International Business News

S Korea announces $10b energy package

AFP, *Seoul*

South Korea on Sunday announced a 10 billion dollar energy package aimed at helping consumers cope with the effects of rising oil prices.

The package includes tax rebates for 12.8 million people for one year and subsidies for low earners to buy fuel, Prime Minister Han Seung-Soo said in a statement.

"We have great difficulty as our country is the world's fifth-largest oil consumer while it does not produce a drop of oil," Han said.

Among the beneficiaries of the 10.49 trillion won (10.3 billion dollars) package are truckers who have threatened to strike unless the government helps them reduce surging energy costs, the statement said.

Oil prices on Friday posted their highest ever one-day gain of nearly 11 dollars, hitting a new record of 138.54 dollars a barrel in New York trade.

Han added that the government would consider further measures, including tax cuts, if oil prices exceed 170 dollars per barrel.

Vietnam asked to scrap seafood import tax

ANN/ *Viet Nam News*

The Vietnamese government should axe excise duties on seafood imports to boost the domestic economy, according to the deputy chairman of the Viet Nam Association of Seafood Exporters and Processors (VASEP), Nguyen Huu Dung.

Speaking at a conference earlier this week, Dung said boosting imports of seafood for processing and re-export could double or even triple the investment required, if tax barriers were removed.

VASEP's deputy chairman, Ngo Phuoc Hau, said China had become the world's leading seafood exporter by importing unprocessed seafood for export. He said Viet Nam could emulate or surpass China as the world's biggest seafood exporter with more Government support.

Furthermore, Hau said the additional investment required would be minimal and that there would be lucrative spin-offs in the storage, transport and packing industries.

Malaysia scrambles to soften fuel price blow as protests loom

AFP, *Kuala Lumpur*

Malaysia's government scrambled Sunday to cushion the blow from a 41 percent fuel price hike, as activists planned more rallies to denounce the decision.

Prime Minister Abdullah Ahmad Badawi urged angry citizens to understand the reasons behind the move, and said the government would do all it can to alleviate the burden on the poor.

"Each and every one of us has a role and responsibility in facing these trying times. As such, let's face this challenge together with resilience for the greater good of the nation and our future generations," he said.

"The government has held out for as long as possible to protect the people from fuel price increases," the premier said in the speech reported Sunday.

AFP

A butcher arranges meat at a market amid rising food prices in Manila yesterday. According to analysts, the Philippine economy faces a "perfect economic storm" of inflation at nine-year highs as food and oil prices soar, rising interest rates and slowing growth.

Iranian inflation tops 25pc

AFP, *Tehran*

Inflation in Iran, the subject of heavy criticism against the government of President Mahmoud Ahmadinejad, rose again over the past month to over 25 percent, the central bank said on Sunday.

Inflation in the last Iranian month of Ordibehesht ending May 20 was 25.3 percent, up from 24.2 percent in the previous month, the bank said in a statement.

The figures confirm that prices are continuing to rise sharply in Iran, with the poor hit hardest by increases in the prices of basic foodstuffs, goods and property.

Ahmadinejad has been blamed by many economists for directly fuelling the price rises by ploughing huge amounts of cash into the economy to fund local infrastructure projects.

There has been a sharp increase in money supply growth -- a key indicator of future inflation trends -- to almost 40 percent during the years of the Ahmadinejad presidency.

The latest criticism came from one of the country's most respected clerics, Ayatollah Nasser Makaram Shirazi who said that "the bad management in the economic affairs of the country is perfectly clear."

THOUGHTS ON BUDGET

The Star Business columnists write down their expectations as finance adviser today unveils the national budget for FY2008-09.

Budget expectations

MAMUN RASHID

Budget- take it or leave it- can't address every wealth creation, savings mobilization, driving growth or equitable distribution issues. Ultimate growth and development require commitment from the political regime, better governance, accountable civil bureaucracy and effective local government.

If you ask me, as a transition economy poised for growth, what should be done in Bangladesh? My answer would be- continuous wealth creation and ensuring equitable distribution through better governance. In the interim we need to adjust with spiraling inflation, ensure employment and thereby help alleviation of poverty. Our annual development plan (ADP) should of course try to address those. We not only need a 'tight packed' ADP, we also want this to be focused on the right issues and right causes as well as its proper implementation with `military precision'. For the revenue budget, we of course want that to support wealth creation, creation of right business and entrepreneur class with right incentives and protection.

We want an end to the `subsidy regime' or at least subsidy to support only the `needy group', not to grease the wealthy ones. We want `safety net' only for the real disadvantaged ones, not protection of the `inefficiencies' and thereby discourage competition or real entrepreneurship from home and abroad. We don't want continuation of `tax holiday' to support inefficient or tax dodging manufacturers'. We want tax earnings to be increased through broadening of the tax net'.

The last budget included many small enterprises under tax net, but more needs to be done while only 6000 companies out of 62000 registered companies under the register of joint stock companies file tax returns. A broader tax net will bring only well to the revenue earnings of the government and should be hailed by the business community, if implemented justly. More awareness building activities for paying tax should be emphasized and budget allocated for this.

The key phase of the budgeting process somewhat overlooked-the implementation side of a realistic budget. To facilitate and ensure proper implementation, the best way would probably be to empower the local government and putting in a `sound proof' system around it. Finance Adviser Dr Mirza Azizul Islam last Thursday said that the extent of total subsidy for fuel and other sectors would be 15-16% of the total budget. The government on Saturday approved a reduced Annual Development Plan (ADP) expenditure of BDT 256 billion marking a 3.39% decrease and is also planning to increase the revenue spending by 40%. These decisions should be encouraging to the business community, while foreign investment remains a major issue. The budget should have proper policy guidelines for encouraging right FDI in Bangladesh.

Though till now insignificant, the tax benefit has been successful in encouraging private companies to the Stock Market and the Dhaka Stock Exchange Index (DGEN) has risen to record highs in the last couple of weeks. We sincerely hope that incentives for the listed companies will continue and increase, if possible and will boost the country's stock market. We desperately need to reduce the supply side constraints in our capital market and thereby avoid overheating by attracting the large telecom companies, profitable public sector enterprises and local corporates.

Inward remittances from the wage earner's abroad have been encouraging. This has every likely hood to double within next 3 years given proper support and right incentives. Steps should be taken to train our unskilled labor force and increase their marketability with higher pay in the destination countries. New benefits and incentives should be introduced in this regard. So much have been talked about investment in agricultural research, reduction of regional disparities and creating safety net for the real disadvantaged ones, I can only reemphasize on those and once again reiterate on efficient implementation of the budgetary measures, steps and development programs, geared towards reduction of poverty, employment creation and business growth.

The writer is a banker and economic analyst.

Investing in long-term economic future

IFTY ISLAM

Given the triple global shocks of US recession, record oil prices and rampant food inflation, the relative strength of the Bangladesh economy is something that the country can be proud of. Add to this the lagged impact of cyclone Sidr and the current projected official growth rate forecast of 6.2 percent for FY 2007/08 is a testament to resilience of entrepreneurs and workers in the private sector.

But with the release of the budget, our focus naturally turns to strategy and the effectiveness of fiscal policy. The somewhat confusingly labelled "revenue budget" is expected to rise by 40 percent while the Annual Development Programme (ADP) element of the budget is projected to decline. While the Finance Adviser noted the distinction is "artificially separated" as they have an equal impact on people's lives, from a policy perspective, it is a useful split insofar as it distinguishes between expenditure to meet current consumption/subsidization needs for the economy, versus an ADP expenditure that ought to enhance the competitiveness and longer-term potential of the Bangladesh economy.

On the revenue element of the budget, there has been a lot of focus on the pros and cons of the policy of energy, food and fertilizer subsidization that is prevalent not only in Bangladesh but a number of other developing economies. My bias is always to think that greater price transparency is better than distortions in the costs of goods for the more effective functioning of a market economy. Direct subsidization for the poor is also more effective than subsidies than benefit the millionaire city businessman to the same extent as the poor farm labourer. But the violent protests in India in the past week in response to the 10 percent hike in oil prices underlines the need for sensitivity by the government in not adding to domestic political tensions at this sensitive time of transition back to a democratically elected government. So reducing subsidies in the short-term might be ill advised.

But the authorities should be less happy with the inability to deploy development spending more effectively. Bangladesh needs to equip itself more effectively to compete more effectively, attract FDI and reduce its reliance on imports of food and energy. So I would suggest focusing discretionary spending on the following areas:

1)Food: Expanding the Agri research budget so Bangladesh can become a major net exporter of food. More spending on biotechnology solutions from hybrid rice and enhancing crop yields to more efficient aquaculture will be money well spent.

2) Energy: Bangladesh can get closer to energy self-sufficiency by exploiting the 3.5 bn tonnes of coal as well as greater utilization of bio-diesel opportunities through expanded Jatropha production. Increased investment in energy research, both conventional and alternative, should be a top government priority.

3)FDI: ADP spending should be directed to both develop and market Brand Bangladesh more effectively that will increase FDI flows. Targeted fiscal incentives to bring back more NRBs as China has done so effectively with their Diaspora is also likely to be an effective use of resources.

If we see fiscal policy as a key strategic tool in our economic development, rather than merely budgetary firefighting and short-term expediency then we will be enhancing Bangladesh's global competitiveness and long-term economic future.

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STAR

A file photo shows citing administrative reasons, the BDR authorities fixed a notice to a bamboo pole of a fair price outlet on Dhanmondi ground recently, saying it would remain closed until June 9. The budget must have a very strong agricultural focus to ensure food security for the nation, says an analyst.

Focus on agriculture for food security

SYED NASIM MANZUR

As we await the announcement of the Budget for 2008-9 let us spare a thought for what the honourable finance adviser has to contend with: record oil prices, soaring food prices and shortages, financial crises and recessionary economies and major natural disasters. Compounded with the political crisis in Bangladesh pre 1/11, the heightened expectations of the people after 1/11 and the current political crisis, delivering this budget is a daunting task. Especially as this next budget must deliver on certain key areas.

First and foremost, learning from the challenges of 2007, the budget must have a very strong agricultural focus to ensure food security for the nation. This must include ensuring efficient delivery of seeds and fertilizers, supporting R&D initiatives to boost productivity, better land management, encouraging crop rotation and diversification, and government procurement. A related issue will be delivering the diesel subsidies to the farmers in an effective and timely manner.

This leads onto the second focus area which must be employment generation . As our ability to contain prices is limited we need to create and boost purchasing power in the economy and an investment friendly budget will help create new jobs in the economy. Enhancing ADP utilization capacity will boost the rural economy in particular. Export basket diversification with an emphasis on labour rich sectors and setting up a Skills Development Bank must also be prioritized.

The third focus area should be widening the social safety net for the most vulnerable segments of our society . Here also we need innovative and effective delivery systems so that the target groups are the true recipients of the support and not middle men and agents.

Fourthly , this budget must provide clear and significant incentives to attract substantial long term investment in the power sector, by both public and private sector players.

Education is at the core of all social sector reform and investment in education and health must continue to be a priority.

In conclusion we hope that there will be a move towards a wider, flatter and simplified tax structure as well as minimal use of distortionary supplementary taxes. The huge withdrawals from the banking system by the government should also be reduced to alleviate the liquidity crisi in the market.

Irrelevant and duplicative programs should be terminated and mandatory and discretionary spending clearly segregated for better accountability.

Ronald Reagan once said that a government bureau is the closest thing to eternal life we will ever see on this earth. He identified during his tenure 130 programs serving the same constituency and cut them to 10 ! Exactly what we want - smaller ,better and more effective government.

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Priorities for IT sector

HABIBULLAH N KARIM

In this budget the IT industry is anxiously waiting to see some pro-active measures to save the sector from further stagnation. Both the domestic and export markets have literally taken a nose dive in the last two years. Export revenues have registered 4 percent and 34 percent drops in the last two years according to the latest figures from EPB. Needless to say that a thriving IT sector is a sine qua non for the economic development of the country in the 21st century. To reverse this alarming trend the government needs to give the market the right cues for bringing growth back through appropriate financial incentives and facilitation measures. Let me take you through some of these:

Income-tax exemption: This facility for software companies ends this year. The raison detre for this was that regional countries are years ahead of us with sizable portions of the US$300 billion IT offshoring market, the software and IT enabled service entrepreneurs here need all the investments they can muster to try to take a piece of the action of the increasingly competitive market. This exemption facility should continue for at least the next ten years.

Accelerated depreciation on procurements of computer hardware, software and services: This was agreed to by the finance ministry in 2002 but was never implemented. Private companies carry a double burden at present in their books of accounts for frequent upgrades to their computer systems especially software and services. It is an accepted fact that better automated companies are better tax payers and so it's in the interest of the government to encourage automation of business operations through use of computerized business solutions. Allowing accelerated depreciation at 50 per cent per annum or more on such procurements will remove the double burden. We are the only major country in the world without this facility.

Allocations for development of a software technology park (STP) and aggressive export marketing: To attain a visible foothold in the global IT offshoring market we need to attract a few of the top software giants of the world to Bangladesh for their offshore development centres (ODC). This will help build an image of Bangladesh as an IT offshoring destination and secure for Bangladeshi entrepreneurs a stepping stone to launch their global marketing. To that end appropriate budget allocations are needed to set up a STP in Mohakhali and send software delegations to outsourcing exhibitions throughout the world.

Internet service as a public service obligation (PSO): Internet is not a luxury or for businesses only. Today it is the most important medium for governance, business, education and social interaction. Accordingly the government needs to make internet available to all citizens at cost (no-profit basis) if not at a subsidy to leapfrog other developing nations in this regard.

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