The Daily Star

FOUNDER EDITOR
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DHAKA SATURDAY APRIL 28, 2018, BAISHAKH 15, 1425 BS

Triumph of diplomacy over belligerence

A historic summit

HISTORY was made when for the first time in sixty-three years a North Korean leader stepped on the southern side of the divided peninsula that at one time had been one country and one people. We welcome the momentous step that Moon and Kim have taken to shed the baggage of history, turn around from the past and transform a situation of intractable hostility to one that the world hopes presages enduring peace. Although the summit was marked by symbolism and spattered with occasional banter, the commitment to end the state of war between the two countries by the end of the year and achieve complete denuclearisation adds substance to that symbolism. The world will take great comfort in the declaration of the two leaders before the entire world that there would be no more war on the Korean peninsula and a new age of peace had begun.

The peninsula had been a simmering cauldron with the constant potential for a sudden flare up at any time. This region has been a source of international tension since 1953, but despite rhetoric and threats, diplomacy has gained over antagonism. And for this situation to come to such a pass as we witnessed yesterday, the two big powers that are parties to the truce and deeply involved with the two Koreas, the USA and China, deserve credit.

The declaration has many commitments. Implementations of those practically is what the world would be watching. We believe putting into effect the strategic pledges like arms reduction in the region pending the easing of military tension and ridding the peninsula of nuclear weapons, would require the wholehearted cooperation of the big powers also.

What happened in the village of Panmunjom we hope will lay the foundation of a permanent peace, and this summit as well as the forthcoming Trump-Kim summit will start a new chapter for the North East Asia and help in the permanent removal of the DMZ.

Libraries crucial for a knowledge-based society

Manikganj councillor's initiative inspiring

IT was heartening to learn from a report in this newspaper that a councillor at Shibalaya Model Union in Manikganj has set up a library in his community so that people in his locality can nurture their habit of reading and become ideal citizens. At a time when we are being increasingly frustrated with all the negative incidents happening in our society, this 40-year-old councillor has shown us what we can still do at the individual level to make our country a better place.

There was a time when well-to-do people of society used to set up libraries in their own locality but that culture has changed with time. Currently there are only 68 government public libraries, 1,603 non-government public libraries and 3,596 NGO-operated libraries in Bangladesh, according to a recent study. Compared to our population, the number is too little. No wonder that the number of readers has decreased in the country. And with the arrival of smart phones and other new technologies, the reading habit of people, especially our younger generation, has also declined.

The library, founded in 2006 by Rafiqul Islam, has around 10,000 books and its collection ranges from literature, history, science to journalism, law, children's books. It has become very popular among the locals as it has something for the readers of all ages. We believe, Rafiqul's initiative will inspire others. And if we can instil the habit of reading in our younger generation, they will be less likely to get addicted to drugs or fall into the trap of militancy. Most of all, if we want to build a knowledge-based society, there is no alternative to setting up more libraries.

LETTERS TO THE EDITOR

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Reducing marine plastic pollution

The theme of this year's Earth Day was "End plastic pollution by Earth Day 2020." Marine plastic pollution (MPP) has become a major environmental issue globally.

The Ganges River system in India and Bangladesh carries approximately 100,000-170,000 (globally 6-12 million) tonnes of waste per year into the Bay of Bengal. Over 800 marine species are directly or indirectly affected by MPP.

Although some practices, market-based approaches, and researches by governmental and non-governmental institutes may contribute to reducing marine plastic pollution, raising awareness about this phenomenon should be the top priority. This can most likely be done through improving course-curriculum on marine environment at school level and marine pollution literacy for all citizens.

From small town to coastal big cities, social campaigns should be started with different groups, using different methods, resources, and ideologies to combat various aspects of the MPP issue. Moreover, some collaborative programmes among social communities, government personnel and scientists can be introduced to create viable solutions.

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BUDGET 2018-19

Can mounting inequality be stopped?

MAHFUZ KABIR

PRE-BUDGET discussion for the upcoming fiscal year (2018-19) is going on in the fast track. Even though the Finance Minister will present the budget in parliament after more than a month, business associations are meeting the Chairman of National Board of Revenue (NBR) almost every day. The NBR Chairman is giving some indications of the government's which used to come from the Finance Minister in the past. Understandably, the context is different this year. Most of the business associations are trying to derive benefits from the government before the general election. And the NBR seems to be convinced in considering their "legitimate" demands.

Nevertheless, both the business community and government are in principle nurturing the same opinion, which is to make the fiscal policy more business-friendly through undertaking reforms in corporate tax. Both the parties have the argument that since private business, trade and commerce are playing pivotal role in accelerating economic growth, formulating a business-friendly fiscal policy would promote further expansion of trade and investment in Bangladesh. According to the Bangladesh Bureau of Statistics (BBS), the growth rate of Gross Domestic Product (GDP) of the outgoing fiscal year (2017-18) is estimated to be 7.65, which has already surpassed the projection of the Medium-Term Macroeconomic Framework of the Ministry of Finance. Per capita income has increased to USD 1,752.

These statistics have placed the government in a fairly comfort zone before the elections. Therefore, the government does not have any genuine reason to disagree with the demands of the business community at such a "golden moment". However, the NBR Chairman has cautioned that the government's revenue may decline due to any downward revision of the corporate tax rate. Notwithstanding that possibility, the government will prepare the tax proposal keeping in mind the proposals of the business associations.

The impressive performance of economic growth of the recent fiscal years exposes us to a few powerful fundamental queries. Is this growth increasing job opportunities adequately? Is it increasing private investment with equal footing? Is it provoking income inequality?

According to the latest Labour Force Survey of BBS and study of Centre for Policy Dialogue, employment has increased annually by about 0.78 million over the last three and half years, which is lower than that of the preceding three years (2010-2013) when the GDP growth rate was lower. Employment has reduced in the labour-intensive agriculture sector. The highest employment (about 1.1 million per year) is being generated by service sector, which experience a growth rate lower than the GDP growth rate. On the other hand, industry especially manufacturing which is getting various fiscal benefits and achieving the highest growth rate (double-digit growth over considerable period) has been creating only about 85 thousand jobs per year. Therefore, it cannot be candidly concluded that the recent impressive economic growth rate is generally employment-friendly.

Is the corporate income tax rate excessive in Bangladesh? Which rate would below and business-investment friendly? There are common complaints from the business community and a group of scholars that private investment has been stagnant over the last couple of years. This complain is partly true. Even though as a ratio of GDP it has not increased by much, the truth is that at constant prices private investment has grown by 7.8 per cent in fiscal year 2016-17 and its estimated growth was 8.35 per cent in the outgoing fiscal year. This implies that the growth rate of private investment was higher than the GDP growth rate. But for a fast-growing economy like ours that is suffering from considerable deficiency of business-friendly physical infrastructure, for mega investment to take off it needs massive investment from public sector in large-scale projects (*viz* Padma Bridge and Metro Rail). This kind of public investment will naturally encourage more private investment.

Therefore, nobody should be worried by the investment-GDP ratio if the GDP growth rate remains impressive. If less amount of investment brings about higher GDP growth, it indicates that higher return is generated per unit of investment and efficiency of investment is on the rise. Moreover, Bangladesh will need to intensify public investment on large-scale physical infrastructure for sustainable graduation to a developing country. Conversely, the opportunity of soft loan from the World Bank and similar institutions will squeeze. So, this kind of public investment should be financed from domestic sources, specifically from increased government revenue. Since there is no hope of seeing magical improvements in personal income tax revenue, corporate income tax would be a good source vis-à-vis value added tax.

Indeed, in the election year, if benefit is granted in corporate tax through downward revision without a rigorous *ex ante* assessment, it would drive the NBR to a highly risky path of revenue generation. Which would be very difficult for the government to both escape and salvage later on, because if a tax benefit is granted once, it would create an unnecessary pressure later. In that case, an alternative is to reduce the cost of doing business. The prime minister has already asked banks to reduce interest rate in exchange of several important benefits that have been given to them. If implemented, it would be an instance of reducing cost of doing business. Similar instruments should be developed to foster business and attract investment.

The business community can claim that high corporate tax rate is a reason for private investment stagnating. Nevertheless, the first possible reason why the ratio of private investment to

> *Inequality has increased and it implies that even if economic growth has been praised for its contribution in reducing poverty, escalating income inequality has produced a big question mark on its overall contribution to the economy and society.*

GDP is lower than the projection of the Seventh Five Year Plan (2016-2020) is "saturation effect". It means that the private investors are satisfied with the current level of investment. The second reason would be that a higher level of investment is excessively risky. The third possible reason would be lack of mega-investments in private sector. However, the recent large private investment and joint-venture in power, LNG and cement can introduce a new era by altering the traditional landscape of private investment. In other words, the country can witness a new age of private investment given the existing corporate tax structure.

Is the growing mega-investment in public and private sectors as well as the fragrance of impressive growth creating hope among the general masses for higher income and ownership of resources? The painful truth is that it is being concentrated among business community and high-incomehouse holds. The reason is mainly the existing income, especially corporate tax rate. An important principle of any tax structure is to achieve income equality through redistribution of tax revenue.

The results of Household Income and Expenditure Survey 2016 of BBS imply that the income and resource has concentrated abnormally among the business community. While the bottom 10 percent (extreme poor) had 2 percent share in total income in 2010, it has become just half (1.01 per cent) in 2016. Share of the bottom 20 percent (poor) has reduced from 5.22 percent of total income in 2010 to 3.84 percent in 2016. Conversely, the share of the top 5 percent (business people/rich persons) has increased from 24.6 percent in 2010 to 27.9 percent in 2016. Gini index of income inequality has increased from 0.458 in 2010 to 0.483 in 2016. Inequality has increased both in rural and urban areas. It implies that even if economic growth has been praised for its contribution in reducing poverty, escalating income inequality has produced a big question mark on its overall contribution to the economy and society. If not addressed through significant reform in fiscal policy, such tendency will continue to remain a formidable barrier to achieving the Sustainable Development Goal (SDG) 10 of arresting income disparity.

An effective means of reducing the reckless income inequality is to undertake a poor-friendly tax structure reform. Its main objective should be to increase income and ownership of resources of low-income population through redistribution, keeping the tax rate at an optimal level that does not discourage trade and investment. If income and resources of mass population do not increase substantially, their consumption and domestic market would not expand. The consumption items of high income people are usually luxury ones, which come from outside markets. Conversely, consumer items of mass people are normal goods, which mostly come from the domestic market. Therefore, increasing share of mass population would help increase the domestic economy, raise government revenue and accelerate economic growth.

Hopefully the NBR will effectively consider these aspects while making any decision on tax structure for the upcoming budget.

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ILLICIT TRADE IN OIL AND FUEL

An emerging global policy challenge

JEFFREY HARDY

There is a broad spectrum of potential avenues for the illegal skimming from or shifting of profits in developing countries, carried out by criminal entities, corrupt officials and dishonest corporations.

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ILLICIT trade in any of its forms—alcohol, tobacco, pharmaceuticals, diamonds, timber, ivory and oil—sits at the nexus of two social-economic disorders that challenge global stability.

Firstly, the global economy remains on unsteady footing, and governments are scrambling to stimulate growth, employment and investment in infrastructure and other public programs.

Secondly, the upswing in criminal activity and lawlessness—in some cases punctuated by terrorist acts—has left us all questioning our security for this generation and the next.

Illicit trade exacerbates both problems and presents governments with an immediate challenge to address their pervasive and significantly negative impacts on our economy and our civil society.

Economic impacts deriving from illicit trade in the petroleum sector

Every year, an estimated USD 133 billion of fuels are illegally stolen, adulterated, or defrauded from legitimate petroleum companies. Roughly 30 percent of Nigeria's refined fuel products are smuggled into neighbouring states and pipeline fuel theft in Mexico is at record levels.

This illegal activity creates an enormous drain on the global economy, crowds out billions from the legitimate economy and dislocates hundreds of thousands of jobs.

Equally significant are associated fiscal losses from tax evasion and subsidy abuses that deprive governments of revenues for vital public services and force higher burdens on taxpayers—especially in developing countries where petroleum industry royalties and tax payments finance development.

For example, Philippines loses USD 750 million annually in tax revenue from fuel adulteration and smuggling. Dakila Cua, Chairman of the Philippines House Committee on Ways & Means, told me that fuel smuggling is a vicious practice that deprives his country of precious revenues for investment in infrastructure. He confirmed that the problem is deeply embedded in the Philippine economy and throughout ASEAN economies. The value of the illegal fuel trade in Southeast Asia ranges from USD 2 to USD 10 billion a year.

Links to transnational organised crime and terrorism

The links between illicit trade and organised crime are well established. The global economic value of oil and fuel theft ranks amongst the highest of transnational crimes. Research shows connections between oil theft and drug cartels in Mexico; insurgents and human traffickers in Thailand; human smugglers in Libya; terrorists in Ireland; militant groups in Nigeria; rebel movements in Mozambique, and of course, ISIS.

This activity significantly threatens national and regional stability, and creates significant deterrents for business investment, which thrives in stable, peaceful environments.

Notably, the criminal connection is not limited to oil and fuel theft. Transnational organised crime is involved in all forms of illicit trade, from human trafficking networks and tobacco smuggling, to the involvement of the Mafia and Camorra in the trade of counterfeit goods. Moreover, profits from one illegal activity are frequently used to finance a different type of illicit trade.

Illicit trade and environmental degradation

Illicit trade in the petroleum sector perpetuates extensive ripple effects across global markets, including undercutting sustainable development and hastening environmental degradation. The process of illegal tapping, bunkering and ship transfers, for example, carry a higher probability for oil spills and blown pipelines, potentially causing significant damage to soil fertility, clean water supplies and marine life.

Consequently, fighting fuel fraud is a global responsibility, as well as a prerequisite for the achievement of the UN SDGs.

Solutions

Despite these severe negative effects, the global problem of oil and fuel theft so far has been largely unchecked and remains mostly hidden from international attention.

Any long-term solution will be dependent on sustained collaboration between governments and the private sector.

Business will contribute by continuing to develop technical solutions, such as fuel markers and GPS tracking. Modern fuel-marking programs allow governments to identify stolen or diverted fuel and reduce fuel losses, while delivering improved integrity in fuel supply chains, mitigating tax evasion and subsidy abuses, and plugging revenue drains.

Business also can share intelligence, data, resources and measures that effectively control this illicit activity. And Business is willing to work with partners to convene stakeholders, improve awareness, expand the knowledge base, and energise the global dialogue.

Governments, however, need to improve regulatory structures, set deterrent penalties, rationalise tax policies, strengthen capacity for more effective enforcement and educate consumers. This is a matter of urgency and government efforts to fight illicit trade should be considered investments that pay tangible dividends to economic development and global security.

The Transnational Alliance to Combat Illicit Trade is responding to this challenge by leading business engagement with national governments and intergovernmental organisations to ensure that private sector experience is properly integrated into rules and regulations that will govern illicit trade.

Our specific engagement in the petroleum sector stems from the shared understanding that a united industry voice is required to track, report and stop fuel fraud—from extraction to production to distribution to consumers.

The geographic diversity and wide-ranging methods of oil and fuel theft and fraud require a comprehensive global approach to mitigating the problem. All stakeholders have an interest in stamping out illicit trade; and all benefit from collective action.

Jeffrey Hardy is Director General, Transnational Alliance to Combat Illicit Trade.
Courtesy: Inter Press Service