

# Duty-dodging in Bangladesh

MUHAMMAD ABDUL MAZID

THE *Economist*, in its September 3 electronic issue, had an interesting article on duty-dodging in Bangladesh, saying that counterfeit counter-foils were the vehicles for that. The article seems to say that duty dodging is a new discovery and it happens only in Bangladesh. It said: "Yet it is surprising how little attention donors pay to the biggest form of graft in Bangladesh, which, if fixed, would leave the government with enough cash to double health spending and to pay for an infrastructure project as large as the Padma Bridge every two years." The intention of this article was exposed in the concluding paragraph, which said: "And on June 30, Bangladesh's mandatory Preshipment Inspection Programme (PSI), under which the quality, quantity and price of exports were verified by an independent firm before entering Bangladesh, was dropped. Customs won the battle to scrap the scheme after the intervention of politicians, some of whom may benefit from the fraud. Losses to the exchequer are likely to keep rising."

The article has identified fraudulent trade invoicing as a major cause of corruption, and the trade pundit quoted might be right in reckoning that if the practice of under-invoicing were stamped out, the country could comfortably increase its tax-to-GDP ratio. But it is very difficult to accept the proposition because if the economy ends up paying a lot for imports, how is the fraudulent practice squandering an estimated \$3 billion a year in foreign exchange when aggregated annual import of Bangladesh is around \$36 billion

PSI system is still needed to help contain the worst excesses of fraudulent trade invoicing. In Asia, the mandatory PSI system existed only in Bangladesh and Cambodia, with Pakistan discarding the arrangement in late nineties after a brief

stint. Voluntary PSI system was introduced in Bangladesh in 1992, and it was made mandatory 8 years later, in a bid to help generate revenue by minimising widespread corruption in customs and ending hassle for importers in clearing goods quickly. NBR tried to take over the charge, depending on three factors (sufficient manpower, end to litigation and completion of automation) to complete capacity building. There were controversies surrounding appointment of PSI agencies, and even in ensuring transparency in the license awarding and block



allocation process. At times different business chambers spoke against going back to non-PSI era as the customs department could not offer the kind of service businesses require to stay in the race in a highly competitive market; customs officials became too dependent on the PSI system, lamenting that no valuation database could be built as yet and the skill and training that are required to stop corruption at this level were missing. There were sharp reactions at the reports of mind-blowing instances of corruption through

abuse of the PSI system by increasing financial penalties for irregularities. In an attempt to discourage PSI companies from frequent litigation against customs penalties, the authorities also decided to withhold the service charges of related companies till disposal of cases.

It is a fact indeed that under- and over-invoicing is not really a type of invoicing fraud, more a type of tax fraud. In Bangladesh, there have been allegations of under-invoicing and over-invoicing against

the importers since long. Due to higher tax regime in the past, the general tendency among the importers was to under-invoice, mainly in order to avoid taxes or high taxes. With tariff liberalisation or reforms, there is less under-invoicing than over-invoicing now. Traders resort to duty dodging because they want to have some hard currency abroad to take care of children's education, to buy assets outside, to obtain coverage against continuous depreciation of Bangladesh taka against hard currencies, and to take care of payments against imports, where they might have under-

invoiced. Traders in tax-free as well as highly taxed items under-invoice the highly taxed item import price. They settle that item exporter's obligation through the money they remit in excess of the required money for the import of tax free item, simply through over-invoicing. There have been allegations against the traders or importers of over-invoicing the commodity prices, thereby not only contributing to price spiral in the local market and thereby inflation, but also more importantly laundering money outside in excess of the actual value of the commodities imported. Regulators often find it difficult to enforce the law to catch the importers. Under an import policy stipulation, the opening banks should verify the price before opening letters of credit.

Stringent monitoring by banks, customs, and relevant agencies should always be there. 'End to end transaction' analysis should be carried out while handling international prices for same commodities, and more importantly similar amounts and similar clients. In the era of technological solutions and information superhighway, the job could be easier. During 2007-2008, coordinated efforts were enforced to make valuation system in order. Customs Intelligence and Inspection Directorate of NBR in recent times have scaled up their roles, and the Customs Valuation Department is going to be more competent and compatible, which might be not enough at the moment but it remains tied to exogenous factors like international trade. Constant changes can result in under- or over-invoicing. There is none to deny the fact that under- and over-invoicing are an effective means of money laundering, and it is proving to be a complex nut to crack for the agencies charged with tracking down frauds and its proceeds.

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## AUSTRALIA VOTES

### The people have spoken

MOAZZEM HOSSAIN

THE Australian general election 2013 was held on September 7. Incumbent PM Kevin Rudd was dislodged by opposition leader Tony Abbott. Out of 150 Lower House seats, Kevin Rudd's Labor won 57 and the PM-elect Tony Abbott's coalition, Liberal and National Party (LNP), won 88 seats. In the last election (2010), both Labor and LNP were neck-and-neck with a hung parliament. This year, however, the coalition gained 16 seats from Labor.

This was this writer's 9<sup>th</sup> election as voter over the last quarter of a century. The 2013 election was certainly extraordinary. Many pundits argue that this was an election which was not judged by the electorate on the grounds of economic credentials of the incumbent, but on Labor's dysfunctional nature over the last six years. Australian voters do not like infighting in a political party when it is in power. The former health minister put the defeat in the following words: "I give our government 9 out of 10 on strong policy initiatives, but 0 out of 10 on governance."

What was wrong with the governance? Over the last six years the incumbent Labor had sacked two PMs due to infighting. Rudd, who led the 2007 election as opposition leader and steered the party to a win against a 12 year long (1996-2007) coalition government, was sacked from the office of the PM immediately before the next (2010) election, which brought Australia's first female PM, Julia Gillard to power. This move was never seen before in Australian parliament (except when another Labor PM Gough Whitlam was sacked by the Governor General in 1975). In 2010, after assuming power, Ms. Gillard successfully steered the party to form a minority government and ruled until she was dislodged by Rudd in the same fashion immediately before 2013 election. The rivalry between Rudd and Gillard over six years in the government wiped out all achievements of the two terms due to disunity.

Indeed, the achievements had not been small. They kept the Australian economy from going bust like western economies during the GFC with a growth rate of 2.7%-4.2%; inflation has been under control within 2.5% and 3.5% range; unemployment rate was stable at 5%-5.5%; interest rate has been at all-time low after deregulation in 1983 (2.5%); national debt presently is one of the lowest among the OECD nations, at less than 20% of the GDP; and finally the economy has been enjoying AAA rating from all three global rating agencies.



Tony Abbott

Generally, with such a healthy economic credential, it is unlikely that the electorate will say no to a government. The Australian electorate of 14 million plus voters was disturbed by the disunity in the Labor party and was of the view that if an old party such as this was not capable of managing itself, how could it manage an economy -- which is the world's 12<sup>th</sup> largest. In this year's election more than 95% of the total votes were cast due to Australia's mandatory voting regime. Out of this, the winning coalition -- LNP -- got 44% of the primary votes, Labor 34% (lowest in the last 100 years), and minor parties 18% (highest in Australian history). Overall, there was a swing towards the coalition by 3% and swing away from Labor by 4.5%.

It appears that with such a huge swing away from Labor, the damage by all means was not catastrophic as was predicted by the gallop polls. Why? Australia has a preferential voting system. Every voter needs to vote with giving preferences for all the contestants. For example, if a seat was contested by 4 candidates (two from main parties and two from minor parties), a voter must cast his/her vote for all four by giving preferences 1, 2, 3 and 4. The candidate who gets first (1) preference is regarded as the primary vote of the candidate and the candidate who gets second (2) is regarded as preferred vote and so on. In other words, a candidate having more than 50% primary and preferred combined votes is declared as the winner. A candidate who gets more than 50% primary votes is declared elected since he/she does not need any preference count. Under the preferential system, all winners must get more than 50% of the votes, either primary or primary, plus preference combined; unlike the Indian or our system of voting, which needs only a simple majority in order to get over the line.

Indeed, Australia has two unique elements of voting: compulsory (punishable by law if not exercised) and preferential. One's vote becomes informal or invalid if the ballot paper is not filled in with preferences. With all these equity measures in place, unfortunately, if the politicians choose to keep self-interest ahead of party interest, it will bring about a lose-lose situation for the nation. Thus, the electorate has no other alternative than to dislodge an incumbent at the earliest opportunity. That is what happened over the last few weeks to the government led by Kevin Rudd.

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# Summer Olympics returning to Tokyo

MONZURUL HUQ

A sense of joy is now prevailing in the Japanese capital after the early morning voting of the International Olympic Committee (IOC) at Buenos Aires on Sunday awarded Tokyo the right to host 2020 summer Olympic Games. Many of the enthusiasts supporting the Japanese bid had gathered at designated spots that kept the doors open well until very early in the morning for invited guests to the tense moments of voting at the IOC conference through live transmission. And the euphoria was obviously running high at such an early hour as they burst into all-out celebration after the second round voting results were announced.

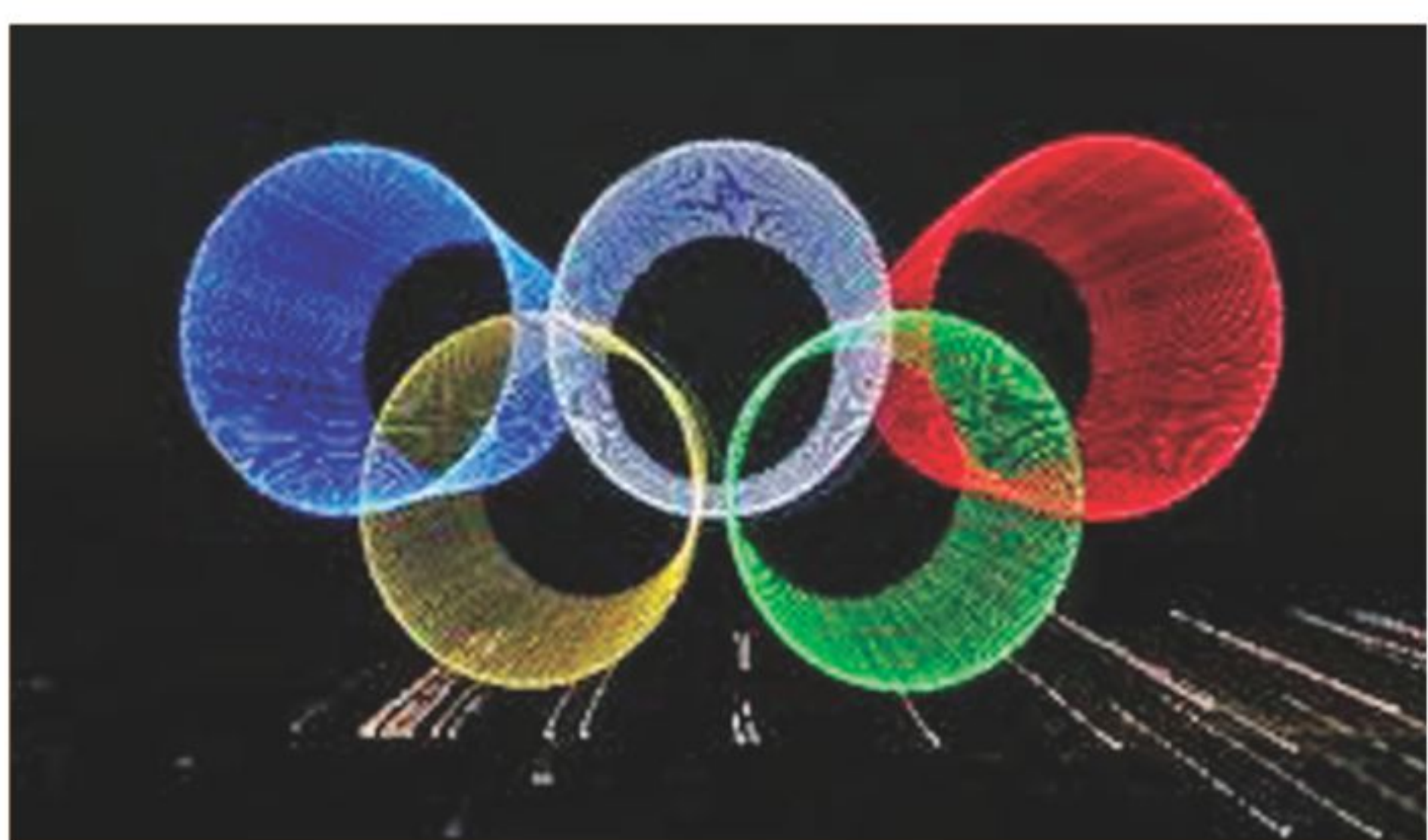
In fact, there were three rounds of voting, as in the first round both Istanbul and Madrid gained 26 votes each against Tokyo's 42. So, Tokyo moved straight to the final round, whereas, Istanbul and Madrid had to go through a second round to decide the runner-up, where the Turkish city prevailed. This added further tension as everybody was anxious to see where the 26 votes that Madrid gained at the first round would go. All of them going to Istanbul would definitely have eliminated Tokyo. But to the relief of many keeping an anxious eye on the voting, Tokyo could easily overcome the challenge by defeating the Turkish city with a comfortable margin of 60-36.

The Japanese capital will be the first Asian city to host the summer Olympic Games twice. Many in Japan still fondly remember the 1964 Olympic Games when the world sportive carnival came to Asia for the first time. Since then, Japan has hosted a good number of important international sporting events like the football World Cup that the country co-hosted with South Korea in 2002. Also during that period Japan twice hosted the Winter Olympics. We also should take into account another forgotten chapter of Japan's Olympic history -- the cancelled event of 1940, which was awarded to Tokyo but could not be held due to war. As a result, Japan has a long history of hosting international sporting events, and it can be said without any doubt that 2020 summer Olympic Games have been given to a

safe pair of hands.

However, Japan's way to 2020 was not an easy journey at all. Tokyo had to overcome the fears of radiation leakage at the crippled Fukushima Dai-ichi nuclear power plant that was badly hit during the March 2011 disaster. Japanese Prime Minister Shinzo Abe needed to touch the radiation issue in his final presentation before the IOC members ahead of voting, saying that the government would never put Tokyo in harm's way and the situation was under control. He also promised a guaranteed delivery of Tokyo 2020.

This was Tokyo's second straight bid for summer Olympic Games. The city lost its



earlier bid for hosting the 2016 games and later decided to try with a renewed commitment of hosting a perfect game based on rock solid foundations. The advantages the city stressed upon in its bid application included Tokyo's fame as world's safest and most welcoming cities, as well as world-class accommodation, transport, infrastructure and hosting experiences it had gained over the years.

The bid committee that the city formed after taking the decision to apply for 2020 games had carefully planned an overall venue for what it called the most-compact games ever. 28 of a total 37 venues will be located within 8 kilometer radius of the

Olympic Village, making it easy for athletes and officials to move around the venues without hassle. The plan also divides the city into two broader zones -- heritage zone and Tokyo Bay zone. The centre of attraction at the heritage zone will be the new futuristic Olympic Stadium, where opening and closing ceremonies, as well as athletics, football and a few events will take place. The 80,000-seat multi-purpose stadium with a retractable roof and environmental efficiency has been designed by the Iraq born British architect Zaha Hadid. Her design was the winner of Japan Sports Council's International Concept Design Competition and the new stadium is scheduled to be

completed by March 2019. The Tokyo Bay Zone area will accommodate more than 20 venues for sporting events ranging from tennis, badminton and field hockey to swimming, sailing, basketball and water polo. Most of these events will take place in existing venues, whereas the host city is planning to build 9 new temporary venues. The newly built Olympic Village will be located between the two zones and will be commissioned to real estate companies that would build the structure in such a way that the facilities can be put on sale after the game with slight remodeling. This would allow the organisers to get back the initial investment and

also allow people to buy state of the art living facilities after the Games are over.

The organisers are estimating a core expenditure of \$4.4 billion for the Olympics, along with an operational budget of \$3.4 billion. A significant amount of that funding would come from corporate sponsorship and investment like the construction of the Olympic Village. The Tokyo metropolitan government has already made a cash deposit of \$4.5 billion for the 2020 games. In addition, the government of Japan has given financial guarantee for the games, which means that any shortfall in core expenditure for the preparation of the games will be supplemented from public funding.

Despite such enthusiastic moves by the organisers and also by the Tokyo metropolitan government, public opinion in Tokyo had not always been very enthusiastic about hosting the Olympics. One reason is definitely linked to Japan's economic slowdown. Japanese economy has been facing difficulties for more than two decades and sceptics feel that the diversion of attention to Olympic preparation might hurt the economy further. They are also worried that people might be eventually burdened with extra taxes for covering the expenses needed for construction of Olympic facilities, an accusation that the bid committee rejects.

To win over support of the majority of 35 million residents of greater Tokyo, the bid committee is emphasising on economic impact that the Games will bring, which the committee roughly estimates as 2.9 trillion yen. According to the latest survey conducted by the bid committee, almost 70% public support has been gained in favour of hosting the Olympic Games. However, there still remains significant opposition that is yet to be convinced about how Japan would benefit from the gargantuan expenditure needed for hosting the Olympic Games. And they also look at the issue from political angle, as the leaflet distributed through Internet immediately after the IOC voting gives a clear indication.

The writer lives in Tokyo, Japan.

By THOMAS JOSEPH

**CROSSWORD**

**ACROSS**

- Go on a spot
- Aprée
- Attempt
- Comb
- Island
- Labels
- Letter
- Game setting
- Game caller
- Small number
- Former liberals
- Vein yield
- Sing a la
- Deuce
- Beater
- DVRs connect to them
- Good place to dye
- Massage target
- Feathery
- Cal. abbr.
- Faces, slangily
- His title is "Sir"
- Frilly wrap
- Be penitent
- Into conflict with
- Vestige

**DOWN**

- Lacking wool
- Domestic class, for short
- Final drink
- Coat rack part
- Some trumpeters
- Knotty
- Extraordinary thing
- Prof protector
- Brutes
- Diver Tom
- TV's Curry company
- Place to put in places
- Price holders
- Mountain outlooks
- Baseball turn
- Dos
- Tell tales
- Acting
- Company
- Patellae
- Company division
- As soon as
- Winter bug

**Yesterday's answer**

STATS  
CELESTA  
ALIST  
NETTIS  
BIBONES  
WEND  
ANT  
TISHIRTS  
ELUDE  
ROSETS  
SWEAT  
STATS  
NOVEL  
AFIRE  
SQUARE  
TOP  
ERIS  
ROISIS  
NOMAD  
GALS

**CRYPTOQUOTE**

HB'T C WSFQM TQCTXK BGC B  
YCAQT DXF ZQB SQCLD IXS  
VQL NGHMQ HB'T MHZGB  
XFB. — VHMM NCBBQSTXK

**Yesterday's Cryptoquote:**  
LOVE IS MUCH LIKE A WILD ROSE,  
BEAUTIFUL AND CALM, BUT  
WILLING TO DRAW BLOOD IN ITS  
DEFENSE.

- MARK OVERBY

AXYDLBAAXR  
is LONGFELLOW

One letter stands for another. In this sample, A is used for the three L's, X for the two O's, etc. Single letters, apostrophes, the length and formation of the words are all hints. Each day the code letters are different.

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**BEETLE BAILY**

WHAT'S THAT?  
A MINI-DRONE

GREG + MORT WALKER

WHAT DO YOU DO WITH IT?  
BUG SARGE!

1-30

**HENRY**

HENRY, I TOLD YOU NOT TO BLOW BUBBLES IN THE HOUSE!

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by Mort Walker

WHAT DO YOU DO WITH IT?  
BUG SARGE!

1-31

by Don Tranchte

**QUOTABLE Quotes**

"The World is my country, all mankind are my brethren, and to do good is my religion."

Thomas Paine