Businesses continue protest against export tax hike

PMO/FILE

Finance Minister AMA Muhith places the 2012-13 budget in parliament on June 7. Prime Minister Sheikh Hasina is also seen.

STAR BUSINESS DESK

BUSINESS leaders yesterday urged the government to review its plan to increase tax at source on exports, saying the move will badly impact their business.

Finance Minister AMA Muhith in his budget speech proposed raising tax at source on exports of all kinds of products to 1.2 percent from the current 0.60 percent.

"It is a 100 percent rise compared to the existing rate, which is unrealistic for the export-oriented industries," said Rafez Alam Chowdhury, president of Bangladesh Garment Accessories and Packaging Manufacturers and Exporters Association.

He said the apparel exporters are facing a setback due to the economic crisis in the US and European Union.

"Such a move will have a negative impact on exports. We hope the government will reconsider the plan," said Chowdhury at a press conference in Dhaka.

The association, however, hailed the government for withdrawing value added tax on rented building, and customs duty on import of capital machineries and equipment for setting up effluent treatment plants at export-oriented factories.

The association said the sector will be able to earn $3.5 billion by exporting backward linkage products this fiscal year, whereas the target was at more than $4 billion, according to a statement.

SHIPPERS COUNCIL

Shippers' Council of Bangladesh (SCB) also termed the government's proposal of raising tax at source on exports as 'irrational'.

The export sector has been facing tough competition due to the global economic meltdown, said Nasiruddin Ahmed Chowdhury, chairman of the SCB.

"If a 1.20 percent tax is imposed on exports, the sector would severely be affected," said Chowdhury in a statement.

He demanded withdrawal of the tax entirely. But Chowdhury hailed the government's plan to slash tax by 5 percent on merchant banks.

It would be a positive step if the tax exemption limit for profits from stockmarket is increased to Tk 20,000 from the proposed Tk 5,000, he added.

He hailed the government's plan to increase allocation for the railway, shipping, education and vocational education sectors. But in the proposed budget, no steps were taken for the jute exporters in the private sector, he added.

Chowdhury said jute exporters are playing an important role in earning foreign currency, so they must be allowed to take fresh loans from banks.

INSURANCE ASSOCIATION

Bangladesh Insurance Association urged the government to withdraw the proposal of imposing 10 percent tax on the incomes of life insurance policyholders.

It said the move will discourage small savers and hurt the life insurance business.

The new tax will discourage people, especially those in the rural and semi-urban areas, to buy life insurance policies, the association said in a statement.

The government should review the decision considering the poor coverage of life insurance in the country, it said.

The association also urged the government to reduce corporate taxes for the insurance sector.

Maize traders ask for easy export rules

SOHEL PARVEZ

THE government has been continuing an 'irrational' restriction on maize export for around four years although farmers are facing consistent low prices at home due to a fall in demand in poultry feed mills, the main consumer of the grain.

In 2008, the then caretaker government set the restriction that the growers will be able to export maize only if they get orders at $600 a tonne from buyers. But the ceiling at that time was far above the global average price at around $233.

Maize growers and traders alleged that the ceiling was set only to bar exports and under the pressure of the poultry feed millers. Exporting maize at $600 per tonne was impossible, they added.

Traders said the government should now relax the restriction so that they get another window and thus reduce high dependency on the poultry industry and offset the effects of a production glut.

Maize production this fiscal year would reach nearly 18 lakh tonnes, while the local demand for the grain is around 10-11 lakh tonnes, said Maize Association of Bangladesh (MAB), a platform of maize traders and growers.

The huge mismatch between the demand and supply has been due to an increase in output coinciding with a fall in demand.

According to statistics from the Department of Agricultural Extension, maize farming area expanded by 24 percent to 6.99 lakh acres in the current fiscal year from 5.60 lakh acres a year ago, leading to a considerable rise in output.

The demand for maize from local poultry feed mills has also fallen significantly owing to the onslaught of bird flu that wiped out around 25,000 poultry farms in the last one year.

As a result, the prices of maize fell below the farmers' costs of production at Tk 13 per kilogram.

"Export has become necessary to convince the farmers to continue cultivation of the grain. We appeal to the government to withdraw restriction on exports so we get another opening to do away with the surplus maize," said Mizanul Hoque, general secretary of the association.

Hoque said what the caretaker government has set as a minimum export price is too much irrational to get orders from buyers abroad.

"This price was fixed so that we can't export. Because the prices of maize never reached that level on the global market," he said.

The prices of the grain that Bangladesh produces rose up to $300-$320 a tonne during the 2007-2008 food crisis, Hoque added.

At present, the prices of the same quality of maize are $200-250 on the international market, he said.

"It is quite impossible that maize prices will touch the current minimum export price level in the foreseeable future," he said.

He cited Thailand, Vietnam and India as examples where the government, despite having quantitative restriction on exports, allows the selling of surplus in the world market once the domestic demand is met.

He said it would not be wise to leave the fate of the maize growers in the hands of the poultry industry, where the demand fluctuates due to the avian influenza.

"The government can impose quantitative restriction on exports based on its production estimates each year. But the farmers should have the opportunity to export to offset their losses."

Monoj Kumar Roy, additional secretary of the commerce ministry, said the government had earlier discouraged maize exports taking into consideration the demand from poultry industry operators.

"But we will reconsider [the restrictions] if we receive appeals from the maize traders," he added.

When asked whether the government would consider imposing quantitative limit instead of the existing rigid restriction on exports, Roy said it would be difficult due to logistic issues.

"It will require someone to issue permit and monitor the quantity of exports from every ports. In our country, monitoring is difficult," he said, adding that there is also risk of irregularities under such arrangement.

"That's why, we usually impose minimum export prices," Roy said.

sohel@thedailystar.net

Greeks face a Homeric dilemma

HUGO DIXON

ODYSSEUS would recognise the dilemma faced by today's Greeks as they must choose either the pain of sticking with the euro or the chaos of bringing back the drachma. The Homeric hero had to steer his ship between the six-headed sea monster, Scylla, and the whirlpool, Charybdis. Avoiding both was impossible. Odysseus chose the sea monster, each of whose heads gobbled up a member of his crew. He judged it was not as bad as having the whole ship sucked into the whirlpool.

As Greece heads to the polls on June 17 for the second time in just over a month, none of the options it faces are attractive. The economy has shrunk about 15 percent from its 2008 peak, unemployment stands at 22 percent and further austerity and reform are required as part of the euro zone/IMF bailout. But the lesser of two evils is staying the course.

Some of this misery was inevitable. Greece's current account and fiscal deficits each reached around 15 percent of GDP in 2008 and 2009, and had to be cut. But successive Greek governments have managed to make the situation worse than it needed to be.

When Odysseus had to pass by the sea monster, he told his crew to row as fast as possible and not stop. That way, each of Scylla's heads only had time to munch one man.

By contrast, today's Greeks have dawdled. Confidence in the country and its political class is shot to bits, both at home and abroad. Capital is fleeing, investment has vanished and tax-dodging has become even worse than it was -- which is saying a lot. The government isn't paying its bills, nor are many companies. As a result, Scylla keeps gobbling up more men.

Terrible as things are, the current situation is not hopeless. The budget deficit, before interest payments, declined by 9 percentage points of GDP in 2010-2011. The economy is also getting more competitive: unit labour costs, which shot up vis-a-vis Greece's euro zone partners in the first decade of the single currency, had by the end of last year recouped half the lost ground. They will have fallen further since the minimum wage was slashed earlier this year.

What is now needed is a strong government. It should embark on three main tasks. First, continue the reform programme, and get serious at last on fighting tax evasion. Second, negotiate with the euro zone/IMF a longer period to eliminate its budget deficit and secure investment to boost short-term growth. Third, negotiate another debt reduction plan.

REUTERS

A presidential guard marches next to a bus station with an election campaign poster of Conservative New Democracy party in central Athens yesterday. Leaders of Greece's two traditional ruling parties warned of political stalemate after parliamentary elections next week and called for a government of national unity to prevent a repeat of the confusion that followed the last vote in May.

If such a government were formed, confidence could gradually return and the economy could stop shrinking. The experience of the Baltic countries -- Latvia, Lithuania and Estonia -- shows such reforms can work. After the credit crunch crisis, GDP in the three countries fell by between 15 and 21 percent but has since partly recovered.

But wouldn't going back to the drachma be better? Some commentators point to countries like Iceland, which restored its competitiveness by a massive devaluation following the credit crunch and only suffered an 11 percent fall in GDP. Wouldn't devaluation be a quicker and less painful way for Greece to get back in shape?

The answer is no -- for two reasons. First, the dislocation caused by bringing in a new currency would be much more severe than devaluing a currency that already exists. The banks would temporarily run out of cash and there would be multiple legal disputes over who owes what, which could gum up the economy for years.

Second, Greece is receiving an extraordinary amount of cheap money as part of its second bailout plan: 130 billion euros, or 88 percent of GDP. This gives it time to cut its twin deficits. If Athens left the euro, it would be lucky to get a fraction of that cash. The country would then have to balance its books immediately.

An even harsher fiscal squeeze would exacerbate the vicious spiral. The alternative would be to print drachmas to fill the hole in the budget. But such monetary financing would lead to rapidly rising inflation, which would already have been given a boost by the devaluation. Lucas Papademos, the country's former technocratic prime minister, predicted last week that inflation could reach 30-50 percent in such a scenario.

Meanwhile, Greece is hugely dependent on imports not just for final consumption but also to keep its economy going. It imports oil, medicine, food. If it had to slash imports suddenly, industry would grind to a halt. Even tourism, the mainstay of its economy, which accounts for 16.5 percent of GDP, could suffer if hotels promising a five-star experience delivered a three-star one. GDP might fall another 20 percent, according to Papademos.

Social unrest would worsen, with street battles, attacks on immigrants, vigilante law enforcement and major strikes. That would further deter the tourists. It would also make it harder to put together a sensible government. The field would be open for populists and extremists. This way leads to Charybdis.

To avoid this menace, the electorate will need to give a strong leader the mandate to pursue the current course more vigorously. Unfortunately, neither of the front runners in next Sunday's election -- conservative Antonis Samaras and radical leftist Alexis Tsipras -- is a modern-day Odysseus. And neither looks able to secure a decisive win. Unless a third election can produce a better outcome, the drachma will probably return, and the Greeks will get sucked into the whirlpool.

Hugo Dixon is the founder and editor of Reuters Breakingviews.