Improve quality of budget implementation

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When the Awami League unveiled its manifesto for the 2018 general election, it emphasises 'continuity', highlighting their successes over the last decade and outlining their target to attain developed country status by 2041. The strategy to get there was to maintain a consistently high rate of growth and clocking double digit GDP growth rates in post-2021. This was in line with the promise Awami League made to further their 'inclusive growth' agenda, an area where Bangladesh has already registered significant success.

As the 2019 budget comes around, there is a strong expectation that concrete steps will be taken to fulfil these promises, but as can be expected, this is not going to be an easy road to travel on. Upon assuming office, Finance Minister, AHM Mustafa Kamal had announced that speedy implementation of mega infrastructure projects was his topmost priority. Bangladesh had initiated several ambitious infrastructure projects in the last decade, but has struggled to finish those projects. Due to a variety of reasons, ranging from land acquisition to political disputes to allegations of corruption, several large infrastructure projects have seen significant cost escalations. Finishing up the existing projects, as well as initiating the special economic zones, and the new mega-infrastructure projects in power, transport and IT sectors are now an urgent priority. Genuine decentralisaton of financial powers to the divisions outside Dhaka will not happen in a hurry, but the government must consider making a concrete start.

Another major promise was cleaning up the banking sector, which presents perhaps the most important hurdle. A failing banking sector, with mounting non-performing loans, resulting in limited supply of fresh credit for projects, is not conducive for Bangladesh's long-term growth plans. It has already been reported that credit-growth has hit a 56-month low at 12.07 percent in April 2019. With the Bangladesh Bank's recent proposals for tackling NPLs proving to be fairly controversial, the government probably realises that there are no easy technical fixes here. An empowered central bank would be key to this process, and the new government must prioritise this task keeping in mind its criticality to the entire economy. While this is not an issue that could fully be addressed in a budget, one hopes to see the finance ministry gradually stay out of decisions that are typically a central bank's mandate, such as setting interest rates.

A related issue that the government must tackle is that of improving the quality of budget implementation. To take an example, the difference between projected tax revenue and the actual revenues realised has been widening every year. Even after projected figures are revised downward mid-year, the actual collections fall short. The chairman of National Board of Revenue (NBR) said that less than one-third of potentially eligible taxpayers in the country pay taxes. The number of registered tax payers stands at 4 million. Experts agree that unless the National Board of Revenue brings in a structural change in how taxes are collected and succeeds in widening the income tax base, increases in tax revenues will be very difficult to realise. Bangladesh will find it extremely hard to transition to a developed country unless it manages to significantly increase its tax-to-GDP ratio which is currently around just 9 percent.

Another example from recent years is developmental expenditure. The government has revised down the current year's annual development plan (ADP) outlay, reducing it by 4.6 percent, but actual spending is expected to come in even lower. In some ways, it is by slashing the ADP that the government has managed to keep its fiscal deficit under control.

The finance minister had announced that provisional data showed that Bangladesh's GDP would grow by 8.13 percent in 2018-19. Bangladesh has been reporting over 7 percent GDP growth rates consistently over the last few years. However in recent years, several commentators and researchers have questioned the basis of these official statistics. It is generally accepted that the Bangladesh Bureau of Statistics has limited capacity and is influenced by political pressure. According to the Centre for Policy Dialogue (CPD), the growth rate figures are not in sync with other macro-economic indicators visible in the country. Other researchers too have pointed this out, and the risk one faces is that international aid as well as credit agencies start doubting the veracity of Bangladesh's national statistics. More transparency in the processes by which official GDP statistics were computed would help key domestic stakeholders engage more closely, so that they could be improved.

In summary, as one looks forward to this year's budget, we should be mindful of the challenges that face the government as it pursues a path of inclusive, manufacturing-driven growth. On one hand are the challenges of unlocking capital and infusing fresh credit in the economy, and on the other hand, is the task of ensuring credible macro-economic estimates are made that enables policymakers and institutions (both government and non-government) to diagnose correctly, the economic challenges and opportunities that Bangladesh faces.

The writer is Bangladesh country manager of Adam Smith International.

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The 13th span of Padma bridge was installed on May 25. Upon assuming office, Finance Minister AHM Mustafa Kamal had announced that speedy implementation of mega infrastructure projects was his topmost priority.

Russia warns of 'great risk' of oil overproduction

AFP, *Moscow*

Russia on Monday warned of a strong risk of global overproduction of oil that could lead crude prices to drop below $40 a barrel.

"There are really great risks of overproduction today," Russian Energy Minister Alexander Novak said during a meeting with Saudi counterpart Khalid al-Falih in Moscow.

"We have to analyse everything... in order to take a balanced decision in July" he said, referring to a key meeting of the so-called OPEC+ alliance between OPEC members and other oil producing countries including Russia.

The alliance is set to meet in Vienna in the beginning of July according to the Saudi minister, to decide whether to extend an agreement on production levels.

Russia has agreed with OPEC member countries on cutting production of crude to build up prices after the crash of 2014-15.

The 25-member alliance agreed to cut output by 1.2 million barrels per day from the start of this year after oil prices dipped by more than 30 percent late last year.

"Prices can drop below $40 and even down to $30 a barrel," Russian Finance Minister Anton Siluanov told lawmakers on Monday, quoted by Russian agencies.

Novak also said that such a scenario "cannot be ruled out".

"A lot depends on the situation on the market in the second and third quarter, from the balance of supply and demand, and how the situation develops with uncertainties, trade wars, and sanctions pressures on several countries," he said.

Britain agrees Brexit trade deal with S Korea

AFP, *London*

Britain said Monday it had concluded a trade deal with South Korea to maintain links after Brexit.

International Trade Secretary Liam Fox has agreed a preliminary deal with Korean Minister of Trade Yoo Myung-Hee in Seoul, the UK government said in a statement.

It is Britain's first post-Brexit trade deal in Asia and follows similar agreements with nations including Chile, Iceland, Norway and Switzerland.

"The UK and South Korea have signed an in principle free trade agreement that will allow businesses to continue trading freely after Brexit," read a government statement.

"Trading on these terms rather than on World Trade Organization terms will deliver significant savings and help to safeguard British jobs."

The deal means British businesses can continue enjoying preferential terms with South Korea after Britain leaves the European Union at the end of October.

Trade between the two countries was £14.6 billion ($18.6 billion, 16.4 billion euros) in 2018, and has risen by 12 percent per year on average since the EU signed a free trade deal with South Korea in 2011.

"This means that whatever happens with Brexit, there will be total continuity in trade between our two countries and the basis for an ambitious future free trade agreement when we leave the EU," tweeted Fox.

Britain is scheduled to leave the bloc on October 31, when it will lose access to major markets covered by EU trade agreements, although it is seeking to replicate some of these.

Hanoi to curb fake 'Made-in-Vietnam' goods aimed at dodging US tariffs

AFP, *Hanoi*

Hanoi has vowed to crack down on manufacturers illegally using "Made in Vietnam" labels on items destined for America to dodge punishing tariffs as the US-China trade spat drags on.

Exporters have started shifting production from China to Vietnam to avoid 25 percent levies imposed by US President Donald Trump on $200 billion worth of Chinese goods.

But Hanoi said some manufacturers are illegally claiming their goods -- including textiles, seafood and agricultural products -- are from Vietnam when in fact they originate in China.

The trend has "affected the reputation of Vietnamese businesses and goods", said Vietnam's Deputy Prime Minister Pham Binh Minh, quoted in an official report published Sunday on the government website.

"We will increase the punishment to deter cases of goods claiming to be Vietnamese goods entering other markets," he added, according to the report.

The report said Vietnamese customs officials had uncovered dozens of cases of incorrectly labelled goods destined for the United States, Europe and Japan.

The government called for more stringent inspection of exports to those markets and said Vietnam could be punished by the US -- one of its leading trade partners -- if it failed to stem the problem.

Vietnam has long been a manufacturing hub for cheaply-made goods from Adidas sneakers and H&M dresses to Samsung smart phones and Intel processors.

Those exports have soared this year as Beijing and Washington have escalated tit-for-tat tariffs on billions of dollars worth of goods.

In the first three months of this year, US imports from Vietnam reached nearly $16 billion, up 40 percent from the same period last year, according to US trade data.

Nearly half of all American companies working in China have said they are considering shifting production from the so-called 'Factory of the World' as a result of the trade dispute, according to a poll by the American Chamber of Commerce in China.

Trump raised the tariffs last month after trade talks broke down, prompting Beijing to retaliate with higher duties on $60 billion worth of American products.

REUTERS/FILE

A tourist walks past a clothes shop in Hanoi.

Some big tech firms cut employees' access to Huawei, muddying 5G rollout

REUTERS, *California/New York*

Some of the world's biggest tech companies have told their employees to stop talking about technology and technical standards with counterparts at Huawei Technologies Co Ltd in response to the recent US blacklisting of the Chinese tech firm, according to people familiar with the matter.

Chipmakers Intel Corp and Qualcomm Inc, mobile research firm InterDigital Wireless Inc and South Korean carrier LG Uplus have restricted employees from informal conversations with Huawei, the world's largest telecommunications equipment maker, the sources said.

Such discussions are a routine part of international meetings where engineers gather to set technical standards for communications technologies, including the next generation of mobile networks known as 5G.

The US Department of Commerce has not banned contact between companies and Huawei. On May 16, the agency put Huawei on a blacklist, barring it from doing business with US companies without wgovernment approval, then a few days later it authorized US companies to interact with Huawei in standards bodies through August "as necessary for the development of 5G standards." The Commerce Department reiterated that position on Friday in response to a question from Reuters.

Nevertheless, at least a handful of major US and overseas tech companies are telling their employees to limit some forms of direct interaction, the people said, as they seek to avoid any potential issues with the US government.

Intel and Qualcomm said they have provided compliance instructions to employees, but declined to comment on them further.

A spokesman for InterDigital said it has provided guidance to engineers to ensure the company is in compliance with US regulations.

An official with LG Uplus said the company is "voluntarily refraining from interacting with Huawei workers, other than meeting for network equipment installation or maintenance issues."

LG Uplus issued a statement to Reuters that there was no formal policy within the firm about limiting conversations with Huawei.

Huawei did not provide comment.

The new restrictions could slow the rollout of 5G, which is expected to power everything from high-speed video transmissions to self-driving cars, according to several industry experts.

At a 5G standards meeting last week in Newport Beach, California, participants privately expressed alarm to Reuters that the long-standing cooperation among engineers that is needed for phones and networks to connect globally could fall victim to what one participant described as a "tech war" between the United States and China.

A representative of a European company that has instituted rules against interaction with Huawei described people involved in 5G development as "shaken". "This could push everyone to their own corners, and we need cooperation to get to 5G. It should be a global market," the person said.

To be sure, several workers at smaller telecoms firms said they had not been told to avoid discussions with Huawei at standards meetings, and many vendors continue to support existing deals with Huawei. It is unclear how much further communications with Huawei have been curtailed in the tech industry, if at all.

"There's been a lot of misunderstanding from what I'm seeing and hearing from clients and colleagues, as far as what the (Commerce Department) restrictions actually entail," said Doug Jacobson, a Washington-based export controls lawyer.

He said that companies prohibiting their employees contacting Huawei was "excessive, because the restrictions don't preclude communication, only the transfer of technology."

Huawei, whose equipment the United States has alleged could be used by China to spy, has emerged as a central figure in the trade war between the world's two largest economies. Huawei has repeatedly denied it is controlled by the Chinese government, military or intelligence services.

China, US, and European companies have split before on standards for Wi-Fi, cell networks and other technologies, and the tit-for-tat over tariffs between Beijing and Washington has increased fears of another bifurcation.

Huawei is a top player at various global organizations that set technical specifications. As one of the world's biggest manufacturers of devices like smartphones, and the vital parts of networks such as routers and switches, Huawei will need to be at the standards-setting table to ensure a seamless customer experience when 5G networks become prevalent, engineers and experts said.

REUTERS/FILE

A woman looks at her phone as she walks past a Huawei shop in Beijing.