

China factory output shrinks for fifth month

AFP, Beijing, China

Factory activity in China contracted for the fifth straight month in February, official figures showed Friday, as sluggish demand in the world's second-largest economy continues to drag on growth.

The purchasing managers' index (PMI)—a key measure of factory output—came in at 49.1 percent in February, according to China's National Bureau of Statistics (NBS).

A PMI figure above 50 percent indicates an expansion in activity, while below indicates a contraction.

China's monthly PMI has only registered in positive territory twice throughout the last year, most recently in September.

Factory activity has consistently contracted since then, with February marking the fifth consecutive month of decline. Analysts polled by Bloomberg had expected a PMI figure of 48.8 percent in February.

In December 2022, Beijing abruptly lifted draconian Covid-19 control measures that had weighed heavily on the economy for nearly three years, raising expectations for a sustained recovery.

But such hopes have been dampened by a lack of consumer and investor confidence, unprecedented turmoil in the property sector and soaring youth unemployment.



Ali Mia goes round selling children's toys in the shape of fish, birds and other animals made out of foam. Each toy is priced at Tk 30 and Ali can gain a profit of around Tk 500 making sales of around Tk 1,500 to Tk 2,000 in a day. The photo was taken in Palashpur area of Barishal city last week.

PHOTO: TITU DAS

Offshore banking bill placed in parliament

STAR BUSINESS REPORT

The Offshore Banking Bill 2024 was placed in parliament yesterday in a bid to enhance foreign exchange reserves and attract foreign investment.

Finance Minister Abul Hassan Mahmood Ali placed the bill, which was sent to the Parliamentary Standing Committee on the Finance Ministry for further examination.

The parliamentary watchdog was asked to submit its report within one day.

As per the proposed law, individuals will be allowed to conduct offshore banking business only through scheduled banks operating in Bangladesh.

A licence from Bangladesh Bank is required to conduct offshore banking. Scheduled banks which have already obtained this licence do not need to avail a new one.

As per the proposed law, non-resident individuals or foreign firms intending to invest in Bangladesh can open offshore bank accounts.

Any relative of a Bangladeshi living abroad can open an account and manage the account as a supporter.

Now, foreigners who deposit money under the internal banking system of Bangladesh need permission to remit the money from the country. But in the case of offshore banking, they can do it freely.

As per the proposed law, if anyone keeps money in offshore accounts, no question will be raised regarding its source

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The bill proposed that in the offshore banking business, interest or profits payable by the depositors or foreign lenders shall be exempt from direct and indirect taxes.

Moreover, accounts of depositors or foreign lenders shall be exempt from all duty and levy.

The offshore banking operations can be conducted with five currencies—the US dollar, the British pound sterling, the European Union's euro, the Japanese yen, and the Chinese yuan.

The proposed law said there should be policies approved by the board of directors of scheduled banks in light of instructions passed by Bangladesh Bank for conducting offshore banking activities.

Separate books of account will have to be maintained for offshore operations of scheduled banks, which shall be used for verification of financial and other operations.

Asset liability management guidelines of respective banks shall be applicable for offshore banking activities.

Funds can be transferred from domestic banking units to offshore banking units with special approval of Bangladesh Bank, as per the proposed law.

All funded and non-funded limits prescribed by Bangladesh Bank will be applicable for offshore banking business of scheduled banks.

Submission of all types of reports as directed by Bangladesh Bank will also be applicable.

Reliance on indirect taxes raising poverty

RAPID study says

STAR BUSINESS REPORT

The government's excessive reliance on indirect taxes such as value-added tax (VAT) is putting a higher burden on low-income individuals, leading to a rise in poverty and inequality, according to the findings of a study released yesterday.

"There is a significant positive correlation between indirect taxes and poverty. Each one percentage point increase in the indirect tax burden leads to a 0.42 percentage point rise in poverty," read the study, conducted by the Research and Policy Integration for Development (RAPID) with support from the International Growth Centre (IGC).

The organisation unveiled the study at an event at the Six Seasons Hotel in Dhaka.

Md Deen Islam, associate professor of Economics at the University of Dhaka and

research director at RAPID, presented the keynote.

The study said the National Board of Revenue currently collects almost two-thirds of its revenue from indirect sources of tax, raising concerns about the effect of such taxes on poverty and inequality.

The study said that poverty decreased from 50 percent in 2000 to 24 percent in 2016.

However, income inequality had risen. The study cited cross-country analysis and said that a one percentage point spike in the indirect tax burden leads to a 0.1 percentage point increase in income inequality.

Furthermore, a 1 percentage point rise in income correlates with a substantial 0.084 percentage points decrease in poverty, it added.

RAPID said an expansion of the tax net was essential to collecting more revenue

from direct sources.

Indirect taxes such as VAT to boost tax revenue should be used strategically, particularly in sectors associated with higher or luxurious consumption, it added.

The study suggested a cost-benefit analysis before allowing tax exemptions. "Alternative measures, such as automated and user-friendly technology and service-oriented attitude are imperative to enhancing tax compliance. Policing and threats are generally not effective in increasing tax compliance," it said, adding that the adoption of an automated system for notifications could be effective in ensuring greater compliance.

Mahfuz Kabir, research director of the Bangladesh Institute of International and Strategic Studies, said no policy would please everyone, but social justice must be

considered when forming policies.

Mohammad Abu Yousuf, director general of the finance division of the finance ministry, said the government should ensure proper taxation from taxable persons alongside expansion of the tax net.

In many cases, taxable individuals that are supposed to pay Tk 2 crore can simply pay Tk 20 lakh, he explained.

Towfiqul Islam Khan, senior research fellow at the Centre for Policy Dialogue, said challenges in data interoperability posed a major problem to proper taxation.

Speaking as the special guest, MM Fazlul Haque, member of the National Board of Revenue, said the NBR faced challenges related to tax structure, including tax exemptions.

Economist and RAPID Chairman Mohammad Abdur Razzaque moderated the session.

Entrepreneurs

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Most of the firms have blamed the higher energy costs, an elevated level of raw material prices and the currency depreciation for the hit to the profit.

"The industrial sector is not getting enough gas. Still, the government is raising its price," said Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association.

"Why are you increasing the price if you can't supply enough gas?" he questioned.

"The investment environment is deteriorating day by day."

The entrepreneur said loans from the central bank's Export Development Fund (EDF) have been made costlier as the BB has raised the interest rate of the scheme, which relies on the reserves.

Established in 1989, the EDF helps manufacturer-exporters access the programme for input procurements from international markets.

"The US dollar is costlier when exporters need to import raw materials but its price is lower when they encash them," Khokon said.

Banks buy each greenback for Tk 110.5 from exporters and sell it to importers for Tk 111.

"How will industries survive in this situation?" he said.

The government is also going to introduce an automatic fuel pricing mechanism to comply with one of the conditions of the \$4.7 billion loans given by the International Monetary Fund (IMF). The IMF suggests the adoption of the automatic pricing to curb subsidies enjoyed by people irrespective of their incomes and ensure targeted support for the poor.

This means if the prices go up in the international market, they will automatically increase in the local market and vice versa.

But Anwar-ul Alam Chowdhury, a former president of the Bangladesh Garments Manufacturers and Exporters Association, questioned whether the price will fall when it comes down in the international market.

"The experience in Bangladesh is different," he said, pointing out that the prices don't fall in Bangladesh immediately after they decline in global markets whereas any upward

adjustments take place instantly.

He also said it has to be seen whether local companies can cope with an automatic price adjustment of energy.

Chowdhury said the cost of production has already risen for industries whereas the demand for goods in the local market fell amid escalated consumer prices, which rose to a 12-year high in FY23.

Inflation has been running high at more than 9 percent since March last year as well.

"Due to higher inflationary pressures, people are spending less on non-food items. If the cost of living goes up further, retail sales will drop too," Chowdhury said.

He said the Bangladesh Bank has taken a contractionary monetary policy stance to rein in inflation and made funds costlier.

"Banks are investing in treasury bonds instead of lending to industries as the yields against the former are higher. Under the circumstances, it will be a big challenge for many companies to survive."

Economists say the government has no other option but to reduce subsidies as tax collections have remained low while expenditures are climbing. So, they recommend businesses and industries enhance productivity and competitiveness.

"Owing to the price hike of electricity, the production cost of the manufacturing sector will rise. Therefore, it may impact the price level and stoke inflationary pressures," said MK Mujeri, a former chief economist of the central bank.

He said the government has a logic behind the price spike since the subsidy spending has gone up to a significant level whereas revenue receipts have remained low, hurting development expenditures.

The former director general of the Bangladesh Institute of Development Studies says the electricity sector requires a huge subsidy due to some wrong policy decisions of the government.

He said significant capacity payments made to private power producers and allowing rental and quick rental power plants to operate

for a long time have raised the overall costs of electricity generation.

According to the economist, the price adjustment should be slow so that people don't feel much pains.

There are allegations that the government has to spend more in implementing development projects owing to graft, Mujeri said.

"People are suffering for the wrong policies of the government and corruption."

He urged the government to put in place proper policies and curb corruption.

Bangladesh

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percent of the country's shipments enjoy the LDC-linked market access, which has played a key role in making the nation the second-largest apparel supplier worldwide after China.

In fact, the country is the highest beneficiary of the duty-free trade benefit among 45 LDCs.

CPD's Rahman said no decision on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) was taken at the summit. This means Bangladesh will not be eligible for the waiver of patents in producing pharmaceutical products after the transition.

It was not immediately clear whether the EU would continue the benefit beyond what it usually grants to graduating LDCs following the latest development in Abu Dhabi.

The bloc gives a three-year grace period to a graduating LDC. This already guarantees Bangladesh the trade benefit up to 2029.

"Beyond supporting least-developed members, WTO members took a step towards improving the clear and effective implementation of special and differential treatment for all developing countries in the key areas of standards for market access," said the European Commission in a statement on Saturday.

In Abu Dhabi, the member countries could not reach a consensus on some major issues like fisheries subsidies and public stockholding of food.

Almost all restaurants

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are involved in all these restaurants but at best around 5 percent have received fire-safety training, he said.

Hassan was speaking to The Daily Star during an interview over a fire that broke out at a building housing at least 14 restaurants on Bailey Road in Dhaka on Thursday night. As of yesterday, at least 46 people have been declared dead.

"First of all, a restaurant kitchen must have a specialised fire protection system for the establishment to be granted the licence to run," he said.

A restaurant kitchen is nothing like ones in households as it must adhere to "3E"—education, engineering and enforcement—the three tiers of fire safety used in developed countries, he said.

It is also very important for all restaurant employees alongside owners to have knowledge of firefighting systems as well as fire-safety training, said Hassan.

But in practice, nobody properly follows such rules in Bangladesh and hardly any emphasis is given to fire-containment measures, he said.

Most restaurants in Bangladesh

are sole proprietorships, for which there is a lack of accountability and as a result, fire incidents have been recurring, he said.

In an ideal world, licences should be provided only to those restaurants that abide by rules and regulations, said Hassan.

In reality, licences are "managed" from city corporations while entrepreneurs ignore environmental and fire-safety concerns, he said.

At least 12 to 14 government agencies, including the fire service and civil defence and Department of Environment, are responsible for ensuring compliance to regulations in the licence approval process, he noted.

The secretary general of the BROA alleged that these agencies were lax in their duties as they were not holding restaurant and building owners accountable.

Whenever flaws are detected during inspections, the restaurant and building owners "manage" the agencies through underhanded dealings, he alleged.

The agencies become vocal for a few days and impose fines on errant

owners whenever there is a serious fire incident. But such activities gradually come to a stop and the restaurants continue running as they had been before, he said.

Whenever anyone takes to running a restaurant while ignoring fire suppression systems through the use of their financial abilities, they should take a moment to understand that the safety of people's lives is very important, even more than profits, said Hassan.

He believes fire safety should be ensured in the restaurant industry in the same way it was adopted by the garment industry under pressure from buyers.

However, the BROA has been able to serve no real purpose when it comes to fire prevention, he admitted.

"We tried to make the restaurant owners aware about fire safety and compliance issues as it is an industry...but nobody listens to us," claimed Hassan.

If a fire can erupt in a prominent place like Bailey Road, the restaurant owners, relevant government agencies and even the BROA are all liable, he said.

Robi invests \$13m

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from two substations providing power at 11 kilovolts each.

For uninterrupted power, it also has 30 minutes of IPS battery backup equipped with an AI based modular cooling system.

Shahed Alam, chief corporate and regulatory officer of Robi Axiata, said they chose Jashore as the location for the data centre because of the low land rent and flexible facilities provided by the park.

Most importantly, Jashore is less prone to seismic activity and floods, guaranteeing minimal risk to operations even when hit by natural disasters, he said.

Robi is also pledging an "unparalleled uptime guarantee

of 99.995 percent", coupled with security measures of the highest grade, such as biometric access control and round-the-clock surveillance, safeguarding against physical and cyber threats.

"So, banks, financial institutions, and other organisations can confidently entrust their data to our data centre. Our facility ensures the utmost safety and protection for sensitive information," Alam said.

The data centre was inaugurated by State Minister for Telecom and ICT Zunaed Ahmed Palak on Friday.

Bangladesh Hi-Tech Park Authority Managing Director GSM Jafarullah, Robi CEO Rajeev Sethi and Axentec CEO Adil Hossain Noble

were present.

Palak said Axentec and Robi's initiative set a ground-breaking precedent for others to follow.

Private capital is increasingly being directed towards the establishment of data centres in Bangladesh to meet the escalating need for storing, processing and managing data.

Domestic investors are actively involved in establishing these centres while foreign investment is also flowing into the sector.

Overall, private, public, and international entities have already invested or are in the process of investing more than Tk 5,200 crore, with half of this amount originating from sources overseas.