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New tech on cards to fetch revenues from VoIP operators

Move seen to delay VoIP legalisation

JASIM UDDIN KHAN

The government has decided to install a new technology in order to ensure revenues from VoIP operators even before legalising the much-hyped internet telephony.

It will establish common platforms in Dhaka, Chittagong, Sylhet and Bogra to operate internet and VoIP services through a single channel.

The country's telecoms experts feel, however, the new measure will delay the process of legalising the voice over internet protocol or VoIP.

The decision came at a recent high-level meeting of the executive committee on information and communication technology (ICT) with Kamal Uddin Siddique, principal secretary to the prime minister, in the chair.

"The technology will help monitor VoIP activities and calculate revenue from individual VoIP operators," a high official of the Ministry of Planning said.

The latest move to legalise the VoIP technology came nearly three years after the government at first decided to legalise the VoIP in June 2002.

The committee also formed two separate expert teams -- one will supervise the development work of the common platforms and the other will oversee the licensing process for VoIP operators.

The first team will submit a supervision report to the BTRC (Bangladesh Telecommunication Regulatory Commission) within six months after its formation.

The aim of legalising VoIP for private operators is to bring the charge of international call down to a fraction of the existing call rates. The VoIP technology will also facilitate PC-to-PC, PC-to-phone, phone-to-phone and phone-to-PC communications.

Many countries including India have opened up the VoIP.

Akhtaruzzaman Manju, president of Internet Service Providers' Association of Bangladesh, said the fresh move to install the new technology will definitely delay the VoIP legalisation process.

He, however, said ISPs are no more interested in VoIP due to 'unabated illegal use of the technology by telephone operators'. The government should take steps to stop illegal use of VoIP, he added.

Malaysia, Japan agree on FTA

AFP, *Kuala Lumpur*

Malaysia and Japan agreed Sunday on a broad economic framework to pave the way for a free trade pact after overcoming major differences over the auto and steel sectors, their ministers said.

"We have now finalised everything," Malaysian International Trade and Industry Minister Rafidah Aziz said at a joint press conference after emergency talks on the pact.

"It will really be a comprehensive economic framework agreement covering all the areas that we both feel we would like to cover," she said.

The deal was reached after Japanese Economy, Trade and Industry Minister Shoichi Nakagawa held talks with Rafidah on Sunday in a bid to reach a breakthrough in the free trade agreement (FTA) deal ahead of Malaysian Prime Minister Abdullah Ahmad Badawi's visit to Japan from Wednesday this week.

"What we have decided on today will become the basis for agreement in principle by the two prime ministers when they meet in Japan on Wednesday, on the entire thing, the Malaysia-Japan Partnership Agreement, including the FTA," Rafidah said.

The two countries are expected to sign the deal in December this year.

Earlier this month, Japan and Malaysia agreed to reach a basic agreement by the end of May but last week negotiations were deadlocked as the two countries remained divided on the auto sector because Malaysia was reluctant to review its policy to protect its domestic industry.

They were also trying to narrow differences in such areas as auto parts, steel and investment and services.

RUN-UP TO BUDGET FY06

Ficci for removal of policy 'contradictions' about tax

BDNEWS, *Dhaka*

In a bid to create more investment opportunities in the country, Foreign Investors' Chamber of Commerce and Industry (Ficci) calls for elimination of policy 'contradictions' regarding tax on foreign investors in the upcoming budget.

The Ficci in its budget proposal has also urged the government to withdraw 2.5 percent limitations for allowing remittance of technical assistance fees and royalty. It also wants reduction of corporate income tax, reinstatement of investment allowance, in addition to tax holiday for expanded units.

The association suggested a 5 percent corporate income tax for publicly listed companies while 7.5 percent for others i.e. banks, insurance companies and financial institutions.

At present, the corporate income tax rate is 30 percent for publicly listed companies and 37.5 percent for others.

The government is now imposing limitations for allowing remittance of technical assistance fees and royalties at 2.5 percent as admissible that is inconsistent with the Board of Investment (BoI) guideline, the chamber said.

"Such restrictions and policy contradictions have significantly increased business expenditure in Bangladesh and diminished the attraction of the country as a destination of investment," Ficci said in its budget proposal.

Referring to BoI guideline, it said such fees should not exceed an aggregate limit of 6 percent on the previous year's sales' turnover. Besides, Ficci also demanded withdrawal of a 10 percent withholding tax on such remittances.

Besides, the association demanded to resume the 25 percent reinstatement investment allowance for investment in plant and machinery. The provision was withdrawn in 2004-05 budget triggering a disincentive to local manufacturers.

The Ficci also demanded to re-introduce tax holiday facility for the investors.

Foreign investors are making significant contribution to energy, telecom and pharmaceuticals sectors mainly by generating both export earning and employment in Bangladesh, the association added.

"The foreign investors have generated over one lakh employment opportunities while supporting over 2000 backward linkage industry in the country," Ficci Secretary Jahangir Bin Alam told the news agency.

"Our members pay Tk 42 billions in revenues to the government exchequer per annum, " he added.

PHOTO: STAR

VJ Watson, chief operating officer of AKTEL, hands over a gold medal to an employee of the company at a function in Dhaka yesterday. Nurullah Mamun Chowdhury, head of Human Resource, and Nurul Mustafa Tareque, head of Administration, were also present at the award giving ceremony. The AKTEL management awarded a total of 90 employees who have been working in the organisation for the last five years.

Emirates plans $550m Islamic bond issue

AFP, *Dubai*

Dubai's Emirates airline announced Saturday it planned to issue its maiden Islamic bond, or sukuk, next month, with a seven-year maturity.

"The bond has been benchmarked at around 550 million dollars. It will be issued in June and will be offered to institutional investors in the Gulf Cooperation Council (GCC), as well as in Europe and Asia," Riyaz Peermohammed, Emirates corporate treasury senior vice president, said in a statement.

The GCC groups Bahrain, Kuwait, Oman, Qatar and Saudi Arabia alongside the United Arab Emirates.

Emirates' debut sukuk issue has Dubai Islamic Bank as mandated lead manager. The issue will be initially listed on the Luxembourg Stock Exchange, the statement said.

Peermohamed said the money raised from the bond would be used to finance a new engineering center and a new headquarters building, both under construction.

China enquires about exclusive EPZ

Delegation visits Dhaka EPZ

BSS, *Dhaka*

Visiting Chinese Vice-Minister for Commerce Yu Guang Zhou yesterday enquired about the possibility of an exclusive export processing zone for Chinese investors in the country.

The vice-minister visited the Dhaka Export Processing Zone (EPZ) in Savar and went round three factories to see for himself the facilities available there for foreign investors. He held talks on the scope of bringing in enhanced Chinese investments here, particularly in the textiles and clothing sector.

He was specially keen to know if the Bangladesh government would allocate an exclusive export processing zone for Chinese investors.

Following Guang Zhou's visit there, Executive Chairman of the Bangladesh Export Processing Zone Authority (BEPZA) Zakir Hossain said he told the Chinese envoy that the Chinese investors can immediately move to existing EPZs while their request for an exclusive EPZ can be dealt with in due time.

Hossain said the Chinese investors has already made significant investments in the country's existing EPZs where the number of their operating units now stood at 24 while other 12 units are under implementation.

Total Chinese investment in those units stood at US$109 million and they have more than 24,000 workers in the pay roll. Their total export earnings so far stood at US$12.5 billion, the BEPZA chief executive said.

He said China is taking increasing interest in the country's textiles and clothing sector not only for its low labour cost but, perhaps as part of a new strategy to face the post MFA global market situation to which Chinese exports facing certain restrictions.

The Chinese vice-minister visited the garment factories to see the infrastructure and working environment. He was satisfied by the overall environment and production, the BEPZA executive said. Guang Zhou, however, avoided speaking to the press.

Hossain said Bangladesh is now becoming a growing destination of global foreign direct investment (FDI) and the demand for industrial plots in the EPZs are also growing fast.

He said an investment delegation from Hong Kong is scheduled to visit Bangladesh from June 20 while a Chinese investment delegation may follow soon.

The BEPZA executive said he is optimistic about big investments here in the context of Bangladesh's duty free market access without other quantitative restrictions to the US, European and some other markets.

It acts as an attraction for any big investor and Bangladesh is open to enhanced Chinese investment for the mutual benefits of both the countries, he pointed out.

India's forex reserves fall

REUTERS, *Bombay*

India's foreign exchange reserves fell $1.3 billion in value during the week to May 13, affected by the dollar's rise against global currencies such as the euro, in which the reserves are partly held, analysts said.

Central bank data released yesterday showed that the reserves stood at $140.17 billion on May 13. This compared with $141.48 billion a week earlier.

The reserves, the sixth largest in the world, are down $2.4 billion from the record high of $142.55 billion recorded on April 22.

"If the RBI has increased the proportion of other currencies in the reserves, then the dollar's appreciation would have hurt the value of the reserves quite significantly," said Manas Paul, economist with Securities Trading Corporation of India.

India's reserves are valued in dollar terms, but they include other global currencies such as euros, pounds and yen.

No need for China to restore import quotas: EU

AFP, *Shuneh, Jordan*

European Union Trade Commissioner Peter Mandelson has expressed his opposition to restoring quotas on Chinese textile imports and called for liberalising trade services with Arab countries.

Mandelson was speaking on Saturday at the World Economic Forum meeting on the Jordanian shores of the Dead Sea a day after China announced measures to limit its booming textile exports to head off a simmering trade dispute.

Facing the threat of EU limits on Chinese textiles imports, Beijing announced it would raise export tariffs on 74 categories of textile products from June 1.

"The EU does not want to restore import quotas on clothing and textiles that were abolished from the start of this year but seeks agreement with Beijing on ensuring a slower transition to open markets," Mandelson said.

"The transition has to be managed. We have to make it smooth. It is not a question of restoring quotas," he told a panel discussion at the forum, according to a statement released by the organisers of the meeting.

Mandelson also said he hoped to get a green light from the 25-member EU to open negotiations with Arab countries to liberalise trade in services.

"Services are an area of tremendous potential for you," he said to an audience which included Egyptian Trade and Economy Minister Rashid Rashid and his United Arab Emirates counterpart Sheikha Lubna al-Qasimi.

"With liberalisation your current trade in services could be two or three times more," Mandelson said.

Pakistan's trade deficit shrinks

REUTERS, *Islamabad*

Pakistan's trade deficit shrank to a provisional $601.5 million in April from $786.20 million in March but rose sharply from a deficit of $412.83 million in the same month a year ago.

The Federal Bureau of Statistics said yesterday the cumulative trade gap from July through April was $4.84 billion, compared with a $2.05 billion deficit in the same period a year earlier.

Adjusting to the MFA phase-out: Policy priorities

DEBAPRIYA BHATTACHARYA *AND* KIMBERLY ELLIOTT

(CONTINUED FROM YESTERDAY)

Bangladesh, Cambodia, Laos, Maldives, and Nepalin addition to Sri Lanka--must pay these relatively high tariffs to enter the U.S. market, putting them on the same playing field as China and at a competitive disadvantage vis-à-vis Caribbean basin and Sub-Saharan African exporters. The data in Table 3 also suggest that this margin may be important, since Bangladesh was able to increase the value of its exports to the EU by 19 percent from 2001 to 2004 while losing 6 percent in the U.S. market where it must pay duties. Moreover, access to the U.S. market is important even for those LDCs with preferences in the EU market. For four of the five apparel-dependent LDCs that do not have preferential access in the United States, exports to the United States still account for 40 to 86 percent of their total exports of textiles and apparel. Exports to the United States account for 60 percent of Sri Lanka's total.

The Impact of Safeguards Against China

The accession agreement negotiated between China and other WTO members when it joined the organization provides for safeguard measures in the case of market-disrupting increases in imports of textiles and apparel. The mechanism was intended to cushion the costs of adjustment for firms and workers in importing countries, albeit at the expense of consumers, but its use also provides a temporary respite for developing-country exporters competing with China.

US manufacturers successfully invoked the safeguard to slow the growth in imports of a few products liberalized in Phase 3 of the ATC implementation (Table 2). Producers followed with an attempt to pre-emptively block the much larger surge in imports that they expected once quotas were eliminated on January 1, 2005. Apparel retailers and importers, however, petitioned the US Court of International Trade for an injunction to prevent the US government from considering a safeguards petition based on expectations of a surge rather than on actual import data. But early in April 2005, the US. Department of Commerce announced that it would investigate several products based on preliminary data for the first quarter that showed increased imports from China ranging from 300 percent to 1500 percent. The European Union is also considering invoking safeguards against China.

In the longer run, China and India will move up the development ladder, and rising incomes will increase domestic demand for textiles and clothing, opening space for other exporters. But given the large pools of underemployed rural labor in both countries, the long run could be long indeed, and shorter-term adjustment measures are still needed. The safeguards mechanism is one measure, but executing it is likely to be too ad hoc and uncertain to provide much help to developing countries that need significant new investments to be able to compete with China. Mechanisms that provide more stable and predictable access, especially for the least-developed countries, would also be helpful.

Policy Recommendations

Policies to cushion the adjustment to the end of the MFA are needed on two levels. First, the international community, especially the United States, can do more to ease the transition for low-income countries that are dependent on apparel export by further opening their markets to these countries. It is equally important, however, for low-income exporting countries to take steps to improve their competitiveness through domestic reform.

Opening the US Market to the Least-developed Countries

The United States is currently the only rich country that does not offer tariff-free access for apparel and other imports from all LDCs. Restrictive rules of origin prevent LDCs from taking full advantage of these preferences in other markets, but the European Union recently announced that it would consider ways to simplify these rules and improve access. These efforts should be accelerated and implemented as soon as possible by other rich countries as well. But the single most important action that any country could take in the short run would be for the United States to extend tariff-free access to the LDCs that do not currently receive it under the Caribbean Basin Trade Partnership Act, the African Growth and Opportunity Act (AGOA), or other regional preference programs. One proposal to do this is the bipartisan Tariff Relief Assistance for Developing Economies (TRADE) Act, which was introduced in the US Senate and House of Representative early in 2005.

If passed, the TRADE Act would authorize the president to grant limited duty-free access to 14 LDCs, plus Sri Lanka, which is just above the income threshold but highly dependent on apparel exports and one of the countries hardest hit by the December tsunami. The bill provides preferential access through 2014 but requires that country eligibility be reassessed annually. The rules of origin for apparel, like those under AGOA, require beneficiary countries to use American materials in order to gain duty-free access to the U.S. market for apparel. Recognizing that this would render exports from such distant countries uncompetitive, the TRADE Act allows beneficiaries to use local or third-country fabric, but only up to a collective ceiling of 11 percent of the volume of total U.S. apparel imports in the preceding 12-months, rising in equal increments to 14 percent in 2014.

A similar cap exists under AGOA, but African exporters are nowhere close to that cap. In contrast, the three largest TRADE Act beneficiaries -- Bangladesh, Cambodia, and Sri Lanka --already account for 10 percent of the volume of U.S. imports. Moreover, under the overall aggregate ceiling of 11 to 14 percent, there are individual country limitations based on size. "Small suppliers," accounting for less than 1 percent of total U.S. apparel import volume in the reference year, may increase their market share to a maximum of 1.5 percent (well above current levels for most). Larger suppliers, currently Bangladesh, Cambodia, and Sri Lanka, are allowed to increase their duty-free exports by only 0.33 per cent of total annual U.S. apparel imports, and only as long as aggregate exports from TRADE Act beneficiaries remain below the overall cap of 11-14 percent. The rules of origin appear to be designed to preserve existing market shares for these countries in the post-MFA world while limiting the opportunities for growth to the rate of growth of the U.S. market or the ability of these countries to improve productivity and export with the tariff in place. The bill would do more to promote development in these countries if the caps allowed greater opportunities for export growth.

In these countries, especially in the poorest, further development of the textile and apparel sectors will depend on inflows of foreign investment to expand and upgrade capacity. But a significant deterrent to investors is uncertainty of access to major markets. One basis for substantial certainty is concern that, after the quota phase-out, rich countries might increase their use of trade remedy measures, such as anti-dumping (AD) and countervailing duties (CVD). Therefore, if the United States and the European Union commit to restraint in using such contingent protection measures against textile and clothing imports from LDCs, they would increase the value of the preferences they grant. Less restrictive and administratively complex rules of origin, including more flexible caps in the U.S. TRADE Act, would also reduce uncertainty and increase the value of trade preferences.

LDC Policy Reforms

Finally, the ability of vulnerable developing countries to grasp the opportunities offered by the end of the MFA and by any preferential market access they receive depends largely on the reforms that they make themselves to encourage investment and facilitate trade. In addition, even under the best of circumstances, some countries are likely to suffer severe dislocations as buyers and investors rationalize their supply chains. Far too little attention has been paid to targeted labor adjustment policies, either by developing-country governments, which have limited resources, or by donor governments and agencies that might be able to help.

In the near term, policies to promote competitiveness in countries that depend on apparel export should focus on two key objectives: reducing turnaround time, which is increasingly important to buyers following the "lean retailing" model; and reducing other costs of doing business. But cutting costs should not mean just squeezing wages. Success in this market depends on finding ways to improve productivity, which should have positive spillovers for other sectors as well.

The twin challenges of reducing both turnaround time and transaction costs can be addressed in part through the type of reforms currently being negotiated in the Doha Round on trade facilitation and services liberalization. This suggests that developing countries should embrace rather than resist these negotiations. In exchange for developing countries' undertaking new commitments in this area, however, the international donor community should step up to the plate and make binding commitments to provide financial and technical assistance. Trade facilitation reforms would benefit firms in rich as well as in poor countries and would include lower costs of doing business. Equally important in the apparel sector, however, such reforms lower transit time as a result of faster and less corrupt customs clearance and better transportation infrastructure, including more efficient port facilities. Liberalization of services could help 1) expand the use of information technologies (telecommunications and e-commerce) that are crucial to becoming a full-package supplier; 2) reduce the costs of public utilities (e.g., through increased investment in power generation); and 3) expand access to credit by strengthening financial markets.

One recent study estimates that a 20-percent improvement in transaction costsincluding time to marketas a result of improved port efficiency, fewer days to deliver imported inputs, and improvement in customs quality and infrastructurecould increase apparel exports by 75 percent in Bangladesh, 59 percent in Indonesia, 80.5 percent in Vietnam, 42 percent in Pakistan, and 40 percent in Sri Lanka.

In the long run, domestic reforms will determine the future of developing countries currently threatened by competition with China and India. The industrialized countries should support these efforts by matching their rhetoric on the importance of trade facilitation and capacity building with adequate funding for this agenda. In the shorter run, the rich countries can ease the shock of adjustment by further opening their markets to the LDCs. For the European Union, this means further easing restrictive rules of origin. For the United States, it means passing legislation that provides duty-free access, also with flexible rules of origin, for the LDCs that do not currently have it, as well as for Sri Lanka.

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