 to 60 issues were traded on DSE floor last week as against about 70 to 80 of last month.

The turnover in both value and volume projected corresponding fall. Some 30,602 shares worth Taka 8,757,997 were traded on the first day of last week, Saturday. At the

close of trading Thursday, the turnover in volume went down to 14,902 with the value of Tk 3,371,457.

Chairman of the DSE Khurshid Alam talking to The Daily Star said the impact of the political situation on the stock market is still obscure as there are other factors which are no less dominant in bringing the change.

Besides the year-ending holiday mood prevailing among the investors, the arrival of new issues has also contributed to the fall in share prices and trading in the secondary market, he said, adding about Taka 100 crore has been deposited by the investors with the banks for subscription of the three issues opened last week.

## PIA's operating income rises

KARACHI (Pakistan), Dec 23: Pakistan International Airlines showed an increase of Rs 295 million in its operating income, from Rs. 623 million in 1992-93 to Rs. 918 million in the year ended June 30, 1994, according to PIA's annual report 1993-94 which will be presented before the shareholders at the 38th annual general meeting, reports AP.

According to other high lights operating revenue was up Rs. 1,661 million from Rs. 21,970 million in 1992-93 to Rs. 22,713 million 1993-94.

Net worth has also gone up by Rs. 123 million from Rs. 8,218 million in 1992-93 to Rs. 8,341-94.

The directors have recommended issuance of bonus shares as dividend at the rate of 10 per cent of ordinary paid up capital subject to shareholders approval.

## Japan to lend China \$ 5.8m

TOKYO, Dec 23: Japan has agreed to lend China 580 billion yen (5.8 million dollars) to help finance 40 projects ranging from improving the environment to boosting energy supplies, the Foreign Ministry said Thursday, reports AP.

Japan recognizes that "steady progress in China's reform and open policy is important not only to Japan and China, but also to the prosperity and stability of the Asia-Pacific region," the ministry said in a statement.

The loans, for 1996-1998, cover the first part of Japan's fourth loan package to China. Loans for 1999-2000 are to be discussed later, the ministry said.

The agreement came at a two-day working-level meeting in Tokyo that ended Thursday, said a ministry official, speaking on condition of anonymity.



A two-day regional seminar on SAPTA was held in Kathmandu from December 18 under the aegis of SAARC Chamber of Commerce and Industry (SCCI) for furthering regional cooperation in South Asia which was inaugurated by the Prime Minister of Nepal. Picture shows (from R-L) Mahbubur Rahman, Vice-President, SCCI (Bangladesh), Dasho U. T. Dorji, Vice President, SCCI (Bhutan), Dr. Jurgan Axer, Reg. Director, FNST, Y. K. Silwal, Secretary General, SAARC, Binod K. Choudhury, President, FNCCI and Vice-President, SCCI (Nepal), Monmohan Adhikari, Prime Minister of Nepal, K. K. R. Podar, Vice-President, SCCI (India), G. Perera, Vice-President, SCCI (Sri Lanka) and Ibrahim Shareef of Maldives at the opening ceremony.

## Asian stock markets poised for good yr

SINGAPORE, Dec 23: Asian stock markets, which experienced sharp price declines this year, could put up a good showing after the middle of next year when US interest rates level off, Salomon Brothers said in its report.

Elaborating on the report, Bruce Rolph, the head of research at Salomon Brothers Singapore Pte. Ltd., said that another two "tightenings" of US interest rates were expected in the first half of next year.

"While this is bad news in the short term, realisation by mid-year that the sustained fed tightening will have come to a conclusion and that the next trend will be downwards will have a significant positive long-term effects on share markets," Rolph said.

Rolph said that Indonesia and Singapore should lead the Asian equity boom next year because of the US action and domestic inflationary pressures, interest rates were likely to rise in nearly every Asian economy, Salomon Brothers said in its report.

The Singapore government is encouraging local companies to expand abroad by investing in neighbouring countries to generate an external wing to the domestic economy.

Rolph said that apart from positively gearing itself to higher commodity prices, particularly oil, Indonesia was bringing down corporate tax rates and easing foreign investment restrictions.

Indonesian company earnings should near 30 per cent in 1995, making Indonesia the only stock market in the region with accelerated earnings and valuations at comfortable levels, Rolph said.

"We are also enthusiastic about Singapore because of a combination of strong low inflation growth and increasing boost to earnings through the regionalisation of blue chip companies," Rolph said.

It said that the Hong Kong market offered value and was likely to rally sharply next year.

## China blames US for breakdown of copyright talks

BEIJING, Dec 23: Chinese negotiators blame a senior US trade official for the breakdown in trade talks between the two countries last week, the official China Daily reported Friday, says AP.

The US negotiator was the United States' lead negotiator Lee Sands, the paper said. Sands is the assistant US trade representative.

Sands was "arbitrary, free-wheeling and meddling" during the four-day talks on stemming pirate copies of intellectual property such as musical recordings, an unidentified senior negotiator was quoted as saying.

The US side said they suspended talks after Chinese officials made no serious offers.

"We are disappointed to see negotiations on serious trade issues 'personalized,'" US Embassy spokesman Robert Laing said Friday.

Many underlying issues remain unresolved, and the United States "hopes to continue to work with China" to settle them, Laing said.

The Clinton administration has set a December 31 deadline for China to agree to improved copyright protection or face possible sanctions.

But the Chinese official said it was because of Sands' unreasonable demands, including revision of Chinese laws on rights protection by 1996 in excess of what the world trade

body, the General Agreement on Tariffs and Trade, demands for developing countries.

"He even asked China to revise its judicial and legislative laws, including the civil procedure," the official said. "That was a demand far beyond the scope of our talks."

The paper said Sands also demanded standards of protection which the United States cannot even meet.

Sands' opposite number in the talks was Chinese foreign trade minister Wu Yi, who has a reputation as a tough negotiator.

Clinton administration officials have stressed that certain bilateral trade issues, including intellectual property rights protection, must be addressed

## Underinvoicing in relation to Bangladesh's imports from 7 Asian states

By Faizul Latif Chowdhury

For many developing countries, with a low level of average income and narrow manufacturing base, trade taxes with low cost of collection, are the major sources of revenue. While taxes are levied both on imports and exports, however, import taxing is found to be more prevalent as discouragement of importation and encouragement of exportation are the general norms because of foreign exchange constraint.

Like many other countries, Bangladesh collects a number of taxes at the imports stage. At present, the various taxes collected at the importation stage are the Import duty (ID), Value Added Tax (VAT), Supplementary Duty (SD), Regulatory duty (RD), Advance Income Tax (AIT) and Import Permit Fees (IPF). In most cases the leviable taxes are *ad valorem* and, consequently, underinvoicing is a major way of evading import duties. In this article we try to present proof and an estimate of underinvoicing whereby the revenue implication of accepting invoice value right away for assessing duty and taxes is indicated. At the outset, some related issues are discussed for understanding underinvoicing and its mechanism. However, the corruption dimension of the problem is not at issue.

Underinvoicing - Invoice is the trade document that contains among other information the description of the goods, its quantity, unit price and total value in relation to the particular trade consignment. In respect of *ad valorem* duties and taxes, assessment depends on the value of the consignment noted in the invoice. Customs Appraisers are, however, empowered under Section 25 of Customs Act, 1969 to ignore the value declared in the invoice and fix up an assessable value which is realistic as per available record and conforms to the value related to recent consignments of the same item. Providing underinvoicing and penalizing according is not easy and, consequently, controversy often arises in the Customs House between the Importers and the Appraisers as to the right figure of the assessable value the concomitant outcome of which is the delay in the clearance of the goods from the port. Fixation of Tariff value is a means to avoid such problems. However, as it will be shortly discussed, even tariff value is not an foolproof mechanism to control evasion.

The present system of calculating the assessable value is derived from what is known as the Brussels definition of value for the customs purpose. However, the recent global

feeling is that, for the sake of trade facilitation, the customs authorities should accept transactions value giving up the present practice of fixing up an assessable value within the scope of the Brussels definition. Unfortunately, the practice of underinvoicing is so rampant that giving up the Brussels definition and unquestionably accepting the transactions value may endanger revenue. Moreover, in the absence of any competent mechanism to detect underinvoicing, which is perhaps lacking at the moment, the mere enactment of acceptability of the transactions value as the assessable value may itself encourage underinvoicing.

Scope of Underinvoicing: The importers take resort to underinvoicing in mainly two ways. The traditional way is importer's connivance with the exporter who underdeclares the price in the indent and the invoice, and the differential amount is remitted in a clandestine manner which effectively involves currency-smuggling. Involvement of the bank as a party to the connivance is not essential. The exporter may be interested to co-operate as thereby he enters into personalized transactions with his buyer and guarantees long term market for his commodities. The second alternative is to present a forged or cooked up invoice to the Customs authorities showing a lower price. Invoice blanks are necessary in such cases. The importer may succeed in getting some invoice blanks from the exporter or he may print them locally and use as and when necessary. With the ever-increasing availability of modern printing technology at the door-step, it is easy to produce facsimile invoice blanks and prepare invoice showing less than the actual price. Alternatively, some importers dare manipulate the original indent and invoice and declare a lower price.

Rampancy of Underinvoicing: Customs Houses in the appropriate cases reject the declared value and impose 'loading' to arrive at the assessable value. However, no statistics is available in what percentage of cases such underinvoicing is detected and loading is resorted to. Detected and reported cases of underinvoicing are corrected through appraisement - or 'loading' whereby an attempt at evasion is foiled. As a result, such cases no longer remain cases of evasion. However, it would be a very useful statistic if the extra amount collected through 'loading' could be recorded and analysed. This would indicate the role of the

customs officer in preventing evasion through underinvoicing as well as the extent of attempt evasion that has been foiled. In the absence of any such record, it is difficult to accurately comment on the rampancy of underinvoicing as practiced by the unscrupulous traders.

However, it rings aloud in the Customs arena that underinvoicing is a favourite practice and it is very common with non traditional items, items from unusual origin and also with items having no previous price record. In fact third country imports and items of monopoly import with no identical or similar alternative are considered great suspects while industrial importers are found to be less prone to resort to underinvoicing.

It should be pointed out that underinvoicing is a more prevalent phenomenon than the practice of misclassification or mis-classification as it is not easy to prove or establish. Due to the paucity of any substantial proof, Customs appraisers face real difficulty in establishing underinvoicing despite strong suspicion. Even, the Controller of Customs Valuation based in Chittagong who undertakes rigorous value-inquiry is often at difficulty in establishing an alleged case of underinvoicing referred by the Customs House. However, a broad estimate of underinvoicing is possible by comparing local trade statistics with those of the partner countries.

Motive behind Underinvoicing: The principal motive behind underinvoicing is evasion of duty and taxes. Underinvoicing provides an opportunity to evade, and a successful attempt results in cost reduction for the importer and, given a prevailing market price, creates the score of higher profit which essentially constitutes a rent-seeking incentive.

Moreover, it also provides the evader an edge in the market as he may now secure greater market share by choosing to supply at a lower cost. Evasion of duty and taxes depends on the extent of underinvoicing. However, a bid to evade through underinvoicing may be foiled if the concerned customs officer succeeds in detecting and proving the underinvoicing and accordingly, load's the declared value to arrive at the 'normal value' for assessment of duty and taxes. Moreover, legal provision for subjecting gross underinvoicing to penalty through the process of adjudication exist, but application of the same is rather few and far between.

So the connection between underinvoicing and evasion

may better be properly reflected by saying that failure of the customs authority in detecting underinvoicing results in evasion.

Other than evasion, another motive behind underinvoicing is caused by import restrictions. In an earlier study, it was clearly shown that imposition of restriction on import leads to underinvoicing by the importers. Specially, when import of an item is allowed only on the basis of import quota in monetary terms, the importers resort to underinvoicing in a bid to import in excess of what the quota fairly allows. In such cases evasion may occur but that is only incidental and the primary motive remains the aversion of the quota-restriction. During the 1980s, second hand clothing was such an item which was frequently underinvoiced because of quota based import licensing system.

### ESTIMATING UNDERINVOICING

Methodology: The comparison of the import statistics of Bangladesh with the corresponding export statistics of its partner countries allows us to have an estimate of the extent of underinvoicing. Normally, import values are supposed to be higher than export values, because in most cases import values are c.i.f. that is, inclusive of costs, insurance-premium and freight charges, while the export values are usually f.o.b. - free on board, that is, exclusive of the two latter items. So, if correct value is quoted in the invoice submitted to the Customs, then, it follows that, for the same period of time, value of trade as recorded by the importing country, cannot be lower than and ought to be higher than that as recorded by the exporting country by the amount of the c.i.f.-f.o.b. differential.

But if in reality, the difference is observed to be lower or even in the opposite direction that the export figures of the exporting country is higher than the corresponding import figures of the importing country, then, the resulting discrepancy points to a possible underinvoicing of the import invoices. However, there may be several reasons why the exporting country's aggregate figure can be inconsistent with corresponding figures that of the importing country.

First, export figures as recorded by the partner country may be overvalued with a view to smuggle foreign exchange out of the country. Secondly, if there is any export tax in the country of origin, then the exporters may tend to underinvoice the value in

order to evade such taxes. Thirdly, importing country may not be reflecting the defence imports in the trade statistics while the exporting country is treating them just like normal exports. For understandable political reasons, many developing countries tend to conceal their defence expenditures which are not regarded as normal imports, and hence, excluded from the published import statistics. Fourthly, anomaly may also arise because of the difference in statistical principles followed in the two countries: as for example, the exporting country may be showing its re-exports as normal export while importing country may be sorting out the third-country imports (i.e. imports which are actually re-exports from the country of shipment) to the respective country of origin. Then, finally, annual figures of just two consecutive years may show anomaly because of the time lag owing to shipment period specially if the two countries have asymmetrical seasonality in foreign trade. Intuitively, this effect could be minimised by considering a longer time period.

Estimation: In the Table below, we have presented annual trade statistics relating to imports of Bangladesh from seven important countries, namely Singapore, Japan, China, India, Korea, Malaysia and Hong Kong. These countries are known to follow similar statistical procedures as of Bangladesh, and as indicated above, defence purchase is not a distorting factor. The criterion of selection of the countries is mainly the availability of data, but their importance as a source of imports does offer a ground for relevance: together they account for more than 12 per cent of yearly imports to Bangladesh.

Another ground for relevance is the widely prevalent public knowledge that many import consignments from some of these countries are underinvoiced in order to evade import duties with the exception of China which did not have much of any notoriety for underinvoicing of exports when directly imported to Bangladesh. For the same reason, the estimate of underinvoicing as derived below in relation to these countries can not be generalised for the over all trade structure.

Data Source: United Nations (1989), Statistical Yearbook for Asia and the Pacific, 1989. Figures related to India are from United Nations (1987), Foreign Trade Statistics of Asia and the Pacific 1981-85.

Seven years figures since 1981 from two ends have been gathered. ANNEXURE B: Table 2 and 3). However, as compiled in the above Table, the import figures (c.i.f.) have been downward adjusted to exclude the insurance and freight components so that they are comparable with the export figures (f.o.b.). Then the perverse differential has been calculated and compared to the partner-country figure in order to estimate the percentage of underinvoicing. Basing on the aggregate, on an average, the rate of underinvoicing has been found to be more than 29 per cent for the seven countries together during the period under consideration. This clearly alarmingly indicates substantial under-declaration

of comparison is at the disaggregate level. That is, a consignment-wise comparison would reflect the real extent of underinvoicing which is obviously not possible. The second best situation would be the category-wise classification of trade figures. This could point out the items or category of items which are more vulnerable to the malpractice of underinvoicing. Say for example: it is well known that imports by the government enterprises in Bangladesh are usually over-invoiced, not underinvoiced, and so, figures of state imports should have been excluded while the comparison was made. But, again, such efforts would require disaggregated data which were not available for both the countries.

### Estimation of Underinvoicing in relation to Imports from 7 Asian countries

Country	Imports to Bangladesh	Exports to Bangladesh	Adjusted Imports to Bangladesh	Extent of under-invoicing	Percentage of under-invoicing
1981 to 1987: Sum of 7 Years: All figures in million US \$					
Singapore	1092.6	1817.3	983.34	833.96	45.89
Japan	2032.7	2041.1	1,829.43	211.67	10.37
China	627.8	623.0	565.02	57.98	9.31
India	297.7	343.0	282.2	60.8	17.72
Korea	315.2	736.3	283.68	452.62	61.47
Malaysia	234.2	245.0	210.78	34.22	13.97
Hong Kong	268.4	415.0	241.56	173.44	41.79
Total	4868.6	6220.7	4396.01	1824.69	29.33

of value in the import documents that may have led to evasion of duty.

Analysis: There is, however, wide dispersion in the country-wise rates from 9.31 per cent in respect of China to 61.47 per cent for Korea. Low rate for China is understandable: the prevalence of state trading may have narrowed down the scope of wide malpractice, except by way of re-exports through ports like Hong Kong and Singapore as well as forging of documents by the importers at the Bangladesh-end, irrespective of any cooperation of the Chinese exporters. Surprisingly enough, Japan shows a less than expected figure: only 10.37 per cent, just over that of China, 9.31 per cent, while strong hearsay prevails in the Customs arena that underinvoicing of Japanese imports is rampant. Any explanation of this is not readily available.

Malaysia also shows a low figure which is consistent with the fact that trade relation with Malaysia is increasing only recently and Malaysia's position as a country of export convenient for underinvoicing reported to be a rather recent discovery to the importers of Bangladesh.

Limitations of the study: Obviously, the ideal situation

As it has been noted above, the import figures as recorded by Bangladesh have been adjusted downward to exclude insurance and freight to make them truly comparable with the corresponding export figures of the partner countries. The arbitrarily chosen extent of downward adjustment is 10 per cent, for freight and insurance together. Elsewhere, a 5 per cent adjustment has been thought to be appropriate especially in the context of neighbouring trading partners. But this would be quite subnormal in this case not only because the countries are far from being neighbouring ones, but also because, during the four years from 1986-87 to 1989-90 the foreign payments component of freight bill was more than 11 per cent on average considering all imports.

Impact and implications: Underinvoicing is not only a major factor behind erosion of government revenue, it also operates as a distorting factor in a number of ways.

First, evasion not only means loss of revenue, it also implies transfer of people's money to the traders for nothing.

Secondly, it distorts the competitive structure of the local market by providing the

evader an undeserved edge over others.

Thirdly, the non revenue objectives of tariff are defeated. As for example, a high tax luxury item may enter the economy through evasion, and the objective of protectionist tariff marred be foiled altogether affecting the domestic industry.

Fourthly, the pursuit of underinvoicing by some compels others to indulge in the same for the sake of survival in the market and a corrupt climate is engendered thereby.

Obviously, an estimate of underinvoicing would be expected to give out an idea about the extent of evasion at the importation stage. Moreover, had any statistic regarding the additional collection of revenue due to upward appraisal of the declared value been available, this, compared against the estimate of underinvoicing, would signify the effectiveness of the customs officers in safeguarding revenue. It may be recalled that the basic two fold responsibilities of the customs officers are protection of revenue as well as collection thereof.

But it must be qualified that if the rate of underinvoicing as estimated above signifies only the attempted cases some of which may have been actually detected and taken care of by the Customs Appraisers. Moreover, the relation of the extent of underinvoicing and evasion would not be proportionate as sales tax (now VAT) was leviable on the duty paid value. Consequently, the estimate of underinvoicing cannot be straight away interpreted as a mirror co-efficient of the size of evasion. Moreover, evasion occurs not only because of underinvoicing, but also through misdeclaration of description causing application of a lower rate of duty/tax than normally applicable.

However, it is undenyng that the estimate as deduced above at least indicates the floor/level of revenue at stake, and accordingly, the responsibility of the Customs Appraisers in combatting such a situation well as the gravity of the same. The estimated rate is quite higher, signifies the huge extent of revenue that might be lost if transactions value as recorded in the indent and the invoice would be made statutorily acceptable changing present enactment.

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