Will Accra carry a message of hope for Geneva?

Surely, a Conference that has development on its agenda should be closely linked to negotiations of a trading round that is supposed to have "development" dimensions at its heart. It is from this vantage point that we pose the question: Will UNCTAD XII be able to send a positive signal to the WTO's Doha Round of trade negotiations? We are certainly hopeful that Accra will carry a message of optimism for Geneva, but we also know that it will not be an easy task. Bangladesh will be represented in Accra by a strong delegation, which will be led by the Hon'ble Advisor of Foreign Affairs and will also include the Bangladesh Ambassador in Geneva.

KAZI MAHMUDUR RAHMAN HASANUZZAMAN

THE UNCTAD XII Conference is now taking place in Accra, Ghana, and it is going to continue till April 25, 2008. This year's Conference carries special significance because it is being held at a time when the Doha Development Round of trade negotiations, under auspices of the WTO, is passing through a critical juncture and it is poised in a decisive balance. UNCTAD is (more truly ought to be) all about the development of developing countries.

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Roadmap: From Accra to Geneva

UNCTAD XII discussions in Accra are going to take place at a time when despite the obvious difficulties (e.g global "agflation," stagnated Doha Round and its uncertain implications, etc) developing countries and LDCs are realising that they have much to gain from a concentrated effort. The main theme of the UNCTAD XII Conference addresses the opportunities and challenges of globalisation, which is divided into four subthemes. Sub-theme I concerns establishing policy coherence among global policymaking international institutions, while sub-theme II relates to key trade and development issues. Sub-theme III focuses on trade and investment issues and sub-theme IV aims to strengthen UNCTAD as an institution in tackling trade related development issues.

In order to make trade an engine of economic growth and an instrument for poverty alleviation, a number of issues appeared to be important from the perspectives of both Bangladesh and other LDCs, including market access initiatives, opening up services sector, policy coherence among the global governance institutions and policy space for the LDCs, monitoring targeted aid for trade and trade facilitation, transfer of technology and access to technology. All of these issues are in the agendas for discussion in both the WTO and the ongoing UNCTAD XII Conference.

Though the WTO's Single Undertaking principle was crafted in a way to homogenously address all issues on the Doha Development Agenda, it has regularly caused more disagreements than assistance in reaching a consensus based agreement. Given the interlinkages between all the issues that are currently being negotiated, coupled with the stalemate in the current round of trade negotiations, UNCTAD XII presents itself as a convenient platform for Bangladesh and other LDCs to articulate their interests in a manner that can somewhat gear the Doha Round's outcome towards addressing their apprehensions.

In view of the NAMA negotiations, in countries where Bangladeshi products had been enjoying preferential market access, further tariff reductions are going to result in considerable erosion of trade preferences in those preference giving markets. From this perspective of trade preference erosion and with a view to mitigate the potential losses, Bangladesh and other LDCs will stress for commercially meaningful market access under the Duty-Free and Quota-Free initiative during the UNCTAD XII Conference.

In context of the agriculture negotiations, elimination of export subsidies as well as domestic supports on agriculture is likely to stimulate the ongoing global "agflation" whereby food-security situations of net food-importing countries like Bangladesh, is likely to be further aggravated. In view of all the anticipated anxieties, Bangladesh may pursue a proactive policy which will mitigate her potential losses and could also demand that UNCTAD play an important role by increasing awareness about these adversities through its research and database and make the developed countries understand the issues of importance for LDCs.

In services negotiations, Bangladesh has to argue her case for commitments on market access and national treatment in the sectors and modes of supply of her export interests, in particular, commitments on the temporary movement of natural persons under Mode 4, which has both strong development and poverty alleviating dimensions. Market opening commitments under the services negotiations is likely to unlock new opportunities and Bangladesh could demand that UNCTAD be turned into an independent focal point in order to facilitate and manage labour mobility and migration.

Aid for Trade (AfT) is not part of the Doha Round Agenda and hence, it can be pursued and implemented independently over any Doha outcome. The WTO, in close collaboration with the World Bank and the IMF, is the focal point of the AfT scheme at the international discussions and this is one place where the G77, which now comprises of 130 member countries consisting of both developing countries and LDCs, are eager to see the UNCTAD play a more vigorous role in assisting LDCs acquire the appropriate aid, which is to be targeted towards trade related development purposes. Bangladesh may also underline that UNCTAD continue to follow further evolution of the Enhanced Integrated Framework for needs assessment and donor coordination where she can be a potential candidate for large-scale infrastructural projects such as

Dhaka-Chittagong Highway (6 to 8 lane) and development of the Mongla Port.

The Way Forward

In view of the world-wide volatile price situation of essential commodities alongside the deadlock in the Doha Round of trade negotiations, UNCTAD XII has generated high expectations for developing countries in general and LDCs in particular. If the G77 is able to get the other key players (the EU, the US, Japan and Canada) to, in principle, agree on the key issues of their concerns, it will certainly highlight a moral victory for developing countries and LDCs and galvanise the entire process of the Doha Round of trade negotiations to be steered towards addressing the LDCs concerns and interests. We look forward to such an outcome.

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Capital market, tax rate and financial institutions

MASIH MALIK CHOWDHURY

THE banks, insurance, and non-banking financial institutions (NBFI) have, since the last few years or so, been very active in capital market operations. These institutions have been the key players of price settlement, demand and supply interaction of share prices, and many other factors. Their operation in the capital market is secondary, these institutions will all claim. However, the huge volume of operation in capital market has made all of them more inclined to that than to their own licensed domains.

Banks may not be interested in customers and deposit mobilisation, advances to the loan seekers etc. to keep the economy going. Insurance companies may also invest in real estate and properties in order to provide a cushion for the policyholders or the insured clients to fulfill their pledge. NBFIs are in the business only to finance the businesses which seek lease funds from them. Each institution has its own arena of business, wherein it is expected to serve to the best of its ability to meet the needs of the economy.

The income tax rate on these institutions is 45 percent on profit before tax. The balance 55 percent is open for retained earnings or dividends for the stake owners. This rate is apparently very high. On the back of it however the computation will make it very simple. The profits on investment in the capital market by these institutions have been huge, compared to their main operational incomes. The reasons are obvious, and one does not need to be an economist, accountant or analyst to understand them either.

Why do these institutions invest so heavily in the capital market? It is unbecoming for them that their clients, or more particularly the loanees and depositors, are only getting poor service from them. Consequently, their impact on the economy at large, through the depositors and borrowers, is far less than expected. Insurance companies do not deal with people's money, and make these investments from their own income. On the contrary, the banks and NBFIs do not make investments from their own income. Rather they do it from the deposits.

These deposits could have financed economic activities at lower cost, GDP growth could have been much higher, employments would have increased, and progress from indigenous resources could be faster. Indeed, banks and NBFIs are given license to profit from investment. Their expertise should be used for financing at low cost. They, however, go for exorbitant profit from investment in the capital market.

What happens from their investment, and why such a huge chunk in the capital market? A bank or NBFI is supposed to pay 45 percent income tax on its profit. If its operating profit is Tk. 100 crores it pays an income tax of Tk. 45 crores on it, providing a large fund indeed for public expenditure. But when the banks/NBFIs invest in capital market from the deposits lying idle with them they make a colossal amount of profit. Such investments are increasingly taking place because the profit is tax exempted.

When they invest long-term in capital market, they receive dividends which are taxed at source at 15 percent as final settlement. Thus, the dividends from their investment are taxed at 15 percent, while operating income is taxed at 45 percent. But the trading income on investment is has zero tax.

As an hypothetical exercise, lets us say a bank in 2007 earns a profit of Tk. 190 crores which is composed of Tk. 148 crores from investment in capital market as trading income. The commission on brokerage is also taxed at .015 percent having final settlement. But the profit on investment in shares is not taxed. The bank makes only Tk. 42 crore as operating profit, and pays tax amounting to Tk. 18.9 crores. It pays tax at source of 15 percent on its dividend income of Tk. 10 crore, which is only Tk. 1.5 crores, as final tax. So this bank earns a profit of Tk 190 crores. But, if it was only from operating income the income tax would have been Tk. 85.5 crores. Because of tax avoidance, it earns an operating income of Tk. 42 crores, tax-free income of Tk. 138 crores and dividend income of Tk. 10 crores. It pays tax of Tk. 18.9 crores on operating income, zero on Tk. 138 crores, Tk. 1.5 crores on Tk. 10 crores. The total tax payable is Tk. 20.4 crores. This sum is insignificant compared to the Tk. 85.5 crores if the operative income been Tk. 190 crores. Thus there is large tax savings from investment in share market by banks/NBFIs.

The government incurs a loss in tax revenue, and the banks and NBFIs are keen to make profit by saving tax rather than investing in loan portfolio, their main business. Moreover, the spread between their cost of fund and cost to borrowers is very wide. The cost for the overhead should be limited to a percentage over the bank rate. Likewise, if the bank rate is 6 percent the cost should not be over 2 percent on it. Thus, the fund cost will come down. Idle funds from deposits will be channeled to loan portfolio. Investment from deposit on loans will pave way to bring forth efficiency in handling the loan, close and effective monitoring over borrowers, reduction in loan loss etc.

Alongside the major achievement would be that superficial price of stocks in capital market will be corrected and eventually fade out. Prices on the basis of fundamentals of capital market would be the resultant effect. The micro level investors, who are the nucleus of the market, will be able to buy at lower price and for long term investments. The NAV or net asset value of the share of a bank may be Tk. 190 for a share of Tk. 100, but its stock market price may be, or around, Tk. 3,000.

So the root cause of the high price has been identified above. The motivation for tax avoidance is very obvious, and such an easy way out for tax exemption would be availed by all. For banks and NBFIs, this could be limited on a predefined criterion, and gradually stopped in near future. In its absence, these banks and NBFIs will be more active in earning from risk-based returns from investments in loan portfolio. Then the cost of lending will fall, and industrial, agricultural and imported products will be cheaper and within reach. The tax revenue of government will be much higher, and economic activities will be rejuvenated.

The superficial price of stocks in the capital market will come down to within the reach of small and micro-level investors. Then the share market can fetch the savings lying idle with the micro-level investors at home. The NBFIs and banks are profiting while creating an artificial demand for shares. This needs to be addressed, and policies to keep them in their main business should be formulated.

To bring them back to trading on loan portfolio, a few measures may be undertaken. An upper limit of 20 percent of the total profit can be set for these institutions from capital market, including dividends, while the rest 80 percent has to be earned from loan portfolio -- 20 percent from agriculture, 40 percent from industries, and 20 percent from others. This can be set in the ensuing budget if not sooner, or tailored after the banks respond to it. In order to trade off with the current perspective the income tax rate of 45 percent can be reduced while a special rate, say 30 percent, should be put on dividends and capital market income, instead of the present no tax regime. It is proposed at 30 percent because the individuals pay 25 percent income tax.

Let the budget 2008/09 take cautious note of the same. Let the capital market not be a monopolised playing field for institutions alone, but be infused with micro-level savings for the benefit of the majority. Thus, the government will also earn large amount of income tax from the operating income on investment in loan by the banks etc., and new economic activities will take place. It will also create opportunities and scope for new employments and investments while augmenting public revenue sources for the government on sustainable basis.

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Rising rice prices outpacing controls

Rice prices have doubled since January, when it traded at about $380 a ton, boosted by strong Asian, Middle Eastern and African demand, to recent quotes of as much as $760 a tonne. "I have no idea how importing countries will get rice," Thai Rice Exporters Association president Chookiat Ophaswongse told the Financial Times. He expects prices will rise further.

TAREQUL ISLAM MUNNA

THE increase in rice prices began in January, lagging nearly two years behind the surge in prices of wheat, corn and other agricultural commodities. Still, the rise in rice prices began well before prices jumped 30% to an all-time high after various governments enacted controls to rein in prices.

Egypt, for example, announced a ban on selling export of rice in order to keep local prices affordable. The Philippines, meanwhile, announced plans for a major rice purchase in the international market in order to boost domestic supplies.

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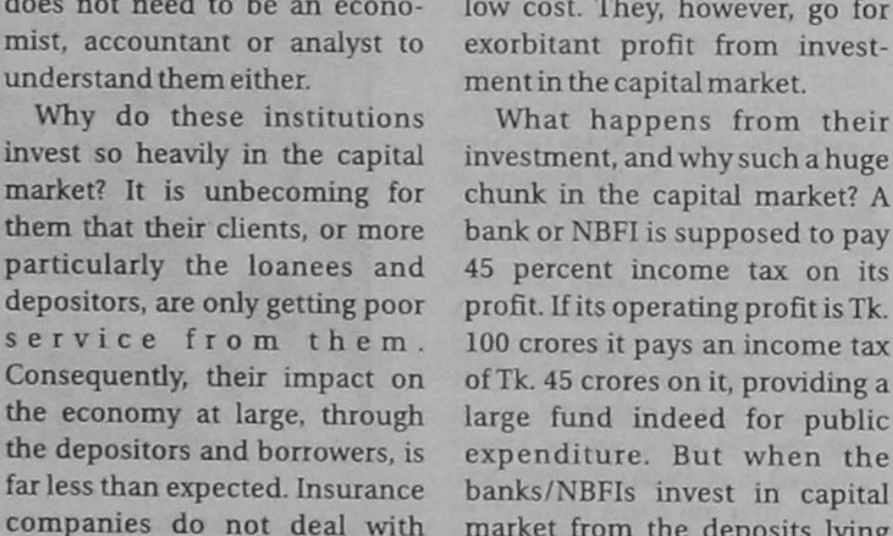
Global rice stocks are at their lowest since 1976, adding to fears of fresh outbreaks of social unrest across Asia, where rice is a staple food for more than 2.5 billion people.

The Egyptian ban follows similar restrictions imposed by Vietnam and India, the world's second and third largest rice exporters. Cambodia has also announced an export ban. The Indian government is trying to rein in local inflation by imposing restrictions on export of rice, a move Indian traders fear will halt all non-basmati Indian rice sales.

India's control measures include a 53% hike in the minimum price for selling non-basmati rice abroad, to $1,000 a tonne.

Analysts say that exports of premium basmati rice will likely continue, although the volume will probably drop because of minimum export price increases and reduced export tax incentives.



MUNIR UZ ZAMAN/ DRIK NEWS

The Philippines -- the world's largest rice buyer -- wants to purchase 500,000 tonnes in a struggle to cover a production shortfall. Combined, foreign sales restrictions have removed about a third of the rice traded in the international market.

Rice is also a staple in Africa, particularly for small countries such as Cameroon, Burkina Faso, and Senegal that have already suffered social unrest because of high food prices.

Indonesian officials have expressed concerns that surging food prices might lead to social unrest similar to that which brought down Suharto 10 years ago.

"In 1965 we faced a very, very depressing situation of social unrest," a senior Indonesian government official says. "In 1998 we had a similar situation, and we hope in 2008 it's not another situation like that because the cost to the economy is too high."

China plans to increase prices paid to farmers for rice and wheat by up to 10% to encourage increased output and cool surging inflation that fueled retail price jumps of 23.3% last month.

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Potato as part of our diet

RIPAN KUMAR BISWAS

ALTOGETHER, thirteen courses were served at the lunch following the army chief's meeting with the national editors at the Army Headquarters on April 8, 2008. The menu included potato soup, french fries, potato corn curry, potato kopta curry, potato roller gravy, potato with spinach, potato malai curry, potato navaratna, potato pudina, and potato pulse.

The key to a successful lunch meeting is making people feel comfortable. During the lunch, the army chief made a 5-point appeal to the press to help bring down prices of essentials, hold credible elections, encourage people to diversify their food habit, improve the rule of law and security, and highlight rural news. Behaving graciously throughout the meal, he stressed the need for the nation to consume potatoes alongside rice to alleviate the food crisis and requested the press to spread the slogan Bhater pashe aloo protidin (potatoes alongside rice every day) throughout the country, which is according to him already a common slogan in the army itself.

According to a new WB-IMF report from Washington through a video conference connecting Dhaka, New Delhi, and Islamabad on Tuesday, April 8, 2008, sharp rise in food grain prices in recent times will worsen poverty situation in most of the South Asian countries including Bangladesh, leaving UN development goals by 2015 uncertain. The Philippines, the largest rice importer, recently urged China, Japan, and other Asian nations to attend an emergency meeting on the region's food crisis to try to reverse export curbs that have driven prices to record highs. Governments of those countries are getting afraid of unrest.

Shortage of supply, international price-hike, extreme weather events, and government incompetence are responsible for the present food price hikes. According to economists' suggestions, a country should try hard to increase the supply of the commodity most in demand and, in the meantime, to divert food habit to another demanded commodity for the time being.

Potatoes are best known for their carbohydrate (approximately 26 grams in a medium potato). Starch is the predominant form of carbohydrate found in potatoes. A small but significant portion of the starch in potatoes is resistant to enzymatic digestion in the stomach and small intestine and, thus, reaches the large intestine essentially intact.

Potatoes contain a number of important vitamins and minerals. A medium potato (150g/5.3 oz) with the skin provides 27 mg vitamin C (45% of the Daily Value (DV)), 620 mg of potassium (18% of DV), 0.2 mg vitamin B6 (10% of DV) and trace amounts of thiamin, riboflavin, folate, niacin, magnesium, phosphorus, iron, and zinc. Moreover, the fiber content of a potato with skin (2 grams) equals that of many whole grain breads, pastas, and cereals. In addition to vitamins, minerals and fiber, potatoes also contain an assortment of phytochemicals, such as carotenoids, and ployphenols.

A single serving of a potato can provide a person with 40 percent of the daily value needed of vitamin C; this will help keep the body from bruising easily. Also, the potato can give 20 percent of the potassium needed for the body each day. It helps stabilise the body when it is being overworked. Though not likely to cause serious harm, green skinned potatoes can taste bitter and may result in temporary digestive discomfort.

The potato, a name derived from the Native American Indian word "Batata," was first cultivated by the Inca Indians in Peru over 7,000 years ago. It was introduced to Europe around 1700 and, subsequently, by European mariners to territories and ports throughout the world. Historical and genetic evidence suggests that the potato reached India not very much later than Europe, taken there by either the British or the Portuguese. Genetic studies show that all 32 varieties of potato grown in India derive from the Chilean subspecies. The earliest unequivocal reference to the potato in India is in an 1847 British journal.

In recent decades, the greatest expansion of potato has been in Asia, where approximately eighty percent of the world potato crop is grown. Since the dissolution of the Soviet Union, China has become the world's largest potato producer, followed by India. Potato is the world's most widely grown tuber crop, and the fourth largest food crop in terms of fresh produce after rice, wheat, and maize (corn).

Last year, eight million tons of potatoes were produced in Bangladesh, but there is capacity of preservation of only two million tons. According to the army chief, eating potato will not only help to reduce sharp rise of food grain prices but potato growers will also get fair price and will be encouraged to cultivate potato next year.

The United Nations has officially declared 2008 as the International Year of the Potato in order to increase awareness of the importance of the potato as a food in developing countries.

Of course, there is nothing tasty, traditional, or important in comparison to rice, and the people of Bangladesh cannot take anything instead of rice. But potatoes are one of the most nutritious staple crops discovered by man and can be consumed along with rice.

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