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World Bank report

Bangladesh asked to announce low tariff regime in next budget

Star Report

The World Bank (WB) has suggested that the government should announce in the next budget a low tariff regime, between zero to 15 per cent, to be effective in terminal year of the century.

The Bank's draft report on "Bangladesh : Trade Policy Reform for Higher Export Growth" has asked the government to declare a mid-term strategy in the next budget outlining tariff changes.

In the WB's suggested sequence for import liberalisation, the government has to fix a three-rate (10, 20 and 35 per cent) tariff schedule in the next budget and a two-rate schedule (10 and 20 per cent) in the following budget, keeping the zero rate for imported inputs used by exporters.

"A single tariff rate should be applied to all tariff items under each four digit harmonised system (HS-4) heading," the report suggested.

Nothing that statutory rates are rarely used in other countries, the Bank suggested for elimination of statutory rates of duty, what it say that it complicates the schedule and allow backsliding on the reform process.

It also argues that rapid reductions in tariff increase tax revenue. When tariffs were reduced in 1994-95, imports increased 39 per cent in dollar term, indicating that import tax revenue increased more than compensated for lower tariffs.

Regarding quantitative restrictions, it said that if these restrictions were removed, this would spur the development of a textile sector and could potentially supply the needs of the ready-made garment industry.

The WB asked to remove obstacles to making bonded warehouse available for most types of export industry. It also asked the government to further develop the scheme so that established firms serving both home and domestic markets could use the facility.

The Bank also suggested to discontinue "outdated" practices like the compulsory back to back issuance import letters of credit so that the exporters were given the chance to choose between them and other forms of financing.

Regarding trade finance, it also suggested to continue a dollar line of credit at the central bank to isolate pre-shipment export credit from the 'inefficiencies' of the banking system.

Stating that the government has made good progress in reducing tariffs, the bank suggested to establish more uniform rates of protection by compressing the number of tariff rates to reduce dispersion and simplify the regime.

The study identified continued use of tariff concessions for end users as major source of tariff dispersion and suggested for its phasing out.

Since 1992 import liberalisation has reduced statutory levels of protection. Average nominal protection, including all import duties and protective taxes, fell from 89 per cent in 1990/91 to 25 per cent in 1995/96, a drop of 64 per cent. However, the import weighted protection rate fell by 21 per cent.

Average effective protection rates indicate trade policy reform has not shifted incentives firmly towards the production of exportables, the report noted. When steel, engineering, food and dairy are excluded, the aggregate effective protection rate declines by 48 per cent.

Despite significant reforms, the current trade regime continues to provide incentives for smuggling and duty evasion through under-invoicing of imports, the report observed.

A recent survey, quoted in the report, reveals that illegal cross border trade, most of it imports, was equivalent to about 13 per cent of total official trade in 1994.

Illegal imports constituted approximately 18 per cent of total imports into Bangladesh, of which 83 per cent came from India.

The survey of cross-border flows between India and Bangladesh found that illegal imports from India in to Bangladesh (519 million dollars) greatly exceeded exports from Bangladesh to India (126 million dollars). However, the Indian survey estimated that cross-border trade between the two countries at a lower 450 million dollars, the report informed.

'We are a country in a hurry'

(Following is the slightly edited text of Prime Minister Sheikh Hasina's address yesterday to the American-Bangladesh Economic Forum)

Central to our economic policy is acceleration of the growth of the economy. We must increase the rate of growth of GDP to at least seven per cent per annum if we are to make any progress in reducing poverty. Poverty cannot be removed by redistribution of income only. Wealth has to be created before it can be redistributed. By producing more, investing more and creating more jobs we can expect to raise the growth of the economy from the current rate of less than five per cent to more than seven per cent. Given the current productivity, to support such a rate of growth the investment rate must be raised from 16 to 25 per cent. Given the will and sincerity of intent, I believe this is possible. To make this possible we must carry out policies that will interest the businessmen to invest. We must also generate savings needed to finance this higher level of investment. To do this, we seek the support of foreign investors — those who will make direct investments and those will invest in the stock exchange.

Our economic policy also focuses on export-led growth to provide the foreign exchange needed to finance rapid growth. In planning our policy towards foreign investment our focus will be both on those who will invest in export producing industry and those who will produce for our domestic market. We intend to maintain an export growth rate of at least 20 per cent . We expect import growth will be just as rapid. The current account deficit cannot be overcome by our export alone, immediately. We hope to close the gap with increased foreign investment.

In the past, our nation has depended upon foreign assistance, both grants and low interest loans from friendly countries and multilateral banks. However, the world is changing and while we will expect continued supports, this will not be sufficient to finance rapid economic growth. We must improve the effectiveness of our use of foreign assistance and my government will soon set out our policies in this area. But it is the inflow of foriegn private investment that we must increase immediately and sizably.

We have not been very successful in attracting foreign private investment to our shore. The average inflow over the last five years has been less than 30 million US dollars a year. Let us frankly assess the reason for this:

First, we have followed policies of pervasive regulation. Of these, the most serious has been the control of foriegn exchange. This regulatory system has been a burden on all of our businesses and has had marked negative impact on foriegn investors. While the previous government made some progress, much remains to be done. Other problems of regulation have also proven difficult for foreign investors.

Second, our tax regime has not been supportive of investment. This has discouraged private investment and particularly foreign investment. The company taxes have been high at margin and more important, not very efficiently administered.

Third, rightly or wrongly, Bangladesh has been suffering an image problem. Our predecessors in government have created an image of poverty, natural disasters, political instability and bad governance. Consequently, Bangladesh is still perceived as not a very attractive place to invest.

Small markets, difficult business environment, low rates of return have all contributed to most foreign investors looking elsewhere. This must be changed. And this can be changed.

Let the world understand that Bangladesh intends to join the world economic community as a serious and responsible partner. We will further open our economy to foreign investment. Let me begin with investors in our stock markets.

First, we have eliminated the lock in period. However, to increase transparency for initial public offerings, we will move to a system of allowing either underwriting with guaranteed price or auctioning to ensure that the company gains full benefit from the issue.

Second, we have eliminated capital gains taxes on stock sales and on bonus shares. This applies both to foreigners and nationals. Through legislation and administrative encouragement, we intend to both widen and deepen our capital market.

Third, we have already reduced tax on cash dividends for listed companies. We are considering to reduce this rate progressively.

Fourth, we want to allow privately operated mutual fund. To this end, I am asking the Security and Exchange Commission (SEC) to have new regulations in place, in not more than three months. I am also asking the ICB to conduct transactions for their mutual funds on the trading floor of the two stock exchanges. To support this, ICB's operations have to be made transparent,

Fifth, we will encourage establishment of a Bangladesh Fund to be established in the United States. This would be a mutual fund traded abroad but constituting stocks sold on Dhaka and Chittagong stock markets. The SEC will review all such applications and I hope will approve at least one within the next six months. The SEC should also develop effective safeguards against insider trading.

Sixth, I would like to encourage investment by non-resident Bangladeshis. We will seek the views of non-resident Bangladeshis and seek innovative ways to involve them in our development process.

For developing a successful capital market we must also increase the stocks being bought and sold. My government policies, in this regard are clear. We are going to reduce state ownership in the manufacturing sector.

Through these changes, I expect to achieve:

A more vibrant stock market; and

A large inflow of capital from foreign investors in the stock market.

We must also accept that our macro-economic management must be conservative as well as prudent. Such a management will be geared to limit inflation, and to avoid excessive government deficits. Following these goals, as our first budget sets out, we will provide safeguards against massive withdrawal of funds.

This path requires a commitment to political stability. In my careful assessment, political stability is connotative of rule of law, protection of human rights and governance based on people's consent. My party and government are committed to this path and is conscious of its connotation. I urge the opposition to work within the rules of democratic systems; to sustain and cherish such political stability as we have been trying to.

Foreign Investment

We want to encourage foreign investment in Bangladesh. In so doing we have three objectives in mind.

First, to create jobs for our vast labour force.

Second, to increase foriegn exchange availability, and

Third, to acquire technology and management skill.

We welcome the participation of foreign investors in our development efforts. To this end, my government pledges:

(i) good governance

(ii) functionally free convertibility of currency

(iii) developing export processing zones by both public and private sectors

(iv) making BOI more responsive to foreign investment; and

(v) complete guarantee against expropriation.

Just as we are pledged to a fair treatment of the foreign investors so we believe that the foreign investors must approach Bangladesh with the notion that while making a return on investment they must also be prepared to contribute to the country's development on a sustained basis. We must never forget that our rights and responsibilities are mutual and reciprocal.

Legislation relating to setting up private export processing zones has already been undertaken. As parts of the privately financed export processing zones, we will encourage electrical power and telecommunication services to be developed by the sponsors. We will be prepared to purchase excess power from these plants.

My government regards BOI as the key organization in promoting foreign investment. We will review the BOI legislation and legislate any necessary changes as soon as possible. I expect the BOI to take the initiative in the following ways:

First, BOI will take the leadership in bringing private foreign investment into infrastructure development. This will include development and exploitation of gas fields, electricity generation and distribution, improving port facilities, telecommunications, urban water and sewerage, airport development, and major roads and bridges.

We are seriously behind in many areas of infrastructure. The fund requirements are too large to be funded by government, and donors alone. The government's policy is to turn to private investment, particularly foreign investment to finance most of the infrastructure requirements. There is no alternative to this.

Therefore, we aim at completing all standard contracts for electricity and gas and oil without any avoidable delay. Our energetic energy minister is working hard to achieve the national goal in energy development.

We will take bids for gas and oil exploration/development and for construction of electricity generation immediately after the standard contracts are ready. We intend to select at least two private generating projects within the current financial year. For oil gas exploration we will award production sharing contracts against reasonable proposals within the standard contracts.

Second, BOI will have strengthened powers to ensure electricity and telecommunication connections and ability to ensure that visas are issued quickly. Through these and other steps this government will implement the intent of the BOI Act ensuring investors receive immediate assistance. We want BOI to continue to make the life of foreign investors as simple as possible.

Third and finally, BOI will undertake a programme to seek out and promote foreign investment. I expect that BOI will organize a series of investment conference to which the Minister of Finance, Minister of Commerce and Industries and I will give our full support. I also anticipate BOI will mount a major campaign to bring to Bangladesh major investments in electronics, informatics and medical equipment for export. With our low-cost labour, we provide an excellent base for such major investors.

All these programmes may seem ambitious. But let me say, we are a country in a hurry to overcome the conditions of poverty and deprivation in which we find ourselves. We recognize that our economic security at home also depends on economic forces abroad. It is in this vein, we have put economic agenda on the front lines of our diplomacy. Our targets are to create millions of jobs and billions of dollars in of foreign investment. I am confident we can reach these goals. We have no illusions that this will be an easy task. Despite many obstacles, my government is making every effort to overcome them. We have a strong commitment upon which a solid structure can be built, which in turn I trust, will lead us forward into the 21st Century.

BIBM workshop on treasury management concludes

A three-day Workshop on "Treasury Management" was concluded yesterday, says a press release.

The Bangladesh Institute of Bank Management (BIBM) conducted this workshop with a view to developing knowledge for effective handling of treasury management functions of banks and financial institutions.

It also aimed at providing new conceptual materials and tools needed to carry out broadened responsibilities in an efficient manner. The workshop contents, interalia, included liquidity management, cash management, management of CRR and SLR etc.

Managing Directors of Agrani Bank and Uttara Bank Ltd respectively Kl Khaled and M Aminuzzaman and Executive Director of Bangladesh Bank Abdur Raquib and other eminent bankers participated in the panel discussion.

The Director General of BIBM A H M Nurul Islam Choudhuri presided over the concluding session of the workshop which was also marked by distribution of certificates, 30 senior Executives of different banks and financial institutions attended the workshop. While distributing certificates Choudhuri observed that the present financial management would undoubtedly be more complex and difficult than the past.

Md Amin Lashkar, Member, Executive Committee of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), addressing participants at a day-long training course on "How to Provide Trade Information Services for Small and Medium Enterprises by the Chambers and Association" jointly sponsored by FBCCI and German Federation of Small Business (ZDH) and Technonet Asia (TA), Singapore at Federation Auditorium on Wednesday. M Azizur Rahman, Secretary, DCCI and Abdus Salam Bhuiyan, Project Director, RDL Cell, FBCCI are also seen in the picture.

Osmany Airport runway extension work not progressing

From Iqbal Siddiquee

SYLHET, Aug 22: Work on the Osmany Airport runway extension project remains standstill for long though the scheduled time has already over.

Repeated changes in the project schedule, negligence on the part of the executing authority apathy, on the part of the contractors and others have caused the situation.

The project was initially taken up in 1991-92 fiscal year and work began in 1992-93. The then Finance Minister M Saifur Rahman formally inaugurated the project titled "Strengthening of the Sylhet Osmany Airport Runway" with a view to enabling the airport to operate wide-bodied aircrafts.

The expenditure was estimated at Taka 14 crore 35 lakh for the 3-year project.

There was a good start and about 60 per cent work was done within the 1993-94 fiscal year, an official source informed. The work of the project had to be completed within 3 years.

Initially the project was to raise the runway area to 7000 feet from 6000 feet. No progress of the project was made in the 1994-95 fiscal year. Ten per cent work was not even done during this long period, sources alleged.

The Civil Aviation Authority (CAAB) ordered the "Bangladesh Dredging Company", a private construction firm, for asphalt carpeting on the runway. But the company could not even start the work. The CAAB reportedly issued several notices on the firm to start the work but it failed. As a result, the work orders had to be cancelled.

Meanwhile, some experts have raised questions about the technical aspects of the project. They say at least 8000 feet runway is needed for operating Airbus' type crafts but a 7,000 feet runway will be risky for the purpose.

Considering the views of experts, different quarters have demanded the making of a 8500 feet runway.

The authorities kept the matter pending for long. At last, in the first part of 1995, the authorities agreed to raise the area of runway to a 8500 feet. But, due to absence of proper approval or sanction, the project could not go ahead and it was revised to Taka 26 crore 62 lakh, sources informed.

Meanwhile, carpeting of about 4000 feet runway has been completed. If immediate steps are not taken, it may not be possible to complete the work in the coming winter.

When contacted, an official of the CAAB said steps are being taken to start the unfinished work soon. Fresh tenders will be called soon.

LEADS presents PcBANK

LEADS Corporation Limited, the Exclusive Distributor of NCR Corporation, USA, in Bangladesh, presented their Banking Application Software called "PcBANK" to a large number of bankers at a city hotel recently, says a press release.

32 representatives, decision makers as well as computer experts, from 16 Banking Organisations, including Bangladesh Bank, DFIs and Commercial Banks, participated in the half-day long seminar. The purpose of the seminar was to elicit comments and suggestions on the PcBANK Rel 4.0 from the users of other Banking Software, with a view to enhancing the features of PcBANK.

Dandy Dyeing fails to repay bank loans

By Staff Correspondent

Dandy Dyeing Limited, an industrial unit co-owned by eight shareholders including two sons of former prime minister Begum Khaleda Zia, failed to repay installments of bank loans regularly.

This was stated by Finance Minister Shah A M S Kibria while replying to a question from Awami League lawmaker Mirza Azam at the Jatiya Sangsad yesterday.

Kibria said that Dandy Dyeing Ltd had received Tk 17.64 crore in loans from Sonali Bank in 1993 and 1995. The assets mortgaged against the loan was worth of Tk 22 crore 53 lakh and 42 thousand, he added.

The shareholders of the company are: Begum Zia's two sons — Tareq Rahman and Arafat Rahman — her brother Maj (retd) Sayeed Iskander, sister-in-law Nasreen Sayeed and four others, namely, Kazi Galib Abdus Sattar, Md Giasuddin Al Mamun, Shahina Yasmin and Mozaffar Ahmed.

APEC to help reduce disparities among member economies

DAVAO, Philippines, Aug 22: The Asia-Pacific Economic Cooperation (APEC) forum is to monitor efforts to reduce disparities between member economies, officials said yesterday, reports AFP.

John Curtis of Canada, Chairman of the APEC Economic Cooperation Committee, said member were working on a framework aimed at evaluating cooperation between developed and developing member economies.

APEC leaders at their last summit in Osaka, Japan, last year adopted a so-called action agenda to free up trade and investment by 2010 for industrialised economies and 2020 for developing economies within APEC.

The development cooperation programmes aimed at easing fears that the elimination of trade and tariff barriers could lead to yawning economic gaps between developed and developing members.

Curtis said the Philippines and the United States had agreed on points of the evaluation framework which would be presented to APEC senior officials meeting here.

China and Japan were also "actively involved" in the drafting of the framework, Curtis said.

"There is an emerging consensus," on the framework, Curtis told reporters at a news briefing prior to the opening of the third senior officials meeting.

Development cooperation has become an APEC catchphrase and is a policy aimed at promoting the sharing of resources among member economies that results in equal benefits.

"We have introduced into our APEC agenda the intensification of development cooperation as a major interest during our chairmanship," said Federico Macranas, Chairman of the third senior officials meeting.

The cooperation would "serve as a vehicle for co-equals in promoting our vision and goals through direct and immediate benefits for the peoples of the region," he said.

The economic committee analyses economic trends affecting APEC and is preparing a report on the state of economic and technical cooperation in 13 areas ranging from infrastructure to telecommunications.

There are 350 projects in economic and technical cooperation that have been undertaken in APEC.

"At this stage, APEC should not be concerned with mere number of projects, but in generating meaningful impact and benefits to the people," Macranas said.

An economic outlook report surveying growth prospects for the 18 member economies is nearing completion for publication by October, before the APEC leaders' summit on November 25.

"There has been and will continue to be good prospects for this region ... In the next three-to-five years," Curtis said of the current economic studies.

The outlook report would "address the long-term interrelationship between expanding population and rapid economic growth," he said.

APEC is estimated to have a combined population of two billion people.

There are "some 90 million new mouths to feed this year, with economic growth on the western side of the Pacific averaging two-to-three per cent for this year," Curtis said.

Economic growth in Asia would average between three and 10 per cent this year, he added.

Member economies are to discuss their individual plans for freeing up trade at the three-day meeting here as well as a collective action plan to be ratified at the November leaders' summit.

APEC groups Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taipei, Thailand and the United States.

C M Murshed, Member of BASC Board of Directors, is delivering speech at the inaugural ceremony of the seminar on "Feed Supply for Sustainable Livestock Farming" organised by Business Advisory Services Centre (BASC) at BARC conference room on Wednesday.

World arms sales drop to $ 28.8b in '95

WASHINGTON, Aug 22: World arms sales dropped in 1995 to their lowest level since the cold war but Russia's rose sharply in its effort to get cash, according to a Congressional Research Service Study released on Tuesday, says Reuter.

It said arms sales worldwide dropped to 28.8 billion dollar last year from 40 billion dollar after the 1991 Gulf War.

But it said Russia's weapons sales rose from 3.8 billion dollar in 1994 to 9.1 billion dollar last year because "now Russia actively seeks to sell weapons as a means of obtaining hard currency."

It said Russia's most important customer was China, which has bought Russian S7-27 fighter planes and Kilo class attack submarines since 1994. Iran, which was a major buyer of Russian fighter planes, T-72 tanks and Kilo submarines earlier, had not been a major customer recently because of its own economic problems, the report said.

It said the United States was the second-biggest arms seller in 1995 at 8.2 billion dollar, down from 12.8 billion dollar the year before. But it said the United States was the biggest arms seller for the loner periods of 1992-95 at 69 billion dollar and 1988-1991 at 65.9 billion dollar.

The report said France was the third-biggest arms seller last year with 2.7 billion dollar in sales, down from 8.9 billion dollar the year before.

It said Britain sold 500 million dollar worth of weapons to developing countries last year compared to 714 million dollar in 1994. Italy 800 million dollar last year, up from 200 million dollar and Germany 300 million, dollar last year from almost none the year before.

The congressional research service is in the library of Congress and does research reports for congressional committees as well as members of Congress.

Asian neighbours seek technology transfers from Japan

TOKYO, Aug 22: Asian business leaders have asked Japan to step up technology transfers to their countries and make more effort to generate employment in Asia, organisers of a regional meeting said yesterday, reports AFP.

Some 20 representatives from 11 economies including Japan got together for the two-day Asian neighbors forum, which started Tuesday under the auspices of the Federation of Economic Organisations (Keidanren), the most powerful business group in Japan.

"Participants, especially from Southeast Asia, asked Japan to provide more technical cooperation generally," a Keidanren official said, adding they had not specified the technology being sought.

Asian business leaders also pressed Japanese firms to appoint local people to responsible positions at their overseas units in Asia, the official said.

The official said the Japanese side made no commitments.

Tk 35.33cr ADP allocation for 12 projects in Textiles Ministry

A total of Tk 35.33 crore has been allocated in the Annual Development Programme (ADP) for implementing 12 projects under Textiles Ministry in the current fiscal year, reports UNB.

This was informed at a high-level review meeting of the Textile Ministry with the heads of Bangladesh Textile Mills Corporation (BTMC), Handloom Board and Sericulture Board, held at the conference room of the ministry.