

JANUARY 2014

fiscal
FRONTIERS

A JOURNAL OF
AEC (CUSTOMS & VAT)
ASSOCIATION

JANUARY 2014

fiscal
FRONTIERS

A JOURNAL OF
ACC (CUSTOMS & VAT)
ASSOCIATION



bangladesh
customs
2014
international
customs day

Published on 26 January 2014
to celebrate International Customs Day 2014

Fiscal Frontiers

Eighth Issue

Fiscal Frontiers

the annual journal of Bangladesh Civil Service (Customs & VAT) Association
January 2014

Editorial Board

Md. Firoz Shah Alam
Dr. Md. Shahidul Islam
Mohammad Jahirul Quayum
Md. Zakir Hossain
AKM Nurul Huda Azad

Computer Graphics & Printed by
Focus Point
93, Arambag, Motijheel, Dhaka

Published by AKM Mahbubur Rahman, Publication and Cultural Secretary
of the BCS (Customs & VAT) Association

Editorial Note

The Fiscal Frontiers is the outcome of the intellectual curiosity of and academic exercises carried out by members of the BCS (Customs & VAT) cadre of Bangladesh Government. The current issue has been further enriched by scholarly contributions from development practitioners and fiscal & development researchers. As we publish the eighth issue of the Fiscal Frontiers on the occasion of the International Customs Day 2014, we are happy to inform our readers that the thirst for knowledge among members of the Customs & VAT cadre, that prompted publication of the first issue of the Fiscal Frontiers two decades ago, continues unabated.

Citizen engagement in revenue matters is a nascent concept and not much research has been done in this area in Bangladesh. Two of the articles focus on this area, which we hope will encourage further research. A particular trait of the Fiscal Frontiers is that articles from both policy makers cum practitioners and academic researchers, and sometime by 'crossers', who tread into both areas, are welcomed and published in this journal. This issue has been no exception.

The role of the Customs has changed from that of a regulator to that of a facilitator in the last decade. Several of the articles touch on that aspect of trade and emphasize the need for modernization, reform, and especially focus on use of new technology and ICT tools - the ultimate objective being providing

better services to trade and citizenry. Some cross cutting issues like cross border crime, international counterfeiting, and the recent stalemate around RMG wage has also been covered in the articles. Please note that the opinions expressed in the articles are that of the individual contributors and not necessarily shared by the members of the editorial board or of the Association.

The BCS (Customs & VAT) Association has been unequivocal in its support for publication of the Fiscal Frontiers. We express our gratitude to the leadership of the association for this continued support. Membership of the BCS (Customs & VAT) Association has increased significantly in the past few years. It is our firm belief that the publication of this journal will encourage many of the new members of the Association to pursue academic and research interests, which will culminate in a richer, stronger and trade friendly Customs & VAT department.

Mohammad Jahirul Quayum
On behalf of the Editorial Board

CONTENTS

'Exit' and 'Voice' Paradigm in Bangladesh Taxation	07
<i>Ahmed Munirus Saleheen, PhD</i>	
Interface Public-Members (IPM): Combating Counterfeiting through Coordinated Border Management	19
<i>Mohammad Akbar Hossain</i>	
Aid, taxation and the 'absence of question'	29
<i>Jens Stanislawski, PhD</i>	
Revenue Reform and Investment Growth: Global Lessons and the Bangladesh Context	38
<i>Nusrat Nahid and M. Masrur Reaz, PhD</i>	
Trade Development in Bangladesh in the Aftermath of the Agreement on Trade Facilitation: a Special Focus on ICT Issues	52
<i>Khairuzzaman Mozumder, PhD</i>	
Paperless Trade: Enhancing Efficiency and Security	75
<i>Md. Shahidul Islam, PhD</i>	
Trade Liberalization and Economic Growth: Analysing the Case of Bangladesh Using Cointegration Approach	93
<i>Mohammed Shafi Uddin</i>	
AEO Programme for Trade Facilitation: Bangladesh Customs Has Set Its Mind	116
<i>Mohammad Abu Yusuf, PhD</i>	
Pros and Cons of Minimum Wage in RMG	136
<i>Zaidi Sattar, PhD</i>	
Terrorism and Cross-Border Crimes: The Nexus and Its Security Implication	142
<i>Moinul Khan</i>	

‘Exit’ and ‘Voice’ Paradigm in Bangladesh Taxation

Ahmed Munirus Saleheen, PhD¹

Since the 1990s, the concept of participation has featured extensively in the discourse of development, with participation being mainstreamed as a prerequisite for development. The concept of participation has also been tied with the rights of citizenship and with democratic governance (Gaventa 2004). Despite conflicting views about its effectiveness, experiences throughout the world suggest that participation has actually deepened and extended its role in development (Hickey and Mohan 2004). As the new fiscal sociological approach to taxation as a tool for state building emerges, the idea of people’s participation in taxation has been reinforced. In fact, the efficacy of a tax system ultimately rests on the extent to what people are involved in the whole process of taxation. The cooperation with taxpayers is deemed so crucial that Daunton goes on to say, ‘The administration of taxes should, as far as possible, rest on cooperation with taxpayers, even at the expense of a degree of evasion or avoidance’ (Daunton 2002:6). This article explores a somewhat opposite phenomenon in which citizens become more prone to disengagement than participation, and the impacts of such behaviour.

The ‘exit’ and ‘voice’ mechanisms that Albert O Hirschman devised in 1970 (Hirschman 1970) entered the public accountability regime with the realization that in many developing countries, the public/beneficiaries do not have the ability or incentive to demand efficient services or to insist on greater public accountability. ‘Exit’ implies the opportunity for the public to exit –the extent to which the public has access to alternative suppliers, public or private, of a given public service- and ‘voice’ denotes the scope for the citizens to seek better performance from public service providers, without opting for alternative sources of supply. These two mechanisms have been used to ensure public accountability to the stakeholders. As Paul (1991) argues, effective public service accountability can be sustained only when hierarchical control in the public service is reinforced by ‘exit’ and

¹ The opinions expressed in this article, drawn from his PhD thesis, are the author’s and do not represent the opinion or position of the organization he serves. Email: ahmedmsaleheen@yahoo.com

'voice.' Given that the tax service is different from many other public services in terms of content and quality and that the relationship between the taxpayers and the tax authority is not linear one of agent and principal, but of bargain on the basis of reciprocity- the very question that immediately arises is if the taxpayers have an exit option at all, and/or, even if they have, if it is at all a desirable option for the people to make with regard to making a more accountable tax system.

If natural or artificial monopoly is an important attribute of many public services that tends to limit the public's scope for exit (Paul 1991), then taxation is the ideal example of a public service which apparently limits such scope. One obvious manifestation of a taxpayer's exit is to move out to some other jurisdiction. Could there be any other exit mechanism in order to make the tax authority more accountable and responsive? Answering this question entails an elucidation of the nature of service a tax department actually provides. At the broadest level, the service comprises the roles that taxation performs: revenue, representation, redistribution and re-pricing (Brautigam 2008; Vermeend, Ploeg et al. 2008). Opting not to subscribe to this service will be self-defeating for the taxpayers and hence undesirable. It is difficult to conceptualize a tax department as a service provider in the sense of a utility, health or education department. The service that taxation provides relates to the taxpayers more as participants than as recipients. However, all citizens are by default tax customers as they are morally and legally obliged to pay their fair share of the cost of the government that, at least theoretically, serves and protects them. The more tangible service that the tax department renders to the citizens is to taxpayers' service, which, basically is meant to facilitate a taxpayer to comply with tax liabilities. Hence the opportunity to exit from receiving this service i.e. finding an alternative service provider, for example, a tax consultant, will not affect the tax authority so far as it relates to its accountability. But in so far as the customers' exit affects the revenue of the concerned entity or organization, the imperative for the tax officials to be responsive and accountable to their customers comes to the fore. This is where we can posit an exit paradigm in taxation.

The role of taxation in the state building, in addition to its traditional role of raising revenue to finance the state expenditure, is now well established. The 'revenue bargain' or the 'social contract' (Moore

2007) that taxation forges in the relationship between the state and taxpayers entails an informed participation of the former in the tax matters. In order for a tax system to perform its role of revenue, representation, re-distribution and re-pricing, the first and foremost objective of a tax administration is to command 'loyalty' of its taxpayers. Since 'loyalty holds exit at bay and activates voice' (Hirschman 1970:78), in the normal circumstances of providing and receiving services, the people's loyalty to the tax system would prompt voice. But the overall scenario in the Bangladesh tax system naturally questions the extent to which the citizens are loyal to the tax department. If we take a few factors such as the ratio of registered taxpayers to population, the poor tax to GDP ratio, the wide tax gap and the conspicuous lack of tax awareness, the loyalty aspect does not at all seem promising.

Having sketched the conceptual framework of exit and voice paradigm with regard to public service, the article will now proceed on to explore the taxpayers compliance and tax officials' accountability scenario from this paradigmatic perspective. As noted, since the provision of the tax service cannot be substituted by any other service provider, the taxpayers' exit cannot be a desirable mechanism for making the service provider (tax authority) more accountable. Desirable or not, the dissatisfied customers tend to demonstrate some form of exit, and so far as the revenue performance of the tax departments and the social awareness of tax issues are concerned, this is no exception with the public service of taxation in Bangladesh. We need to identify the nature of that 'exit' and its overall impacts.

In 2013 French actor Gerard Depardieu became a Russian citizen in a bid to avoid his country France's 75% tax rate. His suit was followed by many French tycoons that included a leading French businessman with a personal fortune of £147 million who moved to Britain, allegedly, to avoid the imposition of a Socialist super-tax on the country's wealthiest people. These examples illustrate the notion of exit in a tax regime. In Bangladesh context, there has not been any reported exit of this kind so far. The exit behaviour that the tax customers exhibit in Bangladesh is of a different kind; this is a special pattern of exit, which is more metaphorical than literal, more passive than active, and enforces a couple of impacts: the first in affecting the tax revenue and the second

in *not* stimulating 'voice'. I will attempt to illustrate this paradigm by taking into account two interrelated issues of the Bangladesh tax scenario: the incident of the abolition of the tax ombudsmanship and the perceived lack of citizen's voice in tax matters.

Abolition of tax ombudsmanship

The office of the tax ombudsman was established in 2006 to 'ensure transparency in tax administration and accountability' and to address the *maladministration* of the tax authority. Tax Ombudsman Act, 2005 defined 'maladministration' quite extensively outlining an array of maladministration that tax officials might be susceptible to. Though the tax departments were never ranked as the most corrupt public sectors in Bangladesh in different TIB reports, the generic and internal factors that contributed to the establishment of the office of tax ombudsman was no doubt the general perception of pervasive corruption in the tax department. But, despite its urgency and huge potential, the tax ombudsmanship was abolished in 2010 without prompting any significant protest from stakeholders whose interest it was supposed to safeguard. The Finance Minister defended the bill to repeal the Tax Ombudsman Act 2005 in the parliament by saying that the office of Tax Ombudsman had lost its efficacy in removing misrule in the tax administration. Terming the Tax Ombudsman a powerless figure, the Finance Minister remarked, "It was simply wastage of money from the government exchequer". In the absence of the MPs belonging to the boycotting opposition parties, the only opposition that the bill faced was from the lone independent MP who insisted on amending or modifying the Act to make it effective rather than repealing it. The Finance Minister placed the bill to repeal the Tax Ombudsman Act 2005 while lamenting, paradoxically enough, the nation's failure to appoint an ombudsman 'in around last four decades in line with the constitutional provision due to negative culture of politics'.

Implications of the abolition of tax ombudsmanship

The official justification for establishing the office of the tax ombudsman was to ensure more transparency and accountability of the

tax administration and also to redress its alleged 'maladministration.' Therefore, the abolition of such an institution, for whatever reasons, downplays the government's commitment to transparency and accountability in the first place. But what is more significant in this abolition is the institutional failure to develop a voice mechanism for the general stakeholders.

Taxpayers' lukewarm response to the service provided by the office of the tax ombudsman was officially cited as one of the indicators of its so-called ineffectiveness.² The findings of my PhD study show that there was no dearth of complaints about the tax service in particular. Moreover, there are host of litigations against the tax authority. Litigations filed by aggrieved taxpayers have been identified as a serious bottleneck in the collection of tax revenue in Bangladesh. According to the statement placed before the Parliament in 2010, litigations blocked the revenue flow amounting Taka 1200 billion which is about 20% of the tax revenue collected in FY 2009-10. Then, why did not the citizens feel motivated to approach the tax ombudsman? In this respect we can look into the aspect of complaining as a form of raising voice and then proceed to explain why this form of voice failed in the context of Bangladesh.

Failure to make complaints as a form of raising voice

In many developed societies, such as the USA or the UK, demanding compensation through litigation for accidents is now perceived, not only as a common-sense way of gaining financial compensation, but also as a way of holding public services to account (Furedi and Bristow 2012 :13). In contrast, litigations for demanding compensation for certain failures of the public sector in providing a service are quite rare in Bangladesh. Given that a litigious climate inexorably leads to the diminishing of the ethos of public service (Furedi and Bristow 2012 :70), the alternative is the move to encourage and institutionalize a 'culture of complaint'. The establishment of the office of ombudsman can be regarded as a move to encourage and institutionalize a 'culture of

² According to media reports, the office of the tax ombudsman received 119 complaints in 2007, of those, 47 complaints were considered for investigation. Of the 47 complaints, 36 were investigated and disposed of with recommendations to the NBR.

complaint' in a bid to get some relief from the curse of a litigious culture. But the forum for raising voice in the form of complaints in the contentious area of taxation did not become effective enough to sustain. One explanation for this failure relates to the taxpayers' posture of disengagement³.

Citizen's posture of disengagement

Citizens' complaining behaviour as a multidimensional and extremely complex phenomenon is logically subsequent to dissatisfaction (Day 1984). Also, a customer's decision to make a complaint hinges on the costs and benefits (Hirschman 1970) which are not only economic, but also psychological (Andreasen 1985). In the case of the tax ombudsman's office in Bangladesh not receiving enough complaints, it can be argued on the basis of findings that the citizens did not find complaining cost effective in the first place, and secondly, they did not have enough confidence about the outcome of their complaints to that office. A respondent in my field survey compared the filing of complaints against tax officials to 'picking a quarrel with crocodiles while living in water.' Taxpayers' refraining from making complaints can be related to what Braithwaite (2003) terms the 'posture of disengagement.'⁴ When taxpayers assume this posture, their behaviour is characterized by widespread disenchantment and they do not find any point in challenging the authority. One of the plausible reasons for such posture is the lack of trust by the taxpayers in the tax authority.

³ There are obviously other reasons which this article does not envisage to address.

⁴ Five motivational postures identified in the context of taxation compliance are: (a) commitment, (b) capitulation, (c) resistance, (d) disengagement, and (e) game playing (see Braithwaite 2003). While the postures of commitment and capitulation reveal an overall positive orientation towards tax authorities, resistance, disengagement and game-playing reflect a negative orientation. 'Disengagement reflects a negative orientation and correlates with resistance. Individuals and groups keep socially distant and blocked from view and have moved beyond seeing any point in challenging tax authorities' (Kirchler 2007:98).

This lack of trust is based on the tax authority's perceived lack of accountability and transparency which appears quite predominant in the arena of Bangladesh taxation. There is an obvious lack of a 'service and client' approach which, characterized by supportive and respectful treatment of taxpayers, transparency of procedures and taxpayer acceptance of the tax authority, would enhance trust and a cooperative atmosphere leading to voluntary compliance (Kirchler 2007:56). This is well aligned with the stakeholder theory that suggests that the effectiveness of an organization rests on its ability to create as much value as possible for stakeholders. On the other hand, the 'command and control' approach, as evident in the tax culture, establishes a climate of distrust and creates 'social distance.' This social distance is manifest by a limited space of participation and indicates the extent of the individuals' or groups' willingness or unwillingness to associate or be aligned with an authority. As opposed to a customer's behaviour in case of dissatisfaction, a taxpayer distances himself/herself from taxation not in a bid to find an alternative service provider but in the tangible manifestation of non-compliance. The root cause of such exit, partial exit, withdrawal or disengagement for both the customer and the taxpayer, however, remains the same: dissatisfaction.

Though we have not found any evidence of physical exit from the tax service in Bangladesh, the exit outcomes are quite evident in the taxation scenario. They are manifest in the wide tax gap and the lack of customer's voice. The disengagement posture as manifested by the citizens' perceived unwillingness to file complaints against the tax authority as a means of holding it accountable can be called a soft version of exit or a metaphorical exit. The consequence of this exit behaviour goes far beyond individual level.

'Exit holds voice at bay'

Having seen the impact of metaphorical exit in the non-complaining behaviour of taxpayers, we can turn to a more collective response resulting from the exit paradigm: the lack of social accountability in taxation in Bangladesh. Like we argue 'loyalty holds exit at bay and activates voice', exit not only holds voice at bay, but also deactivates it.

Ackerman has developed a model of co-governance 'which involves inviting social actors to participate in the core activities of the state'

(Ackerman 2004:447) . She has cited the participatory budgeting (PB) process as an excellent example of ‘co-governance for accountability.’ While there are considerable efforts in engaging the stakeholders in the form of participatory budgeting in ensuring that public expenditure is made transparently and accountably, the equally overarching issue of how the revenue is raised has remained mostly within bureaucratic boundaries. Studies suggest that even in Bangladesh, participatory budgeting programs at the *Union Parishad*, the lowest tier of local government, with the help of NGOs; have enabled citizens to monitor the spending of local governments through the instrument of open budget sessions (Ahmad 2008). By contrast, the case of the taxation in Bangladesh exhibits an ‘unfortunate’ pattern which the OECD (2008) describes as the ‘lack of organized bargaining on the revenue side in many developing countries.’ The role of the Civil Society Organizations (CSOs) in Bangladesh has been called ‘vibrant but not vigilant’ (Tasnim 2007), meaning that despite their wide involvement in the grass-roots development, they play a very limited role in promoting good governance and upholding democratic norms. On the contrary, the case of the taxation in Bangladesh bears out the ‘lack of organized bargaining on the revenue side in many developing countries’. The citizens’ general apathy towards engaging themselves in organized bargaining can be explained by different factors including their exit behavior. In the context of Bangladesh taxation scenario, this aspect of exit behavior becomes even more obvious if we look into the role, or, the lack of it, of the CSOs in dealing with tax issues.

Role of CSOs

The role of CSOs and NGOs as an important actor in the development in Bangladesh is well recognized. While their role in sectors such as microfinance, women empowerment, health, education and human rights has been quite prominent, their involvement in dealing with tax issues, or, in other words, in making people aware of their rights and responsibility in relation to taxation has not been worthy of mention. But there are convincing reasons for CSOs to engage in tax issues. Besides advocating for ensuring adequate resources for financing anti-poverty programmes and improving the distribution of income and wealth, they can play a key role in enhancing government transparency and accountability. It has been argued in the fiscal sociological

discourse that open debate on tax policies forms an essential ingredient for the development of the social contract through which citizens feel motivated to pay their right share of taxes as they are confident of the fairness of the tax system. But as regards the specific issue of taxation in Bangladesh, so far as published records are concerned, the CSO/NGO initiatives were only sporadic.

The Centre for Policy Dialogue (CPD) is one of the few CSOs that have dealt with tax issues to some extent. According to list of programmes posted in its website, CPD organized 18 different kinds of dialogues on an array of socio-political and economic issues in the last four years. But none of them exclusively focused on tax issues. Its dealing with tax matters seems to remain confined to its annual submission of a set of proposals for the national budget, and analysis of the budget measures. A study of its proposals for the national budget in the last five years shows that it sent out recommendations on the procedural improvement of the tax system. In none of its suggestions did CPD emphasize the need for social accountability for the tax administration.

The perceived indifference of the CSOs to the tax issue is glaringly manifest in another important document by the same CSO. The CPD published in 2007 *Bangladesh Vision 2021* (CPD 2007). In its goal of attaining an efficient, accountable, transparent and decentralized system of governance, CPD underscored the imperative need for an ‘independent central bank’, ‘an efficient, transparent and people-friendly land administration’ and ‘a trusted, decentralised, and impartial police force’; but the need for a fair, effective and efficient tax system has remained conspicuously unmentioned. In fact, in this document, there has been no substantive reference to the role of the tax administration.

It can be inferred from different studies that either none of the CSOs was involved in the advocacy of tax issues, or, the CSO advocacy of tax issues was too insignificant to merit a mention. If civil society interests provide an important channel for understanding the exigencies of the public interest and if their main role lies in promoting public interests, then taxation does not appear to be an interesting issue to the CSOs of Bangladesh. This apparent indifference of the CSOs is quite consistent with the public apathy, ensuing from their exit behavior, towards

taxation, and vice versa. One glaring example of our general apathy towards, and lack of awareness of, taxation is manifest in the fact that the 2008 election manifesto of neither Awami League, nor the BNP contains a single reference to taxation.

Conclusion

There is no denying the fact that in order for a tax system to perform its role of revenue, representation, re-distribution and re-pricing, the first and foremost objective of a tax administration is to command 'loyalty' of its taxpayers. Since 'loyalty holds exit at bay and activates voice', the people's loyalty to the tax system would prompt voice. But the overall scenario in the Bangladesh tax system naturally questions the extent to what the citizens are loyal to the tax department. The overall revenue performance of our tax system together with the extent to what the citizens voluntarily participate in the whole process of taxation indicates that they are more 'disengaged' than 'committed'. This disengagement or metaphorical exit accounts for their lack of voice which in turn is reflected in the way tax issues are dealt with by the CSOs. But the primary impact of the exit behavior is on revenue as it triggers non-compliance in the form of tax avoidance and evasion.

The factors that trigger the exit behavior obviously relate to the factor of satisfaction. The risk of losing customers' loyalty stems from the ills of bad governance permeated through the tax system and inflicted upon the taxpayers; and this risk can to a great extent be mitigated through tax authority's sincere efforts in making the tax system truly participatory, accountable and transparent, in bridging the gap of social distance by instilling a 'service and client' approach, characterized by supportive and respectful treatment of taxpayers. The question is: Who will make it happen? Government's commitment to transparency and accountability is one factor. But what forces the government to commit to itself transparency and accountability is the citizens' voice. And in order for 'voice' to be activated, there must be explicit commitment and processes to engage people in the whole domain of taxation, which in turn will reduce their disengagement. We must not forget that taxation is too big an issue to be left to a handful of bureaucrats and business magnates; it has to be evolved as a national agenda. In this respect, in addition to the government initiatives, the already 'vibrant' civil society

can play a more 'vigilant' role by initiating campaigns to make people aware of their rights and responsibilities with regard to taxation and many other good governance benefits will follow as natural consequences.

References

- Ahmad, R. (2008). "Governance, Social Accountability and the Civil Society." JOAAG 3(1): 10-21.
- Ackerman, J. (2004). "Co-Governance for Accountability: Beyond "Exit" and "Voice"." World Development 32(3).
- Andreasen, A. R. (1985). "Consumer responses to dissatisfaction in loose monopolies." Journal of consumer research 12(September): 135-141.
- Braithwaite, V. (2003). Dancing with Tax Authorities. Taxing Democracy. V.Braithwaite. Aldershot, Ashgate.
- Brautigam, D. (2008). Introduction: taxation and state-building in developing countries. Taxation and State-Building in Developing Countries:Capacity and Consent. Deborah A Brautigam, O.-H. Fjeldstad and M. Moore. Cambridge, Cambridge University Press.
- CPD (2007). Bangladesh Vision 2021. Dhaka, Centre for Policy Dialogue.
- Daunton, M. (2002). Just Taxes: The Politics of Taxation in Britain, 1914-1979. Cambridge Cambridge University Press.
- Day, R. L. (1984). "Modeling choices among alternative responses to dissatisfaction." Advances in Consumer Research(11): 496-499.
- Ferranti, D. d., J. Jacinto, et al. (2009). How to improve governance: A New Framework for Analysis and Action. Washington, D.C., Brookings Institution Press.

Furedi, F. and J. Bristow. (2012). "The Social Cost of Litigation." Retrieved January 12, 2013, from <http://www.frankfuredi.com/images/uploads/120905122753-the-social-cost-of-litigation.pdf>

Gaventa, J. (2004). Towards Participatory Governance: assessing the transformative possibilities. Participation: from tyranny to transformation? Exploring new approaches to participation in development S. Hickey and G. Mohan. London, Zed Books.

Hickey, S. and G. Mohan (2004). Towards participation as transformation: critical themes and challenges. Participation: from tyranny to transformation? Exploring new approaches to participation in development., 2004 S. Hickey and G. Mohan. London, Zed Books.

Hirschman, A. (1970). Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States Cambridge, Harvard University Press.

Kirchler, E. (2007). The Economic Psychology of Tax Behaviour. Cambridge Cambridge University Press.

Moore, M. (2007). How Does Taxation Affect the Quality of Governance? IDS Working Paper 280. Brighton, Institute of Development Studies

OECD (2008). Governance, Taxation and Accountability: Issues and Practices. Paris, Organisation for Economic Cooperation and Development

Paul, S. (1991). Accountability in Public Services: Exit, Voice and Capture, WPS 614. Washington, D.C. , The World Bank.

Tasnim, F. (2007). Civil Society in Bangladesh: Vibrant but not Vigilant. Political Science University of Tsukuba. **Doctor of Philosophy**

Vermeend, W., V. Ploeg, et al. (2008). Taxes and the Economy: A Survey of the Impact of Taxes on Growth, Employment, Investment, Consumption and the Environment. Cheltenham, Edward Elgar.

Interface Public-Members (IPM): Combating Counterfeiting through Coordinated Border Management

Mohammad Akbar Hossain

Over the world, counterfeiting is a very old issue in business with unpleasant memories. From the time immemorial, trade has been suffering from counterfeiting and piracy. Recently, this very issue has got a new dimension as the world has been moved with the revolution of information technology. The conscious world was astonished to see the unprecedented use of counterfeiting and piracy techniques that created a huge risk for business, human health and environment. With the lack of strict supervision, the so called counterfeit business has spread in such a way that it has now become very difficult for the law enforcing agencies to differentiate, let alone general consumers, which one is counterfeit and which not;. This article concentrates on the role of Customs and the use of digital tool like IPM to address counterfeiting and piracy.

What is Counterfeiting

According to the Oxford Dictionary, the word "counterfeit" means made in exact imitation of something valuable with the intention to deceive or fraud. International Trademark Association defines that counterfeiting is the practice of manufacturing goods, often of inferior quality, and selling them under a brand name without the brand owner's authorization. Generally, counterfeit goods are sold under a trademark that is identical to or substantially indistinguishable from the brand owner's trademark for the same goods, without the approval or oversight of the trademark owner. Agreement on the Trade-Related Aspects of the Intellectual Property Rights (TRIPS) defines that (a) "Counterfeit trademark goods" shall mean any good, including packing, bearing without authorization a trademark which is identical to the trademark validity registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation; (b) "pirated copyright goods" shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

Economy of Counterfeit Trade

In 2008, the US Customs and Border Protection estimated that the global market value of the counterfeit industry is \$500 billion with a growth rate of 1700 per cent over the last 10 years. In 2012, the International Anti Counterfeiting Coalition (IACC) reported that it is a business of \$600 billion and grew over 10,000% in the past two decades. Various researches, carried on this issue, found that it was very difficult to figure out the actual cost of the counterfeit business as Customs could seize a very small amount of goods across the world. However, cost of counterfeit would be a huge figure if the actual loss of health and environment were taken into account. The Havocscope website estimates that the value of counterfeit product is \$651.77 billion per year. Drugs and electronics are the most counterfeited products with the value of \$200 billion and \$169 billion respectively.

Table 1: Top ten Counterfeit goods according to value

Serial No	Name of the items	Value in USD (Billion Dollars)
1	Counterfeit Drugs	\$ 200
2	Counterfeit Electronics	\$ 169
3	Software Piracy	\$ 63
4	Counterfeit foods	\$ 49
5	Counterfeit Auto Parts	\$ 45
6	Counterfeit Toys	\$ 34
7	Music Piracy	\$ 12.5
8	Counterfeit Clothing	\$ 12
9	Counterfeit Shoes	\$ 12
10	Cable Piracy	\$ 8.5

Source: Havocscope website

In 2009, the OECD estimated that except non-monetary damage such as illness and death, the value of counterfeiting in their region is \$ 250 billion per year. The UNODC also expresses deep concern regarding counterfeiting of drugs as it is the most vulnerable item. According to UNODC, counterfeiters are involved in the illegal production of knock-offs in virtually every area like food, drinks, clothes, shoes, pharmaceuticals, electronics, auto parts, toys, currency, tickets for transport systems and concert and much, much more. Criminal network across the borders also regulate the business of counterfeiting that creates huge concern to address the problem with special attention to tackle international terrorist financing.

Movements of Counterfeit goods

According to Illicit Trade Report 2012 of the WCO, China as a single country was responsible for 76.71 per cent of the total detained counterfeit goods in 2010 and 46.43 per cent in 2011. In 2012, they also held the first position with 58.8 percent of total detained goods over the world. Various research papers show the highest contributions of China to counterfeit goods because of the latest wave of globalization. The international brands choose China for outsourcing because of cheaper labor. Reports on the EU Customs Enforcement of IPR 2012 also expressed their concern as China remained the main country of provenance from where goods suspected of infringing IPR were sent to the EU. With regard to the value of goods, 77.09 per cent seized counterfeit goods came to the EU from China in 2012. So, China had to come up to lead the movements against counterfeit.

Table 2: Top 5 Departure countries by quantity of seized commodities (in pieces)

Country	2011	% in total	2012	% in total
China	63,631,789	45.1%	41,161,278	58.8%
UAE	24,425,245	17.3%	5,237,593	7.5%
Hong Kong, China	9,529,145	6.8%	3,172,602	4.5%
India	2,007,374	1.4%	2,435,416	3.5%
Bolivia	412	0.0%	1,870,630	3.5%

Source: Illicit Trade Report 2012, WCO

In case of destination of counterfeit goods, Saudi Arabia ranked first with 13 percent in 2011 and 36.6 per cent in 2012. Beside developed countries, many developing countries have been targeted by the counterfeiters as the developing countries do not have sophisticated equipment to identify the goods easily. Moreover, the counterfeiters take the opportunity of weak legal framework and lack of awareness of developing countries.

Table 3: Top 5 destination Countries by quantity seized (in pieces)

Country	2011	% in total	2012	% in total
Saudi Arabia	18,370,995	13.0%	25,551,902	36.5%
United States	16,878,643	12.0%	9,739,129	13.9%
Chile	53,791	0.0%	6,983,833	10.0%
Italy	11,523,418	8.2%	4,694,119	6.7%
Argentina	150,942	0.1%	2,085,918	3.0%

Source: Illicit Trade Report 2012, WCO

WCO and Counterfeiting

Various international organizations, such as UN, WCO, WIPO, WTO, have been working on this very issue so that the flow of counterfeit goods could be stopped. World Customs Organization (WCO) is one of the international organizations that works on the Customs related matters. The WCO represents 179 Customs administrations across the world that collectively process approximately 98% of global trade. As the global center of Customs expertise, the WCO is only international organization with competence in Customs matters and regarded as the voice of the international Customs community. It has been recognized that Customs is the sole organization that can help address the very matter with their tough control at the border points during the importations and exportations. Hence, the WCO has come up with a lot of anti-counterfeiting measures. However, it is very easy for this organization to coordinate and harmonize the procedure of Customs regarding the counterfeiting issues among the member countries. In the mean time, the WCO has developed a tool called is Interface Public-Members (IPM) to address counterfeiting with information technology.

The WCO has been working across the world to facilitate Coordinated Border Management (CBM). According to the Revised Kyoto Convention (RKC), Customs should be the leading organization in border points during international trade in the Coordinated Border Management approach. CBM will help coordinate all government organizations working in border points with a Single Window environment. IPM could be regarded as a new feature of single window environment at Customs stations.

Customs and Counterfeiting

Customs throughout the world undertakes the assessment of goods and its flows during importations and exportations. The target of

counterfeiters is making the Customs officials fool in any means to assess the counterfeit or pirated products. Before the assessment of goods, a Customs official has to be sure whether the goods are genuine or not. A substandard or counterfeit item must not be assessed, rather, that should be confiscated. Though, it is written very clearly in the law, but, implementation is very difficult for the officials.

Generally, many organizations of a country could be engaged with anti counterfeiting activities but Customs could play the vital role as they are the only authority to assess the goods whether it is normal import-export or online import-export. According to the WCO, Customs administrations are on the front line in the fight against counterfeiting as they alone account for over 70 per cent of world wide seizures and 90 per cent in the European Union regarding counterfeit goods. If the counterfeited or pirated item is detected at the entry point, then the whole supply chain of the country will be saved. Thus, it is very important to equip Customs officials with the new and capable instruments and tools. However, as most of the member countries of the WCO have been using automated or digital system in Customs administrations, it is now easier than any other time to make the officials aware and competent with the use of information technology. The system itself could automatically stop the flow of counterfeit goods if the authorities could add a feature of IPM in single window or automated assessment system of Customs administrations.

What is IPM?

Interface Public-Members or IPM is a detection tool developed by the WCO that assist to identify a product whether it is genuine or counterfeit. It is difficult for anyone to identify a counterfeit product with open eyes, that is why, we need to take the help of technology. It is an online application that enables right holders to provide real-time data of their products. Customs officers can access this information from anywhere of the world via a simple and secure interface available in their national language. IPM is also considered as a training tool which Customs officials can use as e-learning facilities and also learn about products, brands and the distinguishing features between counterfeit and genuine products. Moreover, IPM is the only anti-counterfeiting tool that makes a direct connection between the private sector and Customs. At the beginning, as an online application, IPM has been used by the Customs officers from their computer or laptop. but during the celebration of its second year, the WCO launched a new mobile application in response to the demand of the private sectors and member countries. IPM version 2 was launched at the Global Congress on Combating Counterfeiting and Piracy in Istanbul in April 2013. The mobile version would help the officers distinguish almost

Indistinguishable counterfeit goods quicker than before. Furthermore, the officers can identify the goods even from their mobile and tablet. IPM jointly works with various authentication providers so that the officers can get supplementary level of verification. As the WCO has signed MOU with GSI, officers can simply scan the industry standard GSI barcode using Wi-Fi or 3G-enabled phone and in case of necessity their request for additional data could be rerouted to the relevant authentication providers.

IPM is made freely available for 179 member states of the WCO. As of November 22, 2013 total number of IPM member countries is 63. It is supposed that by the year 2017, 121 countries and 43,950 Customs officers would be connected with IPM.

CBM and IPM

Coordinated Border Management (CBM) is a concept developed by the WCO. Some international organizations called it as Integrated Border Management or Comprehensive Border Management. But the significance and theme are same. CBM can make a good partnership among the government organizations as well as private organizations with the public.

The ongoing revolution in information technology has made a paradigm shift in the area of international trading. The countries have been working together to make better coordination for quick flow of goods across the borders. Though international organization have come up with lots of tools and instruments so as to expedite the global trading but coordination among the counterparts most of the time make the scenario difficult for businesses. It was noticed that there was no coordination among the organizations with the government. It takes a lot of time and sometimes money to get the permission or cooperation from the various organizations for the same consignment. If simply we look into the matter of Intellectual Property Rights issues, the scenario would be clear enough. The private sector or the brand owners have no direct or online communication with the Customs department. In addition, Intellectual Property Rights issues in many countries are being looked after by some other ministries instead of finance ministry. Thus, coordination is very essential between Customs and intellectual property rights offices. If the Customs has the list or database of brand owners or right holders and right holders can access that database regularly, the coordination will be enhanced to catch the counterfeiters.

Customs authorities can easily include the data base of police and intellectual property right offices into the assessment software. As a result, that will help the authorities take quick actions and identify the

culprits instantly. In addition, IPM will support to identify the products by scanning its barcode within few seconds.

A strong legal framework and political commitment is very necessary to make an environment of Coordinated Border Management. Political leadership has to comprehend that in short run, sometimes, it may seem that counterfeiting may not create a problem for the economy. On the contrary, if we analyze the impacts from various points of views, we see that the country would heavily be affected with the counterfeiters, in the long run.

The countries will loss huge amount of revenue at import stage as well as at the consumption level. The criminal would get the opportunity to send the money abroad in disguise of legal trade. Besides, renovation in business sectors will be demoralized. On the other hand, public health suffers a lot because of fraudulent and counterfeit drugs. The governments have to spend enormous amount of money in health services.

CBM helps coordinate the organizations in a single window environment so that they can take quick decisions without any delay. Therefore, the policy makers have to think using CMB approach to face this problem sincerely.

Integration of Organizations

The WCO has engaged various regional and international trade bodies to fight against counterfeiting with the WCO. On the 12th of September, 2013, the WCO signed a Memorandum of Understanding (MOU) with Quality Brands Protection Committee of China Association of Enterprise with Foreign Investment (QBPC) to have reinforced their cooperation in the fight against counterfeit.

The WCO has also signed MOU with the European Chamber of Commerce in Hong Kong and Macau (EUROCHAM), Enterprise du Medicament, the French Association of Pharmaceutical Companies (LEEM), the Customs Intellectual Property Information Center (CIPIC, Japan), the Federation of the European Sporting Goods Industry (FESI), the Associacao Brasileira de Artigos Esportivos (MOVE), the Russian Association of Sports Industry Enterprise (RASIE), the Asociacion Nacional para la Depansa de la Marcas (ANDEMA), the Union of Chambers and Commodity Exchange Turkey (TOBB). If more national and international organizations join IPM and WCO, the battle against counterfeiters will be even stronger. International Chamber of Commerce (ICC), Interpol, WTO, WIPO and various other

organizations are working from their own platform. But, it is very important to strengthen the Customs first to get the fruitful results. That is why, the coordination and integration of national and international organizations are very important.

Public Private Partnership

IPM has created an avenue for public private partnership. The right holders or real entity of businesses can directly be connected with Customs authorities providing the real data regarding their trade. On the other hand, the Customs administrations can be updated with the real information about the traders and their products. By this way, both private and public sectors will be benefited. Again, Coordinated Border Management not only helps coordinate public organizations but also connects other private organizations. In a coordinated approach, the government can connect the national and international parties with the administration as well. However, with the help of regional Customs union and bilateral agreements like Mutual Recognition Arrangements (MRA) can be worked effectively. In addition, Authorized Economic Operators (AEO) can also help fight against counterfeiting. Coordination and regular meetings with the local business bodies may assist to work efficiently.

Threat for Revenue and Economy

As mentioned above, counterfeiting and piracy erode the economy silently. Because of counterfeiting, the real business will be demoralized and be shut down, in the long run. The economy will not be enriched with innovation. Additionally, counterfeiting is a serious threat for revenue growth of a country. Counterfeit goods importers or producers always hide the actual price that causes huge revenue loss. When the imported goods enter into the local market, they get the opportunity to evade VAT as the price was declared less at Customs points. Consequently, the income tax would be evaded. As a result, the total revenue growth would be hampered.

Conclusions

The WCO and other national and international organizations have taken a lot of steps to make people aware of the counterfeit goods. The use of modern tools, instruments and digital technology can address counterfeiting robustly. Specially, IPM and CMB together can be used by the Customs authorities to address counterfeiting. The real businesses have to come up to make partnership with Customs. The private sector has to convince the government to use IPM or digital technology to identify counterfeit or pirated goods. Moreover, a strong legal framework is very essential for facing this acute problem. If one country

uses IPM, but it does not have a legal framework to punish the culprits, then the outcome of the system would be confined within the premises of the Custom houses. The world does not have enough time to wait. Every day, the children are dying because of counterfeit medicine. The terrorists are getting many more opportunities to finance their killing missions. The countries are losing revenue and above all the economies are suffering. To save the world, it's time to do something.

[Disclaimer: The views and the opinions expressed in this article are those of the author and do not reflect the views of the World Customs Organization (WCO) or National Board of Revenue (NBR)]

References:

Chaudhry, P and A. Zimmerman, 2013, "Protecting Your Intellectual Property Rights, Understanding the Role of Management, Governments, Consumers and Pirates, Management for Professionals," Springer, New York.

European Union (EU), 2013, "Reports on EU customs enforcement of intellectual property rights, Results at the EU border 2012".

Havocscope website, at www.havocscope.com (last accessed 25 December 2013)

International Anti Counterfeiting Coalition (IACC), website at www.iacc.org (last accessed 20 December, 2013)

International Trademark Association (INTA), website at www.inta.org (last accessed 10 December, 2013)

Organization for Economic Co-operation and Development (OECD), 1998, "The Economic Impact of Counterfeiting".

Organization for Economic Co-operation and Development (OECD), 2007, "The Economic Impact of Counterfeiting and Piracy".

United Nation Office on Drugs and Crime (UNODC), 2010, "The Globalization of Crime (2010)".

United Nation Office on Drugs and Crime (UNODC), "Counterfeit Goods – A Bargain or a Costly Mistake?"

United Nation Office on Drugs and Crime (UNODC), website at www.unodc.org (last accessed 25 December 2013)

World Customs Organization (WCO), "World Customs Organization: Action Plan to Combat Counterfeiting 2012-2017".

World Customs Organization (WCO), 2012, "Customs and IPR Report 2011".

World Customs Organization (WCO), 2013, *“Illicit Trade Report 2012”*.

World Customs Organization (WCO), website at www.wcoomd.org (last accessed 25 December 2013)

World Trade Organization (WTO), website at www.wto.org (last accessed 25 December, 2013)

Aid, taxation and the ‘absence of question’

Jens Stanislawski, PhD

Taxation envisions multiple possible benefits for the democratic state and society in the developing world such as a) enhanced budgeting for public goods and services b) correlative interest in the accountability against taxes paid and, c) a more relevant electoral discourse, that is likely to widen, and illuminate common interests among citizens, where ordinarily, such interests diverge. Recently, British MPs argued that: ‘tax revenues were a far better route out of poverty than reliance on overseas aid’ (BBC 2012). In the context of poverty, international aid works to supplement local taxation, and to relieve the tax-burden of the poor. When the aid supplement in effect becomes a substitute, unwanted legal and political consequences are likely to follow. Presumably, aid affects recipient states as mineral wealth affects ‘resource curse’¹ victims; where the reliance on external funds reduces dependence on local taxpayers, as well as state responsiveness to citizens.

Such dependency undermines the contractual-type accountability-relationship between state and citizen, as envisioned in law, and reduces the inclination of citizens to contest the politics of budgeting and expenditure. In Bangladesh, as in other developing countries, the fundamentals of the development strategy are defined in absence of parliament, incurring debt to citizens who were never formally consulted. In this problematic context, taxation can offer the means to induce stronger sentiments of citizen ‘voice and ownership’ and to re-integrate the national development strategy into a legitimate democratic forum.

A small but growing literature, mainly based on historical investigation but also statistical cross-country comparisons, has recently offered strong evidence for the positive links between taxation, state building and democratic governance (Steinmo 1993; Moore 1998; Barenstein and De Mello 2001; Ross 2004; Moore 2007; Moore, Brautigam et al. 2008; Prichard 2009). However, in experimental, qualitative and ethnographic studies, theorized links are largely missing from the literature. This

¹A commonly used term to describe mineral-revenue dependant governments, across Africa and ‘global south’.

article builds on a doctoral thesis (Stanislawski 2013), which in turn was based on an ethnographic exploration of how taxation affects democratic governance and citizenship in Bangladesh. Building on observations conducted over three years in Bangladesh, including a UNDP pilot program that induced taxation compliance over a six-year period; the article presents a rare commentary on the question of taxation in development. The research work aimed to 'interrogate' the topic of taxation in democratic governance via three lines of questioning. First, by asking how taxation affects interests, the organization of voice, and participation among citizens. Second, by asking how tax-derived expenditure flows affects what may be termed 'governmentality' (Foucault 2007); the performance, attitudes and behavior of public servants. Finally, how the experience of a 'return' on taxation, in terms of public goods or services for the payee, might affect future behavior vis-à-vis the state. On a more abstract level it asks whether taxation can be expected to induce accountability-seeking behavior among taxpayers and, in turn, induce better performance of the democratic state in Bangladesh?

By documenting the challenges of raising and spending revenue, focusing on how the exercise affects citizen interest and participation in the local democracy, the empirical work served to engage in a critical discussion on taxation in developing countries and its relation to state building, democratic governance, voice and citizenship. A key finding of the study was that, in response to taxation, citizens become motivated to utilize democratic means in public forums, and as such, to influence governance outcomes. Here, I argue that taxation can provide multiple possible benefits to state and society, including an environment of heightened relevance for payees, whose common interests as groups of taxpayers become evident and observable in public (and private) bargaining. An important conclusion is derived from the subsequent implication, namely that interventions that effectively substitute foreign aid for taxation, are likely to postpone such relevant national dialogue, bargaining and related public discourse. It is hoped that the thesis presented here will have implications beyond the borders of Bangladesh, to other nations that struggle with unresponsive, although democratically elected, governments.

If multiple possible benefits are to be expected as a 'return' on taxation, such as citizen driven public dialogue, is the absence of taxation a possible reason why such dialogue has yet to actualize in Bangladesh?² The thesis explores this question, given a) the descent of democratic politics into corruption and violence, followed by a military takeover in 2006, b) a long-standing tradition of competitive electoral politics within a constitutional democratic framework, and c) a sophisticated network of NGOs and CBOs representing under-represented interests within civil society. Why did parliamentarians, academic institutions, NGO leaders, or religious leaders not combine to prosecute corrupt statesmen or politicians in league with militant vigilante groups? Why did it take the army to intervene? More generally, how do we reconcile 'democratic' governance in Bangladesh with the label 'severe lack of public accountability' (World Bank 2002).

Even so, given the gravity of the governance crisis, which preceded the military coup (2006-2008), and considering the organizational capacity of NGO networks, as well as the donor presence, a question remains of why no serious anti-corruption or reform movement was initiated, beyond media dissemination and the publication of incriminating reports of government abuse of power from the likes of Human Rights Watch and Transparency International. In hindsight, the political environment preceding the military takeover clearly lacked a broad-based citizen movement for reform, supported by non-partisan institutional actors. Given the context, it must be asked: where was the coalition for reform?

Firstly, it appears that a tradition of 'impunity' (Human Rights Watch. 2009) seriously eroded the appeal of democratic authority, and perception that the state was a legitimate democratic authority. That is, in the democratic era, once elected, successive regimes have thrived on bureaucratic corruption, harassed and silenced voices of opposition, sold public contracts to the highest briber, employed organized crime syndicates and supported religious vigilante groups, sold protected forests and public land to private interests and allowed bribery and corruption in the judicial courts. Naturally, where the government

² Consider that, in human relationships, the absence of the expected behaviour of 'A' can be the cause for some other behaviour of 'B' (as in the letter I don't write to my family).

blatantly breaks the law, for private profit, citizens are likely to follow its example. In Bangladesh post 1991, this created widespread feelings of distrust and disillusion in the capacity of the state, and accounts at least partially for the lack of public dialogue between state and citizens.

The last BNP³ regime (2001-2006) saw an intensification of religious politics as the BNP sat in a parliamentary coalition with the conservative Muslim Jamaat-e-Islam party., as was the case during the early 1990s. The coalition led to some unwanted consequences when it became apparent that a religious militant outfit, which had terrorized villages and bombed local courts of justice, had financial backing from members of the ruling coalition (Anwar Ali 2007). More generally, the rise of religious politics contributed a shrinking of political space, which was already exhausted by the overwhelming penetration of either BNP or the Awami league in political economy. Thus, when the army eventually took power, there was little, if any popular resistance, and the regime initially enjoyed widespread support, locally and internationally. As such, it appeared that the popular fears and distaste for local vigilante groups such as Jamaat Mujahideen Bangladesh (JMB), eventually contributed to the rise of what may be termed a 'broad martial sentiment' among liberal Muslims in Bangladesh.

The absence of a reform coalition can also be found in the argument that foreign aid to Bangladesh is historically, and currently connected with a problematic notion of citizenship. Funding to autocratic, corrupt, inefficient governments since liberation has seemingly worked to legitimize those regimes, and the very 'undemocratic' traditions and institutions that they pass on to their successors. In the democratic era, funding to the equally corrupt but democratically elected regimes may have resulted in achieving some significant development targets, but the entire planning process for development is assembled outside of the parliamentary process. From a democratic governance perspective, this seems to question the legality of the national development strategy, since formally, the voices of electoral constituents are denied in the formulation of national policy.

³ Bangladesh National Party

World Bank / IDA support in the form of loans and grants, reflects a commitment by donors to streamline their support for the 'national' strategy, as outlined in the Poverty Reduction Strategy Paper (PRSP), designed by the World Bank, in consultation with local stakeholders. As such, it is argued, direct budget support promotes ownership of the development process by recipient country stakeholders. However the extent that the consultation process reflect local stakeholdership is questionable. One study showed that in 2005, only 157 so-called stakeholders were actually consulted (Kamruzzaman 2009). One of Bangladesh's leading most renowned economist, Rehman Sobhan, holds that the problem of policy ownership is as old as aid itself, and that donors took a long time to 'come to terms with the fact that aid was an intensely political process'(Sobhan 2004:2). Writing in 2003, he stated that the initiation of the PRSP framework implied that donors were willing to encourage a more endogenous process, seen in that the issue of 'policy ownership' is framed as a critical ingredient in any move towards better governance.

However, with it increased emphasis on good governance and aid recipient responsibility, the World Bank (with donor country partners) invites a rather obvious critique regarding the problem of *genuine* national ownership of the PRSP planning and budgeting process itself. This problem has been acknowledged by the World Bank and the IMF: 'the role of Parliaments in the preparation, approval, and monitoring of country strategies has generally been limited, and is a concern that has been expressed by a number of development partners' (IMF and World Bank 2002). However, this acknowledgement has not led to any strategic revision of the dialogue, which leads into the actual PRSP process. Rehman Sobhan says this problem cannot be ignored:

"Donors have, for too long, attempted to lead reforms. This often follows in the wake of slow progress by a country in designing its own policy reforms. The World Bank or UNDP tend to lose patience with such tardiness and prefer to call in expatriate consultants but with a facade of local participation added on. Donors thus also need patience and self-discipline. They should not make the mistake of promoting ownership which would itself be a contradiction in terms". (Sobhan 2004)

Finally, democratic failure can be attributed to the insignificance of taxation compared to other democracies. Bangladesh has the lowest rates of taxation among the democratic countries of the world, with total revenues at 10.3 % of GDP, in 2007. As a region, the South Asian democracies score comparatively low. Bangladesh's neighbors score only slightly higher in this category: 15.8 % for Sri Lanka, 14.4 % for Pakistan and 13.6 % for India (Bank 2012). Thus, a brief look at current statistics clearly shows that, currently, Bangladesh is the lowest tax-raising nation in the lowest tax-raising region in the world. Its emphasis on income tax, at 17% of total revenue, is not comparatively low but rather comparatively average level. However, since this statistic measures income tax as a ratio of total revenues, the statistic is somewhat deceptive. If we multiply the two values [Revenue / GDP (0.103) x income tax / Revenue (0.17)] we find that as a percentage of GDP, income tax in Bangladesh stands at 1.75%. This is almost one tenth of income tax in South Africa, where income tax accounts for 16% of GDP, or one quarter of income tax-collection in Philippines at 6.3% of GDP, and one about one third of income tax in India at 5.2% of GDP (ibid). Thus if we 'adjust' the income measure, and treat it as a proportion of GDP rather than total revenue, we find that income tax in Bangladesh is also among the lowest in the world.

Given the low rate of tax collection, we could expect a lower level of interest and effort in demanding accountability from government authorities. The scope for a relevant tax-dialogue in Bangladesh has also been diminished by the abuse of authority and political power since independence. Bureaucratic corruption permeating the entire state apparatus, judicial partisanship, repression of voice and media manipulation, spectacular failures of public service and utility provision, protection of crime syndicates and religious vigilante groups could characterize the rule of either party in power since democracy was re-introduced in 1991. All such performance failure reduces popular legitimacy claims of the government and thereby its ability to achieve tax compliance by consent. Having lived in Bangladesh permanently since 2004, my experience is that the typical urban citizen expects very little from the state beyond security of life and property, water, roads and electricity while the rural citizen expects even less from his or her government. Justice at the courts, fair treatment by public authorities, health and education are luxuries most expect to pay for privately, at

least partially. As a result, tax avoidance is commonplace and rarely pursued by revenue authorities except in certain industries.

The comparatively low expectations from rural citizens can be explained by a typical form of 'urban bias'⁴, where the centralization of power is considerable and where municipal governments have legally been stripped of most of their tax-raising powers. This leaves them highly dependent on meager budgets transferred by the central government. The typical rural citizen thus, does not pay any formal taxes, beyond what is deducted when he or she makes a purchase within the formal market. My research suggests that even where respondents mainly operate within the formal regulated markets, awareness of VAT, in terms of its current levels on broad consumption categories, is very limited. The fact that most citizens' tax-payments are indirect via VAT, while few are aware of actually being taxed, is another plausible explanation as to why tax-based social dialogue has been slow in coming to Bangladeshi politics.

From the aid recipients' perspective, funds received from international donors represent a substitute for local taxation or other forms of revenue collection. In this respect, taxation has consistently been substituted for foreign aid since independence. Thus it must be said that foreign aid to Bangladesh explains, at least partially, why tax-related public discourse has been marginalized. Aid to non-government organizations (NGOs) should, equally, be considered under the same 'substitute category' where constitutional obligations towards health and education have, in effect been sub-contracted (or out-sourced) to NGOs. Foreign aid, thus, when de facto utilized as a substitute for taxation, can partially explain the absence of accountability seeking behavior, since independence.

Following the rather steady economic growth over the past two decades, it can be imagined that we are entering an era, where taxation is going to become increasingly relevant public issue. The fact that the state is going to make increased efforts at achieving compliance for citizens

⁴A reference to Robert Bates' famous study on the political economies of African states. In Bates, R. H. (1981). *Markets and states in tropical Africa : the political basis of agricultural policies*. Berkeley ; London, University of California Press.

income taxes has recently been publicised. Citizens, who are about to feel the pinch of such public policy, may feel assured that governance 'dividends' are likely to follow. Once income taxes are levied across a much wider sector of the population, tax-and-expedniture issues (fiscal politics) are likely to foster a much more reasonable political, electoral and social dialogue towards better governance in Bangladesh.

References:

- Anwar Ali (2007). JMB patron Aminul jailed. 24 others also handed 31 years behind bars for helping militants. Daily Star, The. 5
- Bank, W. (2012). Data - Bangladesh. Country at a Glance, World Bank.
- BBC (2012). Foreign aid strategy should focus on tax collection, MPs say. BBC (bbc.co.uk).
- Barenstein, M. and L. De Mello (2001). Fiscal Decentralization and Governance: A Cross-Country Analysis, IMF.
- Foucault, M. (2007). Security, Territory, Population, Palgrave Macmillan.
- Human Rights Watch. (2009). Ignoring Executions and Torture - Impunity for Bangladesh's Security Forces.
- Kamruzzaman, P. (2009). "Poverty Reduction Strategy Papers and the rhetoric of participation." Development in Practice1.
- Moore, M. (1998). Death Without Taxes: Democracy, State Capacity and Aid Dependency in the Fourth World, Oxford University Press.
- Moore, M. (2007) How does Taxation affect the quality of governance? IDS Working paper280,
- Moore, M., D. Brautigam, et al. (2008). Taxation and state-building in developing countries : capacity and consent. Cambridge, Cambridge University Press.
- Prichard, W. (2009). "The Politics of Taxation and Implications for Accountability in Ghana 1981–2008." IDS Bulletin330.
- Ross, M. (2004). "Does Taxation Lead to Representation?" British Journal of Political studies, Cambridge University Pressvol. 34, .
- Sobhan, R. (2004). "Aid, Governance and Ownership." South Asian Journal, Lahore4.
- Steinmo (1993) Taxation and Democracy - Swedish, British and American Approaches to Financing the Modern State, Yale University Press

Stanislawski, Jens (2013) States without citizens: Taxation, governance and citizenship in Bangladesh, Doctoral thesis, Department of Social and policy Sciences, University of Bath

Wood, G. D. (1994). Bangladesh, whose ideas, whose interests? Dhaka, Bangladesh, University Press.

World Bank (2002). Taming Leviathan: Reforming governance in Bangladesh.

Revenue Reform and Investment Growth: Global Lessons and the Bangladesh Context

Nusrat Nahid and M. Masrur Reaz

'One day I met money. I said, "You are just a piece of paper". Money smiled and replied, "Of course, I'm a piece of paper but I haven't seen a dustbin in my life".' –collected

Be it the mighty United States of America or Goldman Sachs' Next 11 (N-11) country Bangladesh, money in the form of revenue has become a critical source of financing the development budget in most countries. The UN Special Envoy Gro Harlem Brandtland has rightly put '*An important lever for sustained action to tackling poverty and reducing hunger is money*'.

Governments across the globe are keen on boosting revenue collection while ensuring economic growth through investment and employment. In high-income countries, including non-OECD countries, average revenue as a proportion of GDP is over 40%, whereas in low-income countries, it is around 18% and below 10% in the nations with very poor performance¹.

Although revenue to GDP ratio is not deemed to be the best yardstick for comparison, given the uniqueness of different countries in economic operations and resources, this is still a key parameter for assessing the performance of an economy.

Nevertheless, the priority is not just how much revenue that is being collected but also how efficiently it is being collected, bringing under scrutiny both the revenue policy and revenue administration performance.

Further, revenue reform also influences investment decision of the firms. The firms decide whether to export or to produce abroad

¹ Adam Smith International, Revenue Reform-a High Impact Policy

(internationalization decision), where to produce (location decision) and how much to produce, or how much to invest (investment decision).

Correspondingly, there are two types of tax effects on FDI. First, taxes may reduce the average return of a project and thus influence the internationalization and location decisions by firms. Second, taxes may change the user cost of capital and thus have an impact on the investment decision. Global perspectives also indicate that trade is increasingly becoming a key contributor to economic growth of a country which is again influenced by revenue regime.

As per UNCTAD findings, for a country's GDP to grow by 2-5%, trade needs to grow by 7-12%. Empirical evidence suggests that if all countries reduce supply chain barriers halfway to global best practice (i.e. Singapore), global GDP could increase by 4.7% or US\$ 2.6 trillion and world trade by 14.5% or US\$ 1.6 trillion, far outweighing the benefits from the elimination of all import tariffs (WEF). One of the ways to reduce these supply chain barriers is revenue reform and modernization requiring less paper-work and time. Bangladesh seeks to reduce poverty and secure prosperity through private-sector led growth which in turn requires increase in investment. Among other enabling factors, the country requires growth supporting revenue/tax regime. This paper aims to reflect on the global practices of revenue reform and propose what Bangladesh could possibly adapt to benefit from the revenue reform initiative.

Revenue/tax regime: Critical for National Development

Tax regime influences household, firm and investor decisions

Simply put, the revenue system's primary focus is to ensure financing of public expenditure. It is also aimed at ensuring equity and addressing social and economic concerns. Revenue system should be set up in such a way that it minimizes compliance cost of the taxpayers while reducing administrative cost of the government. It should simultaneously discourage tax avoidance and evasion. OECD (2010) describes that the tax regime influences

- The decisions of households to save, supply labor and invest in human capital
- The decisions of the firms to produce, create jobs, invest and innovate
- The choice of the savings channels and assets by investors

These decisions are not only influenced by the level of taxes but also the way in which different tax instruments are designed and combined to generate revenues.

Fiscal traps make states weak

Unfeasible taxation, poor capacity to collect tax, high debt load can be the causes for a state failing to thrive (Sachs, 2005). Again, as per the *Structuralist* approach, fiscal bottlenecks are identified as one of the structural elements, which cause inflation resulting from budget deficit (as % of GDP) and gap in revenue target and collection.

Higher taxes lead to reduction in output growth

In general, studies of taxation using cross-country data, like the ones done by Koester and Kormendi (1989), Skinner (1988) and Dowrick (1992), suggest that higher taxes have a negative impact on output growth, although critics suggest that these results are not always robust to the tax measure used. The marginal tax rate—conditional on fixed average tax rates—is found to have an independent, negative effect on output growth rates. A study on the African countries (Skinner, 1988) concludes that income, corporate and import taxation led to greater reduction in output growth than average export and sales taxation. Most empirical studies of taxation and growth are “reduced form” estimates in that they specify a linear model of output growth rates, with tax rates, labor resource growth, and investment rates on the right-hand side of the equation. Using cross-country data for 1970–85, Engen and Skinner (1996) found that an increase of 2.5 percentage points in the average tax burden (total taxes divided by GDP) is predicted to reduce long-term output growth rates by 0.18 percentage points, holding constant the supply of investment and labor. A study of tax systems in the United Kingdom, Sweden, West Germany, and the United States, found a strong negative correlation between economic growth and the inter-sectoral variability in investment tax rates (King & Fullerton, 1984).

The researchers have strongly supported that beneficial changes in tax policy can have modest effects on output growth. A major tax reform reducing all marginal rates by five percentage points and average tax rates by 2.5 percentage points is predicted to increase long-term growth rates by between 0.2 and 0.3 percentage points (Engen-Skinner, 1996). The design of the tax system is said to have significant microeconomic impacts.

Tax regime influences investment

Tax regime also influences investment decision. Tax policy is just one environmental condition, which may influence the location and investment decision of multinational companies. Other impact factors are market size, infrastructure, the availability of inputs like well-trained workers, regulatory policy, institutions like property rights, climate etc. The elasticity of investment with respect to the tax-adjusted user cost of capital is between -0.5 and -1.0 (Hassett and Hubbard, 2002). They conclude that adverse changes in the tax variables since 1965 have depressed investment by more than 40%. A research by House and Shapiro (2008) showed that temporary investment tax incentives did stimulate investment. Lowering the corporate tax rate and removing differential tax treatment may also improve the quality of investment by reducing possible tax-induced distortions in the choice of assets.

Efficient Tax Regime and Revenue Growth: Cross-country Experience

Increase in tax net by decreasing the tax rate

Economic growth of the nation is a key concern and prime agenda of every government, particularly those in the developing economies. Governments put much effort in achieving a higher rate of economic growth resulting in a higher standard of living for the citizens. The critical element to achieve economic growth has been the way investors were attracted and the way resources were generated domestically using tax instruments, which are said to be least harmful to both the government and the investors. This process led to reforming the tax system to ensure efficiency by widening the tax net without necessarily increasing the tax rate. Historically, poorer countries tried to levy the highest amount of tax on businesses with a view that high taxes are needed to fund public services and correct fiscal deficits. However,

following the principles of Laffer Curve (1974), their policy proved to be ineffective since higher rates pushed businesses into the informal economy. As a result, the tax base shrank and less revenue was collected.

Lower business tax rate led to higher revenue collection

Between 1982 and 1999, the average corporate income tax rate worldwide fell from 46% to 33%². During the same time, corporate income tax collection rose from 2.1% to 2.4% of national income. This outcome is attributed to more businesses entering the formal economy and reduction or elimination of tax exemptions and other tax incentives. Therefore, it can be derived that a better way to meet revenue targets is to encourage tax compliance by keeping rates moderate.

Following a decrease in corporate tax rate from 35% to 25% and a simplified tax scheme for smaller business, the revenue in Russia had increased by 14% per annum over the next 3 years. The new revenue was generated from increased compliance.

Eastern European and Central Asian countries like Armenia, Bulgaria, Estonia, Kazakhstan and Slovakia experienced a rise in revenue following a revenue reform, which brought the larger segment of informal economy under a formal system. Ghana exceeded its mid-year revenue targets despite significant cuts in corporate tax rates in the last two years. Albania's corporate tax revenue rose 21% after the rate was cut, while in Moldova it jumped to 28% and in Latvia, 37%.

A recent study (WB and PWC, 2006) indicates that a 10% decrease in indirect taxes, such as VAT, leads to 7% increase in investment by the private sector. The private sector is more willing to invest in a simplified tax regime.

Lower rates have to be backed up by simplified administration

Evidence suggests that lower rates work best when their administration is simple. They are undermined by exemptions that shrink the tax base. Uzbekistan is an example where revenue reform did not yield expected

² The World Bank Group and PWC, Paying Taxes, The Global Picture, 2006

results as efforts to improve tax administration and expand the tax base was not sufficient compared to the cut in income tax rate.

Efficient revenue/tax regime is critical for private sector led growth

Proper allocation of revenue encourages higher tax compliance. If governments allocate revenue resources to improve business infrastructure and education, businesses tend to comply more. However, in developing countries, higher taxes payable are not associated with better social outcomes like improved healthcare and education, higher literacy or life expectancy or lower child mortality let alone better infrastructure or other public services.

The efficiency of tax regime also determines the level of trade to and from a country. The post-recession era in the US economy has triggered a debate on tax regime and investment by private sector. With more than 80% consumption rate and more than 7% unemployment, US government is now forced to restructure its tax regime, which will attract more private sector investment within the country as opposed to their investment outside the country. The high corporate tax rate compared to lower average tax rate due to provision in tax codes are being analyzed to see if a change will influence investor choice the way it did in Europe. It is said that a cut of one percentage point in corporate tax rates is associated with up to a 3.7% increase in the number of firms and up to 1.1% higher employment.

Simplified regime increases efficiency in government spending

Not only businesses but also governments benefit from simplified tax regime as it allows them to release the funds to invest in more public services. Many a cases, the complicated, multilayered tax collection process incurs higher cost of collection than total revenue, therefore making the revenue system very inefficient. In Denmark, one kroner spent on tax administration generates 113 kroner of tax revenue whereas in Hungary, one forint produces only 77 and in Mexico one peso produces only 33.

Strengthening Tax Regime: Global Best Practices

Improved Regime through Streamlined Tax Policy

The countries covered under Doing Business Study followed three broad steps to achieve improved tax regime. They are-

- Simplified Tax and Customs Act
- Eased up filing requirements through automation and data processing centers
- Consolidated taxes

While reforming tax regime, several general criteria were judged. These include the ability to raise revenues, effects on economic efficiency, equity implications and administrative feasibility. During the 1990s, tax reforms became part of the larger structural adjustment programs. The tax policies now recommended for developing countries resemble the ones once advocated for industrial countries. In most cases, this involves the introduction of measures to broadening the tax base while simultaneously flattening the tax rates. Despite important differences in their economic and cultural background, developing countries have tended to modify their tax systems in roughly the same direction. The following characterize the trends in taxation reform:

- Introduction of the broad-based value-added tax;
- Lower personal and corporate income taxes; at rates competitive by international standards
- Simplification of the tax bands and broadening of the bases for personal and corporate income taxes;
- Reduction of import duties and simplification of the rate structure;
- Simplification of the excise duty structure;
- Abolition of export taxes
- Levying excises on a few key items
- Streamlining and minimizing exemptions; and
- Strengthening real estate taxes, which is most important for local government finance.

Following table captures the tax policy reform undertaken by different countries from 2004- 2006. It shows that reducing profit tax has been the popular choice in recent revenue reforms.

Table: Policy Reform initiatives undertaken by different countries in 2004-2006 (WB & PWC, 2006)

Policy Reform	Country
Reduced Profit Tax rates	Afghanistan, Albania, Algeria, Antigua and Barbuda, Austria, Bulgaria, Czech Republic, Denmark, Egypt, Estonia, Finland, Ghana, Greece, Guinea-Bissau, Hungary, India, Israel, Latvia, Lesotho, Mexico, Moldova, Montenegro, Netherlands, Pakistan, Paraguay, Poland, Rwanda, Senegal, Sierra Leone, Sudan, Switzerland, Turkey, Uzbekistan
Reduced number of taxes	Belarus, Egypt, Ghana, Georgia, Lithuania, Russia, Yemen
Revised Tax Code	Afghanistan, Albania, Egypt, El Salvador, Georgia, Honduras, Mexico, Morocco, Romania, Spain, Tanzania
Introduced Value Added Tax	Bosnia and Herzegovina, India, Serbia
Introduced Electronic Filing	Bulgaria, Latvia, Lithuania

Improved regime through tax administration reform

Policy reforms have to be strongly backed up by subsequent reform in tax administration. The reasons are manifold. Efficiency in tax administration is futile without improved tax policy, which create the potential for raising tax revenues. It is of no use to do things better which are otherwise detrimental to growth of the economy. On the other hand, revenue regime cannot function if fiscal corruption sustains. Revenue administration reform is important for the following reasons:

- The efficiency and effectiveness of Revenue administration determines the amount of revenue flowing into government treasury. Weakness in revenue administration leads to revenue

shortfall resulting in higher public debt and inflation and inefficiency in public expenditure management.

- The quality of revenue administration affects the investment climate and private sector development. An arbitrary revenue administration discourages investment. Likewise, inefficient customs administration deters investment, including Foreign Direct Investment due to delay in cargo handling.
- The inefficiency leading to tax evasion sets bad precedence for the law-abiding firms, as they feel discouraged to pay taxes owing to harassment, inflated assessments, high litigation costs and leniency towards non-compliant competitors.
- Revenue i.e. Tax and Customs Administration tend to rank the top amongst the public-sector organizations fostering corruption. Therefore, a reform is mandatory.
- Finally, reform of the revenue administration will be required to keep up the pace of globalization and ever-changing business process. Firms often adapt to modern practices for tax evasion. The existence of tax havens, electronic financial transactions and the increasing use of the internet and information technology and accounting practices in commerce pose major challenges in enforcing the tax laws. Unless the tax administration is equipped enough with compatible professional and technological capacity, their capacity to monitoring and oversight is significantly restrained.

Autonomy in revenue administration has been tried in different ways in different countries while most of them made autonomous revenue department reporting to the Ministry of Finance. Debate is on regarding the higher pay structure for officials of revenue service separating them from the regular civil service and keeping provision for performance incentives. However, experiences from different countries demonstrate that such reform ultimately led to higher unofficial fees on top of higher salaries. Sustainability of administrative reform is still a key question remaining unanswered.

Revenue performance declined due to unresolved role of local government and intergovernmental non-collaboration

While the above changes had taken place at central government level, the local government in many countries went through very limited changes and there were poor coordination amongst intergovernmental agencies. While the local governments in many countries are responsible for implementation of development programs, they have very little control of the revenue. Thus, the incidence of double, coercive and nuisance taxation are prevalent in those countries. Further the accountability issue also crippled the performance of local government in revenue management.

Revenue Reform and Economic Growth in Bangladesh

Key economic parameters and current challenges

With an increasing non-development budget and budget deficit leading to public sector borrowing, Bangladesh is still considered as a marvel in development. This is because researchers around the globe are keen to learn the mystery of continuously higher GDP growth at the onset of challenging governance. A thorough analysis of the GDP growth reflects the advancement in agricultural and agro-processing sector, improved flow of remittance and performance of the ready-made garments sector along with a progressive service sector. This reiterates the role of private sector in the growth and poverty reduction in Bangladesh. However, private sector cannot perform without a conducive business environment.

On one hand, Goldman Sachs considers Bangladesh as one of the Next 11 (N-11) countries to emerge with strong economy by 2021 and USA expects Bangladesh along these N-11 countries to surpass the economy of 27 countries of the European Union by 2030³. On the other hand, several factors including governance has been repeatedly cited as an area of deep concern, so much so that it may threaten the sustainability of economic progress with low per capita income.

³ Four Decades of Bangladesh, Dr. Atiur Rahman, 2013

To achieve Vision 2021, the government of Bangladesh and its key agencies have to undertake several reform measures amongst which, revenue reform is significantly important. Not only we have to increase the revenue to GDP ratio to reduce budget deficit and suspend growth inflation rate, revenue

target/collection performance can do even better. At the same time, one has to ensure that the higher revenue target does not result in coercive

taxation on the business and poorer segment of the population. Further, to attain the higher GDP growth of 8%, we will have to increase investment growth, which has been more or less stagnant for last couple of years.

To attain the economic growth targets, Bangladesh needs a blend of policy changes backed up by administrative reforms.

As per Doing Business 2013 report in Bangladesh,

- It takes a business about 302 hours to pay 7 types of taxes for a total 20 times in a year
- The statutory tax rate stands at 37.5% and VAT is 15%
- It takes about 35 days to import and 25 days to export
- Cost of import is USD 1470/ container and cost of export is USD 1075/ container.

What Bangladesh has done so far in terms of Revenue Reform

Bangladesh has taken up a number of reform measures to foster private sector growth through revenue reform. It has enacted a broad based VAT system, which will be implemented from July 2015. On the path to attaining transparency and automated revenue administration, the National Board of Revenue (NBR) has introduced Electronic Tax Identification Number (E-TIN) and E-payment of taxes system. NBR

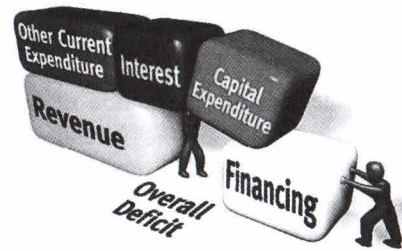


Figure: The revenue budget hardly meets current expenditure and payment of

has rolled out the process of launching online Return Filing and automated VAT system. In addition to this, NBR has included Transfer Pricing Legislation in the Income Tax Ordinance 1984.

The Customs department has also made significant progress to modernize and simplify processes conducive to trade facilitation. It has rolled out the migration of customs operations from ASYCUDA ++ to ABRUCUDA World with connectivity to related border management and trade facilitation agencies. Bangladesh has signed the WTO Trade Facilitation Agreement and the Customs Department has operationalized National Trade Facilitation Committee to implement the requirements. Customs has taken initiatives to adopt Revised Kyoto Convention (RKC) in the Customs Act 1969. The amendments will also help Bangladesh to comply with WTO TF agreement as well as lay the legal basis for automation of customs operations. NBR has formed a Customs Reforms and Modernization Committee to undertake various reform initiatives starting from Risk Management to Post Clearance Audit to Evaluation and Assessment as well as modern Customs Inspection techniques aimed at reducing time and cost of trade.

Along with these reforms, NBR has initiated capacity development to train revenue officials on modern technology and practices.

What needs to be done

While Bangladesh has initiated several reforms both in revenue policy and administration, there is a critical need to modernize the Income Tax Act keeping in consideration the higher revenue target, investment growth, equality and poverty reduction. To achieve the full potential, a the necessary restructuring in the revenue administration need to be brought in and government has to redefine its status and role given the practices around the globe. Further, NBR has to undertake policy analysis and strengthen capacity of revenue officials in policy analysis. One of the challenging activities for NBR will be to implement the policy changes adopted thus far. There has to be increased intergovernmental fiscal collaboration and they have to prioritize development agenda and implement accordingly. Most importantly, the government has to ensure sustainability of reforms achieved so far and allocate necessary resources. Last but not the least, there has to be enhanced collaboration between Income Tax, VAT and Customs and

contribute collectively in policy decision and operational efficiency for greater benefit.

Conclusion

To ensure equitable development and reduce poverty, a country has to boost agricultural growth, invest in education, enhance healthcare service, invest in energy, power and infrastructure as well as create access to safe drinking water, if we follow Jeffrey Sachs' recommendations to end poverty. While Bangladesh is performing well on these parameters with government expenditure being only 16% of GDP, Bangladesh must carry out its agenda for revenue reform to create enabling environment for private sector investment and productive employment. Revenue reform is one of the key prerequisites to increase revenue target, reduce fiscal deficit and foster trade and investment. So far, only remittance could keep the Current Account Balance positive and attain fiscal surplus for Bangladesh. Bangladesh has to firmly continue the reform process and ensure their sustainability to achieve higher GDP growth targets, reduce incidence of poverty and achieve full potential.

Disclaimer: The views expressed in the article are strictly of the writers concerned and do not reflect on the opinion of the organizations they work for.

References:

1. The World Bank and PriceWaterHouseCoopers, 2006, *Paying Taxes-the Global Picture*
2. Marr, Chuck and Highsmith, Brian, 2012, *Six tests for Corporate tax Reform*
3. Fjeldstad, Odd-Helge and Rakner, Lise, 2003, *Taxation and tax reforms in developing countries: Illustrations from sub-Saharan Africa*
4. Becker, Johannes, Fuestz, Clemens and Hemmelgarnx, Thomas, 2006, *Corporate Tax Reform and Foreign Direct Investment in Germany - Evidence from Firm-Level Data*
5. Hassett, Kevin A. and Hubbard, R. Glenn, 2001, *Tax Policy And Business Investment*

6. Gill, Jit B. S. 2003, *The Nuts and Bolts of Revenue Administration Reform*
7. OECD, 2010, *Growth-oriented Tax Policy Reform Recommendations*
8. Engen, Eric & Skinner, Jonathan, 1996, *National Tax Journal* Vol 49 no. 4 (December 1996) pp. 617-42
9. Cummins, Jason G., Hassett, Kevin A., Hubbard, R. Glenn, 1996, *Tax reforms and investment: A cross-country comparison*
10. McBride, William, 2013, *How Tax Reform Can Address America's Diminishing Investment and Economic Growth*
11. James, Sebastian, 2009, *Incentives and Investments: Evidence and Policy Implications*
12. Gray, Cheryl W. 1989, *Issues in Income Tax Reform in Developing Countries*
13. Fazzari, Steven Al. 1987, *Tax Reform and Investment: Blessing or Curse?*
14. Hart, Chris, 2013, *Tax Reform and Investment*
15. Michael, Salinger A. and Lawrence, Summers H. 1983, *Tax Reform and Corporate Investment: A Micro-Econometric Simulation Study*
16. OECD Observer, *How Tax Can Reduce Inequality*, http://www.oecdobserver.org/news/fullstory.php/aid/3782/How_tax_can_reduce_inequality.html
17. Adam Smith International, *Revenue Reform- a High Impact Policy*, <http://www.theguardian.com/global-development-professionals-network/adam-smith-international-partner-zone/revenue-reform-high-impact-policy>

Trade Development in Bangladesh in the Aftermath of the Agreement on Trade Facilitation: a special focus on ICT Issues

Khairuzzaman Mozumder, PhD

Introduction:

Despite the slow progress on the part of the Negotiating Group on Trade Facilitation¹ over the years since the launch of the World Trade Organization (WTO) negotiations on trade facilitation in 2004, significant progress has finally been made in 2013. Through intense negotiations held throughout the last half of 2013 as part of a plan to deliver something concrete at the 9th WTO Ministerial, the WTO members have finally been able to conclude the much anticipated Agreement on Trade Facilitation, hereinafter referred to as the TF Agreement, at Bali, Indonesia, in December 2013.

The provisions under the WTO TF Agreement comprises various trade facilitation measures that the Members of the WTO will have to implement over the next few years following the ratification of the Agreement. The measures are divided into three broad categories- Categories A, B and C. However, in terms of implementation, these categories have different connotations for developed countries, developing countries and the Least Developed Countries (LDCs). While the developed countries will have to implement all the measures by the time the Agreement comes into force, the developing countries will have a breathing space through longer implementation periods for Category B and C measures.

However, by dint of Special and Differential Treatment provisions under General Agreement on Tariffs and Trade (GATT) and the Annex

¹ The WTO General Council adopted on 1 August 2004 a decision on the Doha Work Programme, generally known as the “July Package”, which defines modalities for negotiations in the current round of trade talks. Among others, the “July Package” includes “Modalities for Negotiations on Trade Facilitation”, which mandate the WTO members to launch negotiations on this issue. Accordingly, the Negotiating Group on Trade Facilitation (NGTF) was formed to carry out the tasks as per this mandate, and the NGTF started working in November 2004.

of provisions of the Hong Kong Ministerial Declarations 2004, the LDCs including Bangladesh enjoy a much greater flexibility and have longer periods of time than both the developed and developing countries to implement the measures of the TF Agreement. **Category A** contains provisions that an LDC Member has the flexibility to designate for implementation within one year after entry into force of the Agreement. **Category B** contains provisions that an LDC Member designates for implementation on a date after a transitional period of time following the entry into force of this Agreement. **Category C** contains provisions that an LDC Member designates for implementation on a date after a transitional period of time following the entry into force of this Agreement and requiring the acquisition of implementation capacity through the provision of assistance and support for capacity building.

The purpose of this research paper is neither to chronicle all the events that unfolded and the negotiating processes that evolved over the years and ultimately led to the finalized text of the TF Agreement, nor to focus at length on all the aspects of the Agreement itself. Instead, the paper aims at examining the context of the possible trade development in Bangladesh through facilitation of trade, logistics and supply chain security in the aftermath of the TF Agreement, and while doing so a special emphasis will be laid on the provisions that relates to information and communication technology (ICT).

The paper will progress through a number of sections. While section I attempts to set the context by trying to provide a somewhat workable definition of what trade facilitation means and to briefly posit the probable gains that implementation of trade facilitation measures may entail, section II will try to highlight all the measures under the TF Agreement that relates to ICT in one form or another. Section III will examine the current situation in Bangladesh in terms of the progress in implementing those ICT-specific measures of the TF Agreement, and will try to illustrate the results of the gap analyses for those measures.

Section I: Trade facilitation and the benefits to trade and economic growth

This section will try to set the broader context by making a general discussion on the issue of trade facilitation and presenting a rather generalized assessment on the probable gains that implementation of trade facilitation measures may entail. The world community has made

a significant progress over the years through its strenuous efforts in various rounds of negotiations under the GATT framework first in tackling, and then in reducing, the most direct and visible aspect of trade barriers facing international trade. As a result, the highly visible tariff barriers, in the form of customs duty and import taxes, against the trade in goods have gone down around the world to such a low level that the attention of the world community at the multilateral level has increasingly shifted towards addressing the other major irritant in international trade, that is the non-tariff barriers (NTBs). It is true that the non-tariff measures (NTMs) or the barriers that arise as intentional or unintentional consequences of pursuance of trade policies by the governments have been in focus in the multilateral fora, which was evident in the form of conclusion of the Agreement on Sanitary and Phytosanitary (SPS) Measures and the Agreement on Technical Barriers to Trade (TBT). But, as argued in the CUTS International report (2013), it is also true that the other form of NTBs that originate from the existence of inefficiencies in the trade administration systems, institutions and infrastructure as a result of slow and archaic customs clearance systems, cumbersome trade documentation requirements, inadequate transport infrastructure etc. has also attracted the increasing attention of the international community.

Bent on reducing such avoidable trade costs, the WTO, the successor of GATT, began to assume the responsibility for introducing a multilateral mechanism to bring discipline in international trade processes by encouraging reforms. Following the instructions of the Ministerial Conference in 1996 and after several years of exploratory work, the WTO Council formally agreed in July 2004 to launch negotiations on trade facilitation on the basis of TF modalities, the so called "July package". The objectives behind the negotiations were:

- (a) Clarifying and improving GATT Article V (Freedom of Transit), Article VIII (Fees and formalities connected with Importation and Exportation) and Article X (Publication and Administration of Trade Regulation) of GATT agreement;
- (b) Enhancing technical assistance and capacity building in this area; and
- (c) Improving effective cooperation between customs and other appropriate authorities on trade facilitation and taxes compliance issues.

Apart from the July Package, further guidelines for negotiations were provided in the Ministerial Declaration of December 2005, which allowed for gradual inclusion of other areas for discussions. As a result, WTO Agreements on Customs Valuation, Import Licensing, Pre-shipment Inspection, Rules of Origin, and Technical Barriers to Trade, Agreement on the Application of Sanitary and Phytosanitary Measures, and the TRIPS Agreement, among others, have emerged over the years as essential components of any TF regime.

The culmination of this endeavor was the TF Agreement in the 9th WTO Ministerial at Bali in 2013. Prior to the Bali Ministerial, intense negotiations have been held at the WTO in Geneva, Switzerland, throughout the month of November, 2013, and as a matter of fact, more progress has been made during this single month than that had been achieved in all these years since the launch of negotiations in 2004. And through a brilliant display of economic diplomatic maneuvers by some of the major players in the multilateral fora, the TF Agreement was finally achieved at Bali in December, 2013².

Before we proceed with the discussion on what the TF Agreement entails in terms of accruing gains for international trade, it could be useful to consider at least a workable definition of "trade facilitation". While in its simplified definition offered by World Customs Organization (WCO), trade facilitation refers to the at-the-border measures or "the simplification and harmonization of trade procedures", in its broad WTO definition, trade facilitation measures seek to establish a transparent, consistent and predictable environment for border transactions based on simple and standardized Customs procedures and

² The trade facilitation negotiations in Geneva, Switzerland were postponed on the morning of November 26, 2013, when it became apparent that the few remaining square brackets of the draft text of the TF Agreement could not be removed not because of time, but mainly due to the political stiffening of positions of some members and the backtracking by some others (e.g. India). Cuba and USA had divergent views on a particular issue relating to freedom of transit. India has backtracked on positions it has earlier agreed. So, the Director General of the WTO had to declare that the signing of the TF Agreement would depend on the gesture of political good wishes from the ministers in order for the draft Agreement on Trade Facilitation become ready for signing at the 9th WTO Ministerial Meeting. It was finally achieved in Bali through a compromise between India and the US on other issues, whose discussion is beyond the scope of this paper.

practices, documentation requirements, cargo and transit operations, and trade and transport conventions and arrangements.

However, scholars (Musra, 2011) have attempted to offer a more comprehensive definition of trade facilitation as “identifying and addressing bottlenecks that are imposed by weaknesses in trade related logistics and regulatory regimes and that prevent the timely, cost-effective movement of goods”. This implies that in addition to the traditional focus on simplification and rationalization of customs and trade procedures and elimination of unnecessary red tape, trade facilitation measures in the future would also entail logistics, transport facilitation and trade related infrastructure. For others (Sourdin & Pomfret, 2012), trade facilitation not only addresses the transportation logistics and customs administration at cross-border trade, it also covers the environment in which trade transaction takes place. Such environment concerns transparency of trade policy and regulation, product standards, infrastructure to support trade, and technology. Under these two broader definitions, trade facilitation addresses both at-the-border and other (e.g. behind-the-border and beyond-the-border) measures.

Again, a study (2012) by the Centre for WTO Studies, India, observes that trade facilitation aims to ensure that the movement and clearance of goods across borders are achieved within the shortest possible time and at the minimum costs. It should, therefore, be clear that trade facilitation while emphasizing reduction of trade transaction time also aims at reducing the costs associated with such transactions. In that sense, we may assume that the development in Bali in the form of the TF Agreement will obviously bring many benefits for the international community of nations, including Bangladesh, by dint of the effective implementation by them of various measures stipulated in the TF Agreement.

In an era of dismantled tariff walls in international trade, logistics costs and often have a greater impact than tariffs on a country’s export competitiveness. One study (Hoekman & Nicita, 2008) demonstrated that the cost of inefficiencies in merchandise trade frequently reach as high as 15 percent of transaction value. Therefore, as Musra (2011) suggests, countries through their adoption of various trade facilitation measures and pursuance of trade supportive policies will be able to reduce trading costs and bolster export competitiveness. Again, according to the World Bank’s *Logistics Performance Index*, trade

logistics performance of a country is directly linked with important economic outcomes such as growth, trade expansion and export diversification (Ibid).

Trade costs are defined by scholars (Sourdin & Pomfret, 2012) as the difference between domestic trade costs and international trade costs, excluding those costs that are related to ‘traditional trade policy instruments such as import duties’. The OECD estimates that reducing global trade costs by 1% would increase world-wide income by more than USD 40 billion, 65% of which would go to developing countries. Again, it was stressed in the ICC Business World Trade Agenda (WTA) meeting in April, 2013 that the TF Agreement could boost global GDP by \$960 billion and ensure additional 21 million jobs worldwide (*Gulf Times*, 23 April, 2013). The WTA also estimates that for the developed countries it will result in a \$950 billion increase in two-way trade contributing to a GDP increase of about \$440bn, and for the developing countries, it will result in a \$1 trillion gain in two-way trade contributing to a GDP increase of \$520 billion.

Even though there has not yet been any study, comprehensive or whatsoever, on Bangladesh’s probable gains from trade facilitation through reduction in trade costs, it cannot be denied that the trade competitiveness in the country is seriously hampered due to existence of cumbersome trade procedures and prevalence of high trade transaction costs. Bangladesh’s trade competitiveness can only grow if the price of its exported goods and the cost of necessary imports are diminished. The trade facilitation measures as incorporated in the WTO TF Agreement are expected to produce the greatest efficiency improvements to cross border trade through the simplification and harmonization of Bangladesh’s trade processes and procedures.

Section II: Trade facilitation measures requiring information and communication technology

After setting the context in the previous section through a discussion on trade facilitation in the light of the recently concluded WTO TF Agreement, this section will try to highlight only those measures under the Agreement whose implementation will require either adoption of some aspects of information and communication technology or improvement of the existing ICT framework. These measures that in one way or another require assistance from ICT are presented below:

Article 1: Publication and Availability of Information

2 Information Available Through Internet

- 2.1. Each Member shall make available, and update to the extent possible and as appropriate, the following through the internet:
- A description of its importation, exportation and transit
 - procedures, including appeal procedures, that informs governments, traders and other interested parties of the practical steps needed to import and export, and for transit;
 - The forms and documents required for importation into, exportation from, or transit through the territory of that Member;
 - Contact information on enquiry points.
- 2.2. Whenever practicable, the description referred to in subparagraph 2.1 a. shall also be made available in one of the official languages of the WTO.
- 2.3. Members are encouraged to make available further trade related information through the internet, including relevant trade-related legislation and other items referred to in paragraph 1.1³.

³ Paragraph 1.1 of the TF Agreement is as follows: Each Member shall promptly publish the following information in a non-discriminatory and easily accessible manner in order to enable governments, traders and other interested parties to become acquainted with them:

- Importation, exportation and transit procedures and required forms and documents;
- Applied rates of duties and taxes of any kind imposed on or in connection with importation or exportation;
- Fees and charges imposed by or for governmental agencies on or in connection with importation, exportation or transit;
- Rules for the classification or valuation of products for customs purposes;
- Laws, regulations and administrative rulings of general application relating to rules of origin;
- Import, export or transit restrictions or prohibitions;
- Penalty provisions against breaches of import, export or transit formalities;
- Appeal procedures;
- Agreements or parts thereof with any country or countries relating to importation, exportation or transit;
- Procedures relating to the administration of tariff quotas.

Article 7: Release and Clearance of Goods

1 Pre-arrival Processing

- 1.1. Each Member shall adopt or maintain procedures allowing for the submission of import documentation and other required information, including manifests, in order to begin processing prior to the arrival of goods with a view to expediting the release of goods upon arrival.
- 1.2. Members shall, as appropriate, provide for advance lodging of documents in electronic format for pre-arrival processing of such documents.

2 Electronic Payment

Each Member shall, to the extent practicable, adopt or maintain procedures allowing the option of electronic payment for duties, taxes, fees and charges collected by customs incurred upon importation and exportation.

3 Risk Management

- 3.1. Each Member shall, to the extent possible, adopt or maintain a risk management system for customs control.
- 3.2. Each Member shall design and apply risk management in a manner as to avoid arbitrary or unjustifiable discrimination, or disguised restrictions to international trade.
- 3.3. Each Member shall concentrate customs control and, to the extent possible other relevant border controls, on high risk consignments and expedite the release of low risk consignments.
- Each Member may also select, on a random basis, consignments for such controls as part of its risk management.
- 3.4. Each Member shall base risk management on assessment of risk through appropriate selectivity criteria. Such selectivity criteria may include, inter alia, HS code, nature and description of the goods, country of origin, country from which the goods were shipped, value of the goods, compliance record of traders, and type of means of transport.

4 Post-clearance Audit

- 4.1. With a view to expediting the release of goods, each Member shall adopt or maintain post-clearance audit to ensure compliance with customs and other related laws and regulations.
- 4.2. Each Member shall select a person or a consignment for post-clearance audit in a risk-based manner, which may include appropriate selectivity criteria. Each Member shall conduct post-clearance audits

in a transparent manner. Where the person is involved in the audit process and conclusive results have been achieved the Member shall, without delay, notify the person whose record is audited of the results, the person's rights and obligations and the reasons for the results.

5.3. Members acknowledge that the information obtained in post-clearance audit may be used in further administrative or judicial proceedings.

5.4. Members shall, wherever practicable, use the result of post-clearance audit in applying risk management.

6 Establishment and Publication of Average Release Times

6.1. Members are encouraged to measure and publish their average release time of goods periodically and in a consistent manner, using tools such as, inter alia, the WCO Time Release Study.

6.2. Members are encouraged to share with the Committee their experiences in measuring average release times, including methodologies used, bottlenecks identified, and any resulting effects on efficiency.

7 Trade Facilitation Measures for Authorized Operators

7.1. Each Member shall provide additional trade facilitation measures related to import, export or transit formalities and procedures, pursuant to paragraph 7.3, to operators who meet specified criteria, hereinafter called authorized operators. Alternatively, a Member may offer such facilitation measures through customs procedures generally available to all operators and not be required to establish a separate scheme.

7.2. The specified criteria shall be related to compliance, or the risk of non-compliance, with requirements specified in a Member's laws, regulations or procedures. The specified criteria, which shall be published, may include:

- a. an appropriate record of compliance with customs and other related laws and regulations;*
- b. a system of managing records to allow for necessary internal controls;*
- c. financial solvency, including, where appropriate, provision of a sufficient security/guarantee;*
and
- d. supply chain security.*

The specified criteria to qualify as an operator shall not:

- a. be designed or applied so as to afford or create arbitrary or unjustifiable discrimination
between operators where the same conditions prevail; and*
- b. to the extent possible, restrict the participation of small and medium-sized enterprises.*

7.3. The trade facilitation measures provided pursuant to paragraph 7.1 shall include at least 3 of the following measures:

- a. low documentary and data requirements as appropriate;*
- b. low rate of physical inspections and examinations as appropriate;*
- c. rapid release time as appropriate;*
- d. deferred payment of duties, taxes, fees and charges;*
- e. use of comprehensive guarantees or reduced guarantees;*
- f. a single customs declaration for all imports or exports in a given period; and*
- g. clearance of goods at the premises of the authorized operator or another place
authorized by customs.*

7.4. Members are encouraged to develop authorized operator schemes on the basis of international standards, where such standards exist, except when such standards would be an inappropriate or ineffective means for the fulfillment of the legitimate objectives pursued.

7.5. In order to enhance the facilitation measures provided to operators, Members shall afford to other Members the possibility to negotiate mutual recognition of authorized operator schemes.

7.6. Members shall exchange relevant information within the Committee about authorized operator schemes in force.

8 Expedited Shipments

8.1. Each Member shall adopt or maintain procedures allowing for expedited release of at least those goods entered through air cargo facilities to persons that apply for such treatment, while maintaining customs control. If a Member employs criteria limiting who may apply, the Member may, in published criteria, require that the applicant shall, as conditions for qualifying for the application of the treatment described in paragraphs 8.2 a. – d. to its expedited shipments:

- a. provide adequate infrastructure and payment of customs expenses related to processing of expedited shipments, in cases*

where the applicant fulfills the Member's requirements for such processing to be performed at a dedicated facility;

b. submit in advance of the arrival of an expedited shipment the information necessary for release;

c. be assessed fees limited in amount to the approximate cost of services rendered in providing the treatment described in paragraph 8.2 a. – d.;

d. maintain a high degree of control over expedited shipments through the use of internal security, logistics, and tracking technology from pick-up to delivery;

e. provide expedited shipment from pick-up to delivery;

f. assume liability for payment of all customs duties, taxes, and fees and charges to the customs authority for the goods;

g. have a good record of compliance with customs and other related laws and regulations;

h. comply with other conditions directly related to the effective enforcement of the Member's laws, regulations and procedural requirements, that specifically relate to providing the treatment described in paragraph 8.2.

8.2. Subject to paragraphs 8.1 and 8.3, Members shall:

a. minimize the documentation required for the release of expedited shipments in accordance with Article 10.1, and to the extent possible, provide for release based on a single submission of information on certain shipments;

b. provide for expedited shipments to be released under normal circumstances as rapidly as possible after arrival, provided the information required for release has been submitted;

c. endeavour to apply the treatment in sub-paragraphs 8.2 a. and b. to shipments of any weight or value recognizing that a Member is permitted to require additional entry procedures, including declarations and supporting documentation and payment of duties and taxes, and to limit such treatment based on the type of good, provided the treatment is not limited to low value goods, such as documents; and

d. provide, to the extent possible, for a *de minimis* shipment value or dutiable amount for which customs duties and taxes will not be collected, aside from certain prescribed goods. Internal taxes, such as value added taxes and excise taxes, applied to imports consistently with Article III of the GATT 1994 are not subject to this provision.

8.3. Nothing in paragraphs 8.1 and 8.2 shall affect the right of a Member to examine, detain, seize, confiscate or refuse entry to goods, or to carry out post-clearance audits, including in connection with the use of risk management systems. Further, nothing in paragraphs 8.1 and 8.2 shall prevent a Member from requiring, as a condition for release, the submission of additional information and the fulfillment of non-automatic licensing requirements.

Article 8: Border Agency Cooperation

1. A Member shall ensure that its authorities and agencies responsible for border controls and procedures dealing with the importation, exportation and transit of goods cooperate with one another and coordinate their activities in order to facilitate trade.

2. Members shall, to the extent possible and practicable, cooperate on mutually agreed terms with other Members with whom they share a common border with a view to coordinating procedures at border crossings to facilitate cross-border trade. Such cooperation and coordination may include:

- i. alignment of working days and hours;
- ii. alignment of procedures and formalities;
- iii. development and sharing of common facilities;
- iv. joint controls;
- v. establishment of one stop border post control.

Article 10: Formalities Connected With Importation and Exportation and Transit

1 Formalities and Documentation Requirements

1.1. With a view to minimizing the incidence and complexity of import, export, and transit formalities and of decreasing and simplifying import, export and transit documentation requirements and taking into account the legitimate policy objectives and other factors such as changed circumstances, relevant new information and business practices, availability of techniques and technology, international best practices and inputs from interested parties, each Member shall review such formalities and documentation requirements, and, based on the results of the review, ensure, as appropriate, that such formalities and documentation requirements:

- a. are adopted and/or applied with a view to a rapid release and clearance of goods, particularly perishable goods;

- b. are adopted and/or applied in a manner that aims at reducing the time and cost of compliance for traders and operators;*
- c. are the least trade restrictive measure chosen, where two or more alternative measures are reasonably available for fulfilling the policy objective or objectives in question; and*
- d. are not maintained, including parts thereof, if no longer required.*

1.2. The Committee shall develop procedures for sharing relevant information and best practices as appropriate.

3 Use of International Standards

3.1. Members are encouraged to use relevant international standards or parts thereof as a basis for their importation, exportation or transit formalities and procedures except as otherwise provided for in this Agreement.

3.2. Members are encouraged to take part, within the limits of their resources, in the preparation and periodic review of relevant international standards by appropriate international organizations.

3.3. The Committee shall develop procedures for the sharing by Members of relevant information, and best practices, on the implementation of international standards, as appropriate. The Committee may also invite relevant international organizations to discuss their work on international standards. As appropriate, the Committee may identify specific standards that are of particular value to Members.

4 Single Window

4.1. Members shall endeavour to establish or maintain a single window, enabling traders to submit documentation and/or data requirements for importation, exportation or transit of goods through a single entry point to the participating authorities or agencies. After the examination by the participating authorities or agencies of the documentation and/or data, the results shall be notified to the applicants through the single window in a timely manner.

4.2. In cases where documentation and/or data requirements have already been received through the single window, the same documentation and/or data requirements shall not be requested by participating authorities or agencies except in urgent circumstances and other limited exceptions which are made public.

4.3. Members shall notify to the Committee the details of operation of the single window.

4.4. Members shall, to the extent possible and practical, use information technology to support the single window.

7 Common Border Procedures and Uniform Documentation Requirements

7.1. Each Member shall, subject to paragraph 7.2, apply common customs procedures and uniform documentation requirements for release and clearance of goods throughout its territory.

7.2. Nothing in this Article shall prevent a Member from:

- a. differentiating its procedures and documentation requirements based on the nature and type of goods, or their means of transport;*
- b. differentiating its procedures and documentation requirements for goods based on risk management;*
- c. differentiating its procedures and documentation requirements to provide total or partial exemption from import duties or taxes;*
- d. applying electronic filing or processing; or*
- e. differentiating its procedures and documentation requirements in a manner consistent with the Agreement on Sanitary and Phytosanitary Measures.*

This section has attempted to offer a merely verbatim depiction of the texts from those provisions, as stipulated in the WTO TF Agreement, which will require the use of technology for their effective implementation. The intention was to highlight the areas under the TF Agreement that Bangladesh would not be able to fully and successfully implement without taking resort to some form of ICT, either homegrown or international and with or without support from the development partners. The following section will try to examine the current situation with respect to the implementation of those ICT-specific trade facilitation measures as contained in the TF Agreement and to illustrate the results of the gap analyses conducted against those measures.

Section III: Current status of implementation of ICT-based trade facilitation measures

Bangladesh strictly adheres to the developments spearheaded by the WTO and the WCO in relation to the facilitation of international trade and securitization of the international supply chain management of goods. It has realized the importance of facilitation of trade long before

the conclusion of the WTO TF Agreement. Considering its role in fostering economic growth, Bangladesh has already made significant changes to its customs and trade procedures. In order to assess the current situation in Bangladesh in terms of adopting and implementing the trade facilitation measures, this section will attempt a measure-by-measure detailed analysis of the progresses made so far by the government only in those areas that have been highlighted in the above section. The results⁴ of this measure-by-measure analysis are presented below:

Article 1: Publication and Availability of Information

2 Information Available Through Internet

Examining the details on the current situation relating to this measure, we find that it is only **partially implemented** in Bangladesh. Information relating to importation, exportation or transit procedures are available through internet on the following websites: www.nbr-bd.org/. Trade-related legislations are available through internet. (www.mincom.gov.bd/). Information relating to quarantine procedures is also available through internet (www.dae.gov.bd/). The **description** explaining the practical steps for importation, exportation or transit is absent. Trade-related forms and documents required for importation or exportation under Ministry of Commerce (MoC) are mostly available through internet on the following websites: (a) www.mincom.gov.bd/, (b) www.ccie.gov.bd/, and (c) www.epb.gov.bd/. But customs related forms and documents under the National Board of Revenue (NBR) are not yet directly available through internet. However, procedures and required forms & documents are often incorporated either in Customs Act or in SROs. The Act and some SROs are available in NBR website. All SROs are published in printed book/compilations, which is available through NBR website (www.nbr-bd.org/). Contact information on enquiry points is not available through internet. Information available in internet is mostly in English, one of the official languages of WTO. There are two major national websites: one for MoC, with hyperlinks to the websites of its subordinate departments, and the other for the NBR.

Article 7: Release and Clearance of Goods

1 Pre-arrival Processing

⁴ The contents of this measure-by-measure analysis draw heavily from Mozumder (2013) that resulted from an UNCTAD national phase project in Bangladesh in which this author acted as the National Advisor.

Bangladesh legislation **fully complies** with the provisions laid down in this measure. National legislation includes provisions for: (a) submission of manifest prior to the arrival of conveyance/goods, and (b) lodging and processing of Customs declaration (e.g. bill of entry) including documentation prior to the arrival of goods; and (c) lodging of declaration in electronic format. The only condition for allowing advance lodgment of declaration is that the vessel or the aircraft by which the goods have been shipped for importation into Bangladesh is to arrive within thirty days from the date of such presentation. ASYCUDA++, in place in Bangladesh, already provides for pre-arrival treatment, but the envisaged introduction of ASYCUDA World will facilitate more effective implementation of this provision.

2 Electronic Payment

Bangladesh has **not yet implemented** this measure, as there is no provision for electronic payment in Bangladesh of duties and taxes. However, the country is considering introduction of this system through ASYCUDA World. The project relating to introduction of ASYCUDA World is currently ongoing. Once ASYCUDA World is introduced, the NBR will be able to introduce the electronic payment system in cooperation with Bangladesh Bank through the Bangladesh Electronic Fund Transfer Network.

3 Risk Management

Bangladesh has only **partially implemented** this provision. Risk management systems exist in Bangladesh and are practiced by different Customs stations. Under the rules prescribed by the NBR, 10% of goods are examined. Of these, 6% are selected at random basis through automated system and 4% are selected manually. However, Bangladesh Customs has not yet established any elaborate procedure which would ensure introduction of a common risk management system across the country. In the absence of a common procedure, different Customs stations and the intelligence department employ their own methods in terms of choosing the selectivity criteria. For example, the senior Customs officials often use their own judgment in selecting particular consignments for physical examination. Things may improve slightly with the introduction of ASYCUDA World, which has a risk management module. In the case of other agencies, the use of risk management is not evident. This is so, because sanitary and health inspections are specific to particular categories, such as food products,

and therefore, are applicable to all imported consignments of such categories.

5 Post-clearance Audit

Bangladesh has only **partially implemented** this provision. Post clearance system exists in Bangladesh and a designated Post Clearance Audit Department is also in place. However, the job conducted by this office, known as Valuation and Internal Audit Commissionerate is not satisfactory. Apart from its tasks relating to Customs valuation, this office also deals with post clearance audit of consignments imported and cleared through different Customs stations in the country. But its activities are handicapped mainly due to shortage of manpower at the level of Revenue Officers and Junior Revenue Officers, and lack of ICT facilities. Bangladesh Customs needs to establish full-fledged Post-Clearance Audit units in all the Custom houses/Customs stations. Such PCA units will have to be fully manned and equipped with necessary logistics and equipment so as to ensure their smooth and effective operation. Establishment of such PCA units is also necessary for the effectiveness of risk management system.

6 Establishment and Publication of Average Release Times

Bangladesh has **not yet implemented** this measure. The country does neither measure nor publish average release times periodically. It also does not use any internationally accepted methodology, such as the WCO Time Release Study. However, NBR has already taken steps to proceed with a Time Release Study that is currently undergoing.

7 Trade Facilitation Measures for Authorized Operators

Bangladesh has **not yet implemented** this measure, as it has not yet introduced the Authorized Economic Operator system, which is an important feature of SAFE Framework of Standards devised by WCO. As there is no official Authorized Operator system in place, Bangladesh Customs did not have any need to negotiate any mutual recognition of authorized operator schemes with other Customs administrations. However, this AEO concept is extremely important for facilitation of both in-bound and out-bound trade and should be implemented in Bangladesh. Currently, Bangladesh Customs is examining, with cooperation and assistance from WCO, how it can introduce various aspects of SAFE, including the 'Authorized Economic Operator' concept. A diagnostic team from WCO helped Bangladesh Customs to identify the needs with regard to the establishment of AO system. The

WCO diagnostic team has submitted its report. NBR has formed a committee to examine the findings and recommend the implementable issues.

8 Expedited Shipments

Bangladesh has **partially implemented** this measure. The NBR has introduced rapid clearance procedures in respect of import of essential commodities, perishable goods, imports through PSI system, government imports, and import by diplomatic missions and privileged organizations and personnel thereof. However, there is very little awareness among traders of the existence of such procedure. Provision exists at Dhaka airport for clearance of consignment value not exceeding USD100 and weight below 5 Kg. to ensure expedited clearance. Provision for *de minimis* shipment value for which Customs duties and taxes will not be collected exists under Section 18 of Customs Act. While pre-arrival submission of manifest and lodgment of declarations and documents and related processing are allowed, no pre-arrival clearance is in place as yet. A section in the Customs Act mentions the approval process for B/E processing and payment for cargo to be assessed against prior entry (pre-arrival) manifest. At the moment NBR allows such facilities only to bulk cargo which are not generally allowed to be landed on the Jetty by the port authority. For example, cement clinkers, jumbo steel rolls etc.

Article 8: Border Agency Cooperation

Bangladesh has only **partially implemented** this provision. Medium level of cooperation (e.g. 1 in a scale of 0 to 2) exists among different border agencies on the ground. Common interface is developed at Chittagong port to harmonize the processes between Customs and port authorities. Similar efforts need to be made in other ports. Main controls, such as declaration processing, inspection, assessment, inward or outward clearance, preventive functions etc., at the Customs houses/stations are delegated to Customs authorities. Customs offices regularly hold stakeholders meeting to ensure better coordination among the border agencies and the relevant private sectors. In the case of cross-border cooperation, there is **non-compliance** with the provisions in this measure. For example, working days and hours are not fully aligned with other neighboring countries. Secondly, procedures and formalities are not aligned with them. Third, common facilities are not developed and shared with them. Fourth, there are no joint controls performed in cooperation with them. Positive development in this area was achieved

and therefore, are applicable to all imported consignments of such categories.

5 Post-clearance Audit

Bangladesh has only **partially implemented** this provision. Post clearance system exists in Bangladesh and a designated Post Clearance Audit Department is also in place. However, the job conducted by this office, known as Valuation and Internal Audit Commissionerate is not satisfactory. Apart from its tasks relating to Customs valuation, this office also deals with post clearance audit of consignments imported and cleared through different Customs stations in the country. But its activities are handicapped mainly due to shortage of manpower at the level of Revenue Officers and Junior Revenue Officers, and lack of ICT facilities. Bangladesh Customs needs to establish full-fledged Post-Clearance Audit units in all the Custom houses/Customs stations. Such PCA units will have to be fully manned and equipped with necessary logistics and equipment so as to ensure their smooth and effective operation. Establishment of such PCA units is also necessary for the effectiveness of risk management system.

6 Establishment and Publication of Average Release Times

Bangladesh has **not yet implemented** this measure. The country does neither measure nor publish average release times periodically. It also does not use any internationally accepted methodology, such as the WCO Time Release Study. However, NBR has already taken steps to proceed with a Time Release Study that is currently undergoing.

7 Trade Facilitation Measures for Authorized Operators

Bangladesh has **not yet implemented** this measure, as it has not yet introduced the Authorized Economic Operator system, which is an important feature of SAFE Framework of Standards devised by WCO. As there is no official Authorized Operator system in place, Bangladesh Customs did not have any need to negotiate any mutual recognition of authorized operator schemes with other Customs administrations. However, this AEO concept is extremely important for facilitation of both in-bound and out-bound trade and should be implemented in Bangladesh. Currently, Bangladesh Customs is examining, with cooperation and assistance from WCO, how it can introduce various aspects of SAFE, including the 'Authorized Economic Operator' concept. A diagnostic team from WCO helped Bangladesh Customs to identify the needs with regard to the establishment of AO system. The

WCO diagnostic team has submitted its report. NBR has formed a committee to examine the findings and recommend the implementable issues.

8 Expedited Shipments

Bangladesh has **partially implemented** this measure. The NBR has introduced rapid clearance procedures in respect of import of essential commodities, perishable goods, imports through PSI system, government imports, and import by diplomatic missions and privileged organizations and personnel thereof. However, there is very little awareness among traders of the existence of such procedure. Provision exists at Dhaka airport for clearance of consignment value not exceeding USD100 and weight below 5 Kg. to ensure expedited clearance. Provision for *de minimis* shipment value for which Customs duties and taxes will not be collected exists under Section 18 of Customs Act. While pre-arrival submission of manifest and lodgment of declarations and documents and related processing are allowed, no pre-arrival clearance is in place as yet. A section in the Customs Act mentions the approval process for B/E processing and payment for cargo to be assessed against prior entry (pre-arrival) manifest. At the moment NBR allows such facilities only to bulk cargo which are not generally allowed to be landed on the Jetty by the port authority. For example, cement clinkers, jumbo steel rolls etc.

Article 8: Border Agency Cooperation

Bangladesh has only **partially implemented** this provision. Medium level of cooperation (e.g. 1 in a scale of 0 to 2) exists among different border agencies on the ground. Common interface is developed at Chittagong port to harmonize the processes between Customs and port authorities. Similar efforts need to be made in other ports. Main controls, such as declaration processing, inspection, assessment, inward or outward clearance, preventive functions etc., at the Customs houses/stations are delegated to Customs authorities. Customs offices regularly hold stakeholders meeting to ensure better coordination among the border agencies and the relevant private sectors. In the case of cross-border cooperation, there is **non-compliance** with the provisions in this measure. For example, working days and hours are not fully aligned with other neighboring countries. Secondly, procedures and formalities are not aligned with them. Third, common facilities are not developed and shared with them. Fourth, there are no joint controls performed in cooperation with them. Positive development in this area was achieved

with the creation by Bangladesh and India of a Joint Working Group on Customs and a Joint Working Group on Trade. Regular meetings and consultations of Customs and trade officials from India & Bangladesh are held to address issues that require policy directions.

Article 10: Formalities Connected With Importation and Exportation and Transit

1 Formalities and Documentation Requirements

Bangladesh **partially complies** with the provisions of this measure. It periodically reviews its formalities and documentation requirements. It also adapts its procedures as per recent trends and international best practices. A major review was made in early 2000 with assistance from multilateral donors through a project named 'Customs Administration Modernization: Phase 1'. Necessary updates in accordance with that review were also made at the time. As a result of that, Bangladesh implemented most of the provisions of General Annex of Revised Kyoto Convention. After that, it continued to review its formalities and documentations requirements as and when required basis. However, the country does not have any legal framework that specifies the procedures for such review, including the time interval for undertaking such review.

3 Use of International Standards

Bangladesh **partially complies** with the provisions in this measure. It regularly updates its goods classification system in accordance with changes in WCO HS Convention. For example, it has already implemented HS Version 4 (2012). Bangladesh has ratified Revised Kyoto Convention in September 2012. Adoption of Istanbul Convention is still under process. Bangladesh has not been able to introduce the ATA carnet due to problems in determining the signatory authority of the carnet. It is not yet determined which one of the two business bodies (Federation of Bangladesh Chamber of Commerce and Industry and International Chamber of Commerce, Bangladesh) will be given the signatory authority. Latest Inco-terms and UCP-600 are used by commercial banks, though UCP-600 is not fully implemented by them. Data standards, such as UN Layout Key (e.g. ASYCUDA) are used in the case of Goods Declaration, Airway Bill etc. in Dhaka, Chittagong, ICD Kamalapur, Mongla and Benapole Customs Houses, which cover about 90-95% of international trade.

4 Single Window

Bangladesh has not **yet complied** with the provisions of this measure. In fact, like other developing and least developed countries, the main challenge in this regard in Bangladesh is not the infrastructure but to get on board all the stakeholders. It should be noted that with assistance of UNCTAD, NBR will introduce ASYCUDA World. This will undoubtedly expedite the introduction of a full-fledged Single Window in Bangladesh. It is necessary to mention here that a home grown version of partial single window system is in operation through a public-private partnership basis in Chittagong Custom House and Dhaka Custom House. However, this home grown version cannot be considered single window as such.

7 Common Border Procedures and Uniform Documentation Requirements

Bangladesh **partially complies** with the provisions in this measure. Customs procedures applicable for import and export goods are the same across the country. Similarly, same standards, such as fees and charges, specifications, terminologies and definitions, inspection, sampling and testing methods are applied in all the ports across the country. However, the only problem is that the automated system is available only at Chittagong, Benapole, Dhaka, ICD Kamalapur and Mongla custom Houses which handle about 90% of the country's trade. The other Customs stations that handle the rest 10% of the country's trade are not yet automated, and therefore, use manual assessment and clearance.

The paper tried to illustrate in this section the current status of progress made by the government in Bangladesh in implementing the trade facilitation reform measures that require application of ICT. It has been revealed from the analysis that only in the case of Article 7.1 (pre-arrival processing), Bangladesh has been able to fully implement the provisions. However, the performance of the country in terms of the rest 12 ICT related measures is not satisfactory. For example, in the case of Article 1.2 (information available through internet), Article 7.4 (risk management), Article 7.5 (post-clearance audit), Article 7.8 (expedited shipments), Article 8 (border agency cooperation), Article 10.1 (formalities and documentation requirements), Article 10.3 (use of international standards), and Article 10.7 (common border procedures and uniform documentation requirements), we find that Bangladesh has only partially implemented the provisions of the TF Agreement. Again,

in the case of Article 7.2 (electronic payment), Article 7.6 (establishment and publication of average release times), Article 7.7 (trade facilitation measures for authorized operators), and Article 10.4 (single window), it is found that Bangladesh has not complied at all with the provisions of the TF Agreement.

Concluding Remarks:

It has been amply clear from the discussion in the preceding section that among the 13 ICT-related measures under the WTO TF Agreement, Bangladesh has either partially complied or not complied at all in the case of 12 measures. This reflects that much needs to be done by the country in the coming years and that the Customs administration will have to work strenuously, either alone or through cooperation from the development partners, to ensure effective implementation of those measures. However, as mentioned earlier, implementation time frame for Bangladesh as an LDC will be longer than both developed and developing countries. If we examine the draft Ministerial Decision relating to the TF Agreement, we will see that starting from the Bali agreement (December 2013) to the meeting of the preparatory committee on Trade Facilitation no later than 31 July 2014, and ending with the adoption of the Protocol drawn up by the Preparatory Committee and opening the Protocol for acceptance until 31 July 2015, the Agreement will perhaps come into force on or before 31 July 2015. Therefore, Bangladesh will have one more year after that date to annex to the Agreement notification of its Category A commitments. Again, as discussed earlier, the implementation periods for Categories B and C commitments for Bangladesh will be much longer.

It is worth mentioning that while Bangladesh will have to implement Category B measures with its own resources, the TF Agreement offers greater flexibility to the country, as an LDC, in terms of implementation of Category C measures. Implementation of Category C measures for LDCs is made conditional upon the acquisition of capacity building assistance, which could either be in the form of external financial or external technical assistance in nature. It will, therefore, extremely important for Bangladesh to conduct the needs assessment in the form of both (a) baseline assessments— to identify the measures (category A) which are already implemented or will be implemented within July 2016, and the measures (category B) whose implementation require more time but no external resources, and (b) institutional capacity

assessments— to identify the measures (category C) whose implementation require both additional time and external capacity building assistance, and to identify the extent of such external assistance measure per measure.

With regard to the ICT-specific measures highlighted and examined in the preceding Sections II and III, it needs to be emphasized here that even though Bangladesh has flexibility in terms of enjoying longer implementation periods for these measures, it is to be in the country's best interest if it chooses to delay instituting such trade facilitation reforms. For, the adoption of effective information and communications technology will be of immense assistance to the government, especially to its Customs administration, in achieving trade objectives, enhancing quality of service delivery and in driving world class trade clearance and logistics performance.

But it is also true that in order to succeed in putting in place new and effective ICT successfully, the customs administration needs to focus on achieving a number of important requisites (Doyle, 2011): (a) political and financial commitment will have to be secured in order to develop its vision and transformation program, (b) realistic assessment of its administrative capacity will have to be made in order to deliver the vision, (c) the right partners need to be selected in order to support change, and (d) business and technical strategies must be continually evolved "in a way that demonstrates the value of collaborative border management to their stakeholders".

I am sure, through acquisition of such essential requisites, formulation of effective implementation plan and facilitation of constructive engagement of bilateral and multilateral development partners, Bangladesh will be able to make significant progress with regard to implementing those ICT-based measures. Implementation of these measures will not only result in reducing the trade transaction time and costs for the import of raw material and inputs of our export-oriented industries, but will also contribute in reducing the anti-export bias and making our export products more competitive.

References:

1. Centre for WTO Studies, 2012, *Trade Facilitation Gap Analysis for Border Clearance Procedures in India* (Centre for WTO Studies; New Delhi, India).

2. CUTS International, 2013, *Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia: A Roadmap for Reforming Non-Tariff Barriers in South Asia* (CUTS International: India).
3. Doyle, Tom, 2011, "Information and communications technology and modern border management", in Gerard McLinden *et al.* (ed.), *Border Management Modernization* (World Bank: Washington, USA).
4. Hoekman, B., and A. Nicita, 2008, "Trade Policy, Trade Costs, and Developing Country Trade", *Policy Research Working Paper 4797* (World Bank: Washington DC, USA).
5. Perumal, Santhosh, 2013, "WTO trade deal could boost global GDP by \$960bn" in *Gulf Times*, 23 April, 2013 (Gulf Times: Doha, Qatar).
6. Mozumder, Khairuzzaman, 2013, *National Plan for the Implementation of the Future WTO Trade Facilitation Agreement: Bangladesh* (UNCTAD: Geneva).
7. Musra, Monica A., 2011, "Border management modernization and the trade supply chain", in Gerard McLinden *et al.* (ed.), *Border Management Modernization ...*
8. Sourdin, Patricia, and Richard Pomfret, 2012, *Trade Facilitation: Defining, Measuring, Explaining and Reducing the Costs of International Trade* (Edward Elgar: Cheltenham, UK).
9. UNESCAP and ADB, 2013, *Designing and Implementing Trade Facilitation in Asia and the Pacific* (ESCAP & ADB: Bangkok, Thailand)

PAPERLESS TRADE: ENHANCING EFFICIENCY AND SECURITY

Md. Shahidul Islam, PhD

With the rapidly increasing importance of Information and Communications Technology (ICT) in today's world, international trade can derive enormous benefits from incorporating paperless trade into its supply chains. Paperless trade will increase security and transparency, and provide higher revenue both for Governments and for the private sector. Information will be more reliable and easier to process, and costs significantly reduced. There will also be fewer delays along the supply chain, and less room for corruption.

Governments need to take a 'champion' role in initiating and establishing a healthy business environment for paperless trade. An important aspect in the successful transition from paper to paperless trade is that the costs and benefits of paperless trade are internalised to reward traders for their migration efforts. The costs involved in implementing and sustaining paperless trade are not easy to quantify. Reduction of transaction costs should be achieved through simplification of procedures and processes and the use of international standards. All parties involved gain significantly from the conversion from paper to paperless trade in international supply chains. The focus is firmly on international and regional organizations and on Governments to ensure that an appropriate political, regulatory and business-accommodating environment is in place to ensure the successful implementation and sustainability of such an undertaking.

Billions of documents are exchanged every year in international transactions, implying enormous costs both for Governments and for international business. These costs, as well as the complexity of international trade documents and procedures, are a huge burden on businesses, and a major disincentive to many small firms for participating in international trade. Paper-based documents are increasingly less able to satisfy the needs of the international trade

environment in terms of efficiency and security. The complexity of the modern supply chains, the number of parties involved, and the speed with which the goods are exchanged together greatly increase the requirements on trade information.

Traditional information exchange through paper documents requires the physical exchange of documents, and repeated, manual data entry and validation procedures, all of which incur costs and delays and allow the possibility of error all along the way. The new requirements for early information, information from the source and the need for automated analysis of large amounts of data represent a major challenge to this document-based system. Countries and companies, therefore, are increasingly seeing paperless trade information exchange. A number of high profile "paperless" trading projects are already under way, specifically in the Asia-Pacific region.

The key characteristics of the transition to the global paperless trade system include:

- Benefits
- Costs
- Policy and strategic considerations.

Benefits:

- ***For Governments paperless trade is an important instrument to increase security, development and revenues from international trade.*** It increases the security of trade operations by providing electronic data, which are more structured, more reliable and easier to process and use for target consignment, such as automated risk analysis. Administrative costs are lower and less revenue is lost through fraud and non-compliance. Paperless trade allows Governments to reduce delays and costs at the border, and increase their services for trade. It is a driver for the modernization of administrations and promotes the adoption of e-Business in the national economy.

- ***For the private sector paperless trade can greatly increase efficiency of supply chains and provide new value-added services.*** Paperless trade eliminates the operational costs related to manual paper processing, increases the transparency of the supply chain, the exchange of information between the trading partners, improves trade and finance processes and establishes collaborative processes. It favours the use of common standards and helps integrate supply-chain processes and their automation. It reduces the need for repeated data entry and reduces errors and delays. It allows companies to develop new, value-added services such as automated track and tracing systems, monitoring of document processing, security and non-repudiation. The national economy can increasingly compete on the level of services provided, not on costs.

- ***For developing and transition economies paperless trade can provide specific benefits.*** Implementing paperless trade has the potential to provide benefits to developing and transition economies, in terms of simplified and less costly trade procedures, increased transparency, higher compliance and higher governmental revenues. For instance, current calculations estimates suggest that savings from paperless trade are highest for smaller shipments and for perishable goods, both of which are of specific interest to developing and transition economies. Automation will significantly decrease the room for discretionary subjective decisions; hence it will lower the scope of corruption. Some landlocked and other transition and developing economies will profit from the development of electronic corridors, where traders can send information required on a chain of border crossings well in advance for better and timely analysis by the relevant authorities.

COSTS:

Paperless trade related strategies should take into account not only the costs of such transition, but also the specificities of the distribution of these costs between parties concerned in the international supply chain. As summarized below, the costs of implementing paperless trade are likely to be borne by traders and are likely to be higher, but not prohibitive, in transition and developing economies.

- ***Companies will only adopt paperless trade if they see a clear net benefit.*** The benefits must outweigh the costs of change, the initial investment costs and fees for participating in paperless trade. For a large number of companies and for small and medium-sized enterprises in particular, paper is cheap and efficient and, given the low volume of their operations, the net advantages might not outweigh the costs of changing over. Companies therefore need to identify clear benefits before implementing new information exchange technology. Governments can offer support by rewarding traders who submit documents in electronic format as an incentive for increased efficiency in government processes. E-pioneers, meaning large companies and government organizations, can play an important role in encouraging SMEs to use e-documents.
- ***Paperless trading has characteristics of a public good and its introduction is likely to imply external costs and benefits.*** As traders are the source of most documents used in international trade, they constitute the supply side for electronic documents, and bear a large share of the implementation costs (initial implementation costs and maintenance, promotion to induce customers to switch to paperless documents, etc.). At the same time, a large number of the benefits of paperless trade fall to the administrations and business partners who receive the documents, benefits in the form of fast information exchange, efficient data entry and processing and increased security and

compliance. As long as the issuer of the documents cannot profit from these benefits, it is unlikely that a company will invest in paperless trade from a market-driven perspective. Therefore, market mechanisms alone may not be enough to see paperless trade being implemented on a global scale. The key stakeholders and beneficiaries must be ready to contribute to initiating, sustaining and managing the transition from paper. In view of these external costs and benefits, it could be useful to provide extra incentives for traders who adopt paperless trade, to reward them for their contribution to the overall increase in efficiency in the supply chain process.

- ***Paperless trade presents specific challenges for developing and transition economies.*** Developing and transition economies face specific obstacles, such as a lack of adequate telecommunications infrastructure, resistance to change, lesser capacity for implementation, a need for preceding organizational and regulatory reform etc. However, as has been shown by successful examples, these obstacles need not prevent developing and transition economies from implementing paperless trade.
- ***The implementation carries technology and market risks.*** Paperless trade projects require the integration of cross-sector business requirements and integration of different eBusiness technologies such as UN/EDIFACT, UNeDocs, Business modeling, UN/CEFACT Core Components, ebXML, RosettaNet and emerging technologies. While some of these standards are mature and stable, others are based on latest and complex eBusiness technologies that are constantly evolving. The project management requires user orientation, high level of expertise in ICT and a good understanding of eBusiness standards. Success of the project usually requires partners with relevant project and technology expertise. The project must take into account the unique needs of the national economy and adapt the approach and solution. Project management and

stakeholders need to accept and manage intermediate setbacks as natural components of complex and strategic projects.

POLICY AND STRATEGIC CONSIDERATIONS:

Transition to paperless trade is a long-term and dynamic process, requiring active management and strong involvement of all stakeholders. The key features of the process, identified on the basis of experience accumulated so far, can be summarized as follows:

- ***Elimination of paper in the international supply chain is achievable but the transition needs to be managed.*** The use of electronic trade documents is still usually confined to a specific geographic or functional context such as an automated customs declaration system or a national logistics platform. This means that the information exchange in the supply chain needs to operate simultaneously on a dual information exchange system. As the migration process is user-driven and there are different levels of benefits and readiness for paperless trade, the dual system is likely to be the prevailing one for several decades. UN/CEFACT has now adopted the United Nations electronic Trade Documents Project (UNeDocs) as a new, global standard for digital trade documents to open a migration path from paper-based information exchange to paperless trade.
- ***Governments should take a lead role in initiating the transition to paperless trade.*** Paperless trade touches upon core issues for Governments -security, development, competitiveness, revenue, technology and international cooperation - provisions for which needs to be made in their national budgets. High-level commitment is needed to ensure an appropriate legal and regulatory environment, which often requires a revision of domestic legislation on such issues as signatures in electronic transactions, admissibility of electronic transactions as evidence in courts, the use of non-negotiable documents and recognition of digital certifications.

- ***Successful implementation projects for paperless trade grow rapidly in scope and volume.*** Projects that successfully implement paperless trade tend to rapidly increase in terms of transactions, subscribers, services offered and the number of business sectors and administrations that become involved. In the later stages of the project, the international aspects such as regional and international cooperation, harmonization of procedures and the exchange of trade information take on importance.

A model project lifecycle could include the following stages:

- Stage 1: Development of a paperless Customs declaration system
- Stage 2: Integration of other administration and regulatory bodies, involved in export/import procedures
- Stage 3: Extension to serve entire business communities (ports, airports)
- Stage 4: Integrated national logistic platform, interlinking the administrations, companies and the service sectors to better manage import and export operation.
- Stage 5: Integration of national logistic platforms into a regional system of information exchange.

- ***Facilitation and simplification of trade procedures and documents should take place prior to automation.*** Automating complicated trade procedures that are not aligned to international standards reduces the gains in efficiency that can be made using paperless technologies and impedes the transition to paperless trade. Complex and diverse paperwork requirements are also a large obstacle to the introduction of the paperless trade on the regional level. The implementation of paperless trade is not primarily a matter of technology. It requires above all a review of business processes and a change management that benefits all involved parties and stakeholders

through enhancing the performance of the supply chain and the national competitiveness.

- ***Paperless systems should be based on international standards, but should also reflect and take into account regional specificities.*** The use of international standards leads to faster implementation cycles, reduced transaction costs, favours the use of scalable and cost efficient solutions and reduces the implementation risks. Standards provide also the basis for interoperability between implementations, the cross-border exchange of information and a harmonization of procedures on the regional or global level. While standards for international trade must be global the implementation and adaptation of these standards must take into account regional, cultural and social characteristics. Therefore, regional organizations have a practical role to play in this process. In the absence of regional and international coordination, incompatibility of implemented solutions can prevent further expansion of paperless trade in a given country or a region. Several regional organizations currently assist their member States in coordinating and facilitating the introduction of paperless trade in their regions (UN regional commissions, EU, APEC and ASEM, for example) and they all stress the importance of using global trade standards.

NEED FOR FACILITATING PAPERLESS TRADE AND TRANSIT

- The cost involved in international trade can be reduced significantly saving billions of dollars.
- There will be increased revenue for both private sector and the Governments.
- Security, transparency and efficiency in supply chains would increase.
- Electronic information will be easier to process and more reliable.
- Delays in border clearance would be reduced.

- Changeover to paperless trade will be invariably accompanied by reengineering of existing complicated procedures resulting in simplification, greater transparency and accountability contributing to the cause of good governance.
- Reduction in cost and simplification of procedure will help small and medium enterprises to become more competitive as savings from paperless trade are found to be highest for smaller shipments and perishable goods.
- Electronic information is more amenable to automatic risk analysis which will help in preventing fraud and non-compliance giving rise to more revenue.
- It will help in modernizing administrations and result in better utilization of available manpower.
- Trade will benefit from reduction in repeated data entry, reduction in errors and delays.
- It will allow private enterprises to develop and use automatic tracking systems to enable secure and timely delivery of goods.
- Paperless trade can significantly cut down bureaucratic delays and accompanied corruption.
- Landlocked countries would specially benefit by paperless trade as electronic information can be received and processed in advance before arrival of the goods at the border enabling faster clearance.
- Very often Administrations are forced to make use of incomplete and unauthenticated data while imposing WTO mandated trade remedy measures such as antidumping duties, etc. In a paperless trading environment there will be complete and transparent capture of reliable trade data, enabling Administrations to take informed decisions.

CHALLENGES IN FURTHERING CROSS-BORDER PAPERLESS TRADE

While most countries recognize the advantages ICT presents and the benefits a paperless trading environment offers in improving competitiveness of exporters, several countries in the Asia-Pacific region face significant challenges in moving towards paperless trade.

The reasons are manifold: -

- Computerization carried out by different countries use different systems and interoperability of various systems can be a challenge.
- Different types of information and documents are required by different countries and working out a system for a comprehensive exchange of data and document between different countries is a very challenging task.
- Advantages of cross-border paperless trade may not be very obvious to traders and hence they may not push their governments to implement systems for cross-border paperless trade, particularly in situations where application of ICT is inadequate in the national context.
- Inadequate national effort to apply ICT in matters relating to customs and port clearance, often linked to fear of changes and the existence of vested interests that benefit from an opaque and non-transparent manual system.
- Within national governments, computerization by different government departments dealing with different aspects of international trade is carried out in an uncoordinated manner thereby making implementation of a single window system difficult.
- Computerization at the national level without applying global standards, diminishing chances of inter-operability and cross-border exchange.
- Lack of financial resources and qualified technical personnel.
- Lack of political will and lack of leadership within the administration to opt for and manage a change-over from the existing system to a paperless trading environment.
- Lack of public – private partnership in evolving a better trading environment using ICT.

UNNEXT: The United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNEXT) is a community of knowledge and practice for experts from developing countries and transition economies from Asia and the Pacific involved in the implementation of electronic trade systems and trade facilitation.

The United Nations Network of Experts for Paperless Trade in Asia Pacific (UNNEXT) provides a networking and knowledge-sharing platform for policy makers, practitioners and technical experts to bridge the implementation gaps between the countries with different level of trade facilitation. Its mission is to establish an ongoing community of knowledge and practice to facilitate the implementation of single window and paperless trade in the Asia-Pacific region.

The UNNEXT intends to enhance capacity of its members to make informed decisions about policy issues at stake and to implement related international instruments and standards. It is operated jointly by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations Economic Commission for Europe (UNECE).

UNNEXT Masterclass 2013: Implementing Single Window and Paperless Trade is an intensive two-week capacity building program intended to build the capacity of Governments to simplify trade procedures and implement paperless trade systems, including single window facilities. It is delivered by experts and practitioners with extensive experience on trade facilitation and paperless trade. It aims to provide a high-level complete picture on how to move towards Single Window environment by implementing a series of inter-related trade facilitation measures. Organizers are ESCAP in cooperation with World Customs Organization (WCO), Customs Cooperation Fund (CCF) Korea and Korea Customs Border Control Training Centre.

Recent events of UNNEXT

- **Inception Workshop of the ESCAP-ADB Project on Trade and Transport Facilitation Performance Monitoring in the SASEC countries, 26-27 November 2013, Bangkok, Thailand** -To discuss measures for establishing a sustainable and integrated monitoring mechanism - based on Business Process Analysis Plus (BPA+) methodology - in selected countries in South Asia including Bangladesh, Bhutan and Nepal.

- **Global Trade Facilitation Conference 2013, 18-19 November 2013, Bangkok, Thailand.** - The conference is organized in collaboration and other UN Regional Commissions (UNRCs) as part of the implementation of the United Nations Development Account (7th tranche) project on “Strengthening the Capacity of Developing and Transition Economies to Link to Global Supply Chains through the Reduction of Trade Obstacles”. The conference is also supported by the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT). UNNExT is a community of knowledge and practice for experts in developing countries in paperless trade and trade facilitation. Activities of UNNExT include tools and guide development, conducting training activities, providing advisory services, knowledge sharing, and research and analysis.
- **Regional Training Workshop on Trade Facilitation Implementation Guide, 18-22 November 2013, Bangkok, Thailand.**- To build capacity of Government officials from developing Asian countries in implementing trade facilitation and to introduce the Trade Facilitation Implementation Guide (TFIG).
- UNNExT Masterclass 2013: Implementing Single Window and Paperless Trade, 7-18 October 2013, Cheon-an, Republic of Korea.
- **UNNExT Brief No. 9, Towards An Enabling Environment for Paperless Trade - Pan Asian e-commerce Alliance (PAA): Service providers join forces to enable cross-border paperless trade, August 2013.**

In the late 1980s and early 1990s, several governments of countries and economies in Asia had initiated Electronic Data Interchange (EDI)-based paperless trade projects and established paperless trade service providers. These initiatives were part of national strategic development plans rather than

market-driven, essentially in support of their export-led economic development policies.

Governments of those countries and economies played critical role by providing policy support and implementing various facilitation measures, such as

- 1) “Calls for Collaboration” inviting trade community on the use of EDI,
- 2) establishment of standard bodies for e-commerce,
- 3) education and awareness campaign on EDI for various stakeholders,
- 4) adoption of legal frameworks on the use of electronic documents and data messages,
- 5) provision of funding for the implementation projects in strategic areas, etc.

Based on the national strategies and priorities in their respective countries and economies, paperless trade service providers developed their own paperless trade platforms and services, in close cooperation with governments. Most paperless trade service providers started with implementation of customs clearance services, although some began with port automation, extending to customs clearance subsequently. Private sectors had also started adopting EDI more, in response to increasing EDI requirements in supply chains, in particular retails and banking sector, in line with growing initiatives in Europe and North America After successful implementation of electronic trade transaction services such as automated Customs clearance and manifest submission, paperless trade service providers began to look for possibility of extending their service coverage to overseas market. Some of the service providers explored collaboration with newly established global paperless trade platforms and services, such as Bolero and Trade Card. At the same time, they also initiated a regional cooperation framework among paperless trade service providers in Asia, launching the Pan Asian e-commerce

Alliance (PAA). The background for initiating the PAA came from three drivers:

- (1) introduction and spreading of the Internet-based technology,
- (2) completion of automation of local trade procedures including the formulation of early models for Single Window platform, and
- (3) growing volume of the intraregional trade in Asia.

- **Consultation meeting on development of Nepal e-Customs Master Plan, 23 September 2013, Bangkok, Thailand.** - To discuss on the content of a UNNEXt Guide on Paperless Systems for Agricultural Trade Facilitation and various issue on paperless trade systems for agricultural trade and way forward for UNNEXt agricultural trade facilitation.

- **UNNEXt Advisory Group Meeting on Paperless Systems for Agricultural Trade Facilitation, 12 September 2013, Beijing, China. Objectives was:**

- Asia-Pacific Trade Facilitation Forum 2013, 10-11 September 2013, Beijing, China. Enable sharing of experiences and knowledge on trade facilitation between countries of the greater Asia and Pacific region including LDCs and LLDCs
- Foster increased understanding and exchange of views between public and private stakeholders, as well with trade facilitation standards developers and technical assistance providers
- Learn about and draw lessons from on-going implementation of national and regional trade facilitation measures
- Introduce relevant international tools, instruments, and facilities aimed at increasing the efficiency of regional and

global cross-border trade, including latest tools by the United Nations Network of Experts for Paperless Trade in Asia and the Pacific

- **UNNEXt Advisory Committee Meeting, 11 September 2013, Beijing, China.** - To discuss and report on activities of the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNEXt) in 2012/13 and discuss work program for 2014.

- **Capacity Building Workshop on Facilitating Cross-border Paperless Supply Chain, 10-11 July 2013, Bangkok, Thailand.** - The objective of the Workshop is to identify and discuss major issues in paperless supply chain in the Asia-Pacific region and derive practical recommendations for facilitating paperless supply chain, including capacity building measures for developing countries. The Workshop will bring together regional experts and stakeholders of paperless supply chain from both public and private sectors in the region for in-depth discussions.

- **Sub-regional Capacity Building Workshop on Facilitating Cross-border Paperless Supply Chain, 22-23 July 2013, Incheon, Republic of Korea.** - To identify and discuss major issues in paperless supply chain in the East and North-East sub-region and derive practical recommendations for facilitating paperless supply chain, including capacity building measures for developing countries. The Workshop will bring together sub-regional experts and stakeholders of paperless supply chain from both public and private sectors for in-depth discussions.

- **ESCAP Workshop on Business Process Analysis Introduction and National Trade Facilitation Strategy of Kyrgyzstan, 14 June 2013, Bishkek, Kyrgyzstan.** - to introduce the fundamental features of BPA to senior officials and other stakeholders in Kyrgyzstan, and more importantly, to discuss the actual implementation of BPA studies in

Kyrgyzstan. and -to respond the request from Kyrgyzstan to help revise and refine the draft strategy prepared by national experts

- **Second Expert Group Meeting on Enhancing Regional Connectivity through Trade and Investment: Towards Regional Arrangement for the Facilitation of Cross-border Paperless Trade, 2-3 May 2013, Bangkok, Thailand.** - To follow-up on the discussions held in the first EGM held in March and to ensure delivering the best draft text of a regional arrangement, including a Explanatory Note, for member consultation
- **UNNExT Capacity Building Workshop for Cambodia for Single Window Implementation, 28-29 March 2013, Bangkok, Thailand.** - To build capacity of Cambodian officials, who are involved in the implementation of a National Single Window in Cambodia, on how to better plan Single Window implementation. The Workshop will provide Cambodian officials with an opportunity to learn how to plan Single Window implementation in a systematic way, including actual visit to operation of Thai National Single Window.
- **Expert Group Meeting on Enhancing Regional Connectivity through Trade and Investment: Towards Regional Arrangements for the Facilitation of Cross-border Paperless Trade, 13-14 March 2013, Bangkok, Thailand.** - To review findings of a study report on regional arrangements for the facilitation of cross-border paperless trade and to discuss in details institutional and implementation features of the proposed arrangements.

Paperless trade refers to trade taking place on the basis of exchange of electronic data and documents. Replacing paper documents by electronic ones greatly helps in cutting red tape, simplifying trade processes and improving transparency and predictability of international trade transactions. This in turn leads to enhanced trade competitiveness,

as well as improved regulatory compliance and more inclusive participation in international trade.

Many countries in the Asia-Pacific region, already well aware of these and other benefits, are currently engaged in implementing paperless trade systems, including national electronic single windows. This Brief introduces the Pan Asian e-commerce Alliance (PAA), a regional alliance of paperless trade service providers formed to enable trade data exchange across borders. The Brief describes the rationale for the alliance, its institutional arrangement and its business model and services. Lessons learnt from a decade of operation as well as future plan for further enabling of cross-border paperless trade are highlighted.

World becomes faster. Most of developed countries have established paperless dealings in various sectors. WCO, WTO, ESCAPE and members countries of WCO are working with collaboration to establish a harmonize business system all over the world in where paperless trade always focused. As a member of WCO and WTO, Bangladesh is also trying to be established a Single Window System. Ministry of Commerce already has been working on it; National Board of Revenue (NBR) is the focal point of the single window.

Paperless trade or transaction does not build up in a day. To establish a paperless environment enough time is required for third world country like Bangladesh. The policy of present government is to build up 'Digital Bangladesh' which will be reached us to the paperless environment in both public and private sectors. E-TIN, E-Return activities already developed by NBR and it is implemented. E-Ticketing (Railway and Airway), E-File management system (under development by Ministry of Public Administration), E-Banking (Mobile Banking), E-Document service of Ministry of Land etc is the preliminary success of networking that is base of paperless functioning. The Customs wing of NBR is using ASYCUDA++ software that is World standard software developed by UNTCTAD and operated in many countries. This system harmonized the import and export procedure and makes a unique system for International trade.

In conclusion, we can hope and expect that ultimately a modern world will be reached, where we do not have to carry large volume of document to do business, many books will not be carried for study purposes, no time will be wasted to go to a bank to pay bills, or there will be no need to go to a market to buy something. One will only need internet connectivity with her PC, laptop, or notebook, which will solve all challenges. From the comfort of one's home, office work can be managed and all needs fulfilled. In order to reach that goal developed infrastructure, modern technology and proper training will be essential.

TRADE LIBERALIZATION AND ECONOMIC GROWTH: ANALYSING THE CASE OF BANGLADESH USING COINTEGRATION APPROACH*

Mohammed Shafi Uddin

I. INTRODUCTION

In the aftermath of the debt crisis of the early 1980s, developing countries faced unprecedented pressure in their external accounts. Exports fell in both volume and value while imports rise. Consequently, it brought balance-of-payments-problems and foreign exchange constraints. As a result of these events, most developing countries which followed inward-looking development strategy in the past liberalized their trade regime as a central condition to get aid from the IMF and the World Bank under the Structural Adjustment Programs (SAP) and since then the relationship between trade liberalization and economic growth has been a subject of great debate among development economists.

Over the past three decades, a large number of studies have been carried out to empirically identify the relationship between trade liberalization and economic growth in developing countries. The findings of these studies are mixed. For example, World Bank (1987), Dollar (1992), Sachs and Warner (1995), Edwards (1998), Frankel and Romer (1999), Hall and Jones (1999), and Dollar and Kraay (2004) find a positive relationship between trade openness and growth using different techniques and openness measures. However, Rodriguez and Rodrik (1999) are skeptical that there is a general, unambiguous relationship between trade openness and growth. Rodrik, Subramanian, and Trebbi (2002) find that once the institution-related variables are added in the regression analysis, openness has no significant effect on economic growth.

The purpose of this paper is to contribute to this debate by empirically analysing the impact of trade liberalization on economic growth in Bangladesh using time series data. It is hypothesized that trade liberalization led to higher economic growth and in order to verify this hypothesis the annual data for a period of 25 years (1981–2005) analyse

* This paper is compiled from Uddin (2006)

using the cointegration approach¹. Bangladesh is an ideal choice for testing this hypothesis because throughout the last three decades, Bangladesh has implemented a series of trade policy reforms and thus the economy of the country is currently exposed to the global economy to a greater extent than ever before.

The remainder of the paper is organized as follows: Section 2 briefly reviews the empirical literature on trade liberalization and growth. Section 3 prepares the brief review on trade liberalization in Bangladesh. Methodology and data of the study is presented in section 4. Section 5 presents the results of the empirical analysis and section 6 concludes the study by summarising the main findings.

2. LITERATURE REVIEW

There is a vast empirical literature on the relationship between trade liberalization and economic growth. Most of these studies claim that outward-oriented economies consistently have higher growth rates than countries with restrictive trade regimes (Yanikkaya, 2003). Frankel and Romer (1999) estimated that increasing the ratio of trade to GDP by one percentage point raises per capita GDP by 0.5-2.0 per cent. Dollar and Kaaray (2001) identified that in a group of 18 developing countries that become much more open to trade after 1980, as measured by rising shares of exports and imports in GDP, the average growth rate accelerated. This group includes most of the world's poor people-among the 18 countries Bangladesh, China, India, Ghana, Nepal, Uganda and Vietnam- and since 1990, this group has been catching up with rich countries, whose growth has slowed. By contrast, other developing countries on average become only slightly more open to trade after 1980, and their growth dropped to near zero, so that they fell further behind the rich countries. Dollar (1992) examined the sources of growth in 95 developing economies over the period 1976-85 and the results strongly implied that trade liberalization can dramatically improve growth performance in these countries.

¹A set of time series variables is said to be cointegrated if they are integrated of the same order and a linear combination of them is stationary which points to the existence of a long term relationship among the variables. The advantage of cointegration analysis is that through building an error correction model (ECM), the dynamic co-movement among variables and the adjustment process toward long-term equilibrium can be examined (see Maysami and Koh, 2000).

Wacziarg (1998) investigated the links between trade policy and economic growth using data from a panel of 57 countries for the period of 1970 to 1989 and concluded that a policy of trade openness has a strong positive impact on economic growth. Ahmed (2001) evaluated a positive impact of trade liberalization on economic growth in Bangladesh. Santos-Paulino and Thirlwall (2004) examine the effect of trade liberalization on export growth using panel data for 22 countries over the period 1972-97. The results suggest that trade liberalization significantly affect the growth of exports. Compare to the pre-liberalization regime, the process of liberalization raises export growth by approximately 2 percent. Kavaoussi (1984), Balassa (1985), Syrquin and Chenery (1989), Esfahani (1991), Harrigan and Mosley (1991), and Salvatore and Hatcher (1991) also obtain the similar results.

Empirical evidence on the positive effects of trade liberalization has been challenged by many other researchers. Bolaky and Freund (2004) using cross-country regressions on data from more than 100 countries concluded that "trade does not stimulate growth in economies with excessive regulation". Harrison and Hanson (1999) showed that the measure of openness introduced by Sachs and Warner (1995) "fails to establish a robust link between more open trade polices and long run growth" (p. 1). Using two groups of trade openness for a cross section of countries over the last three decades Yanikkaya (2003) estimated the correlation between trade barriers and growth. The results contradicted the conventional view on the growth effects of trade restrictions and suggested that trade barriers are positively and significantly associated with growth. Meanwhile, Yanikkaya (2003) argued that restrictions on trade can promote growth of a country depending on whether it is a developed or developing country, whether it is a big country or small country, and whether the sectors which have comparative advantage are protected. Greenaway (1998) pointed out that

A highly distorted trade regime can be both necessary and sufficient for slow growth; a liberal trade regime may be necessary but is certainly not sufficient for rapid growth. Trade liberalization in itself will not take an economy to a new growth trajectory (p. 509).

In sum, empirical evidence of the impact of trade liberalization on economic growth remains controversial. According to Greenaway et al. (1998), four factors may be at work in explaining why the previous studies on the growth effects of liberalization is so inconsistent: first sample size and composition vary as do methodological approaches,

second different analysts have used different measures of openness, third many estimated are mis-specified, and fourth it is important to model the dynamic in order to differentiate between impact and medium run effects.

3. TRADE LIBERALIZATION IN BANGLADESH

After the independence in 1971, Bangladesh chose an import substitution industrialization strategy. All the major industries were nationalized and trade policies were characterized by high import tariffs, quantitative restrictions, foreign exchange rationing, and an overvalued exchange rate. The core objectives of this inward-looking development strategy were to improve the balance of payment position and create a protected domestic market for manufacturing industries (Raihan, 2007). However, Bangladesh initiated the process of trade liberalization in the early 1980s when the problem of high inflation, high fiscal and current account deficits, low level of growth in GDP and manufacturing output were prevailing in the economy. The country undertook the first phase of trade liberalization during 1982 – 86 under the policy based lending of the World Bank, while the second phase (1987 – 1991) started with the initiation of the three-year IMF structural adjustment facility (SAF) in 1986 and the third phase, initiated in 1992, was preceded by the IMF sponsored Enhanced Structural Adjustment Facility (ESAF) (Razzaque et al, 2003). Bangladesh has implemented various reform measures in these three phases to make its economy more out-ward oriented and to become more active in the globalized world. The liberalization programmes undertaken for this purpose have led to a remarkable simplification in import procedures, substantial decline in quantitative restrictions (QRs), notable opening up of trade in many restricted items, significant rationalisation and diminution of import tariffs, and a freely floating exchange rate system. For instance, with the process of trade liberalization the number of trade-related banned items came down from 275 to 5 between 1985-86 and 2003-06. Other restricted and mixed (a combination of ban and restriction) import categories also fell down quite rapidly (see Table A1 in appendix). In 1987-88 about 40 per cent of all import lines at the HS-4 digit level was subject to trade-related QRs, but these restrictions had drastically been reduced to some 1.9 per cent. Most of these remaining trade-related QRs are now limited to only three categories: agricultural product (chicks, eggs, salt), packaging materials and textile products. Similarly, the maximum customs duty rate was reduced from 350 per cent in 1991-92 to 25 per cent in 2004-05 and the number of tariff slabs came down from 17 to 4 during the same period (see Table A2 in appendix). Following these measures, unweighted average and weighted average rate of protection reduced to

13.54 per cent and 9.59 per cent from 57.23 per cent and 24.1 percent respectively over the same period.

A number of policy reforms were also carried out to provide adequate incentives to the export sector of the country as well as foreign investors. Important export incentive schemes that are now available in Bangladesh include, amongst others, subsidized rate on interest on bank loans, provision of import under back-to-back letter of credit, duty free import of machinery and intermediate inputs, credit at concessional rate, duty drawbacks, cash subsidy, and exemption from value-added and other taxes. These incentives ensure world priced inputs to exporters, enable the exporters to compete in the global market, encourage investment into export-oriented industries and promote foreign direct investment into export-oriented industries and promote foreign direct investment in export-oriented industries in the Export Processing Zones (Rahman and Bhattacharya, 2000).

4. ECONOMETRIC METHODOLOGY AND DATA

Model Specification and Estimation Methodology

In order to examine the relationship between trade liberalization and economic growth, the empirical model is derived from an aggregate production function framework. Following Lucas (1988) the aggregate production function for economic growth of Bangladesh is specified in the following way:

$$Y = f(K, L, H, TL) \quad (1)$$

Where Y is output, K is physical capital, L is labour force, H is human capital and TL is trade liberalization indicator. In this paper, trade liberalization indicator, TL, is measured by trade ratios, exports plus imports as percentage of real gross domestic product (GDP). Physical capital, K, is proxied by gross domestic fixed capital formation due to the lack of a reliable data series on capital stock for Bangladesh.² Human capital, H, is proxied by education expenditure as a ratio of gross national income (GNI). This proxy variable has been used in several empirical studies (e.g., Sylwester, 2000; Kohpaiboon, 2003). Since Bangladesh is a labour abundant country, labour does not act as a constraint to the output in the economy of Bangladesh as a whole (Ahmed, 2003). Thus following Salvatore and Hatcher (1992), labour

² This proxy has been used in many other studies, for example, Ahmed (2003), Barro (1999), Levine and Renelt (1996).

force, L, is dropped as a source of output growth. Furthermore, following Alkinlo (2004) government expenditure on consumption is included in the growth model. Output Y is defined by real GDP.

Therefore the estimating equation used in the empirical analysis, is

$$LGDP_t = \alpha_0 + \alpha_1 CAPITAL_t + \alpha_2 EDUEXP_t + \alpha_3 TR_t + \alpha_4 LGC_t + u_t \quad (2)$$

Where LGDP = real gross domestic product in log form
 CAPITAL = gross domestic fixed capital formation as percentage of GDP
 EDUEXP = education expenditure by government as percentage of GNI
 TR = trade ratios (exports plus imports as percentage of GDP)
 LGC = real government expenditure on consumption in log form
 t = time subscript
 u = stochastic error term

It is expected that $\alpha_1 > 0, \alpha_2 > 0, \alpha_3 > 0$ and $\alpha_4 > 0$

If the time series variables of LGDP, CAPITAL, EDUEXP, TR and LGC have unit roots, then in order to obtain a stationary series, one needs to take the first difference of the variables as follows:

$$\Delta LGDP_t = \alpha_0 + \alpha_1 \Delta CAPITAL_t + \alpha_2 \Delta EDUEXP_t + \alpha_3 \Delta TR_t + \alpha_4 \Delta LGC_t + u_t \quad (3)$$

Equation (3) ignores the long-run aspects of decision-making, that is, the above procedure of differencing results in a loss of valuable "long-run information" in the data. The cointegration theory addresses this issue by introducing an error correction term (EC) which lagged one period and integrates short-term dynamics in the long-run growth function. This leads to the specification of a general error correction model (ECM):

$$\Delta LGDP_t = \beta_0 + \sum_{i=1}^n \beta_{1i} \Delta LGDP_{t-i} + \sum_{i=0}^n \beta_{2i} \Delta CAPITAL_{t-i} + \sum_{i=0}^n \beta_{3i} \Delta EDUEXP_{t-i} + \sum_{i=0}^n \beta_{4i} \Delta TR_{t-i} + \sum_{i=0}^n \beta_{5i} \Delta LGC_{t-i} + \beta_6 EC_{t-1} + \varepsilon_t \quad (4)$$

Where EC_{t-1} = error-correction term lagged one period.

The modelling strategy adopted in this study follows a three-step procedure:

- (i) determining the order of integration of the variables by using Augmented Dickey-Fuller (ADF) unit-root test;
- (ii) if the variables are found to be integrated of same order, cointegration is tested by applying the Johansen-Juselius (1990) maximum likelihood method; and
- (iii) if the variables are found to be cointegrated, ECM is estimated using standard methods and diagnostic tests.

Throughout the whole estimation process a 5% level of significance is applied and the latest available computer software package (Microfit 4.0) is used for analysing the data.

Description of Data

The model is estimated using annual data for the period 1981-2005. Five variables are investigated in the model. The descriptions of the variables are given in Table 1.

Table 1 : Variable Description

Vari able	Description
GDP	GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
CAP ITAL	Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.
EDU EXP	Education expenditure is the central government's expenditure on education measured in current local currency.
TR	Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.

GC Government consumption expenditure includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditure on national defence and security, but excludes government military expenditures that are part of government capital formation.

Source: World Bank (2006).

Data on GDP, gross domestic fixed capital formation as percentage of GDP, government consumption expenditure, trade ratios are obtained from *World Development Indicators*, World Bank. The data on education expenditure of government comes from the Key Indicators of *Developing Asian and Pacific Countries*, Asian Development Bank and *Common Database of United Nations*. The GNI data is taken from *Common Database of United Nations*. All economic figures are measured in millions of local currency, Taka. The data involved in the regression process are listed in Table A3 in appendix.

5. EMPIRICAL ANALYSIS AND RESULTS

Summary Statistics and Trends of Variables

The summary statistics of LGDP, CAPITAL, EDUEXP, TR and LGC for the 1981-2005 are given in Table 2 as their mean, standard deviation, coefficient of variation, minimum and maximum values.

Table 2: Summary Statistics

Variable(s)	Mean	Standard Deviation	Coefficient of Variation	Minimum	Maximum
LGDP	14.0035	0.71848	0.051307	12.6827	15.1198
CAPITAL	19.3764	3.0137	0.15554	15.9200	24.4000
EDUEXP	1.6708	0.37836	0.22645	0.88981	2.1860
TR	25.5932	7.4327	0.29042	16.2362	38.6558
LGC	10.9230	0.77920	0.071336	9.5840	12.2283

Figures 1–5 show trends of the main variables over the period 1981–2005. A clear upward trend in GDP, gross fixed capital formation as share of GDP, education expenditure by government as share of GNI, trade ratios and government expenditure on consumption in Bangladesh in the post-liberalization period (1990s) is visible from these figures.

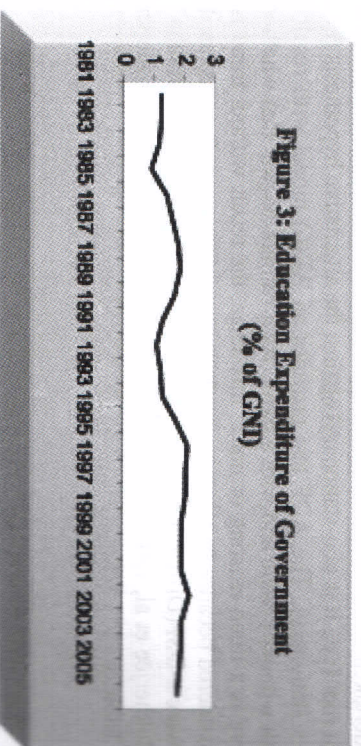
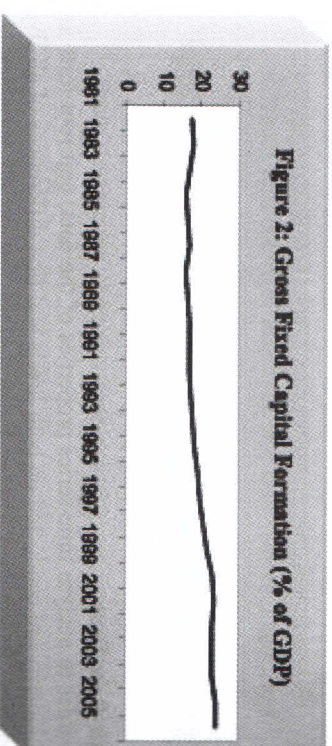
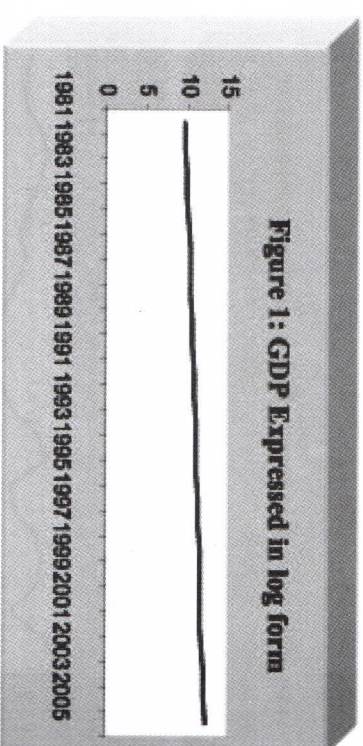


Figure 4: Trade-GDP Ratio

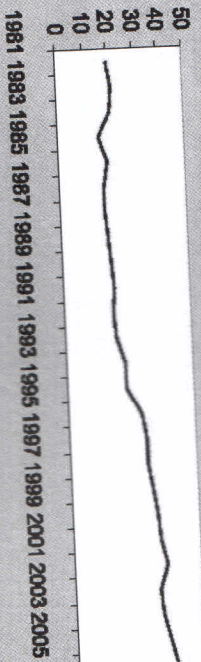
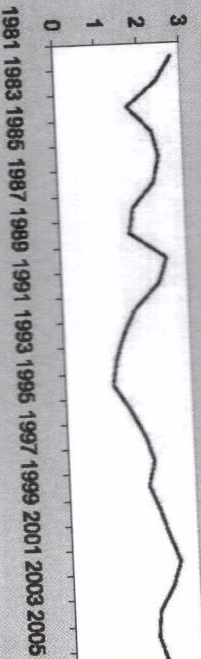


Figure 5: Government Consumption in log form



Unit-Root Tests

In order to analyse time-series properties of the data, unit root tests for stationarity are conducted on both levels and first differences of all five variables. Augmented Dicker Fuller (ADF) test on all variables are undertaken so as to test the null hypothesis which a series includes a unit root (i.e., it is non-stationary) against the alternative hypothesis (i.e., it is stationary). The ADF test provides an AR(6) model with results both without a trend and with a trend. As it can not be said that whether there is a trend existing or not at this stage, the result without trend is considered because “we can treat a TSP (Tend Stationary Process) as if it were a DSP(Difference Stationary Process) and achieve valid results” (Mukherjee et al, 1998, p. 350). The results of the ADF tests are shown in Table 3.

Table 3: ADF Unit Root Tests for Stationarity

Variables	Level/First Difference	Optimum Lag Length	ADF Test Statistic (Without Trend)	Conclusion
LGDP	Level	0	-	I(1)
	First Difference	0	-3.3606	
	First Difference	0	-3.1181	I(1)
CAPITAL	Level	1	-	I(1)
	First Difference	0	-3.1181	
	First Difference	0	-3.1181	I(1)
EDUEXP	Level	1	-2.2375	I(1)
	First Difference	3	-4.4723	I(1)
	First Difference	3	-4.4723	I(1)
TR	Level	0	-	I(1)
	First Difference	0	-5.0399	
	First Difference	0	-5.0399	I(1)
LGC	Level	0	0.54573	I(1)
	First Difference	0	-3.5054	
	First Difference	0	-3.5054	I(1)

Note:

- a. Optimum lag lengths have been determined using Akaike Information Criterion and Schwarz (AIC) and Bayesian Criterion (SBC).
 b. 95% critical value for ADF statistic = -3.0199

The results show the existence of unit roots in all variables and therefore these variables are non-stationary in the zero level, that is, the null hypothesis of a unit root present cannot be rejected. However, the first differences of all variables are stationary under the ADF test, that is, the order of integration of the variables is one, $I(1)$.

Cointegration Tests

Having found that all the five variables are integrated of order one, Johansen-Juselius Maximum Likelihood (JJML) procedure is applied to test whether any combination of the variables are cointegrated. This approach presents a unified framework for estimation and testing of cointegrating relations in the context of vector autoregressive (VAR) error correction models (Pesaran and Pesaran, 1997). Before undertaking the cointegration tests by using JJML approach, one needs to specify the order of the VAR model. Since the sample size is relatively small in this study, following Pesaran and Pesaran (1997) 2 is selected for the order of the VAR. The results obtained from the JJML approach are presented in Table 4.

Table 4: Johansen-Juselius Maximum Likelihood Cointegration Tests

Null	Alternative	Statistic	95% Critical Value	90% Critical Value
Maximal Eigenvalue Test				
$r = 0$	$r = 1$	39.8169	33.6400	21.0200
$r \leq 1$	$r = 2$	21.8617	27.4200	24.9900
$r \leq 2$	$r = 3$	18.1680	21.1200	19.0200
$r \leq 3$	$r = 4$	12.3013	14.8800	12.9800
$r \leq 4$	$r = 5$	0.51613	8.0700	6.5000
Trace Test				
$r = 0$	$r \geq 1$	92.6640	70.4900	66.2300
$r \leq 1$	$r \geq 2$	52.8472	48.8800	45.7000
$r \leq 2$	$r \geq 3$	30.9854	31.5400	28.7800
$r \leq 3$	$r \geq 4$	12.8174	17.8600	15.7500
$r \leq 4$	$r = 5$	0.51613	8.0700	6.5000

Note: r refers to the number of cointegrating vectors.

Two tests are used in the JJML approach to determine the number of cointegrating vectors (denoted by r): the maximum eigen value test and the trace test. It can be seen that the trace test indicates two cointegrating relationship while the maximum eigen value test indicates one cointegrating relationship among the five $I(1)$ variables at 5 percent significance level. This is also the case at 10% significance level. Since the maximum eigen value test is usually preferred for trying to pin down the number of cointegrating vectors (Enders, 2004) and it reveals overall the least size distortions over the trace test (Haug, 1996), it can be concluded that there exists only one cointegrating relationship among the five variables in the growth model. Therefore, the annual data from 1981 to 2005 seem to prove the proposition that in Bangladesh there exist a long-run relationship between GDP and its major determinants of gross fixed capital formation as percentage of GDP, education expenditure of government as percentage of GNI, trade-GDP ratio and government expenditure on consumption. The long-run equilibrium relationship can be obtained from single normalized cointegrating vector as follows:

$$\begin{aligned}
 \Delta LGDP = & -0.016897 \Delta CAPITAL - 0.10528 \Delta EDUEXP + 0.013832 \Delta TR - \\
 & 0.93143 \Delta LGC \quad (5) \\
 & (0.019477) \quad (0.037939) \quad (0.0079735) \\
 & (0.030358)^3
 \end{aligned}$$

Estimation of Error Correction Model

The ECM from the equilibrium model is estimated to determine the short-run dynamic behaviour of economic growth. The results of the ECM are presented in Table 5. The model shows that the coefficient of error correction term (-0.32522) is statistically significant at any level with appropriate sign. This suggests a moderate speed of convergence to equilibrium, with over 32% of the discrepancy corrected for each year.

Table 5 : Estimated Error-Correction Model

Dependent Variable: $\Delta LGDP$				
Regressors	Coefficient	Standard Error	T-Ratio	P-values
Intercept	1.2964	0.39889	3.2501	0.005
$\Delta LGDP(-1)$	0.39867	0.20770	1.9194	0.073
$\Delta CAPITAL(-1)$	-	0.10975	-	0.645
	0.0051456		0.46887	
$\Delta EDUEXP(-1)$	-0.011012	0.025777	-	0.675
			0.42719	
$\Delta TR(-1)$	-	0.0031240	-1.3158	0.207
	0.0041106			
$\Delta LGC(-1)$	-0.30001	0.13027	-2.3030	0.035
EC(-1)	-0.32522	0.10633	-3.0587	0.008
$R^2 = 0.58989$				
Adj $R^2 = 0.43609$				
DW-statistic = 2.35				
Diagnostic Tests:				
	<i>LM Statistics</i>	<i>F statistics</i>		
Serial Correlation	CHSQ(1)= 1.6604[.198]	F(1, 15)= 1.1671[.297]		
Functional Form	CHSQ(1)= 1.5639[.211]	F(1, 15)= 1.0943[.312]		
Normality	CHSQ(2)= 3.9859[.136]	Not applicable		
Heteroscedasticity	CHSQ(1)= 3.1017[.078]	F(1, 21)= 3.2735[.085]		

³ Figures in parentheses indicate standard errors.

The diagnostic test statistics indicates presence of no mis-specification, no serial correlation, nor any problem of heteroscedasticity and no problem of non-normality in the residuals. The diagnostic test also reflects that the correct forms of parameters are adopted in the model and thus the dependent variable is related to the independent variables and the error term as a linear function. However, none of the explanatory variables are found to be effective in the short-run.

6. CONCLUSION

In this chapter, the impact of trade liberalization on real GDP in Bangladesh over the period 1981–2005 has been examined. Empirical results reveal the presence of a long-run relationship among the real GDP and its major determinants of gross fixed capita formation as share of GDP, education expenditure of government as share of GNI, trade-GDP ratio and government consumption. The error correction coefficient indicates a moderate speed of adjustment to equilibrium and confirms the existence of a long-run equilibrium relationship among variables. The results also suggest that in the long-run trade liberalization has positive and significant impact on economic growth, while in the short-run it is negatively and insignificantly associated with economic growth. This implies that trade liberalization policies are mostly ineffective in the short-run in improving the country's economic growth. The reasons for such kind of surprising results can be attributed to the limitation of measures of trade liberalization. In this study, the proxy for trade liberalization is measured by the ratio of the trade volume (imports plus export) over GDP. But openness captures a number of different aspects other than trade volume which include not only actual trade policy variables, such as export incentives, tariffs and quantitative restrictions, but also variables such as size, geography, foreign demand conditions, transport costs and preference (Jonsson and Subramanian (2000). Secondly, the time period covered in this study is relatively very short. Since the success of trade liberalization process depends on the enhancement of resource allocation and utilization, adoption of advanced technology, improvement of good governance and business environment, so it requires a relatively long period in order to accelerate and sustain economic growth.

The coefficient of capital formation is found to be negative both in short-run and long-run; however, these findings are not statistically

significant. On the other hand, both education expenditure and government consumption have unexpected sign in the long-run as well as in the short-run, possibly because of the lack of appropriateness of proxy variable of human capital and high degree of corruption and misprocurement of government funds in consumption expenditure. The variable of human capital used in this study completely ignores education enrolment, input of teachers and educational institutions. So a better proxy of human capital may be used in future study. Different reform measures have been undertaken by the Government of Bangladesh to strengthen the Anti Corruption Commission and the Central Procurement Unit, so that misuses of government funds and corruption can be controlled. Hence, it can be assumed that the future research may be revealed an expected result for variable of government consumption. However, in order to make the trade liberalization policies more effective, Bangladesh should try to improve its investment climate and eliminate its traditional structural constraints which include inadequate physical and financial infrastructure, lack of skilled labour force, inadequate political and institutional setting and lack of good governance.

REFERENCES

- Ahmed, N. (2003), "Trade liberalization and endogenous growth of manufacturing industries in Bangladesh: an empirical investigation", *Applied Economics*, 35: 305-314
- Alkinlo, A. E. (2004), "Foreign direct investment and growth in Nigeria: An empirical investigation", *Journal of Policy Modeling*, 26: 627-639.
- Balassa, B. (1971), *The Structure of Protection in Developing Countries*. Baltimore, MD: Johns Hopkins University Press.
- Barro, R. J. (1999), *Determinants of Economic Growth: A Cross-Country Empirical Study*, Cambridge, MA: MIT Press.
- Bolaky, B. and C. Freund (2004), "Trade, Regulations, and Growth", *World Bank Policy Research Working Paper No. 3255*, the World Bank, Washington, DC.
- Dollar, D. (1992), "Outward-oriented Developing Countries Really Do Grow Rapidly: Evidence from 95 LDCs 1976-85", *Economic Development and Cultural Change*, 40 (April): 523-544.
- Dollar, D. and A. Kraay (2004), "Trade, Growth, and Poverty." *The Economic Journal* 114: 22-49.

- Edwards, S. (1998), "Openness, Productivity and Growth: What Do We Really Know?" *The Economic Journal*, 108 (447): 383-398.
- Esfahani, H. S. (1991), "Exports, Imports, and economic growth in semi-industrialized countries", *Journal of Development Economics*, 35: 93-116.
- Enders, W. (2004), *Applied Econometric Time Series*, USA: John Wiley & Sons, Inc.
- Frankel, J. A. and D. Romer (1999), "Does Trade Cause Growth?" *American Economic Review*, 89 (3): 379-399.
- Greenaway, D. (1998), "Does Trade Liberalization Promote Economic Development?" *Scottish Journal of Political Economy*, 45 (5): 491-511.
- Greenway, D., W. Morgan and P. Wright (1998), "Trade Reform, Adjustment and Growth: What does the Evidence Tell Us?", *The Economic Journal*, 108 (450): 1547-16561
- Government of Bangladesh (2006), *Bangladesh Economic Review 2006*, Ministry of Finance, Dhaka.
- Hall, R. and C. Jones (1999) "Why do some countries produce so much more output per worker than others?" *Quarterly Journal of Economics* 114: 83-116.
- Harrigan, J. P. Mosley (1991), "Evaluating the Impact of World Bank Structural Adjustment Lending: 1980-87", *Journal of Development Studies*, 27: 63-94.
- Harrison, A. and G. Hanson (1999), "Who gains from trade reform? Some remaining puzzles", *Journal of Development Economics*, 59: 125-154.
- Haug, A. A. (1996), "Tests for cointegration: A Monte Carlo comparison", *Journal of Econometrics*, 71: 89-115.
- Johansen, S. and K. Juselius (1990), "Maximum likelihood estimation and inference on cointegration with applications to the demand for money", *Oxford Bulletin of Economics and Statistics*, XIV: 115-27.
- Jonsson, G. and A. Subramanian (2000), "Dynamic Gains from Trade: Evidence from South Africa", IMF Working Paper No. WP/00/45, IMF, Washington, D.C.
- Kavoussi, R.M. (1984), "Export expansion and economic growth: further empirical evidence", *Journal of Development Economics*, 14: 241-50.
- Kohpaiboon, A. (2003), "Foreign Trade Regimes and the FDI – Growth Nexus: A Case Study of Thailand", *The Journal of Development Studies*, 40(2): 55-69

- Lucas, R.E., (1988). "On the mechanics of economic development", *Journal of Monetary Economics*, 22: 3-42.
- Levine, R. and Renelt, D. (1992), "A sensitivity analysis of cross-country growth regressions", *American Economic Review*, 82: 942-63.
- Maysami, R. C. and T. S. Koh (2000), "A vector error correction model of the Singapore stock market", *International Review of Economics and Finance*, 9: 79-96.
- Mukherjee, C., H. While, and M. Wuyts (1998), *Econometrics and Data Analysis for Developing Countries*, London: Routledge.
- Pesaran, M. H. and Pesaran, B. (1997), *Working with Microfit 4.0: Interactive Econometric Analysis*, Oxford: Oxford University Press.
- Rahman, M. and D. Bhattacharya (2000), "Bangladesh Experience with Trade and Investment Liberalisation: A Perspective on Poverty Alleviating Implications", in *Liberalisation and Poverty: Is There a Virtuous Circle*. India: Consumer Unity and Trust Society (CUTS).
- Raihan, S (2007), *Dynamics of Trade Liberalization in Bangladesh: Analysis of Policies and Practices*, Pathak Shamabesh, Dhaka.
- Razzaque, A., B.H. Khondker, N. Ahmed and M.K. Mujeri (2003), "Trade Liberalisation and Economic Growth: Empirical Evidence on Bangladesh", *MIMAP-Bangladesh Focus Study No. 03*, Bangladesh Institute of Development Studies, Dhaka.
- Rodriguez, F. and D. Rodrik (1999), "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-national Evidence", Centre for Economic Discussion Policy Paper No. 2143, London.
- Rodrik D., A. Subramanian and F. Trebbi (2002) "Institutions rule: the primacy of institutions over geography and integration in economic development." *NBER Working Paper* 9305.
- Sachs, J. D. and A. Warner (1995), "Economic Reform and the Process of Global Integration", *Brookings Papers on Economic Activity*, 1: 1-118.
- Salvatore, D. and T. Hatcher (1991), "Inward oriented and outward oriented trade strategies", *Journal of Developing Studies*, 27(3): 7-25.
- Santos-Paulino, A. and A. P. Thirlwall (2004), "The Impact of Trade Liberalisation on Exports, Imports and the Balance of

- Payments of Developing Countries”, *The Economic Journal*, 114 (February): F50-F72.
- Sylwester, K., (2000), “Income Inequality, Education Expenditures, and Growth”, *Journal of Development Economics*, 63(2): 379-98
- Syrquin, M. and H. Chenery (1989), “Three Decades of Industrialization”, *The World Bank Economic Review*, 3(2): 145-181.
- Uddin, M.S. (2007). *The Impact of Trade Liberalization on Economic Performance: A Case Study of Bangladesh*, Unpublished Masters Dissertation, The University of Manchester.
- Wacziarg, R. (1998), “Measuring the Dynamic Gains from Trade”, *Policy Working Paper No. 2001*, the World Bank, Washington D.C.
- World Bank (1987), *World Development Report 1987*. Washington, DC: Oxford University Press
- World Bank (2006), *World Development Indicators 2006*. Washington, D.C.
- WTO (2000), *Trade Policy Review-Bangladesh 2000*, World Trade Organization: Geneva.
- Yanikkaya, H. (2003), “Trade openness and economic growth: a cross-country empirical investigation”, *Journal of Development Economics*, 72:57-89

APPENDIX

Table A1: Phased Removal of QRs at 4-Digit HS Code-Level

Year	Total	Restricted for trade reasons			Restricted for non-trade reasons
		Banned	Restricted	Mixed	
1985-86	478	275	138	16	49
1986-87	550	252	151	86	61
1987-88	529	257	133	79	60
1988-89	433	165	89	101	78
1989-90	315	135	66	52	62
1990-91	239	93	47	39	60
1991-92	193	78	34	25	56
1992-93	93	13	12	14	54
1993-94	109	7	19	14	69
1994-95	114	5	6	12	92
1995-97	120	5	6	16	93
1997-2002	122	5	6	16	95
2003-2006	63	5	8	10	40

Source: Government of Bangladesh (2006)

Table A2: Progress in Tariff Rationalization

Financial Year	Tariffs			Slab/Number of tariff rates
	Average CD (unweighted)	Average CD (import weighted)	Top CD rate	
1991-92	57.23	24.1	350	17
1992-93	47.4	23.6	300	15
1993-94	36.0	24.1	300	12
1994-95	25.9	20.8	60	7
1995-96	22.3	17.0	50	8
1996-97	21.5	18.0	45	7
1997-98	20.7	16.0	42.5	8
1998-99	20.3	14.1	40	7
1999-2000	19.5	13.8	37.5	5
2000-01	18.6	15.1	37.5	5
2001-02	17.13	9.73	37.5	5
2002-03	16.51	12.45	32.5	5
2003-04	15.62	11.48	30	5
2004-05	13.54	9.59	25	4

Source: Government of Bangladesh (2006), WTO (2000)

Appendix, continued

Table A3: Data Set Used in the Regression Process

Year	LGDP		CAPITAL		EDUEXP		TR		LGC		DLGDP		DCAPITAL		DEDUEXP		DTR		DLGC		CONS	
	Real GDP in log form	GDP in log form	Gross fixed capital formation as share of GDP	Education expenditure of government as share of GNI	TR-GDP ratio	Government expenditure on consumption in log form	First difference of LGDP	First difference of CAPITAL	First difference of EDUEXP	First difference of LGC	First difference of DLGDP	First difference of DCAPITAL	First difference of DEDUEXP	First difference of DTR	First difference of DLGC	Intercept term						
1981	12.68273	17.621439	17.621439	1.210442337	19.7696	9.583971	*NONE*	*NONE*	*NONE*	*NONE*	*NONE*	*NONE*	*NONE*	*NONE*	1							
1982	12.79868	17.8197041	17.8197041	1.235705951	21.14861	9.708385	0.115952	0.198265	0.0252636	0.115952	0.198265	0.0252636	1.37901497	0.124414	1							
1983	12.91978	16.9717464	16.9717464	1.175726484	20.8186	9.799737	0.121096	-0.84796	-0.0599795	0.121096	-0.84796	-0.0599795	-0.3300171	0.091352	1							
1984	13.10173	15.919982	15.919982	0.889808286	16.23624	9.930665	0.181949	-1.05176	-0.2859182	0.181949	-1.05176	-0.2859182	4.5823555	0.130928	1							
1985	13.23916	16.3181744	16.3181744	1.443249031	18.78301	10.05822	0.137432	0.398192	0.5534407	0.137432	0.398192	0.5534407	2.54676819	0.127559	1							
1986	13.35774	16.7013588	16.7013588	1.612981726	17.57098	10.21987	0.11858	0.383184	0.1697327	0.11858	0.383184	0.1697327	-1.2120323	0.161643	1							
1987	13.49766	16.0162487	16.0162487	1.808575725	17.2732	10.34843	0.139922	-0.68511	0.195594	0.139922	-0.68511	0.195594	-0.2977753	0.128563	1							
1988	13.59228	16.3130722	16.3130722	1.914008938	18.32638	10.44993	0.094619	0.296824	0.1054332	0.094619	0.296824	0.1054332	1.05317306	0.101502	1							
1989	13.69965	16.7235947	16.7235947	1.677107049	19.01026	10.55524	0.10737	0.410522	-0.2369019	0.10737	0.410522	-0.2369019	0.68388367	0.105308	1							
1990	13.81879	17.0541229	17.0541229	1.332942785	19.65268	10.64868	0.119145	0.330528	-0.3441643	0.119145	0.330528	-0.3441643	0.64241791	0.093442	1							
1991	13.91552	16.8959694	16.8959694	1.127234714	18.88985	10.73016	0.096726	-0.15815	-0.2057081	0.096726	-0.15815	-0.2057081	-0.7628269	0.081478	1							
1992	13.99401	17.3050346	17.3050346	1.253307635	19.93401	10.88202	0.078492	0.409065	0.1260729	0.078492	0.409065	0.1260729	1.04416084	0.151861	1							
1993	14.04161	17.9468269	17.9468269	1.323476883	23.12158	11.0366	0.047594	0.641792	0.0701692	0.047594	0.641792	0.0701692	3.18756485	0.154577	1							
1994	14.11866	18.4025574	18.4025574	1.762886155	22.86587	11.09929	0.077059	0.45573	0.4394093	0.077059	0.45573	0.4394093	-0.2557106	0.062689	1							
1995	14.23762	19.1197929	19.1197929	2.167157646	28.20949	11.16498	0.118957	0.717236	0.4042715	0.118957	0.717236	0.4042715	5.34362602	0.065697	1							
1996	14.32428	19.9932213	19.9932213	2.109494506	29.77754	11.20157	0.086656	0.873428	-0.0576631	0.086656	0.873428	-0.0576631	1.56804848	0.036582	1							
1997	14.40719	20.7228661	20.7228661	2.061732432	30.01163	11.27548	0.082907	0.729645	-0.0477621	0.082907	0.729645	-0.0477621	0.2340908	0.073915	1							
1998	14.50954	21.6324177	21.6324177	1.930431501	31.6062	11.45816	0.102355	0.909552	-0.11313009	0.102355	0.909552	-0.11313009	1.59456635	0.182683	1							
1999	14.56655	23.0073948	23.0073948	1.968448845	33.02117	11.52114	0.057014	1.374977	0.0380173	0.057014	1.374977	0.0380173	1.41497421	0.062979	1							
2000	14.64302	23.8618755	23.8618755	1.970829943	34.41585	11.59345	0.076461	0.854481	0.0023811	0.076461	0.854481	0.0023811	1.39467621	0.072313	1							
2001	14.74589	23.0870171	23.0870171	2.18596479	36.88216	11.64615	0.102872	-0.77486	0.2151348	0.102872	-0.77486	0.2151348	2.46631622	0.052699	1							
2002	14.82055	23.1474915	23.1474915	1.97487226	33.323	11.82511	0.074661	0.060474	-0.2110925	0.074661	0.060474	-0.2110925	3.559166	0.178959	1							
2003	14.91605	23.4053078	23.4053078	1.94797579	34.24911	11.98735	0.095506	0.257816	-0.0268965	0.095506	0.257816	-0.0268965	0.92610931	0.162238	1							
2004	15.0184	24.0231037	24.0231037	1.86845792	36.27827	12.12306	0.102348	0.617796	-0.0795179	0.102348	0.617796	-0.0795179	2.02915955	0.135705	1							
2005	15.11978	24.3999996	24.3999996	1.8179345	38.65583	12.2826	0.101383	0.376896	-0.0505234	0.101383	0.376896	-0.0505234	2.37755966	0.105209	1							

AEO programme for Trade Facilitation: Bangladesh Customs has set its mind.

Mohammad Abu Yusuf, PhD

An Authorized Economic Operator (AEO), also known as 'Authorized Operator¹/trader/trusted shipper' is defined as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration in compliance with WCO or equivalent supply chain security standards. AEO certifications are awarded to manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, warehouses, and distributors" (The SAFE Framework of WCO). For instance, British American Tobacco (BAT) Korea was recognized as an AEO certified by the Korea Custom Services (Taegy, 2011). In order to be recognized as an AEO, the operator has to mitigate risks and vulnerabilities of his operations (i.e. supply chain security) along the supply chain. It is to be noted that total supply chain security can only be achieved if every player along the entire supply chain, right from the point of origin to the point of final destination, takes responsibility in securing his/her part of the supply chain. Supply chain security is needed to have an uninterrupted global supply chain (i.e. not disrupted by a single act of theft, pilferages or terrorist attack anywhere along the supply chain). AEO is a concept under the World Customs Organization's (WCO) SAFE Framework of Standards to secure and Facilitate Global Trade. These standards² are designed to improve customs operations through enhanced risk management. The SAFE Framework is based on the two pillars of Customs-to-Customs cooperation and Customs-to-Business partnerships.

SAFE Framework, includes four key elements: 1. the harmonization of advance electronic cargo information; 2. the application of a consistent risk management approach for screening containerized cargo

¹In the recently concluded Agreement on Trade Facilitation (by WTO Membership), AEOs are called Authorized Operators.

²These standards are basically measures (developed by WCO/International customs community and transformed into international standards for global implementation) to secure and facilitate global trade)

to identify potential security threats; 3. the requirement that on request of the customs administration in the receiving nation, the customs administration of the sending nation performs an outbound inspection of high-risk containers and cargo; and 4. The trade facilitation benefits that Customs authorities will provide to businesses that meet stipulated supply chain security standards and best practices.

AEO or similar programmes have been introduced under various names in different countries. For example, the AEO (EU countries), the US has "C-TPAT" (Customs-Trade Partnership against Terrorism) in the USA, Partners in Protection (PIP) in Canada, Secure Trade Partnership Programme (STP) in Singapore, Classified Management of Enterprises (CME) in China, AEO in Japan, Malaysia and Switzerland.

AEO programme is an important component of trade facilitation measures in that they facilitate legitimate cross-border trade for importers, exporters, manufacturers, transportation firms and others who have met specified criteria³ through quick customs clearance. In other words, companies certified as an AEO can enjoy a number of benefits such as green channel facility, minimum and more convenient customs inspection and allowing a single Goods declaration for all imports or exports in a given period where goods are imported or exported frequently by the same person thus saving time and costs. The concept of granting rapid release to AEOs is

Based on '*special procedures for Authorized persons*', as defined in the Revised Kyoto Convention (Chapter 3 Paragraph 3.32).

The WTO Agreement on Trade Facilitation specifies that Each Member shall provide additional trade facilitation measures⁴ related to import,

³ The specified criteria shall be related to compliance, or the risk of non-compliance, with requirements specified in a Member's laws, regulations or procedures.

⁴ The trade facilitation measures provided pursuant to paragraph 7.1 shall include at least 3 of the following measures:

- a. low documentary and data requirements as appropriate;
- b. low rate of physical inspections and examinations as appropriate;
- c. rapid release time as appropriate;
- d. deferred payment of duties, taxes, fees and charges;
- e. use of comprehensive guarantees or reduced guarantees;
- f. a single customs declaration for all imports or exports in a given period; and g. clearance of goods at the premises of the authorized operator or another

export or transit formalities and procedures to authorized operators (Sec 7.1, Agreement on Trade Facilitation, WTO). Necessitating common AEO requirements by Customs prevents conflicting requirements and inefficiencies in a global supply chain (Fletcher, 2007). AEO is a type of Customs-to-Business partnership (CBP) to enhance international supply chain security and facilitate the movement of legitimate goods. Participation of the private sector in the AEO programs is generally voluntary and based on an understanding that businesses would ensure compliance with the agreed standards for fast clearance. Literature review on AEO suggests that it be in the form of 'certification' rather than contractual commitment. 'Certification' may suggest that there is a lack of a binding contractual arrangement; a failure to adhere to the aspects of the AEO program would mean removal of a business 'certification' as a consequence. It is still unclear what consequences would be placed upon a customs agency if, for example, it failed to release low-risk cargo of a certified business in a timely manner (Zhang and Preece, 2011)

Detailing the importance of CBP, Dr Kunio Mikuriya, Secretary General of the WCO, stated:

Customs cannot act alone without taking into account the interests of its partners. It must further develop consultation, promote information exchange and cooperation, and reduce the barriers to the smooth flow of trade by jointly identifying bottlenecks and offering solutions (Mikuriya 2010 in Zhang and Preece, 2011).

Who can apply for AEO status?

Anyone involved in the international supply chain and are subject to customs related activities can apply for AEO status irrespective of the size of the business. According to EU Regulations, (Article 1 of Regulation 1875/2006 & Article 4 of the Customs Code) whoever carries out customs related activities in EU can apply for AEO status irrespective of the nature of their business. These include among others manufacturers, importers, exporters, brokers, carriers, customs agents,

place authorized by customs (WTO Agreement on Trade Facilitation, Article 7.3)

consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouse keepers and distributors. It is to be noted that traders or businesses that are only involved in internal trade within the EC will not be entitled to apply for AEO status.

Conditions to meet to get AEO status: The criteria for granting a certificate include a proven record of customs compliance, satisfactory management systems that allow appropriate customs controls and proven solvency. Furthermore, for security and safety, it includes details of the security and safety standards to be met. The Customs Authorities, through an audit will check whether all criteria are met prior to grant the AEO status (<http://www.deloitte.com>). AEO system has to be introduced under the terms and conditions of the WCO SAFE Framework (Shah, 2013).

Differing requirements to get AEO status: Some WCO member administrations require an AEO to demonstrate a high level supply chain security (as is the case with Singapore); others adopt a far broader view that includes customs compliance generally. The EU for example, European Union, for example, requires an authorized economic operator to demonstrate (European Commission 2007):

- An appropriate record of compliance with customs requirements.
- A satisfactory system of managing commercial and, where appropriate, transport records, which allows appropriate customs controls.
- Where appropriate, proven financial solvency.
- Where applicable, appropriate security and safety standards (McLinden, Fanta, Widdowson and Doyle, 2011).

The AEO regulation and status encourages firms to increase compliance and security, in exchange for incentives which will improve the efficiency of the supply chain. AEO programs typically require provision of *advance cargo information* and the use of risk management mechanisms (ESCAP, 2013). The *WCO Customs Data Model* (originally initiated by the G7 in 1996) provides a common platform for Customs-to-Customs and Customs-to-Business data exchange, enabling Customs to obtain advance cargo information. The WCO Customs Data

Model defines common datasets (standardized and reduced data requirements by Customs) and uniform electronic messages for the accomplishment of export and import formalities (Mikuriya, 2007).

AEO reduces government intervention resulting in speedy delivery and reliability at border. Such status gives quicker access to certain simplified customs procedures and in some cases the right to 'fast-track' one's shipments through certain Customs safety and security procedures.

Although AEO programme require initial investment by both customs administrations and businesses to succeed, they are "win-win" solutions. Compliant businesses benefit from faster processing of goods by customs, translating into time and cost savings, while customs will benefit from greater compliance and a secure flow of legitimate cargo.

Benefits of AEO for business: Economic operators having AEO status benefit from facilitations with regard to customs controls such as simplified customs procedures, reduced customs interventions, expedited clearance without any compromise with supply chain security, priority in physical and documentary examinations, duty deferral benefits, reduced processing fees and choice of location of control such as on place of unloading. AEO allows businesses to rely on self-policing rather than on customs verification. AEO's enjoy a lower risk score in risk analysis systems. Furthermore, nowadays companies also consider AEO status as an important factor when selecting suppliers, partners and service providers. Consequently, accredited companies will be preferred over non-accredited companies in the future (Asia News Monitor, 2013). Mutual Recognition Agreements of AEO programmes result in faster movement of their goods through certain third country borders; For Warehouse Owners/operators, the benefits of AEO include establishment of a new Customs warehouse only by notification to Customs/faster approvals for a new warehouse, no monthly fee for customs warehouses, and reduced audit. Logistics providers' (Carriers'/forwarders') AEO benefits are: Transit of goods without case by case permissions and Transit of goods without Customs escort. In sum, AEO system will save time and costs of businesses to make them more competitive.

1. It assists in identifying low risk traders that may not require intensive intervention.

2. The Customs administration derive benefits through the enhanced security of goods in the international supply chain, As compliant traders/operators are subject to less physical and documentary controls, customs can target and deploy resources on high risk consignments/risky operators (through improved intelligence processes, risk- assessments). Such targeting on high risk consignments lead to optimized use of company resources.

The AEO concept is based on *risk- management* principles to be able to give more focus on risky operators. For example, the principal aim of C-TPAT, the European Union authorized economic operator program, and the *Known Shipper program*, is to provide border agencies with a method of identifying secure elements of the international supply chain and so allow them to focus their resources on potentially high risk operators.

The following chart shows different categories of WCO AEO benefits:

Benefits	China	Japan	EU	USA	Korea
1 Reduced examination for importers/exporters	✓	✓	✓	✓	✓
2. Duty deferral	✓	✓	x	x	✓
3. Given priority in clearance queues	✓	x	✓	✓	x
4 Self assessments with less audits by Customs ⁵	x	✓	✓	✓	✓

⁵AEOs that have adequate systems in place are able to conduct their own audits and security assessments without regular audits from customs administrations. Customs conducts a validation every two years in most cases.

5.Provision of a SCS specialist ⁶ as well as training	✓	x	x	✓	x
6. Increased marketability/reputation (branding)	x	✓	✓	✓	x
7.Declaration and inspection outside Customs area	✓	✓	✓	x	✓
8. Less fees and penalties	x	✓	x	x	✓

Source:
<http://www.customs.gov.au/webdata/resources/files/AuthorisedEconomicOperator.pdf>

AEOs, as trusted operators, typically benefit from faster customs clearance (“green lane”).In South Korea, AEO operators can clear consignments only in 6 hours.

As a trade facilitating tool, AEO is gaining acceptance and popularity. Currently, AEO is in operation in 31 WCO members.India has introduced AEO a year ago. After thorough verification, India has awarded the AEO certificates to three entities (which have been found compliant for grant of AEO Certification) such as *M/S IBM, M/S LG Electronics and M/S Ennore Container Terminal*. C-TPAT members in the US are “authorized economic operators” in programs in other countries. Under US Customs-Trade Partnership Against Terrorism (C-TPAT)⁷ there may be no scanning of cargo in the destination port if the same is scanned in the source country provided there is mutual

⁶Customs assigns a ‘case worker’ to individually develop a relationship with an operator and provide free advice on maintaining good practices. Customs also educate potential AEOs on how to better develop recommended practices and maintain their accreditation.

⁷ The intention of C-TPAT (launched in 2002) is that businesses participating in the programme, in exchange for meeting CBP-designed security standards and becoming C-TPAT certified, should receive certain benefits such as reduced inspections and priority processing.

Benefits of AEO for Government/Customs department

recognition arrangement between the two customs administrations.Mutual recognition means a trading partner's security program is compatible with another country requirement. It means cargo may only have to be security-screened once to meet both countries' requirements (Edmonson, 2011).Not being an international convention, SAFE is a non-binding framework (McLinden, Fanta, Widdowson and Doyle, 2011). Yet most WCO members have signed a pledge that they will work to implement SAFE subject to the receipt of capacity building assistance to build capacity to implement SAFE.

Need for MRAs in the case of AEO:AEO programs are enacted by the development of Mutual Recognition Agreements (MRA) between national governments that have AEO programs in practice in their jurisdictions.Mutual recognition of AEO is perceived as an arrangement or agreement between two or more customs administrations (or governments) that recognise each other’s audits, controls and authorizations as equivalent and therefore provide reciprocal benefits to AEOs (Aigner,2010).After mutual recognition of control and control results, export declarations may serve as import declarations, and that the control at export to normally be accepted as sufficient by the importing customs administration (unless there is an indication that controls are needed on imports (for example, due to intelligence information) (Aigner, 2010). Mutual recognition is an important concept for a global economy as the same drive supply chain efficiencies and reduces administrative burdens for global firms. U.S. Customs and Border Protection (CBP) and the European Union (EU) signed a Mutual Recognition Decision on May 4th, 2012 between CBP’s Customs-Trade Partnership Against Terrorism (C-TPAT) programme and the EU’s AEO programme.Taiwan and the United States recently (2013) signed an AEO and C-TPAT mutual recognition agreement (MRA). Under the MRA, Customs of each country will recognize Global Security Verification (GSV) granted by the other country (CEPD, 2013). Once the MRA takes effect, the Customs authorities on each side will recognize the results of AEO verification granted by the other side and provide participating businesses with preferential customs clearance procedures (minimum inspection ratio and quickest customs clearance). It will also strengthen supply-chain security and efficiency as well as for the further development of bilateral trade.In this context, it is to be noted

that business partners/supply chain partners of US importers need to comply with C-TPAT security criteria to enjoy AEO benefits/mutual recognition of security measures⁸. Maintaining container integrity is such a C-TPAT⁹ criterion. Container integrity is necessary to protect against the introduction of unauthorized material and/or persons. At point of stuffing, procedures must be followed to properly seal and maintain the integrity of the containers to be shipped. When transporting a container or trailer for a C-TPAT importer, a high security seal that meets or exceeds the current PAS ISO 17712 standards for high security seals must be utilized (Hinkelman, 2004).

Similarly, Hong Kong and India Customs have signed Arrangement to mutually recognize respective Authorized Economic Operator Programmes in Nov 2013 (MENA Report, 2013). Signing of MRAs provide AEOs of one economy to enjoy enhanced customs facilitation (e.g. reduced examination or prioritized clearance for imported/exported goods) provided by others.

Mutual recognition necessitates that all parties have the same level of trust in each other's programs, controls, audits and authorization procedure. For instance, negotiations on mutual recognition between the EU (and its 27 Member States) and a third country often focus on the necessity for the EU to prove that all EU Member States have AEO in practice and their relevant risk management and controls are uniform manner. Relevant monitoring carried out in all 27 Member States from

⁸On 4 May 2012, the European Union (EU) and the United States (U.S.), through a decision of the EU-U.S. Joint Customs Cooperation Committee (JCCC), agreed on mutual recognition of the C-TPAT programme in the U.S. and the Authorized Economic Operator (AEO) programme of the European Union (EU). According to this decision, the EU and the U.S. will give *compliant C-TPAT importers* favourable treatment (i.e. simplified Customs procedures and reduced Customs intervention) in their risk assessment (http://ec.europa.eu/taxation_customs/resources/documents/customs/policy_issues/customs_security/infonote_aeo-ctpat.pdf)

⁹The main difference between the US's C-TPAT program and the AEO framework developed by the WCO is that C-TPAT is an import only safety program, while AEO covers both imports and exports. C-TPAT Program is lauded as the most successful public and private partnership ever created (Laden, 2007).

May 2008 to February 2009, confirmed the uniform implementation of the AEO in all the EU Member States (Aigner, 2010).

Figure 1: AEO schemes supported by MRAs between nations

Country (n=number of arrangements)	Canada	EU	Japan	Jordan	New Zealand	Norway	USA	Switzerland
Canada=1							■	
EU=3						■	■	■
Japan=2					■		■	
Jordan=1							■	
New Zealand=2			■				■	
Norway=1		■						
USA=5	■	■	■	■	■			
Switzerland=1		■						

(Source: Australian Government, nd.)

Challenges of mutual recognition

Equivalence

One of the main challenges of mutual recognition is the need for interested countries to develop equivalent measures. Equivalent measures do not mean that the legislation/rules have to be identical; it rather means that they must lead to equivalent control and security levels. When deciding whether or not measures are considered equivalent, administrations/governments will have to consider/take into account specific risks, specific threats, geographical and geopolitical

aspects as well as specific interests. In this regard, it is necessary to ensure that SAFE is regularly kept up-to-date in order to incorporate recent developments (for example, new standards, new technology). The challenges of implementing technology like eSeals or of using Uniform Crime Reporting [UCR]) should be harnessed to keep the SAFE relevant as a model (Aigner, 2010).

Exchange of relevant AEO data

An important challenge is the need to ensure the timely exchange of relevant AEO data between administrations that have agreed the mutual recognition of AEO. There is no standard format to guide as to which data to exchange. To a minimum, the name of the AEO, the trader identification (in the EU, the so-called 'EORI' number under which any economic operator exporting from or importing to the EU is registered), the AEO certificate number and its validity will have to be exchanged regularly to ensure that authorised AEOs benefit from mutual recognition and that a company that loses AEO status (as not any longer complying with AEO criteria) cannot benefit from mutual recognition.

AEO Programmes in different countries- A summary

Country	Year /date launched	Descriptions
Malaysia	01. 01.2010	<ul style="list-style-type: none"> ✓ Accreditation requirements (few only): <ul style="list-style-type: none"> • A record of 3 years operations in the country; • A history of compliance with legal and regulatory requirements of Customs; • Absence of tax arrears with Customs • Internal security compliance programme based on SAFE Framework of Standards

		<ul style="list-style-type: none"> ✓ Programme Title: AEO ✓ Scope: Import/Export ✓ AEO is given to persons who is involved in activities covered by customs legislation ✓ Companies dealing with categories of goods such as motor vehicles, alcoholic beverages, cigarettes, petroleum products, mobile phones , and materials for weapons of mass destruction (WMD) are not eligible under AEO programme. ✓ The authorized economic trader is allowed deferred duty payments via EFT done periodically with the Consolidated Statement (CS) ✓ Licensed Manufacturer Warehouses certified as AEOs are not required to submit the monthly statement on Movement of Raw Materials (M1) and Statement of Finished Product (M2). ✓ Type of Operator: Importers, exporters ✓ Number of operators: 32 companies (04.2012) ✓ Legislation: Administration instructions and guidelines
Australia	Australian Customs has established an Authorised	<ul style="list-style-type: none"> ✓ Australia has implemented three of the four core elements of the SAFE Framework¹⁰ through: <ul style="list-style-type: none"> • the development of advanced electronic cargo

¹⁰ Australia has not implemented the fourth key element of the Framework

	Economic Operator (AEO) pilot program in 2006	<p>reporting</p> <ul style="list-style-type: none"> • Application of consistent risk management approach to address security threats (through an intelligence-led risk based approach to cargo intervention); and • <i>Non-intrusive examination</i> of cargo using non-intrusive detection equipment (e..g. X-ray machines and radiation detectors) <p>✓ A 2011 survey concluded there was minimal industry interest in an Australian AEO scheme. Study on the same in 2008 found the same view. It may be due to fast clearance (efficiency) by customs (i.e. simplified and quick/efficient customs procedures)</p>
New Zealand	2004	<p>✓ Based on SAFE</p> <p>✓ Programme title: Secure Exports Scheme (SES)</p> <p>✓ Scope: Export</p> <p>✓ Number of operators: 117 members (04.2012)</p>
China	1.04.2008	<p>✓ Accreditation requirements (Few only):</p> <ul style="list-style-type: none"> • Being a class A operator for more than one year; • To have a lower than 3% error rate of import and export declarations in the previous year;

		<ul style="list-style-type: none"> • The requirements in terms of customs management, the enterprise's operations and management and trade security have been met; • Submit the business form of import and export/business form of agent declaration every six months. • For Customs brokers only: to lodge more than 20,000 (5,000 for central and western areas of China) import and export declaration forms or entry and exit records as an agent in the previous year]. <p>✓ Programme Title: Classified Management of Enterprises</p> <p>✓ Scope: Import/Export</p> <p>✓ Type of operator: Importers, exporters, customs brokers</p> <p>✓ Number of operators: AA: (AEO) 2174, A: 25582, B: 483944, C : 930, D: 210 (04.2012)</p> <p>✓ China grants ratings to operators based on their size and level of customs and tax compliance</p> <p>✓ AEO scheme is aimed at larger businesses that traded a total import and export value of US\$30m in the previous year</p>
Canada	1995,	<p>✓ Programme title: Partners in</p>

	revision in 2002 and 2008	<p>Protection (PIP)</p> <ul style="list-style-type: none"> ✓ Scope: Import/Export ✓ Type of operator: Importers, exporters, carriers (rail, sea, air, highway), customs brokers, couriers, warehouse operators, freight forwarders, shipping agents ✓ Number of operators: 1480 approved members (04. 2012) ✓ Legislation: No specific AEO legislation
Japan	03.2001 - Authorised Importers Programme, no security component; 2006 – AEO programme for exporters (including security) and added the security component to the authorized importers programme; 04.2007- subsequently expanded the scope of	<ul style="list-style-type: none"> ✓ Accreditation requirements: <ul style="list-style-type: none"> • Compliance record • Proper ability to conduct operations • Compliance programme. ✓ Scope: Import, Export ✓ Type of operator: Importers, exporters, warehouse operators, customs brokers, logistic operators (carriers, forwarders, shipping companies, airlines), manufacturers ✓ Number of operators: Importers: 83, Exporters: 244 Customs brokers: 52 Warehouse operators: 99 Logistic operators: 4 Total number: 482 operators (20.06.2012) ✓ Based on WCO's SAFE Framework as well as the EU model, indicating a focus on facilitation and initiating MRAs ✓ Proven compliance record of three

	the AEO programme	<p>years and an internal compliance program</p> <ul style="list-style-type: none"> ✓ Require a range of physical security measures.
Korea	15.04.2009	<ul style="list-style-type: none"> ✓ Scope: Import/Export ✓ Type of operator: 9 stakeholders: Exporters, importers, customs brokers, freight forwarders, transporters (bonded transporters), sea/air carriers, ground handlers, warehouse operators (bonded area operators, port terminals) ✓ Strongly based on WCO's SAFE Framework as well as the EU model, indicating a focus on facilitation and initiating MRAs ✓ Proven compliance record of three years and an internal compliance program ✓ Require a range of physical security measures.
India	2012/13	<ul style="list-style-type: none"> ✓ India grants AEO status to firms irrespective of their size of the business (i.e. there is also no threshold limit prescribed for eligibility under AEO Programme) ✓ Businesses that are not involved in Customs related work / activities will not be entitled to apply. This means that banks, insurance companies, consultants and the like will not be eligible for AEO status. ✓ Three companies including LG got AEO certification in India

	revision in 2002 and 2008	<p>Protection (PIP)</p> <ul style="list-style-type: none"> ✓ Scope: Import/Export ✓ Type of operator: Importers, exporters, carriers (rail, sea, air, highway), customs brokers, couriers, warehouse operators, freight forwarders, shipping agents ✓ Number of operators: 1480 approved members (04. 2012) ✓ Legislation: No specific AEO legislation
Japan	03.2001 - Authorised Importers Programme, no security component; 2006 – AEO programme for exporters (including security) and added the security component to the authorized importers programme; 04.2007- subsequently expanded the scope of	<ul style="list-style-type: none"> ✓ Accreditation requirements: <ul style="list-style-type: none"> • Compliance record • Proper ability to conduct operations • Compliance programme. ✓ Scope: Import, Export ✓ Type of operator: Importers, exporters, warehouse operators, customs brokers, logistic operators (carriers, forwarders, shipping companies, airlines), manufacturers ✓ Number of operators: Importers: 83, Exporters: 244 Customs brokers: 52 Warehouse operators: 99 Logistic operators: 4 Total number: 482 operators (20.06.2012) ✓ Based on WCO's SAFE Framework as well as the EU model, indicating a focus on facilitation and initiating MRAs ✓ Proven compliance record of three

	the AEO programme	<p>years and an internal compliance program</p> <ul style="list-style-type: none"> ✓ Require a range of physical security measures.
Korea	15.04.2009	<ul style="list-style-type: none"> ✓ Scope: Import/Export ✓ Type of operator: 9 stakeholders: Exporters, importers, customs brokers, freight forwarders, transporters (bonded transporters), sea/air carriers, ground handlers, warehouse operators (bonded area operators, port terminals) ✓ Strongly based on WCO's SAFE Framework as well as the EU model, indicating a focus on facilitation and initiating MRAs ✓ Proven compliance record of three years and an internal compliance program ✓ Require a range of physical security measures.
India	2012/13	<ul style="list-style-type: none"> ✓ India grants AEO status to firms irrespective of their size of the business (i.e. there is also no threshold limit prescribed for eligibility under AEO Programme) ✓ Businesses that are not involved in Customs related work / activities will not be entitled to apply. This means that banks, insurance companies, consultants and the like will not be eligible for AEO status. ✓ Three companies including LG got AEO certification in India

		(Shah, Prothom Alo, 2013).
Singapore	25.05.2007 (STP); 1.10.2008 (STP-Plus)	<ul style="list-style-type: none"> ✓ Scope: Import/Export ✓ Type of operator: all supply chain operator based in Singapore ✓ No of operators: 86 members 34 STP companies 52 STP-Plus companies Comprising about 18,31% of export value(04.2012) ✓ Accreditation Requirements: ✓ A security management system; ✓ Conduct risk assessment of their business operations; ✓ Implement the security measures that address the 8 elements under the STP programme (8 elements are consistent with the WCO SAFE Framework of Standards). ✓ Compliance record of traders.
EU	1.01.2008	<ul style="list-style-type: none"> ✓ Member States can grant AEO status to any economic operator meeting common criteria. ✓ Scope: Import/export ✓ Type of operator: whole supply chain ✓ Number operators: 13,412 applications, 10,649 certificates ✓ (23.04.2012)

(Source: WCO, 2012)

Other operational challenges/issues in making AEO successful: In implementing AEO initiative through CBP, role of prior relationships or existing networks is important. This is because, in awarding AEO status, past compliance, reputation and adequacy of a trader's internal business systems are important. The AEO programme poses new risks in that there will be minimum intervention by Customs in the transactions of a

certified trader. This is a risk that needs to be identified and captured in any formal partnering agreement. If, for example, Customs wanted to retain the right to intercept and subject a certified trader's transaction to physical verification, the business may consider that it is no longer an equal partner and loses benefits such as absolute certainty and timing of delivery.

Bangladesh and AEO: Bangladesh Customs is committed to putting in place 'Authorized Economic Operator' programme to facilitate legitimate trade. Preparatory work has already been started. IFC and ADB is assisting the NBR to introduce such concept. A team has been formed at NBR to implement AEO. NBR, in support of the IFC, has been working to align Customs Act/Rules. with Trade Facilitation Agreement and/or to give legal base for AEO introduction. ADB will train officials to know best practices of AEO. The NBR, in cooperation with relevant stakeholders will make stakeholders aware of the concept, criteria to be met to get AEO status, the possible benefits of AEO and the challenges related to implementation of AEO programme. Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) has organized a seminar on AEO in Nov.2013 where a paper was presented from NBR highlighting the AEO concept, its benefits and actions needed to implement it. Work is underway at NBR to frame AEO Rules /standards to be met (based on WCO standards but with necessary contextualisation/adaptation) with a view to awarding AEO status to willing businesses/operators.

The implementation of AEO programme in Bangladesh is subject to a few challenges. These include: integrity problems (both inside and outside), ignorance /lack of awareness about AEO among all concerned and legal issues. Customs Act has to be aligned with the TF Agreement. In an interview, one government high official said, "There is a serious lacking of awareness about AEO. In fact, nobody is adequately aware of AEO programme" (Interview with Ms WRC, on 24 Dec, 2013). Furthermore, sincere/right attitude is lacking among some of the stakeholders to adopt AEO. Political influence may emerge as a great challenge. Due to political connection, an operator/business may be selected to be awarded AEO status even without complying with full requirements. Most firms/operators are not fully automated and lack

security systems to get AEO status. They will have problems in meeting international standards as well (Interview with KMAH, on 30 Dec, 2013). The Customs is not fully automated to implement AEO programme. Necessary technology has to be adopted to get AEO status. For instance, if a port wants to get AEO status, it will have to adopt right technology (Radio Frequency Identification or RFID could be one such technology), procure necessary handling equipment, ensure safety of consignments, improve management and HRM. Building Customs capabilities in implementing AEO, coordination with other border agencies to achieve supply chain security and getting mutual recognition on AEO status and customs control results are other future challenges.

Despite lack of awareness and significant impediments in the adoption of AEO scheme, some corporate houses are interested in to get AEO status and enjoy attached benefits. For instance, BATB has been found willing to get AEO status. To include, the sooner Customs Department can launch AEO, the better it is for better economic efficiency. However, it needs concerted and sincere efforts by all stakeholders including the NBR, individual economic operators, business houses and business bodies/chambers and associations.

References

1. Aigner, S. (2010). Mutual recognition of Authorized Economic Operators and security measures, *World Customs Journal*, 4(1),
2. Asia News Monitor (2013). Thailand: Trade facilitation takes another step forward in Thailand, 19 June.
3. CEPD (2013.) CEPD-Taiwan, U.S. sign AEO and C-TPAT MRA, accessed via www.cepd.gov.tw on 30 Dec, 2013
4. Gerard McLinden, G., Fanta, E., Widdowson, D. and Doyle, T. (2011). *Border Management Modernization*, the World Bank,
5. Deloitte, (n.d.). Authorized Economic Operator-Deloitte, www.deloitte.com accessed on 25 Nov. 2013.
6. Edmonson, R. G. (2011). C-TPAT Eyes Exports, *Journal of Commerce*, 23 December

7. ESCAP (2013). Designing and Implementing Trade Facilitation in Asia and the Pacific 2013 update, ADB and ESCAP
8. Australian Government (2012) Authorized Economic Operator- Australian Position, May
<http://www.customs.gov.au/webdata/resources/files/AuthorisedEconomicOperator.pdf>
9. Fletcher, T. (2007). Authorized Economic Operator(AEO) programs: IBM'S Perspective, *World Customs Journal*, 1 (2), pp.61-66.
10. Hinkelman, E.G. (2004). The World Trade Press Guide to Global Supply Chain Security, World Trade Press
11. MENA Report (2013). Hong Kong: Hong Kong and India Customs Sign Arrangement to mutually recognize respective Authorized Economic Operator Programme, Nov. 29
12. Mikuriya, K. (2007). Supply Chain Security: The Customs Community's response, *World Customs Journal*, 1(2), 51-60
13. Interview (2013) with Ms Waheeda Rahman Chowdhury on 24 Dec, 2013, 1st Secretary (Customs), NBR
14. Interview (2013) with Khaled Mohammad Abu Hossain on 30 Dec, Joint Commissioner, ICD Customs House, Kamalapur, Dhaka
15. Laden, M.D. (2007). The Genesis of the US C-TPAT Program: Lessons learned and earned by the Government and Trade, *World Customs Journal*, 1(2), 75-80
16. Shah, J. (2013). Products would be cleared through green channel, Prothom Alo, 25 November, p. 13.
17. Tae-gyu, K. (2011). BAT Wins AEO Certification, *The Korea Times*, 02 December
18. WCO (2012). Compendium of Authorized Economic Operator Programmes,
19. Zhang, S. and Preece, R. (2011). Designing and implementing Customs-Business partnerships: a possible framework for collaborative governance, *World Customs Journal*, 5(1), 43-62

Pros and Cons of Minimum Wage in RMG

Zaidi Sattar

Let us now recognize that, for all its shortcomings, the RMG industry of Bangladesh has come of age. After China, it is the largest single country exporter of readymade garments in the world. Bangladesh is a known name in garments in retail stores around the world. And all this happened in the span of just three decades. If we can take care of politics, the outlook for the industry could not be brighter. Millions of jobs have been created in this and inter-linked sectors, and many more millions are waiting to be created.

Yet, it is paradoxical that many social thinkers in the country accuse our readymade garment (RMG) industry to have attained stupendous success on the back of what has been described as “ruthless exploitation” of workers. The truth might be a bit more sobering than that because of the complex phenomena created by a vast army of surplus labor in the country desperately seeking work in a tight jobs market. The Rana Plaza episode has brought the issue of labor standards, worker rights, and workplace environment in the forefront of the discourse. The industry can ignore it only at its own peril. Singular attention has recently been focused not just on a living wage of workers in what appears to be a highly profitable industry, but on what the minimum wage should be in the \$20+ billion garment industry. After much turmoil mainly centered on workers’ demand for a hike in wages, the country’s minimum wage board recently set Tk 5,300/- as the minimum wage for entry-level workers, a 76.6% hike over the existing consolidated wage of Tk 3000. Raising the minimum wage has affected wage setting across the board in the RMG sector. It was as much a human and social challenge as it was an economic one and was decided through voting after both the owners and labour leaders had failed to reach a consensus.

Thus the minimum wage issue has been set to rest – but only for the time being. It is bound to reappear in the future, as neither side seemed

too happy at the new minimum wage. The issues are a bit more complex than what has been made to appear in the local press.

The debate on the subject of raising the minimum wage in the RMG sector was undoubtedly a heated one. Not surprisingly, there were as many shades of opinion as there were speakers on the subject. In my view, two aspects of the debate needed careful examination: the part that deals with providing a minimum living wage to the garment worker, and the part that affects the long-term sustainability of the RMG industry that will continue to be the biggest source of formal sector job creation in the country for some time to come. One cannot be resolved without taking the other into account. Though the first aspect has wider social implications, we need to also examine the underlying economic rationale behind setting a minimum wage and the income and employment implications of such a measure. Then there are the business implications related to cost escalation and maintaining of competitiveness in global markets which ought to be kept in focus.

Employment in the RMG sector must first be looked at in the overall context of Bangladesh’s employment challenge. According to the Labor Force Survey of 2010, about 88% of our labor force of 55 million are employed in informal low-productivity jobs of which agriculture makes up for the lion’s share. The employment challenge is to move the workforce from informal, low-productivity jobs to formal sector jobs in manufacturing or services. The rapid expansion of the RMG sector provided the scope for directly absorbing some 4 million workers - mostly women. In addition, significant numbers are also employed in RMG linkage industries such as fabrics, accessories, packaging and courier services. This transformation process needs to be sustained. That means the rights of workers and the incentives of entrepreneurs to manage and expand the business must both be nurtured. Otherwise, we will be killing the goose that lays the golden eggs.

A minimum wage in the garment industry is seen as a tool to provide a way for workers in low-earning (entry level) jobs to have a self-sustainable standard of living. What is that in the Bangladesh and RMG context? It is difficult to put a Taka figure on this wage and perhaps a range would have been best suited in this regard. However, economic theory does provide some rationale for minimum wage setting, while

empirical research throws some light on the employment and income effects of this measure. Typically, a minimum wage (which is a wage floor) is set at a level that is higher than the market clearing wage -- a wage that would have prevailed in response to the uninhibited demand and supply of labor. The proximate result of setting a minimum wage in the textbook sense is to create unemployment as employers will be led to hire fewer workers at the higher than market clearing wage. Some workers eagerly looking for a job will not be hired. Empirical evidence from other developing countries is mixed. Some research suggest that an increase in minimum wage is likely to have a positive wage effect for workers in the industry covered (RMG) by the minimum wage and a small negative employment effect which is stronger among low-wage workers. Overall, the evidence is rather inconclusive on whether minimum wages leave low-paid workers better off.

Nevertheless, one can derive some clear indications from economic theory. If the labor market were perfectly competitive, the prediction is clear that an increase in the minimum wage would result in a reduction of employment. But the overall effect of the RMG minimum wage on the economy depends on multiple factors, including the degree of competition in the labor market, relative level of the minimum wage to the market clearing wage, structure of minimum wages, share of workforce covered by minimum wage, elasticities of demand in the RMG and non-RMG sectors.

However, theory and evidence reveal that departures from the perfectly competitive model can lead to dramatic changes in the predicted effect of the minimum wage. And labor markets in the real world are seldom perfectly competitive. In a monopsonistic labor market (which is the case in Bangladesh with RMG producers wielding asymmetric market power in hiring decisions), an increase in the minimum wage that is greater than the market clearing wage but less than the marginal revenue product of labor (MRP), results in an increase in employment and wages. That is, if RMG producers were to increase minimum wage which is still lower than the incremental sales revenue from an extra low-wage worker (which is what MRP is), then the effects are positive. But if minimum wage exceeds MRP, then employment and income effects are negative. So the quest has been on for finding the marginal

revenue productivity of low-wage workers in RMG. While it has been possible to raise the minimum wage, it is critical to ensure that minimum wage set is not above the marginal revenue product of labor of low-wage workers. That is the clear economic policy message. So the research and policy question before us is to ascertain whether the new minimum wage of Tk.5,300/- exceeds or falls short of the marginal revenue product of the average RMG firm. Furthermore, note that this marginal revenue product is not set in stone. It is a function of the price that exporters can fetch in the world market. There lies the catch.

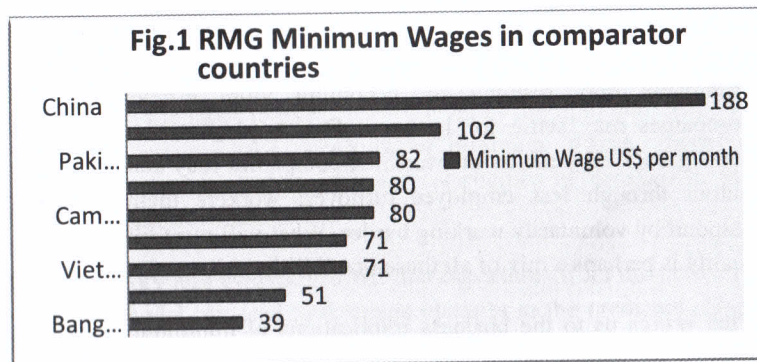
The other logical outcome of raising the minimum wage is that it could lead to the upward revision of all categories of RMG wages thus resulting in substantial one-time cost escalation. The cost escalation would be greater depending on the rise in the minimum wage. So greater resistance from employers to higher fixation of minimum wage was quite expected.

Now that the minimum wage is raised, doing nothing will simply raise production cost per unit in RMG. What can producers do to stay competitive? A number of options are available to companies; employers may respond by becoming more efficient/productive; companies may settle for lower profits; employers may respond by cutting back on benefits or overtime; companies may actually improve output through less employee turnover; workers themselves might respond by voluntarily working harder. What will most likely happen in reality is perhaps a mix of all these possibilities.

That brings us to the business implications of minimum wage. In the context of Bangladesh RMG, what might be most difficult to realize would be to raise output prices in response to higher cost escalation. Unlike sales in the domestic market where prices can be jacked up in response to cost escalation, RMG exporters have very little say on price determination in the international market. They are basically price takers. This needs a bit of explaining from an economist's point of view. International prices are determined by global demand and supply conditions on which our RMG exporters have little control since they are not owners of brand name clothing. They can export increasing volumes only at the prevailing prices. If they raise prices unilaterally, they will lose markets. Because cut throat competition in the world

market prevents them from asking and getting a higher price just because domestic costs went up. Consequently, their margins are going to be squeezed when costs escalate. The question is how much room do they have? This is a grey area on which there is minimal information; and it would be in the interest of the RMG producers to share data on revenue and profits. It is not difficult to hypothesize that the more nimble and dynamic RMG enterprises will have a better chance of beating the odds after the minimum wage hike than the below average producers.

A look at relative minimum wages across competing countries (Fig.1) might give some but not complete idea of margins in Bangladesh prior to the adjustment of the minimum wage. To give one example, if both Bangladesh and Vietnam supply Calvin Klein trousers of the same design which is sold at the same price in Macy's, it is likely that either (a) margins are higher in Bangladesh, or (b) prices offered to buyers (e.g. GAP) are lower, or both.



Source: Compiled from various national and international sources by PRI staff

It is generally argued that our RMG entrepreneurs are a rich class making huge profits. That may be true but they have no Bangladesh brand to command market power. The market power to determine prices is described by economists as “monopoly power”. You need not be a sole producer to exercise market power. Brand name clothing chains – e.g. Tommy Hilfiger, Levis, Calvin Klein, Van Heusen – who source their product from Bangladesh are the ones exercising monopoly power

in a market that may be loosely described as monopolistic competition. Each product is differentiated from the other – a differentiation that attracts loyal customers. This product differentiation commands extra price in the global marketplace, often loosely related to cost of production. This is why retail and distribution margins can be huge and a function of product differentiation, while cutting and making margins (received by most RMG producers in Bangladesh) are relatively small. Until such time that we have a Bangladesh brand that sells in Walmart or Target, or Macy's, we can only be at the receiving end of price making.

That is not to say that our producers cannot sit down with buyers and negotiate prices. International pressure that has been mounted is not all about raising wages and labor standards in Bangladesh RMG factories, it is also about global brand name buyers paying a decent price for products they buy from Bangladesh so that Bangladeshi producers in turn can pay higher wages and improve compliance. It is not unknown that in the product value chain, retail and distribution margins are large and leaves room for absorbing some of the cost escalation in Bangladesh industry. But let us not forget that in negotiating higher prices, global buyers have the upper hand (asymmetric information) in comparing prices across competing RMG producers around the globe and often within the country.

Nevertheless, at the end of the day, it is the asymmetrical market power in the global clothing market that determines who is a price maker and who a price taker. Even as our entrepreneurs face cost escalation at home (due to wage hikes and political turmoil), there is no guarantee that they can negotiate higher prices. Profit margins could be squeezed further in this iniquitous environment. The more certain strategy for augmenting profits on a sustainable basis is to refocus energy at raising productivity through technological up gradation, improved management practices, moving up the value chain, and becoming innovative in the industry, business, and marketing of readymade garments. Are RMG entrepreneurs ready to face the challenge? Going by past performance, analysts would bet that they are.

Dr.Sattar is Chairman, Policy Research Institute of Bangladesh.

Terrorism and Cross-Border Crimes: The nexus and its security implication

Moinul Khan

Over the last few decades, the world has seen major changes and shifts in the landscape of international security. With the collapse of the Soviet Union, the cold war disappeared ending the traditional bipolar form of security and rivalry between the two ideologically conflicting powers, USA and Soviet Union. In a famous book *The End of History and the Last Man* Francis Fukuyama (1993) talks about this scenario and asserts that the end of ideological conflicts results in “the universalization of Western liberal democracy as the final form of human government”. (Fukuyama, 1993, 93). However, his thesis faces a contest when new forms of challenges have surfaced in the international security arenas. One of them is the “Clash of Civilization” thesis where Samuel Huntington (1997) argues that the security threat is not over and the future conflicts will occur between major civilizations. He points out that due to the increased economic and military power of non Western civilizations conflicts will ensue along cultural fault lines.¹ Although this has met criticism from many scholars particularly the school of post-colonial studies, the clash of civilization thesis has relevance in explaining some of the security issues like terrorism and transnational crimes. In that connection, the 9/11 incident has dealt a jolt to the philosophical constructs of post-cold war international security paradigm. In the new landscape, the non-state actors, namely terror and criminal groups, have come into play and dominated the present-day security environment. These actors have not only demonstrated their strength but contained the potentials to pose a serious challenge to the stability and peace for both intra and inter-state relations. This suggests a change is required in the traditional methods of the law-enforcement agencies to deal with this new challenge. This article will highlight the

¹ The world, according to Huntington, is divided between major civilizations i.e. the West, Confucian, Islam, Hindu, Japan etc.

conceptual issues of these non-state actors and more specifically their implications of a nexus between terrorism and crimes for customs.

Conceptual issues

There is hardly any universal consensus² on the definition of terrorism mainly because it assumes international political character. This implies a divergence of opinions in defining the term. Brian Michael Jenkins in an article entitled “Terrorism in the 1980s” points out that “One man’s terrorist is another man’s freedom fighter”. However, for the purpose of this article, this article would focus on the aspect of the state’s security perceptions. Crenshaw (2000) indicates a variety of meanings that terrorism can capture and gives a brief overview of the ways in which the term has changed over time. He sums up the meanings as “terrorism is deliberate and systematic violence performed by small numbers of people.” (Greensha, 2000, pp. 406-407). On the other hand, the term crime also denotes to the use of violence and illicit activities contravening the domestic and international laws. (Shelly, 2006, p. 1). This brings to highlight the difference between the two since both of them resort to violence or criminal activities in violation of laws. Brown & Wilson (2007, p. 166-167) make this distinction in their research article entitled “Putting the Crime Back into Terrorism: The Philippines Perspective”. They argue terrorists are politically motivated while the criminal motive determines a crime. They assert that “personal gain, revenge or even profit [s]” are excluded from the concept of terrorism while they are essential components of a crime. The simplest form of distinction between the two is thus terrorism is primarily motivated by

² There has been an attempt to define the term, terrorism, to give its universal character. The US Security Council in its 5053dr meeting on 8 October 2004 adopted a resolution (No. 1566/2004) defining terrorism as “criminal acts, including against civilians, committed with the intent to cause death or serious bodily injury, or taking of hostages, with the purpose to provoke a state of terror in the general public or in a group of persons or particular persons, intimidate a population or compel a government or an international organization to do or to abstain from doing any act, which constitute offences within the scope of and as defined in the international conventions and protocols relating to terrorism, are under no circumstances justifiable by considerations of a political, philosophical, ideological, racial, ethnic, religious or other similar nature, and calls upon all States to prevent such acts and, if not prevented, to ensure that such acts are punished by penalties consistent with their grave nature”.

group or ideological cause while crime aims at maximizing personal profits. As Shelley (2004) argues that terrorists solely engage in their activities based on political and ideological aims while criminals only work to gain material profit. According to Palermo Convention adopted in 2000, a crime is considered international if: it is committed in more than one State; it is committed in one State but has a substantial part of its preparation, planning, direction or control takes place in another State; it is committed in one State but involved an organized group that engages in activities in more than one State; or it is committed in one State but has substantial effects in another State. (UNODC, 2004, p. 17). However, the definition of international crime cannot apply to terrorism, because crime lacks socio-ideological paradigm that fuel terrorism. (O'Connor, 2010, p. 118).

In this context, it is worthwhile to delineate the term, corruption, which also comes in the nexus between terror and crime. The Transparency International (1996) points out "corruption involves behavior on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them." However, the Asian Development Bank (ADB) comes up with a broad based definition involving both public and private sectors. According to the ADB, "corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed."³ Eminent researcher

³ The ADB gives an illustrative list of corrupt behaviors such as the design or selection of uneconomical projects because of opportunities for financial kickbacks and political patronage, procurement fraud, including collusion, overcharging, or the selection of contractors, suppliers, and consultants on criteria other than the lowest evaluated substantially responsive bidder, Illicit payments of "speed money" to government officials to facilitate the timely delivery of goods and services to which the public is rightfully entitled, such as permits and licenses, illicit payments to government officials to facilitate access to goods, services, and/or information to which the public is not entitled, or to deny the public access to goods and services to which it is legally entitled and illicit payments to prevent the application of rules and regulations in a fair and consistent manner, particularly in areas concerning public safety, law

in the study of governance Klitgaard (1991) identifies monopoly control of public officials wielding discretionary powers in the absence of accountability systems as the main causes of corruption. His equation on the issue is: C (Corruption) = M (Monopoly) + D (Discretion) – A (Accountability). The UNDP Practice Note (2004) documents also takes into account other dimensions (Integrity and Transparency), which are also important to balance Monopoly and Discretion. The UNDP note proposes the following formula: $Corruption = (Monopoly + Discretion) - Accountability + Integrity + Transparency$. This suggests that the absence of accountability, transparency and integrity, which are primary as a consequence of weak governance in addition to monopoly and discretion, results in lack of enforcement and non-compliance leading to corruption. Siddiqui (2001) views that corruption and governance problem are inextricably linked and mutually reinforcing and co-existing in environments that lack accountability, transparency and rule of law. In a study, Ades & Tella (2001) says that inefficient legal frameworks and judicial institutions, dominated by political control and interests encourage corruption. Mills (2001) shows that weak governance and corruption feeds off one another.

The nexus between terror, crime and corruption

As Makarenko (2005, p. 169) argues that the greatest threats in the post cold war period emanates from the rapidly evolving phenomenon of non-state actors more specifically from terrorism and transnational crime and their growing mutual relationship because they not only have cross-border implications but also pose a severe threat to the sovereignty of the states targeting the economic, political and social systems. Such terrorism and crime are not new phenomenon. The transnational organized crime remained a major problem for many countries including Italy, USA, China and Japan for much of the 20th century. On the other hand, terrorism existed as "a weapon of the weak against the strong" and has been used by the anarchists, nationalists, liberators, anti-colonial movements and political and religious extremists. (Williams,

enforcement, or revenue collection. Accessed 10 January 2012 at <http://www.adb.org/documents/policies/anticorruption/anticorrupt300.asp>

2007, p. 194). But what is new is the formation of nexus between terrorism and crime and their formidable potential of threatening security with greater speed and mobilization.

Both terrorism and crime are not 'senseless acts' and are considered as rational actors. They are both guided by their own cost-benefit analysis. Williams (2007, p. 195) describes their activities in famous Clausewitzian terms as "Organized crime is, in essence, a continuation of business by criminal means, while terrorism is the continuation of politics through the use of indiscriminate violence by non-state actors". Terrorists are members of certain organized political individuals, groups or movements and terror tactic is used as an instrumental activity to bring about change in the political order. Thus political objective ranges from liberating one's own country from an occupying power to an ambitious goal of establishing Osama Bin Laden's Islamic world. In this objective, terrorism involves a host of activities including fund-raising, recruitment, training, the development of special skills, and attack preparations. On the other hand, the operations of criminal groups centre on profits similar to a multinational organization like the Coca-Cola, Pepsi or McDonalds. However, since they develop illicit businesses the normal business strategies do not apply to them. But they carefully adopt strategies suitable for maximizing interests including risk management, risk prevention and risk avoidance. In that process, they sometimes choose to operate in weak states or weak institutions which are unable to confront them and target risk factors by resorting to violence. Thus in the early 1990s in Italy, and in Colombia in the late 1980s, criminal organizations embarked on terror acts against the state and citizenry in order to counter the frontal assault by the states on them. They also embark on violence when they feel that the state fail to give protection as a result of symbiotic relationship developed over the years. This is what happened in the violence by Mafia in the early 1990s when they felt that the ruling Christian Democratic Party betrayed the mutually beneficial relationship. Actually they choose to use violence or contract killings⁴ as part of their efforts to protect themselves and to

⁴ Contract killing is a form of murder, in which one party hires another party to kill a target individual or group of people. It involves an illegal agreement between two parties in which one party agrees to kill the target in exchange for consideration, monetary, or otherwise. The hiring party may be a single person,

remove obstacles for their illegitimate enterprise or profit making activities.

What is important from studying these non-state actors is the development of mutual relationship between the two. They both engage in partnerships through strategic alliance formations in order to provide goods and services. For example, Pakistani based Indian organized criminal Dawood Ibrahim cooperated with terrorist groups in the Lashkar-e-Tayyiba (LeT), the Liberation Tamil Eelam (LTTE) and allegedly with Al-Qaeda. They both operate in a state or places as safe-havens where state mechanism has no control or is weak. Afghanistan and its bordering areas with Pakistan offer such mutual interests and areas of potential cooperation among the groups in terrorism and crime. Makarenko (2006, p. 193) points out that such partnership develops between them for short or long term basis or one term or for just seeking expert knowledge on various issues such as bomb making, money laundering or may be access to smuggling routes. Shanty (2007) claims that a Hezbollah cell in North Carolina was sued for trafficking in cigarettes; the Revolutionary Armed Forces of Colombia (FARC) have been known to tax and protect the cocaine trade in Colombia and in Angola and Sierra Leone terrorist pay for the cost of insurgency, mining and exporting illegal diamonds.

Terrorism and crime often feed off each other. Terrorism time and again resorts to crime and moves between identities as criminals and terrorists. Because of clandestine nature, the network structures of both allow them to hook up, conscious or unconscious of each other's identities. The two groups may work directly together, or they may connect through their facilitators. For example, Los Angeles, the same language school that provided some of the 9/11 hijackers their visa documents also provided them for the prostitutes of a major trafficking-in-persons ring. In turn, the trafficking ring engaged in stolen identities that could facilitate terrorist activities. Both criminals and terrorists develop transnational networks, dispersing their activities, their planning, and

a group of people, a company, or any other kind of organization. The hired party may also be one person, such as a hitman, or a group of people, or an organization. (Morton, 2005, pp. 1-18)

their logistics across several continents, and thereby confounding the state-based legal systems that are used to combat transnational crime in all its permutations. They both engage in moving people, money and commodities through a world where the increasing flows of people, money and commodities provide excellent cover for their activities. Both groups have established networks to reach their markets, to perpetuate their acts, and to evade detection. (Shelly, 2006, p. 1).

One potential area of cooperation between the two is the arms trafficking or smuggling of materials for weapons of mass destruction (WMD). The terrorist groups are in desperate need of arms and ammunition for their violent acts. Sometimes they may seek materials to make WMDs such as dirty bomb, which conveys a deep concern for many strategists and policy planners. This fear is amplified with the collapse of the Soviet Union and its inadequate control over its weapons structure. The failed states⁵ are also vulnerable to the smuggling activities of organized criminals since they also lack appropriate command and control structure in their state machineries. The terrorists may engage the organized criminals in the smuggling of such illicit arms and materials from those states to their hands. The real danger is that in case the terrorists possess such materials of destructive capabilities and technical know-how they may use them to destabilize the world peace and security. This may also enable them to 'blackmail' the states to direct the targeted behavior of in their own ways. On the other hand, the criminal organizations may find this as an opportunity to liaise with the terrorists to maximize their profit interests at the expense of security. Shelly (1995, p. 468-469) asserts that a major threat emanates not from conflicts between nuclear powers but from smuggling of nuclear materials as a consequence of terror-crime nexus in the post cold war period.

⁵ Common characteristics of a failed state include a central government so weak or ineffective that it has little practical control over much of its territory; non-provision of public services; widespread corruption and criminality; refugees and involuntary movement of populations; and sharp economic decline. According to Fund for Peace and the magazine Foreign Policy index of 2011, some of the failed states include Somalia, Chad, Afghanistan, Yemen, Nigeria, Niger, Kenya, Myanmar and Pakistan.

Such cooperation may also exist in other areas of smuggling including drug and human trafficking and other goods and services. Both the groups may cooperate through alliance formation using the operational tactics. As Makarenko (2005, p. 181-182) points out that Southeast Asian terror groups Jemah Islamiya (JI) was held responsible for bank and jewelry shop robberies, and Al-Qaeda cells for trafficking in counterfeit consumer goods, smuggling of gold and diamonds and running large-scale money laundering operations. The LTTE groups is also alleged to have been involved in trafficking of drugs including heroines from the Golden Crescent through India and Sri Lanka to the West and smuggling of human cargo. This group is believed to use Thailand as a major transshipment point for trafficking people to the West using their criminal networks in Canada, Australia and the UK. Similarly Kumpulan Mujahideen Malaysia was known to have engaged in robberies, the New People's Army in extortions, kidnap-and-ransom, robbery and smuggling operations; Pattani United Liberation Organization the United Front for the Independence of Pattani or Bersatu in extortion and smuggling in contraband, narcotics, weapons and people.

This suggests an increasing trend of appropriation of the criminal methods by the terrorist organizations mainly through exchange of expertise and skills in order to secure sources of funding. This has become an emerging issue as a result of an assault by the United States and other states on the charities and other international networks for funding sources to the terrorist organizations. This put a compulsion for these terrorists to seek funding sources using criminal operations including smuggling operations. Thus Abu Sayyaf Group (ASG), which aims to establish an Islamic state in Mindanao, of the Philippines, relies mostly on kidnap-and-ransom and some drug trafficking operations as a major source of funding. This applies this organization since the death of its leader Janjalani (in 1998) who allegedly used to secure funds from Islamist terrorist networks (i.e. Al-Queda). Some European terror groups also engage in human trafficking through cooperative linkages with criminal groups such as Neapolitan Camorra. (Williams, 2007, p. 201). As a result of these operations, these groups appear to be known what Makarenko (2006, p. 181) terms "commercial terrorist groups".

Such relationship between the two is best explained in a crime-terror continuum by Makarenko (2006). She details the continuum, showing how crime and terrorism exist on the same plane and can converge at one central point. Makarenko (2006, p. 178) states that the most dangerous point of the continuum is the 'black hole' where criminal and political motivations simultaneously converge and are exemplified within one group. It is in this convergence that the criminal and terrorist organizations challenge the state authorities and gain control of it both politically and economically. If this happens, this creates a symptom of a failed or weak state which lack sovereign central authority or command over its territories or people. This often produces anarchy or civil war situations. Afghanistan is an example of this symptomatic failing state. The 'black hole' situation also generates a criminal state where leaders and officials either remain silent or encourage criminal activities because of their connivance and corrupt behavior with criminal groups. North Korea and Myanmar are said to have passed through this stage. The ruling elites perhaps use their public positions to involve in illicit activities or create a safe-haven for other terrorist or criminal groups in exchange of personal enrichment.

Corruption in the nexus

Here lie the critical linkages of corruption to this terror-crime nexus. Both terrorist and criminal groups often use corruption as a matter of instrument to advance their illicit interests. Williams (2007, p. 197-198) identifies two types of such corruption in terms of the operations of these groups. One is the instrumental or operational corruption which is set to facilitate transnational border trafficking such as smuggling of people, goods and services. In this process, they choose to bribe the officials who are in charge of border protection and policing transnational criminal networks i.e. money laundering. Such bribes are considered as part of their normal (illicit) business costs. The other type is systematic corruption which involves the ruling elite including politicians, policy-makers, bureaucrats, law-enforcement agencies and members of the judiciary. These elites gain from these groups personal benefits (both cash and kind) using their government portfolios and in return they create a risk-free or minimum-risk environment where terrorist and criminal groups operate their illicit activities as a matter of free-rides. In this context, Makarenko (2006, p. 1) observes that as such

these groups exploit states that have prevalent corrupt practices and thrive on their ability to escape captivity due to poorly established border controls and loose laws on criminality. This is further supported by Abuza (2011, pp. 433-434) stating that Southeast Asian nations have become 'haven' for some terrorists due to factors such as corrupted security officials and weak government policies on immigration and customs. Corruption plays a complementary role in the interplay of illicit activities between criminality and terrorism.

In the case of Mexico, corruption is one of favored tools used by the organized criminal cartels to control the trafficking of drugs into the United States. It is often alleged that many members of the municipal police departments have been so corrupted and infiltrated by the cartels that the war on drugs in Mexico was taken over by the Mexican army since 2006. A recent example of the pervasive corruption of municipal police was the arrest of police officials for their alleged involvement in corruption. (Cook, 2007, p. 12). The Mexican city witnessed drug violence that left 80,000 people dead, including municipal police officers, federal officers and soldiers. (Tuckman, 2013, p. 1). Corruption also reached higher levels in the Mexican justice system, with the Attorney General's Office reporting in 2005 that one-fifth of its employees were under investigation for corruption or criminal activity, in addition to nearly 1,500 agents of the Federal Police who were suspected of criminal activity. (Cook, 2007, p. 12). This widespread corruption allows the cartels to operate with impunity in some areas, and undermines the legitimacy of the government and the justice system.

Conclusion

The end of cold war does not necessarily end the history of conflicts and more specifically the challenge for liberal democracy. Rather new realities come into the picture capable of posing threats to the international security. The 9/11 terror incident has substantiated this thesis. What is evident from the above discussion is the emergence of terror and transnational criminal groups and their nexus and its interface with corruption as a potential source of security considerations for law enforcement agencies including customs. Globalization serves as a clear

catalyst of speed and capabilities of this triad and the existent interconnection. This triad, termed as 'unholy trinity' by Shelly (2006), not only has been exercised since ancient times, but also its techniques and tactics have been improved due to those technological advances that the new era has been providing to them. In spite of the strong capabilities that modernization provides to law enforcement systems, the unholy trinity has triggered new approaches as a result of the new available environment. Along with other law enforcement agencies, customs is poised with new realities to face this triad. The trade based money laundering, technological gap and corrupt practices present them a real challenge.⁶ The success of counter terror-crime strategy will depend on their better integration with it taking into account of these challenges. More specifically, the adoption of innovation and newer technology and integrity approach particularly with regard to the criminal corrupt practices and integrated approaches to deal with offences, i.e., trade based money laundering, may work to break this unholy triad and put an end to life-line for recruitment, training and building illicit enterprises.

Reference:

- Abuza, Z. 2011. "Tentacles of terror: Al Qaeda's Southeast Asian network", *Contemporary Southeast Asia*, Vol.24, No.3, December 2002, pp. 433-434.
- Ades. A and Di, Tell, R. 2001. "The Causes and Consequences of Corruption: A Review of Recent Empirical Data" in Harris-Whit, B and White, G (ed.), *Liberalization and the New Corruption*, *IDS Bulletin*, Vol. 27, No. 2, April, 1996.
- Andreas, P. 2002. "Transnational Crime and Economic Globalization", in Mats Berdal & Monica Serrano (ed.) *Transnational Organized Crime*

⁶ Corrupt practices in customs administrations are not uncommon. (Michael & Nigel, 2010). Hors (2001) shows that criminal corruption is prevalent in Bolivia where smuggling of goods including drugs is systematic. Such smuggling takes place outside the customs control areas known as "parallel customs" in which some customs officials levy their own taxes for not declaring in the official system. This example suggests the notion of vulnerability of the growth of organized terrorist and criminal activities through corrupting the customs practices.

and International Security: Business As Usual?, Colorado: Lynne Rienner Publishers, Inc. pp. 37-65.

Asian Development Bank (ADB), "Definition of Corruption", accessed on 13 January 2012 at <http://www.adb.org/documents/policies/anticorruption/anticorrupt300.aspx>

Collins, D. 2001. "Cross Border Crime and Customs", Paper presented at the 4th National Outlook Symposium on Crime in Australia, accessed on 12 January 2012 at <http://www.aic.gov.au/events/aic%20upcoming%20events/2001/~medi a/conferences/outlook4/collinsd.pdf>

Cook, Colleen W. 2007. "Mexico's Drug Cartels", *CSR Report for Congress*, October 16, accessed on 21 January 2014 at <http://fpc.state.gov/documents/organization/105184.pdf>

Crenshaw, Martha. 2000. "The Psychology of Terrorism: An Agenda for the 21st Century", *Political Psychology* 21 (2): 406-407.

Financial Action Task Force (FATF) 2006. "Trade Based Money Laundering", accessed 12 January 2012 at <http://www.fatf-gafi.org/dataoecd/60/25/37038272.pdf>

Fukuyama, Francis. 1993. *The End of History and the Last Man*, New York: Avon Books, Inc.

Hors, Irene. 2001. "Fighting Corruption in Customs Administration: What can we learn from recent experiences?", *OECD Development Centre Working Paper*, No. 175, accessed on 13 January 2012 at <http://www.oecd.org/dataoecd/60/28/1899689.pdf>

Huntington, Samuel. 1997. *The Clash of Civilizations and the Remaking of World Order*, Delhi: Penguin Books India Pvt. Ltd.

Jenkins, M. Brian. 1980. "Terrorism in the 1980s", California: The Rand Corporation, accessed 10 January 2012 at <http://www.rand.org/pubs/papers/2006/P6564.pdf>

Kiltgaard, Robert. 1991. *Controlling Corruption*, Berkeley, California: University of California Press.

Makarenko, T. 2005. "Terrorism and Transnational Organized Crime: Tracing the Crime-Terror Nexus in the Southeast Asia", in Smith P. J. (ed.) *Terrorism and violence in Southeast Asia: transnational challenges to states and regional stability*, New York: ME Sharpe.

Michael, Bryane & Moore, Nigel. 2010. "What do we know about corruption (and anti-corruption) in Customs?" *World Customs Journal*, vol. 4, no. 1.

Morton, James. 2005, *Gangland. The Contract Killers*, London: Sphere.
Palmer, L. "Colombia reveals Venezuela locations of FARC leaders", in *Colombian Reports*, 16 July 2010, viewed 16 March 2011 at <http://colombiareports.com/colombia-news/news/10842-colombia-reveals-venezuela-location-of-farc-leaders.html>

Rollins, John, Wyler, L. Sun, & Rosen, Seth. 2010. "International Terrorism and Transnational Crime: Security Threats, US Policy, and Considerations for Congress", *Congressional Research Service Report for Congress*, Document no. 7-5700, accessed on 12 January 2012 at <http://fpc.state.gov/documents/organization/134960.pdf>

Sheely, Louise. 2006. "The globalization of crime and terrorism", *America.gov*, accessed 12 January 2011.

Shelley, Louise. 2006. "The globalisation of crime and terrorism", in *America.gov*, accessed 10 March 2011 at <http://www.america.gov/st/business-english/2006/February/20080608103639xjyrreP4.218692e-02.html>

Shelley, Louise. 2003. "Organized Crime, Terrorism and Cybercrime", in *Security Sector Reform: Institutions, Society and Good Governance*, A Bryden and P Fluri (eds.), Nomos Verlagsgesellschaft: Baden-Baden, accessed 15 March 2011 at http://www.crimeresearch.org/library/Terrorism_Cybercrime.pdf

Shelley, Louise. 1995. "Transnational Organized Crime: An Imminent Threat to the Nation-State?", *Journal of International Affairs*, 48:2, pp.463-489

Shelley, Louise. 2005. "The unholy trinity: transnational crime, terrorism, and corruption", *the Brown Journal of World Affairs*, vol. XI, Issue 2, Winter/Spring, p.104.

Thomas O'Connor. 2010. "The Neurology of Crime and Violence", *Protecting the Homeland from International and Domestic Terrorism Threats*, The US White Paper, January Issue, p. 118

"Trade Based Money Laundering", US Immigration and Customs Enforcement, accessed on 13 January 2012 at <http://www.ice.gov/cornerstone/money-laundering.htm>

Transparency International. 1996. In Jeremy Pope (ed.), *The TI Sourcebook*, Berlin: TI, p.1.

Tuckman, Jo. 2013. "Arrest of Mexican drugs boss could herald end for Zetas cartel", 16 July, accessed on 21 January 2014 at <http://www.theguardian.com/world/2013/jul/16/mexico-zetas-chief-morales-arrest-analysis>

UN Security Council Resolution 1566. 2004. Accessed on 21 January 2014 at http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1566%282004%29

United Nations Office on Drugs and Crime, "*United Nations Convention against transnational organized crime and protocols thereto*", UNODC Publications, Vienna, Austria, 2004, p. 17

United Nations Development Programme (UNDP) Practice Note on Anti-corruption, 2004, accessed 13 January 2012 at <http://www.uneca.org/itca/governance/Documents/Anti%20Corruption%20Note%20FINAL%20VERSION%20031704.pdf>

Widdowson, D. 2007. "The changing role of Customs: evolution or revolution?", *World Customs Journal*, vol. 1, no.1, pp. 31-37.

Williams, Phil . 2001. "Crime, Illicit Markets and Money Laundering", In Chantal de Jonge Oudraat and P.J. Simmons, (eds.) *Managing Global Issues: Lessons Learned*. New York: Carnegie Endowment for International Peace, pp. 106-150.

Contributors

Ahmed Munir Saleheen, PhD is a Deputy Secretary in Finance Division of Bangladesh Government. He obtained his PhD at Flinders University, Australia. He previously worked as an Additional Commissioner of Customs & VAT.

Mohammad Akbar Hossain is a Joint Commissioner of Customs, now working at the World Customs Organization (WCO) as a Professional Associate in Compliance and Facilitation Directorate. He holds a Masters degree from Keio University, Tokyo in Taxation Policy and Management.

Jens Stanislawski, PhD is a Research Coordinator at the Institute of Governance Studies (IGS) of BRAC University. He was awarded a PhD in 2013 from the University of Bath. Dr. Stanislawski is a Swedish researcher with special interests in Bangladesh and South Asia.

Nusrat Nahid and M. Masrur Reaz, PhD work for the Investment Climate unit of the International Finance Corporation, a member of the World Bank Group. Ms. Nahid is a business graduate of the Institute of Business Administration, Dhaka University and Dr. Reaz holds a PhD in Development Economics from the University of Manchester.

Khairuzzaman Mozumder, PhD is a Deputy Secretary to the Government of Bangladesh, currently working on lien in a USAID funded development project. He previously worked as an Additional Commissioner of Customs & VAT. He holds a PhD in Political Economy from the University of Essex, UK and did Masters in Political Science from McGill University, Canada.

Mohammed Shafi Uddin is a Deputy Commissioner of Customs & VAT now working in the VAT On-line Project of the National Board of Revenue. He holds a Masters in Development Economics from the University of Manchester, UK.

Mohammad Abu Yusuf, PhD is a Deputy Secretary to the Government of Bangladesh. He is now working on lien as Senior Fellow at the Bangladesh Foreign Trade Institute (BFTI). He earlier worked in the Customs & VAT cadre as an Additional Commissioner. He has been awarded a PhD in Management by Monash University, Australia.

Zaidi Sattar, PhD is founder Chairman of Policy Research Institute (PRI), which began its journey in December 2008. He holds a Ph.D in Economics from Boston University. A veteran civil servant and development practitioner, Dr. Sattar is recognized as a leading expert on trade and tax policy issues in Bangladesh.

Moinul Khan is Director General of Customs Intelligence and Investigation Directorate, Government of Bangladesh. He has submitted his PhD thesis at the Centre for Policing, Intelligence and Counter Terrorism (PICT), Macquarie University, Australia. He did his MBA from the University of Queensland in 2001 and Master of Public Finance (Customs) in 2003 from GRIPS, Japan.

Editorial Board

Md. Firoz Shah Alam is Member (VAT Enforcement) at the National Board of Revenue of Bangladesh Government. He is the President of the BCS (Customs & VAT) Association for the current term. During his long career, Mr. Alam has worked in various capacities under the National Board of Revenue.

Dr. Shahidul Islam is Commissioner, Customs Bond Commissionerate, Dhaka. He is the current Secretary General of the BCS (Customs & VAT) Association. He holds a PhD in Economics with prior education in Marketing and Soil Science, and continues to pursue active academic and research interests.

Mohammad Jahirul Quayum is a Joint Commissioner at Customs Bond Commissionerate, Dhaka. He graduated in Economics and holds an MSc in Development Management, both from the London School of Economics and Political Science (LSE), UK.

Md. Zakir Hossain is a Joint Commissioner of Customs & VAT, now attached to the VAT On-line Project of the National Board of Revenue. He has authored several books on VAT and Customs matters. He takes a keen interest in the use of ICT tools in modernizing revenue administration.

AKM Nurul Huda Azad is a Joint Commissioner at Customs Bond Commissionerate, Dhaka and also an elected Joint Secretary General of the BCS (Customs & VAT) Association. Before joining the Customs department he worked in BCS (Administration) cadre.

Contents of past issues

Fiscal Frontiers, January 1993

Editor: Saiful Islam Khan

Faizul Latif Chowdhury
Some Thoughts on Tax Reforms in Bangladesh

Dr. M. Zahid Hossain
VAT in Bangladesh

Saiful Islam Khan
Duty Drawback Systems: International Perspective and Bangladesh Context

Dr. Omar Haider Chowdhury
Role of Taxation in Economic Development: the case of Bangladesh
A profile of the Customs Co-operation Council.

A profile of National Board of Revenue in relation to the Customs Administration.

Fiscal Frontiers, December 1994

Editor: Saiful Islam Khan

Faizul Latif Chowdhury
An Estimate of Underinvoicing in relation Bangladesh's Import from Seven Asian Countries

Mohammad Alam
Trade and Financial Liberalization in Bangladesh

Dr. Md. Rafiqul Islam
Application of Modern Technology in Indirect Tax Administration

Dr. M. Zahid Hussain
Recent Reforms of Indirect Taxes in Bangladesh

Dr. Zaidi Sattar
Economic Liberalization in South Asia: Return to Fundamentals

Mobarak Ali Molla
Export-led growth: Duty-drawback to Exporters

Saiful Islam Khan
The Value Added Tax: Bangladesh Experience

Fiscal Frontiers, August 1997

Editor: Saiful Islam Khan

- Dr. Md. Rafiqul Islam
Value Added Tax Administration and its Potential in Bangladesh
- Ghulam Hussain
Automation of Customs Clearance Procedure in Bangladesh
- Dr. M. Zahid Hossain
Uruguay Round Agreements and Bangladesh
- Saiful Islam Khan
Value Added Tax in Operation: A Bangladesh Perspective

Fiscal Frontiers, September 1999

Editor: Saiful Islam Khan

- Abdul Latif Sikder
GATT Valuation Code: Introducing Transaction Value for Customs Purposes
- Dr. Ali Ahmed Rushdi
Introducing the Goods and Services Tax (GST) in Australia
- Saiful Islam Khan
Transnational Organised Crime: Role of Customs in controlling International Money Laundering
- Dr. M. Fouzul Kabir Khan
Incentives and Agency: Pre-shipment Inspection Scheme in Bangladesh
- Dr. M. Zahid Hossain
Macroeconomic Management: Relevant Policy Issues
- Faizul Latif Chowdhury
An Economic Model of Customs Evasion
- Tanweer Akram
Tax Registration of Privatized Firms in Bangladesh: Results of an Empirical Investigation
- Md. Nasir Uddin
Drug Trafficking: Means of Concealment
- Ahmed Munirus Saleheen
The Value-Added Tax in Bangladesh: Some Aspects of Adaptation

Fiscal Frontiers, January 2003

Editor: Mohammad Alam

- Ahmed Munirus Saleheen
Input Tax Credit System in Bangladesh VAT
- Tanweer Akram
Tax Compliance Record of Privatized Firms Results of and Empirical Inquiry
- Nasir Uddin Ahmed
Tax Imports
- Atiur Rahman
INDO-BANGLADESH Informal Border Trade
- Mohammad Alam
Faizul Latif Chowdhury
Tax Policy Making in Bangladesh: 1985-2000

Fiscal Frontiers, June 2009

Editor: Ahmed Munirus Saleheen

- Faizul Latif Chowdhury
Revenue Forecast by NBR
- Khairuzzaman Mozumder
Does trade liberalisation promote export and economic growth? Examining the Bangladesh case
- Stephen Muller & Buntha Hul
PICARD – the Benchmark for professional standards in Customs
- Mamun Rashid
Reforming the revenue administration
- Md. Abdur Rouf
Value Added Tax: Theoretical and Bangladesh Perspectives
- Md. Rezaul Hoque
Bangladesh Customs without PSI
- Golam Md. Munir
Risk Management in Bangladesh Customs
- Ahmed Munirus Saleheen
An overview of the Value-Added Tax in Bangladesh

Fiscal Frontiers, January 2010

Editor: Khairuzzaman Mozumder

Nasiruddin Ahmed, PhD

Factors Explaining Low Tax Productivity in Bangladesh

M. Fouzul Kabir Khan, PhD

The Spread of Solar Energy and Its Potential in Bangladesh

Sadiq Ahmed, PhD

Reforming the Budget System for Lowering Corruption and Reducing Poverty

Khairuzzaman Mozumder, PhD

*Revenue Impact of Tariff Liberalization:
Examining the Experience of Bangladesh*

Mohammad Abu Yusuf

Trade facilitation, WTO Provisions and Bangladesh Customs

Golam Md. Munir, PhD

Can Tax Alone Raise Price and Curbe Tobacco Consumption?

Md. Al-Amin Pramanik

*Trade Liberalisation and its Impact on Bangladesh
Economy and Female Workers*

Swapan Kumar Bala, FCMA and Md. Abdur Rouf, PhD

*An Analysis of the Recent Amendments in Indirect Tax Laws of Bangladesh
by the Finance Act 2009*

Md. Anwar Hossain

*International Customs Related Trade Treaties and
Incoterms: Definitions*