Pak-Bangla joint venture

Ship-breaking, re-rolling unit to be set up in Ctg

KARACHI, Dec 25: The Balochistan Shipbreakers Multipurpose Cooperative Society has signed a joint venture agreement with allied trade and investment of Bangladesh to set up a ship-breaking and re-rolling unit at Chittagong at a cost of about one million dollars, reports AFP.

Under the agreement, the Balochistan Society will supply machinery and technical know-how for setting up the unit. It will also purchase scrapped ships from Iran supply them to the joint-venture.

The Chairman of Balochistan Ship-breakers Multipurpose Cooperative Society, Haji Ghulamali Panjawani said that the products manufactured at the proposed ship-breaking and re-rolling unit will be marketed not only in Bangladesh but also in the neighbouring SAARC member countries.

He said that the joint venture has been designed with the sole objective of pooling resources and sharing of knowledge among the Muslim countries and SAARC members in the region.

The joint venture agreement also provides for setting up a garment manufacturing unit in Bangladesh. Pakistan will export fabrics to Bangladesh which will be processed in the unit and exported to Europe and USA.

Panjawani said that the Development Bank has agreed to provide financing for the joint-venture up to 80 per cent of the total cost.

"Taiwan main obstacle to China-US ties"

BEIJING, Dec 25: The main obstacles to better China-US relations are Taiwan and trade disputes, the Foreign Ministry spokesman said Thursday, reports AP.

Nevertheless, "major progress" was made in bilateral relations in the past year, Chen Jian told reporters at a briefing.

The United States irritated China when it sent Transportation Secretary Federico Pena on a visit to Taiwan earlier this month.

China insists that other countries have only unofficial relations with Taiwan, which it views as a renegade province with no right of sovereignty. It cancelled a visit by Pena planned for January to protest his Taiwan trip.

China also was angered when talks with US officials on intellectual property rights failed earlier this month. The US negotiators kept raising their demands until they went beyond the scope of protection of copyrights and other intellectual property, Chen said.

He accused the chief US negotiator, Lee Sands, of walking out "without saying goodbye."

The United States has said piracy of compact discs and computer software remains extremely serious in China, and has pushed China to do more to enforce its laws against such practices.

On another trade matter, Chen refrained from singling the United States out for criticism for obstructing China's efforts to enter the General Agreement on Tariffs and Trade this year.

China regrets the failure to enter the world trade body, but feels it made "the maximum concessions that a developing country could bear at its current stage of development," Chen said.

Asked about reports that Vice President Al Gore or first lady Hillary Rodham Clinton may be planning a visit to China, Chen said China is always in favour of exchanging visits with US leaders and high-ranking officials, and that such contacts were especially useful when the two sides had differences.

However, he stopped short of saying whether any plans were underway for Gore or Mrs Clinton to visit. Some reports have suggested a visit by one or both could lay the groundwork for a visit by President Clinton.

W. German inflation at lowest level in four years

WIESBADEN, Germany, Dec 25: West German inflation was at its lowest level in four years in 1994, shrinking average consumer price increases of three per cent, the federal statistics office said yesterday, reports Reuter.

The three per cent rate was sharply below 1993's 4.2 per cent level and the lowest annual figure since 2.7 per cent in 1990.

The statistics office also said that preliminary December consumer price data showed a rise of 0.2 per cent from November annual rate.

Analysts generally expect the inflation rate to ease markedly in January, when a boost to inflation from a rise in value added tax at the start of this year will drop out of the year-on-year comparison.

Holger Fahrinkrug, economist at Swiss Bank UBS in Frankfurt, said in a commentary: "We expect improvements in the annual rate in the first months of next year which should take it further down towards two per cent, even if this number will probably not be reached."

Two per cent is the medium-term inflation target of the Bundesbank, Germany's inflation fighting central bank.

UBS predicted a further fall in the annual average in 1995 to 2.3 per cent.

King Birendra of Nepal addresses the joint session of parliament on December 23. The king voiced his support for Nepal's Communist minority government, saying priority would be given to the economy and maintaining close ties with neighbouring countries. — AFP photo

Clinton enters US into WTO

WASHINGTON, Dec 25: President Bill Clinton yesterday officially entered the United States into the World Trade Organisation that was set up under the GATT global trade pact, reports Reuter.

Clinton directed US Trade Representative Mickey Kantor to accept the agreement that arose from the Uruguay Round of trade talks that led to the GATT accord which was approved by Congress last month.

The World Trade Organisation was set up under the General Agreement on Tariffs and Trade in order to police its objectives of lowering trade tariffs and eliminating trade barriers.

Tambah Timah doubles profit

JAKARTA, Dec 25: State tin producer PT Tambah Timah has projected a 40-billion-rupiah (18.19-million dollar) net profit for 1994, or doubled last year's figure, the Antara news agency said here today, reports AFP.

Antara quoted the Director of PT Tambah Timah, Erry Riyana Harjapamekas, as saying that because of improved tin prices, the company was expecting a gross profit of 80 billion rupiah (36.38 million dollar) this year.

After tax and expenses, PT Tambang Timah's net profit was estimated to be 40 billion rupiah, Riyana said, adding that the company posted a 20-billion-rupiah net profit in 1993.

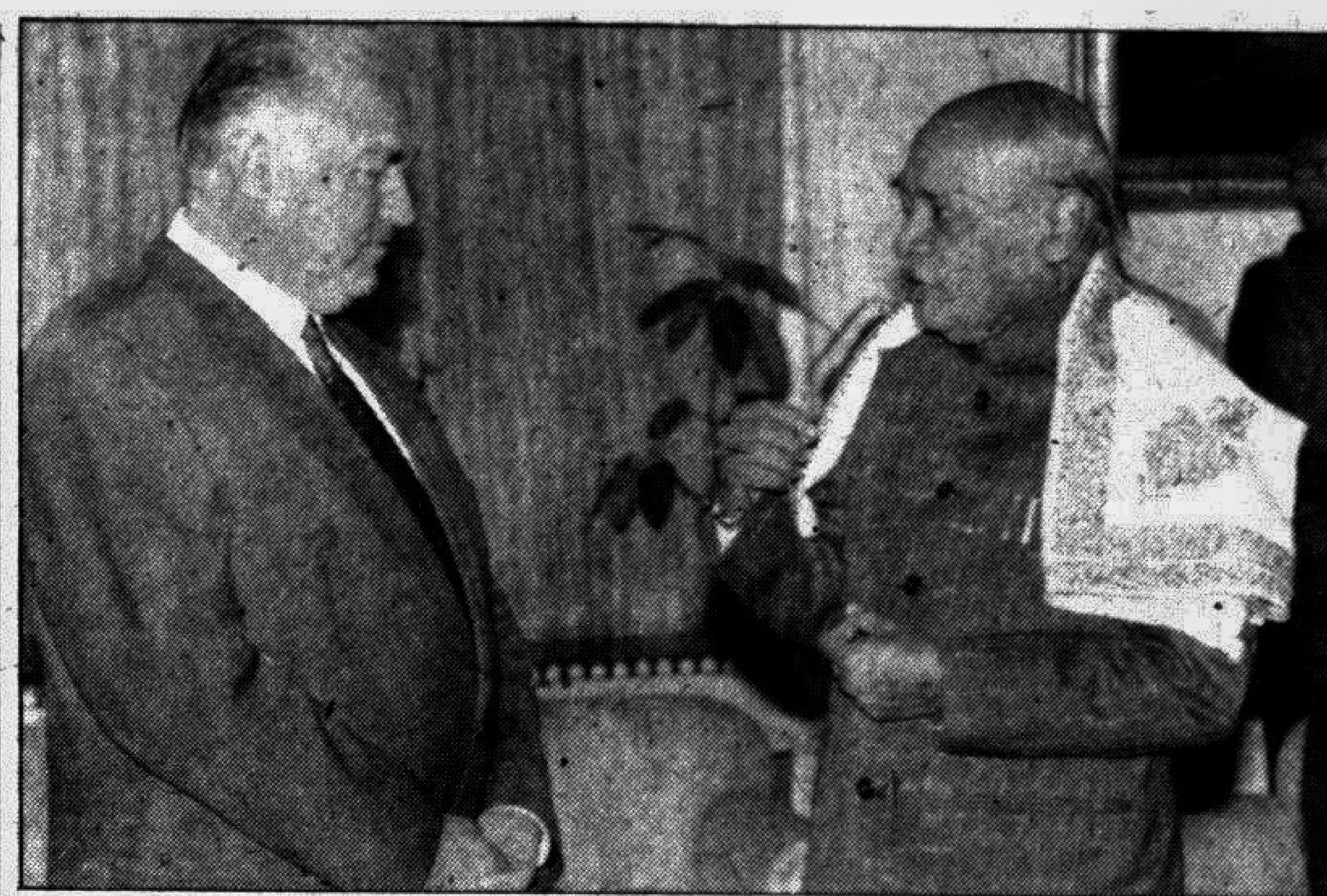
He said that the increase was mainly due to the company's low operating costs, coupled with higher than expected world tin prices.

Malaysian firm to build a $5m hotel in Yangon

YANGOON, Dec 25: A Malaysian firm is to build a five-million-dollar hotel at Yangoon international airport and operate it for 30 years before handing it over to Myanmar authorities, an official newspaper reported yesterday, says AFP.

The 121-room hotel is scheduled to open in May 1996, 18 months after breaking ground, the new light of Myanmar said.

Malaysia's Austral Amalgamated Tin Berhad signed a Build, Operate and Transfer (BOT) agreement with the Civil Aviation Department Thursday, the report said.



Russian Prime Minister Viktor Chernomyrdin (L) talks to his Indian counterpart PV Narasimha Rao, before leaving for Moscow on Saturday. The two countries signed eight agreements during the trip to reinforce military, space and trade ties between them.

— AFP photo

Asian currencies end week mixed

HONG KONG, Dec 25: Asia's currencies ended the week mixed in a pre-Christmas period marked by little activity on the region's foreign exchange markets, reports AFP.

JAPANESE YEN: The yen eased against the dollar this week in narrow trading ahead of a long weekend. The Japanese unit was quoted at 100.51 yen to the dollar in Tokyo late Thursday, down 0.20 yen from last Friday.

The yen gained a marginal 0.09 yen in the preceding week.

Dealers said the market lacked movement ahead of a three-day weekend, with a public holiday on Friday.

Foreign players were also away for Christmas holidays, they said.

AUSTRALIAN DOLLAR: The Australian unit closed only marginally lower against the US dollar Friday after a quiet week's trading ahead of the Christmas break, dealers said.

"It did nothing, really," said Andrew Mcelhinney, Senior Foreign Exchange manager at Advance Bank.

The Australian dollar finished Friday at 77.59 US cents, down from 77.79 US cents the week before.

On the reserve bank of Australia's trade weighted index, a basket of major trading currencies, the Australian dollar was steady with the previous week's close at 56.4 points.

SINGAPORE DOLLAR: The Singapore dollar ended the week higher against the US dollar to 1.4625 from 1.4655 previously.

"The Singapore dollar was up most of week and the greenback is unexpected to recover from its current low levels by year-end," a dealer said.

HONG KONG DOLLAR: The Hong Kong dollar closed the week at 7.738-7.739 unchanged from the previous week.

INDONESIAN RUPIAH: The Indonesian currency closed the week at 2,199 rupiah to the dollar one rupiah lower than the previous week.

MALAYSIAN RINGGIT: The ringgit rose 16 points to close the week higher against the US dollar at 2.5625 from 2.5641 the previous week.

Dealers attributed the rise to substantial buying of the ringgit by the central Bank Negara.

NEW ZEALAND DOLLAR: An upgrade of New Zealand's foreign debt rating saw the Kiwi enjoy another good week, closing Friday at 63.90 US cents, unchanged from the week earlier's closing.

Standard and poor's lifted the rating Thursday from aa-to aa, sending the Kiwi as high as 64.05 cents immediately.

On thin trading it slipped back slightly but consolidated Friday.

A deal said the Kiwi looked fairly steady at its level, although the market had retraced after similar reactions to good news, he said.

PHILIPPINE PESO: The Philippine peso depreciated to 24.199 against the dollar, compared to 24.109 on December 16.

South Korean Won: The won strengthened from 793.20 won per dollar a week ago to 791.20 won to the dollar on Saturday.

TAIWANESE DOLLAR: The US dollar declined slightly to close Friday at 26.406 Taiwan dollars, down 0.6 Taiwan cents from the previous week's finish of 26.412 Taiwan dollars.

THAI BAHT: The Bank of Thailand's Exchange Equalisation Fund (EEF) on Friday fixed the official mid-rate at 25.11 baht to one US dollar, compared with previous week's close of 25.10 baht.

The dollar was strengthened due to two external factors — turmoil in Russia and devaluation in Mexico — which "contributed to dollar stability," a Nakhon Thon bank official said.

Air France seeking alliance with American Airlines

PARIS, Dec 25: French national carrier Air France said yesterday it was again talking with "numerous American companies, including American Airlines" with a view to an alliance, says AFP.

It was responding to press reports about a possible understanding with American Airlines, but Air France gave no details on the status of discussions or on any preference to be granted to a US partner.

The weekly Le Nouvel Observateur said in its latest issue that Air France is getting ready to sign a wide-ranging agreement with American Airlines, which might be announced at the same time as the withdrawal from the capital of Belgian Airline Sabena.

In mid-December, Swissair said it wanted to acquire a significant stake in Sabena, adding that such a move would presuppose "advance arrangements with French Airline Air France," which holds 37.58 per cent of Sabena.

The French economic daily Les Echos said yesterday that United Airlines of the United States, already linked with Lufthansa, has recently "again approached" Air France.

A commercial agreement between Air France and Continental (US) negotiated last year was frozen last January by Air France Chairman Christian Blanc.

An Air France spokesman said that application of a "company project" announced last March now made it possible "to reconsider the partnership issue."

Coca Cola, India breaking accord

NEW DELHI, Dec 25: India's biggest soft drinks maker is breaking its year-old agreement to bottle Coca Cola, alleging that the US multinational was not honouring its commitments, reports AP.

The managing director of Parle Exports, Ramesh Chauhan confirmed Thursday that Parle considers its bottling and distribution agreement with Coca Cola, India, as ended.

Coca Cola, India had gone back on essential points in the agreement, including setting up a joint-venture company for bottling and canning soft drinks, he said.

Chauhan accused Coke of not paying a promised consultancy fee to Parle for five years and to give Parle the right of first refusal for bottling franchises in the cities of Bangalore and Pune.

Recent reforms of indirect taxes in Bangladesh

Dr Zahid Hussain

Taxation performs two types of roles in a developing country like Bangladesh. On the one hand, it supplies resources for financing public administration and publicly provided economic and social services and on the other hand, it seeks to redistribute income and correct market distortions. In the absence of a dominant private sector, the government in Bangladesh is assigned the roles of creating an enabling environment for economic growth as well as supporting technological and human resources development, requiring large amount of resources to be placed at the disposal of the government. The domestic part of the resources comes mainly from taxation, although some resources are made available from the non-tax sources.

The resources available domestically have historically been insufficient in enabling the government to play its assigned roles. As a result, heavy reliance on foreign resource inflows became necessary for supporting the country's development efforts. In the absence of complementary domestic resources the available foreign resources could not also be properly utilized. The continued supply of foreign resources cannot also be taken for granted as, on the one hand, the growth rates of the developed donor countries have reduced considerably in recent times and on the other, the demand for external resources have increased owing to the recent changes in the Eastern Europe and the former Soviet Union. It is thus necessary to significantly raise the level of resources mobilized domestically for increasing the level of investment in the country.

Tax revenue is the main source of public resource mobilization in Bangladesh. The ratio of revenue to GDP and the share of tax revenue in total revenue are shown at Table 1 below:

Table-1

Revenue -GDP Ratio in Bangladesh

Year	Revenue/GDP(Per cent)	Tax Revenue/Total (per cent) Revenue
1972/73-1974/75	5.2	83.00
1975/76-1979/80	8.8	85.30
1980/81-1984/85	9.2	84.00
1985/86-1987/88	9.0	83.90
1990/91	10.0	81.59
1992/93	11.0	86.60
1993/94	11.5	81.35

Source: NBR Calculations

It is observed from the above table that revenue/GDP ratio has increased from 5.2 per cent in 1972/73-1974/75 to 11.5 in 1993-94. Further, the table also shows that taxes account for more than 80 per cent of total revenue collection by the government.

Inspite of the fact that taxes account for most of the revenues, the tax-GDP ratio has been quite low in Bangladesh as compared with the other Asian countries. The tax-GDP ratio for Bangladesh before the country embarked on a comprehensive tariff reform programme, and certain selected Asian countries during identical period are shown in the table below:

Table - 2

Tax-GDP Ratio in Selected Asian Countries

(1980-85 in per cent)

Country	Tax/GDP
Bangladesh	7.3
India	16.2
Pakistan	10.7
Indonesia	20.1
Philippines	10.8
Thailand	13.1
Malaysia	22.8
Korea	16.1

Source: Agenda for tax Reform, The World Bank (1984)

The elasticities of the taxes in Bangladesh were also low before the launching of the tax reform. This is clear from the table below:

Table - 3

Tax Elasticities in Bangladesh

Tax	Elasticity
All taxes	0.91
Import Duty	0.86
Sales Tax	0.87
Excise Duty	0.80
Income Tax	0.84

Source: The Fourth Five Year Plan, Government of the People's Republic of Bangladesh (1990)

These low elasticities compelled the tax authorities to undertake discretionary tax measures in order to meet the needs of target public expenditure.

Structure and Features of Indirect Taxes in Bangladesh before Launching the Tax Reform Programme:

Reform of all taxes, direct and indirect was in away initiated towards the closing of the 80's. Since then, the reform programme has been well underway. Changes of important and lasting significance have been and are being initiated in the realm of direct taxes, just as the comprehensive overhauling of the indirect taxes. The present paper would not however focus on the reform programme in case of direct taxes, instead would confine its attention to the developments in the field of indirect taxes.

Before undertaking the current reform programme, the main indirect taxes in the country were the following:

i) Import Duty
ii) Excise Duty
iii) Sales Tax

The relative shares of these taxes in total taxes for selected year are shown below:

Table - 4

Relative shares of Different Indirect Taxes

	1984/85	1985/86	1986/87	1987/88	1988/89
Customs Duty	0.40	0.40	0.40	0.38	0.38
Excise Duty	0.23	0.23	0.23	0.26	0.28
Sales Tax	0.15	0.14	0.14	0.12	0.10
Share of Principal Indirect Taxes in Total Taxes	0.78	0.77	0.77	0.76	0.76

Source: Bangladesh Fiscal Statistics

It is observed from the above table that i) indirect taxes accounted for more than seventy five per cent of all taxes in the country before undertaking the comprehensive reform programme and that ii) trade taxes accounted for more than fifty per cent of all taxes and more than seventy per cent of the indirect taxes.

The customs duty (CD) is collected on c. and f. value while the sales tax (ST) used to be collected, just like the VAT at the import stage at present, on the customs duty inclusive value. In 1985/86, the average effective rate of CDST was 39 per cent. Excise duties were collected on domestic production of goods and certain selected services, with an average effective rate of around 8 per cent. Around 60 per cent of all excises were accounted for by only three items, namely, tobacco, gas and POL products.

Customs duty rates ranged from as low as 2.5 per cent to as high as 400 per cent. The number of duty slabs were more than 20. There were rate differentiations within identical categories of goods and there were a large number of user specific rates. Exemptions on case by case basis were liberally available round the year.

In respect of sales tax, there were four slabs before 1987/88 which were reduced to three (10, 15, 20 per cent) in that year. A large number of items were however importable free of sales tax. As there was no corresponding sales tax on domestic goods, the sales tax on imports was in fact a tariff, just like the customs duty. The average rate of sales tax was around 8 per cent.

Many manufactured commodities and a number of selected services were covered by excise. Although, the narrowness of the formal industrial sector constrained the base of excise taxes, it was also difficult to bring under the excise net whatever items that were potentially available, because of pressures for withdrawal from the groups likely to be affected. There were also too many rates and numerous exemptions under the excise system.

Economic Consequences of the Pre-reform Indirect Tax Structure:

There were numerous undesirable features and adverse economic consequences of the pre-reform indirect tax systems. As indicated above, the share of trade taxes was more than seventy per cent of all indirect taxes making revenue collection a hostage to the balance of payments situation. In certain cases, high and unwarranted protection was extended to industries, resulting in inefficiencies in production and producing a built-in anti-export bias, as the average effective rate of import taxation was much higher than that of the domestic indirect taxes. The inputs were taxed heavily as there were high duty rates on raw materials and intermediate goods. This also led to substantial cascading effects, distorting the producers choice and leading to misallocation of resources.

Most importantly, because of the narrow coverage, too many exemptions and exclusions and complex rate structure the desired revenues were not forthcoming. The overly complicated tax system and the consequent lack of transparency also made it difficult to administer the taxes. The tax treatment of domestic and imported goods suffered from undesirable lack of harmony as well.

Need for Tax Reform:

The main motivation of tax reform is to generate sufficient amount of revenue in a reasonably non-distorting and sustainable manner. A secondary motivation is to reduce distortions in economic incentives and inefficiencies in the allocation of resources. In the case of a country like Bangladesh where indirect taxes are the dominant source of revenue and where there is hardly any potential for the direct taxes to become an important instrument of revenue generation in the foreseeable future, it is all the more necessary to bring about well thought out and coordinated reform of the indirect taxes for materializing the two motivations stated above.

For raising more revenues it is essential to reduce the dependence on import based taxation, as these taxes are typically in-elastic in nature. It is likewise necessary to expand the base of domestic goods and services taxes by covering new areas of taxation and by reducing exclusions and exemptions. It is also necessary to reduce distortions introduced by the effects of tax on taxes and thereby improve resource allocations. Further, the simplification of tax structure and the consequent systemic transparency could make taxation a less exacting task. Finally, building equity raising features into the tax structure could address distributive concerns engendered by the tax system itself.

Reforming the Indirect Taxes: A Systemic view:

Tax reform involves difficult and often unpopular choices. Inspite of these, certain developing countries have successfully initiated comprehensive tax reforms of both the direct and indirect taxes. Although, there is no generally agreed set of desirable taxes, taking lessons from the experience of these countries, it is possible to put together a set of useful principles of tax reform for the benefit of countries where such reforms are contemplated.

In the case of indirect taxes such a set of tax instruments may have the following characteristics:

(a) Revenue would be generated by a broadly based domestic tax on consumption, like VAT with built-in credit mechanism for inter industry transactions. The destination principle would be applied and exports would be zero rated;

(b) Equity would be fostered by introducing luxury taxes on income-elastic goods in a trade-neutral manner and by exempting items from VAT that form a main part of the consumption basket of the poor;

(c) Protection would be provided by tariffs only. Tariff rates would be lowered and distinction might be made in respect of tariff rates between consumption goods and inputs. Export rebate or duty drawback would be strengthened;

(d) Export taxes would be eliminated or redesigned as a proxy for income tax.

(e) Building the reform on initial conditions.

Tax reform generally involves the balancing of multiple and often, conflicting objectives. The common objectives are revenue, efficiency, equity and administrability. The interaction among different tax instruments and bases also needs to be assessed. It therefore makes considerable sense in taking a coordinated or systemic view of tax reform. For example, to sustain the lowering of customs tariffs for promoting economic efficiency, the taxation of domestic production or consumption might need to be broadened to offset the concommitant revenue loss. Similarly, the task of discouraging conspicuous or socially undesirable consumption traditionally performed by high import tariffs could be more effectively taken over by trade neutral luxury taxes.

Main Features of Indirect Tax Reform in Bangladesh:

Reforms of indirect taxes in Bangladesh have been undertaken along the following lines:

(a) Customs duty, while remaining a revenue instrument during transition, would essentially play a protective role; (b) The main revenue role would be taken over by a trade neutral VAT system;

(c) The equity aspect would be taken care of by appropriate exclusions under VAT for the poor and luxury taxes for selected goods. The later would also be a good source of revenue;

(d) The VAT system would build on the existing excise system to ensure continuity and effect a smoother transition;

(e) One principal purpose of the reform effort was to ensure that VAT, the main revenue raising instrument is not unnecessarily burdened with non-revenue objectives. In other words, an attempt was made to see that different tax instruments are used to attain different tax objectives. As a result, it became possible to draw up a tax structure which is essentially simple, yet capable of addressing the main objectives. Further, joint reforms of import duty and domestic tax systems were undertaken almost simultaneously. Thus, when import duties were lowered for imparting an outward orientation, reduction of revenue became a distinct possibility. This potential loss of revenue had to be offset through designing a VAT system that covered a larger tax base than the taxes it replaced.

Dr. Zahid Hossain has done his Masters and Ph. D from the School of Economics, University of the Philippines. His specialized area of research was International Trade. He now works in the Research and Statistics Wing of the National Board of Revenue as Deputy Director.

To be continued