

# Taka erodes heavily in a yr

Manufacturing sector bears the brunt of increases in raw material costs

MONJUR MAHMUD

Bangladesh manufacturing sector is witnessing an increase in production cost with the taka losing as much as 13.5 percent in last one year against major currencies.

Bangladeshi taka lost almost 13.5 percent against Euro, 9.13 percent against British pound. Australian dollar gained 10 percent, Singapore dollar 5.68 percent, Canadian dollar 9.57 percent, Japanese yen 13.34 percent and US dollar 1.7 percent, according to statistics from foreign exchange dealers.

According to the central bank statistics, of the total import,

Bangladesh imported 12.8 percent from Singapore, 5.6 percent from Japan, 2.5 percent from Australia, 2.4 percent from UK, 9.5 percent from EU, 2.4 percent from other European countries and 2.7 percent from USA in the 2002-03 financial year.

Asked on the impact of production cost due to the loss, an official of a multinational company said his company was forced to increase prices of its consumer items substantially including baby food a few months back as the currency of the importing country strengthened against taka.

"Apart from the increase in raw material prices, strengthening

Australian dollar against Bangladeshi taka and related duty impact are the main reasons for this hike," the official said.

According to banking sources, price of Australian dollar gained by around 10 percent in one year against taka.

"Selling price of Australian dollar was Tk38.74 per unit as on September 1, 2003 while it was Tk42.87 as on September 22, 2004," a banker said adding that prices are fluctuating daily.

"We need to monitor the exchange rate continuously and closely observe its implications given the fact that Euro Zone is expanding and taka is depreciating substantially against euro during last one year," said Professor Mustafizur Rahman, research director of the Centre for Policy Dialogue.

The exporters gain competitive strength if taka depreciates. But consumers have to pay more in the local market if there are no sufficient import-substitute industries, he added.

"We are an import-dependent country bringing in finished goods and raw materials from other countries. Import cost of consumer items as well as production cost of industries goes up affecting the economy. Besides, the debt servicing burden also increases," Mustafizur said.



PHOTO: STAR

Hundreds of containers keep piling up at the inland container depot (ICD) in Kamalapur in Dhaka. Activities in the country's lone ICD are yet to commence in full swing following the rain-induced waterlogging couple of weeks back that forced businesses to a standstill.

## Bangladesh, US sign double taxation avoidance deal

STAR BUSINESS REPORT

Bangladesh and the United States yesterday signed an agreement to avoid double taxation between the two countries.

The accord is expected to pave the way for increased flow of foreign direct investment (FDI) from the US.

"This agreement will encourage greater amount of FDI by US investors, specially in education and roads and communication sector," said Harry K Thomas, US ambassador in Bangladesh, while talking to reporters after inking the agreement with the National Board of Revenue (NBR) Chairman Kairuzzaman Chowdhury at the NBR secretariat.

QM Shariful Ala, managing director of DBH, and Sayed Nazrul Biddut, chairman of BDDL, signed the MoU on behalf of their organisations in Dhaka.

Ishtiaq H Chowdhury, head of Operations of DBH, A Farjad Ahmed, head of Credit, SH Aslam Habib, head of Finance, and MA Baten Khan, director Marketing of BDDL, were also present.

secured because of the deal.

The agreement titled "Avoidance of Double Taxation and Fiscal Evasion of Income" contains 29 articles related to business in shipping, air transportation and dividend income. It also covers sharing of royalties, interest, capital gains, wages and salaries earned by students studying in the US.

Under the deal, income from air transportation and shipping will be taxable in the country of origin, while income from dividends will be taxable to recipients in the country where they earn it along with the income from interest.

Income of Bangladeshi students studying in the US, including research fellows and interns, will be tax-free for the first two years of their

education. After two years, any income above US\$ 8,000 will be subject to tax.

Bangladesh has similar agreement with 23 countries.

The government initiated talks with the US on avoidance of double taxation in 1977 and reached a preliminary agreement on July 2003.

Currently, US FDI in Bangladesh stands at US\$4 billion, while imports from the US stand at US\$2 billion a year, said Kairuzzaman.

Kairuzzaman, also the internal resources secretary, said Bangladesh is on the verge of reaching a similar agreement with Russia and talks are under way with Saudi Arabia, Iran, Uzbekistan and Myanmar.



PHOTO: FICCI

World Bank Country Director Christine I Wallich (2nd from left) speaks at the monthly luncheon meeting of the Foreign Investors' Chamber of Commerce & Industry (FICCI) held yesterday at the Dhaka Sheraton Hotel. FICCI President Mahbub Jamil (2nd from right), Secretary Jahangir Bin Alam (right), and Committee Member Carlo Cifello (left) are also seen in the picture.

## Iraq businesses upbeat despite security fears

AFP, Dubai

Businessmen and economists gathered here to discuss reconstruction prospects in violence-wrecked Iraq said Saturday that lack of security was a major impediment to investment but that the country still offers enormous potential.

Participants in an Iraq reconstruction conference differed, however, on whether a new law that opens up the country to foreign investors was the right answer to decades of a state-controlled economy which left the private sector "completely disenfranchised," as one banker put it.

Calling for the repeal of CPA law 39 enacted by the now defunct US-led Coalition Provisional Authority, London-based Iraqi banker Basil al-Rahim said the law states that Iraq "should be opened immediately to foreign investment," except for property and oil and other natural resources.

"The problem is that you're approaching an economy that has been state-managed for 35 years (under the Baath regime of ousted president Saddam Hussein) ... and if you open the floodgates to foreign investors, you'll never give the private sector a chance to get on its feet and compete, and you will not allow domestic wealth creation," he said.

Rahim, whose argument was contested by other panelists, made a powerful case for the "empower-

ment of the private sector" in Iraq, calling for the creation of a "private sector commission" to oversee its revival and for drastically reducing the state's role in economic activities.

The government's role should become that of "regulator, enabler and facilitator," he said.

Rahim, managing director of MerchantBridge investment bank, said Iraq had six resources which "never converged in one country."

Apart from "potential oil reserves estimated at 300 billion barrels," far exceeding the 113 billion barrels of proven reserves, he said Iraq had water from two major rivers, considerable arable land, an educated and professional population and archeological and religious sites that give it a high tourism potential. In addition, Iraq is a focus of "international interest," he said.

Christopher Exline, president of Home Essentials, an American furniture rental company which has been operating in Iraq for a year, said the "barbarism and insanity" practiced against both Iraqis and foreigners over the past weeks should not blur the broader picture.

"There is a phenomenal opportunity for those who look beyond the headlines," he said.

But the chairman of the Iraqi Business Council in the United Arab Emirates capital of Abu Dhabi warned that mounting abductions of foreigners, many of whom have

been killed by militant groups, were triggering an "exodus of business" from Iraq.

Even employees of Egyptian telecom giant Orascom were now leaving following the abduction this week of eight staffers, including six Egyptians, Talib Khan told AFP on the sidelines of the conference.

He said "50 percent" of hostage-takers were "gangs" looking for ransoms rather than ideologically motivated groups.

"These riffraff should be contained by employment ... Even if Arabs and foreigners leave, we have to proceed with reconstruction," Khan said.

Iraqi legal expert Adil Sinjakli said "insecurity and lack of elected government" was one of the main obstacles to investment, along with a foreign debt estimated at between 110 and 120 billion dollars.

Paige Craig, executive vice president of Iraqex, a US firm involved in a range of activities from manufacturing construction materials to "providing logistics" for US forces, disagreed with the general view that the security situation was deteriorating.

"People think it's getting worse because they only pay attention to foreigners (who are being taken hostage and often executed). But it's definitely more secure now than it was a year ago," he told AFP.

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