Star BUSINESS

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Readjust import tax structure to protect local industry: CCCI

BSS, *Chittagong*

President of Chittagong Chamber of Commerce and Industry (CCCI) Saifuzzaman Chowdhury yesterday called upon the government to take appropriate measures to increase the difference of applicable overall tax incidence in the existing import tax structure between the industrial machinery, raw materials and the finished products for protecting local industry as well as its expansion.

In an urgent letter to the Chief Adviser Dr Fakhruddin Ahmed, the CCCI president also requested him to take steps to scrap the compulsory provision of paying average income tax, as per national budget for 2007-2008 fiscal, at a rate of 0.25 percent against total annual turnover of a company, according to a CCCI press release.

He said the imposition of such income tax provisions on yearly turnover of a newly floated industrial venture to be effective from the very first year of its journey ignoring profit-loss factors would definitely harm the new entrepreneurs and impede the speed of industrialisation.

The CCCI chief said some important decisions and provisions adopted in national fiscal policy for the financial year 2007-2008 proved as "counter productive" rather than business and investment-friendly which is totally contrary to the expectations of country's business community.

He pointed out that previous 5 percent tax structure for importing industrial machinery, spare parts and primary raw materials and 12 percent for importing intermediate industrial raw materials were increased to 10 percent and 15 percent respectively in the latest budget, but previous import tax structure of 25 percent applicable for importing finished industrial products kept unchanged till today.

"Such discriminatory tax provisions and regulations would definitely affect the expansion and development of local industry particularly the small and medium enterprises (SMEs), which is considered the backbone of the economy," Chowdhury observed.

He said withdrawal of previous 4 percent development surcharge at import stage from all category imported goods as adopted in the budget 2006-2007 would lessen the competitive edge of the local industrial products compared to imported finished products.

India, Bahrain to sign labour deal

PTI, *Dubai*

Seeking to streamline the labour movement to Bahrain, India will sign a memorandum of understanding (MoU) on manpower with the gulf nation.

The decision was conveyed by Labour Minister Majeed Al Alawi to visiting Overseas Indian Affairs Minister Vayalar Ravi during a meeting Thursday.

India had already signed such MoUs with the UAE and Kuwait.

Ravi invited Al Alawi to visit India.

"I have accepted the Indian minister's invitation and agreed to sign the MoU in New Delhi very soon," Al Alawi was quoted as saying.

EU delegates start inspecting shrimp processing in Khulna

Inspection team to leave for Chittagong tomorrow

STAR BUSINESS REPORT

A two-member team of European Union yesterday started inspection in Khulna region to inspect the quality of shrimp production and processing.

According to our staff correspondent in Khulna, the team visited a shrimp enclosure at Ransen under Rampal upazila of Bagerhat district and attended a shrimp-related workshop at Foila Women's College at Rampal upazila.

The team members later went to Harbaria in the Sundarbans to see fishing-related activities in rivers, canals and creeks.

The two-member team comprising inspectors Settle and Dr Mc Evoy from the EU Food and Veterinary Office in Brussels arrived in Khulna on Friday.

The team is in Bangladesh on a 10-day visit to have an idea of what measures have already been taken by the government about quality shrimp export from Bangladesh to the EU in accordance with the Union's directives.

The delegation also wants to see whether shrimp cultivators and processors are implementing HACCP (Hazard Analysis Critical Control Points) policies properly.

Ferdaus Alam Farazi, director of Bangladesh Frozen Food Exporters' Association (BFFEA), said no shrimp exporter was allowed to accompany the EU team during its fact-finding mission about export-oriented frozen shrimp processing plants.

According to BFFEA sources, the EU team is expected to visit and inspect shrimp enclosures, hatcheries, processing plants, fish feed mills and shrimp landing centres today in Khulna region. The team will visit Fish Inspection and Quality Control Lab tomorrow.

The team will leave Khulna for Chittagong tomorrow to inspect the shrimp industry there.

After visiting Chittagong region, the team will return to the capital on Tuesday and will attend a meeting hosted by the fisheries ministry.

The BFFEA sources said at the meeting the EU delegation may give some suggestions to the government as well as shrimp cultivators and exporters.

The team will submit its final report to EU authorities after returning to Brussels.

Earlier on Wednesday, the delegation met with Fisheries and Livestock Secretary Sayed Ataur Rahman. At the meeting the government told the EU team that it would ensure that shrimp farms will not export unhygienic products in future.

Bangladesh's shrimp industry, the second largest foreign exchange earner, employs more than 7.5 lakh people. Using 2.5 lakh hectares of land in southeastern and southwestern coastal areas of Cox's Bazaar, Bagerhat, Khulna and Satkhira, around 1.4 lakh farmers are producing more than 50,000 tonnes of shrimps annually, mostly by using traditional methods.

In 2006-07 fiscal, Bangladesh fetched about US$ 500 million by exporting shrimps, mainly to the US and EU countries.

However, in the first month of the current fiscal, frozen food exports witnessed a downtrend with a decline of 11.55 percent.

The government has fixed a target of earning $ 600 million from frozen food sector in the current fiscal year of 2007-08.

Pran signs $2.5m export deals

STAR BUSINESS REPORT

Pran, a leading food company, yesterday signed US$ 2.5 million deals with two companies to export its products to Middle East.

Under the agreements, Ahmed Al Wadaani Est Trading will import Pran products worth $ 1.5 million for KSA market for one year, while Aspen Trading and Contracting Co will import Pran products worth $ 1 million for one year for Qatar market.

The agreements were signed by Ahsan Khan Chowdhury, deputy managing director of Pran-RFL Group, Abul Kashem, representative of Ahmed Al Wadaani Est Trading, and Abdul Wadud, representative of Aspen Trading and Contracting Co, at the National Press Club in Dhaka.

Last month Pran signed an export agreement worth $2.04 million with Senegal-based Poultrade to export its juice and drink products and confectionery items to the western African country.

In February 2006, Pran also signed a US$ 1.5 million export agreement with a Saudi Arabia-based importing agency.

Saudi Arabia-based Marjook A. Al Harbi Trading EST signed deal with Pran to buy food items including aromatic rice, spices, mustered oil, fruit drinks, and tea.

Pran exports its products to more than 64 countries in Asia, Europe and America.

PHOTO: STAR

Ahsan Khan Chowdhury, deputy managing director of Pran-RFL Group, Abul Kashem, representative of Ahmed Al Wadaani Est Trading, and Abdul Wadud, representative of Aspen Trading and Contracting Co, sign deals in Dhaka yesterday. Under the deals, Pran will export its products to Middle East.

IMF meet opens to set reform agenda

AFP, *Washington*

International Monetary Fund policymakers convened Saturday under pressure to overhaul a financially strapped institution accused of having been oblivious to changes in the global economic balance of power.

The IMF's 24-member steering committee is meeting at a time of transition, with the Fund about to get a new managing director, former French finance minister Dominique Strauss-Kahn, who has already vowed to pursue reform "without delay."

Largely controlled by industrialized powers, the IMF is now confronted by demands that it accord a more potent voice to developing countries, the engines of global economic momentum in recent years.

The IMF, whose mission is to promote international financial stability, is also struggling with its own finances as many countries repay debt.

Interest from loans is drying up for what used to be the lender of last resort for troubled economies as potential borrowers turn to other, easier sources of cash -- China for example -- in a robust world economy.

"With a structural decline in IMF lending, the IMF's finances have become unsustainable," US Treasury Secretary Henry Paulson told the committee Saturday, adding bluntly that a little austerity would not hurt.

Agriculture key to meeting UN anti-poverty goals: WB

AFP, *Washington*

The World Bank warned Friday that the UN goal of halving the incidence of poverty and hunger in the poorest countries would go unmet unless agriculture took center stage in development aid.

"Poverty is overwhelmingly rural and will be for decades to come," World Bank chief economist Francois Bourguignon said at the presentation of the Bank's annual World Development Report.

He said the UN Millennium Development Goal of halving the percentage of people living on less than a dollar a day by 2015 "will only be met in poor countries if much greater attention is paid to agriculture as an instrument for development."

While 75 percent of the world's poor live in rural areas "a mere 4.0 percent of official development assistance goes to agriculture in developing countries," the report found.

In sub-Saharan Africa furthermore public spending on farming amounts to only 4.0 percent of total government expenditure.

The report said that for the poorest people an improvement in a country's gross domestic product that is agriculture-driven is four times more effective in reducing poverty than is GDP growth originating in other sectors.

IMF prescriptions blamed for high inflation

Monitoring of donors' activities suggested

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PHOTO: STAR

Prof Abu Ahmed (L) of Economics Department at Dhaka University speaks at a workshop on 'The Role of IMF in Policy Making in Bangladesh' in Dhaka yesterday. Rashed Al Mahmud Titumir (2-L), team leader of Unnayan Onneshan, Prof Anu Muhammad (2-R) of Jahangirnagar University, and Khushi Kabir of Nijera Kori, are also seen.

Inflation rate in the country has gone high on enforcement of IMF (International Monetary Fund) prescription to liberalise imports, not because of huge money supply, speakers said at a workshop in Dhaka.

They said the conditions Bangladesh had to go by to get $490million PRGF (Poverty Reduction Growth Facility) loan has caused such inflation.

Unnayan Onneshan (the innovators), a non-governmental organisation, organised the workshop on The Role of IMF in Policy Making in Bangladesh at the Cirdap auditorium yesterday.

M Iqbal Ahmed, research associate of the organisation, presented the keynote paper at the workshop, chaired by Rashed Al Mahmud Titumir, the team leader.

Professor Anu Muhammad of Jahangirnagar University said Bangladesh is following trade-liberalising policy to keep prices of essential commodities at a tolerable level as per suggestions of the international lending agency.

"But unfortunately, reality is that due to execution of the IMF suggestions, inflation goes up over 10 percent and in some cases it surged to 20 to 60 percent," he remarked.

The economist also pointed to the conditions the IMF imposed for its PRGF loan disbursable in 7 instalments.

These conditions are tightening demand management policy through monetary and fiscal reforms including some austerity measures, more liberal exchange regime by moving into floating exchange rates, more liberal trade regime by reducing tariffs and removing trade barriers and privatization of nationalised commercial banks (NCBs) and state-owned enterprises (SoEs).

Professor Abu Ahmed of the Economics Department at Dhaka University said adopting contractionary monetary policy by the central bank in accordance with the IMF advice to rein in inflation would be a suicidal one.

"Because inflation occurs due to free import policy and high cost of production of essentials, not for increased money supply," he observed.

In his presentation M Iqbal Ahmed said the average tariff reduced to 6.93 percent in February 2007 from 23.6percent in June 2003.

"Trade deficit increased by 85percent to $3458million in 2007 from $1865million in 2000, which leads currency to depreciate, making an impact on inflation," Iqbal said.

India and China have been the main sources of import for Bangladesh in the last five years, which account for 28 to 30 percent of the total import.

In the period mentioned, Indian Rupee and Chinese Yuan have appreciated by 17percent and 6percent respectively, while between 2003 and 2007 taka against dollar depreciated by about 19 percent meaning that cost of import from these countries increased substantially, he said.

Besides, the government is mulling to increase the utility prices in order to reduce budget deficit. However, the policy of increasing prices of public utilities would not solve the overdue losses incurred by the public utilities, he pointed out.

"When the country needs an investment-friendly environment to generate employment and production to eradicate poverty, a tight demand management policy has been destablishing the economy with low investment, low capital formation, low output and low employment thus leading to a stagflation," he said, adding that at the same time cut in public spending makes the poor marginalised further.

The speakers underscored the need for bringing donors' activities under public trial as the country has been suffering a lot by adopting their prescriptions for the last few years.

"We should introduce a counter monitoring mechanism to control all activities of the donors in the country," Professor Anu Muhammad suggested.

Khushi Kabir of Nijera Kori, an NGO, said Bangladesh should not follow such IMF policies that make the country poorer like countries in the African region.

Bangladesh GDP to grow at 6.5pc in FY 2007-09

Economist Intelligence Unit projects

UNB, *Dhaka*

London-based Economist Intelligence Unit (EIU) has projected Bangladesh's economy will continue to grow at 6.5 percent during 2007-09 fiscal years, similar to that in 2006-07.

"The composition of growth in 2007/08 and 2008/09 will be similar to that in 2006/07, as record inflows of workers' remittances underpin activity in the services sector and the manufacturing industry continues to make a positive contribution," EIU said in an outlook released recently.

It said rates of growth in the agricultural sector, however, will continue to lag behind those in manufacturing and services in 2007/08, as the sector strives to overcome the devastation caused by the floods this year, which destroyed crops in more than one-half of Bangladesh's 64 districts. "Assuming normal monsoon rains in 2008, the agricultural sector is expected to make a strong recovery during 2008/09."

The economic growth is set to slow slightly from 6.5 percent in 2006/07 to 6.2 percent in 2007/08 as the agricultural sector tries to overcome the devastating effects of the recent floods.

The country report titled 'Bangladesh at a glance: 2008-09' said the main near-term risk to economic growth is inflation, which stood at a 10-year high in September.

"The fear is that high inflation could entrench itself, particularly since the central bank (unlike its counterparts in the region) has not tightened monetary policy and is unlikely to do in the near future," it said.

It said there are also signs that domestic and foreign investments have weakened over recent months. Domestic investors have been reluctant to expand capacity, with many wary of attracting the attentions of the Anti-Corruption Commission (ACC), which appears determined to investigate all cases of unexplained wealth.

"This means that, unlike in the past, investments are being scrutinised by the ACC."

The report said that Bangladesh's external environment is likely to become slightly less favourable in 2008 as economic growth in the US and Euro area, Bangladesh's largest export markets, remains sluggish.

The real GDP growth in the US, which absorbs around 24 percent of Bangladeshi exports, is forecast to increase slightly, to 2.1 percent, from an estimated 1.9 percent in 2007.

By contrast, economic growth in the euro area (the destination of more than 30 percent of Bangladeshi exports) is forecast to lose momentum, slowing from an estimated 2.5 percent in 2007 to 2.2 percent in 2008.

RMG sector in post-MFA period: Policies for strengthening competitiveness-I

MUSTAFIZUR RAHMAN, DEBAPRIYA BHATTACHARYA *and* KHONDAKER GOLAM MOAZZEM

The Centre for Policy Dialogue (CPD) in association with the SouthAsia Enterprise Development Facility (SEDF) has recently completed a study titled Bangladesh Apparel Sector in Post MFA Period: A Benchmarking Study on Ongoing Restructuring Process. Major objective of the study was to closely examine and scrutinise the nature and extent of restructuring that is taking place in the RMG sector and to assess Bangladesh's competitive strength in the context of the changing global market scenario following quota de-restriction under MFA phase-out in 2005. The study was based on findings of a primary survey conducted by the CPD on a representative sample of 190 RMG enterprises covering woven, knitwear and sweater units and RMG workers in 270 RMG units.

The survey reveals significant changes in Bangladesh's RMG sector in view of the MFA phase-out in terms of technology absorption and innovation, sourcing of inputs, marketing structure and strategy, wage pattern and labour adjustment, rate of return and state of compliance. The study shows that the RMG sector is currently facing major challenges in a number of areas. The study comes up with a number of policy recommendations to address the attendant challenges and translate Bangladesh's comparative advantage into competitive advantage. The Daily Star will publish the recommendations of the study in three parts; the first is being published today.

Policies for strengthening technological base of the RMG sector

● **Policy support for scaling up:** The study indicates growing consolidation in the country's RMG sector through different ways such as consolidation of different units, acquisition and merger of units under different ownership and establishing new units with acquisition of new technologies. Factories with medium and large sizes have operated under upgraded production processes, used sophisticated technologies, manufactured and exported diversified products, employed more workers etc. The CPD survey revealed that scaling up of operation would enhance profitability, productivity, compliance standard capacity to manufacture high end products. The nature of market dynamics also bears out that buyers increasingly prefer to concentrate on a limited number of countries capable of meeting bulk orders. Thus, even in case of orders for traditional items, there is a growing demand for scaling up production. Analysis shows that transition of a small-scale enterprise to a medium-scale would require an additional capital stock of $1.16 million and the entrepreneur's profit may meet only 7 percent of the required capital. Comparable figures for a medium scale enterprise would be $2.49 million and about 14 per cent respectively. Scaling up efforts of RMG enterprises need to be supported through *(a) low interest credit facility for scaling up operation, (b) land acquisition to prepare industrial plots, (c) regulatory facilitation for acquisition and merger of units, (d) continuation of zero-tariff access to RMG machineries and spare parts, and (e) facilitating access to labour through decentralized development in peri-urban areas. Action plans should be taken by major stakeholders, especially by government, domestic and international financing agencies in the respective areas.*

● **Policy support for more advanced production processes and for manufacturing of high-end products:**
While it is evident from the survey that short to medium term perspective Bangladesh's comparative advantage will lie in volume-led, lower-end segment of the apparel's demand curve, a gradual movement to medium-end segment of the market is both desirable and inevitable, for at least a significant percentage of enterprises. However, this would require more capacity in such areas as fashion and design, use of IT, R&D, and direct marketing. Targeted policy support for development of fashion and design capacities and strengthening of the related institutions will help more enterprises to explore this segment of the market. Acquisition of sophisticated technologies to manufacture high end products is not widely evident even in large Non-EPZ and EPZ factories. *(a) A 'Technology Development Fund' may be put into place to promote and support the process of up-gradation. In addition, (b) policy support in credit facility to encourage technology acquisition, (c) revamping the vocational training system towards acquisition of skills to operate those machineries and initiatives to facilitate more informed choices have been recommended. Government and concerned business associations such as BGMEA and BKMEA should take necessary action plans in this regard. It seems that instead of fully upgrading the process in large and medium enterprises, it would be better to establish separate sections/units for manufacturing fashionable and high-end products. Local fashion-schools need to put more emphasis on fashion-designing courses beside their existing focus on merchandising and commercial issues.*

In the National budget 2007-08, an amount of Tk.4.68 crore has been allocated for the development of 10 textile vocational institute; another Tk.3.5 crore has been allocated for strengthening of NITTRAD's and TSMU's capability for development of textile sector. *However, appropriate utilisation of these funds should be ensured.*

● **Policy support for strengthening R&D activities:** Survey indicates that R&D activities in the sample enterprises were highly limited - only 9 percent sample enterprises were found to have a separate R&D section. Survey found strong relationship between R&D activities and productivity of labour. R& D activities should be enhanced at enterprise level. In this context, BGMEA Institute of Fashion and Technology and BKMEA's newly established Institute of Apparel Research and Technology (iART) in August 2007 are two important institutes which should take necessary initiatives to enhance R&D activities in the sector, especially *on development of new products, production techniques, upgradation of skill, motion analysis of workers etc. Collaboration between RMG enterprises and public/private institutes for research on fashion designing, modern technologies etc. could generate good results. Government or international financial/business support institutions could initiate "Fund for R&D Development" for textile and apparel sector under which subsidised credit could be disbursed for the establishment of R&D units in RMG enterprises. Enterprises which introduce R & D units should be given tax exemption for a certain period in order to encourage development of new products, production process which could contribute to manufacturing of high-end products.*

● **Promoting clusters:**
The study found cluster-based development largely absent in the RMG industry. There are some concentrations of industries in some areas which are developing both through relocation and through setting up of new enterprises. Such clusters have created demand for effluent treatment accessories, dyeing, finishing support and skilled labour. Since most of the small and medium size units do not find it cost-effective to go for diverse activities such as dyeing, washing, printing, and embroidery, a number of specialised enterprises have emerged in these areas. *The government of Bangladesh should promote and support the development of such clusters which could also be extended to such areas as skill development, R&D and marketing. To this end, government should create a 'Cluster Development Fund' under which entrepreneurs will get financial support to develop specialised service facilities in different RMG-factory zones. International financial institutes or business development organisations can take similar kinds of initiatives for the development of clusters in different areas. A well developed linkages in different services provided in a cluster zone would encourage enterprises to outsource more of different services, which would reduce the overhead cost of production as well as ensure better quality of products and ultimately make the enterprises more competitive.*

In India, 26 integrated textiles parks have been approved so far out of 30 sanctioned under the Scheme of SITP. Allocation for these parks increased Rs 425 crore in 2007-08 from Rs189 crore in 2006-07. Indian government has provided various incentives to RMG and textile sector under the "Technology Upgradation Fund Scheme (TUFS)" including credit linked capital subsidy @ 20% for decentralised power-loom sector, increase of ceiling of capital subsidy from Rs12 lakh to Rs20 lakh, fixation of benchmarked price of second-hand imported shuttle less looms of vintage exceeding 10 years and up to 15 years with a residual life of 10 years etc. Allocation for TUFS has increased to Rs911 crore in 2007-08.

Authors are respectively research director, executive director and research fellow at the Centre for Policy Dialogue (CPD).