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Neither Transit nor Corridor but Re-export

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Abstract *One economy cannot grow with its neighbors left behind. The integration of economies is essential to supplement each other with sources of technology, manpower, raw materials and market for products etc. Some nations try to oppose the reality due to historical and political reasons. There are many forms of economic co-operation such as: Bonded warehouse for manufacturer, Bonded were house for re-export, Duty draw back, Temporary admission, Transit, Corridor, Re-export and Re-exports consist of foreign goods exported in the same state as previously imported, from the free circulation area, premises for inward processing or industrial free zones directly to the rest of the world and from premises for customs warehousing or commercial free zone to the rest of the world. Free include- trade, service, industry, banking, etc. Others such as vendors and shipping forwarders, shipping agents and customs brokers, exporters and importers, manufacturers and investors have free entry to Free Zone without much formality. The position of Bangladesh within the global map makes it a natural candidate to become a regional hub economy. We are negotiating with India for some transit fee and appealing for transit facilities to Nepal and Bhutan as a relatively weak party. If India can re-export to Bangladesh why Bangladesh will voluntarily ban re-export to India and other countries?*

Keywords: Transit, Corridor, Re-export, Free Trade Zone,

Introduction

The economic integration and cooperation in all regions is necessary for growth of all the economies. One economy cannot grow left behind the neighbors. Some isolated economies like Myanmer and Cuba failed and rather were leaving behind

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by others due to their self isolation. These countries are now opening up the economy to avail the existing opportunity of openness for exchange of technology, products and investment. There may be difference in rate of growth but neighbors can supplement and support each other. Some nations try to oppose the reality due to historical and political reasons. They don't always make enough distinction between economic integration and political unification (!). The political term in our country is 'desh bikri', a widely used term against opponent. The integration of economies is essential to supplement each other with source of technology, manpower, raw materials and market for products etc. The exchange of human sources and technology is easier due to close relation of language and culture and easy communication. Any cooperation among nations is to create jobs and raise standards of living, transfer new skills and expertise to local human resources, boosting up non- traditional exports, increase foreign exchange earnings, create backward and forward links to increase the output and raise the standard of local enterprises that supply goods and services to investors, introduce new technology, develop backward regions and attract industries, kick-start the economy as a whole, stimulate strategically important sectors to the economy etc.

The exchange of skilled and unskilled human resources is another method of cooperation although this co-operation is almost happening beyond legal and formal frame work. Many skilled humans from Korea, China, Sri Lanka or India are working in Bangladesh and unskilled Bangladesh manpower are working almost everywhere in the world. The authorities keep the eyes closed and keep mum about the exchange of human resources.

Options of Trade Co-operation

The economic cooperation is ensured by regional or bilateral agreements for duty free trade apart from political, cultural or educational cooperation. There are some other relations between north- south and south-south agreements and alliance are very common. The trade relation and cooperation also has various options like:

a. Bonded ware house for manufacturer
b. Bonded ware house for re-export
c. Duty draw back
d. Temporary admission
e. Transit
f. Corridor
g. Re-export

Bangladesh has already 6 EPZs, only for manufacturing facilities. The terms Free Trade Zones and Export Processing Zones in the Indian context are synonymous. Our neighbor India has 7 EPZ in Kandla, Santa Cruz (Bombay), Falta (West Bengal), Madra, Noida, Cochin and Visakhapatnam. They allow manufacturing and trading of foreign products for re-export. Bangladesh is now importing products of other origins from India due to their re-export policy through export processing zone but unable to take benefit of re-export to the fastest growing big market of India.

There is no alternative to exporting of low cost and low technology products to developed countries from developing economies for their mutual benefits. The developing economies offer various fiscal and institutional supports in production or conversion of product for developed economies. The export-oriented manufacturers import their inputs without paying the applicable duty/tax. In such cases, the duty/tax is suspended or realized after these inputs incorporated in the finished goods are exported. It includes inward processing; manufacturing under bond; export processing zones; temporary admission for re-exportation in the same state; and Customs warehousing. Another method is drawback duties/taxes to be paid at time of importation and then refunded after the finished goods are re-exported. The other options are free zone for manufacturing and trading, temporary admission and transit.

These regimes are designed to remove or reduce the tariff burden to give exporters access to their industrial inputs at world prices and thereby make exports more competitive. By exempting duty/tax on inputs at time of import, or refunding duty paid when the inputs are incorporated into the finished goods and exported, capital costs can be reduced. The principle of not levying import duty/tax on goods that are not remaining in the Customs territory is fully consistent with WTO rules, provided the amount refunded does not exceed the duty/tax payable (in which case it would be an export subsidy and be prohibited under WTO rules).

What is Free Trade Zone

A free trade zone (FTZ) is one or more special areas of a country where the usual trade barriers such as tariffs and quotas are eliminated and bureaucratic requirements are lowered in hopes of attracting new businesses and foreign investments. Most FTZs are located in developing countries, and they are labour-intensive manufacturing centres that involve the import of raw materials or components and the export of finished products.

Free trade zones came about because of the need to promote trade between and amongst nations. Free zone or bonded where ware house became increasingly popular during the last decade, with many countries attempting to promote exports of non-traditional manufactured goods, strengthen the competitiveness of exporters, attract investors, diversify the economy, create employment, transfer technology, expand trade and transport linkages in the country as a whole, promote tourism, encourage foreign direct investment (FDI), and achieve development and growth. Sometimes referred to as Free Trade Zones, Duty Free Zones, Tax Free Zones, Free Export Zones, Special Economic Zones, Export Processing Zones, by whatever name, such zones are legally considered outside the Customs territory of the country and thereby subject to an entirely different Customs tariff and income tax regime. The process is simple like break-bulk and shifting of goods from one container to another, sorting/repackaging/re-labeling, further assembly or manufacturing, etc.

In many free zones, quantitative restrictions apply on how much of an operator's production can be allowed into the domestic market (say about 10- 20%). Licensed operators in the zone are required to submit a simplified Customs declaration for approval to admit or remove goods from the zone. Normally no duty/tax is payable on goods entering or being exported from the zone to third countries. However, certain administrative fees may be collected to finance the zone authority's administrative operations, and to maintain or improve the zone's infrastructure facilities that it rents or leases to operators.

The location of FTZs in underdeveloped parts of the host countries attracts employers, thus reducing poverty and unemployment and stimulating the economy. They are normally organized around major seaports, international airports and national frontiers – areas with many geographic advantages for trade like Hong Kong, Singapore, Nigeria and a host of others.

There were more than 3000 FTZs across more than 225 countries, with nearly 50 million workforce engaged in them at various times and seasons. The FTZ is meant for manufacturing and re-export of products imported from other countries.

Re-export

One of the popular businesses is re-export trade. Several countries throughout the world engage in re-export activity. It is a trade of imported good exported by the importing country. According to wikipedia, re-exportation can occur when a member of a customs union charges lower tariffs to external nations to win trade, and then re-exports the same product within the customs union, but tariff-free. Thus re-exportation involves export without further processing or transformation of a good that has been imported. It is also called entrepot trade. In the "Essex" case (1805) a British judge declared that U.S. ships could not circumvent the Rule of 1756 by using the 're-export trade'. To get around the Rule of 1756, U.S. merchants had been first shipping foreign goods to a U.S. port, then re-exporting them to England and Europe as "neutral" goods.

Re-exports consist of foreign goods exported in the same state as previously imported, from the free circulation area, premises for inward processing or industrial free zones, directly to the rest of the world and from premises for customs warehousing or commercial free zones, to the rest of the world. It creates opportunity of development of trading centre and diversified economic base. Free includes- trade, service, industry, banking, etc. Others such as vendors and shipping forwarders, shipping agents and customs brokers, exporters and importers, manufacturers and investors have free entry to Free Zone without much formality.

FTZ of other countries

The FTZs are so important that World Free Zone Summit held in Dubai on 2 November 2010 called for increased synergy between Free Zones.

The World Free Zone Convention 2010 was the first of its kind held in the Middle East and it hosted over 200 international and regional delegates reviewing the opportunities ahead for free zones worldwide in the current economic climate.

Jebel Ali Free Zone in Dubai, UAE, is probably the most successful zone in the world. Created in 1985, this free zone has no taxation. The restrictions are minimal, and there is no obligation to have a local partner. Staff can be recruited from anywhere. There are excellent port facilities, warehouses, office space, and factories already built and ready for lease. The port is the busiest in the Middle East and now the 10th busiest in the world.

Aqaba Special Economic Zone in Jordan is another recent bold initiative to turn the entire port city area of Aqaba to the Saudi border into a duty/tax free zone in an attempt to promote economic development and attract FDI. What is interesting with the Aqaba Special Economic Zone Authority (ASEZA) is the authorities' decision to create a separate Customs service to operate inside ASEZA. ASEZA Customs is autonomous from the national Jordanian Customs administration, which provides a focused, specialized, and better level of service to firms operating inside the Zone. ASEZA has been very successful in a very short period of time at attracting several billion USD of FDI since its creation in what was otherwise a seriously economically depressed region of southern Jordan. ASEZA constitutes a pilot/catalyst for nationwide Customs reform.

Colon Free Zone in Panama operates almost exclusively as an entrepot/warehousing hub, focusing on commercial warehousing and repacking operations for firms that export finished goods to the Caribbean and Central America.

The total value of Foreign Direct Investment that has flowed into the United Arab Emirates (through free zones) has reached approximately USD 73 Billion (AED 268 billion), making it the second most FDI attractive country in the Arab World, according to the UN Conference on Trade and Development [UNCTAD]. Free zones in the UAE play a very important role in international trade and re-export activities. The UAE is now one of the top commercial centers in the world and this is further strengthening the competitiveness of its investors as they enter new markets and expand their commercial operations. UAE is ranked 14th globally in the number of new Foreign Direct Investment (FDI) projects in 2009, accounting for 230 projects or 1.7 per cent of the overall global share of new FDIs, as per the UNCTAD report.

Singapore was traditionally a re-export economy by virtue of her historical role as an entreport for Southeast Asia. Singapore's imports included goods for re-exports. According to International Enterprise Singapore (IES), Singapore's exports of all goods in 2004 were about $200 billion and re-exports accounted for 46 percent of total exports. USA is a very important partner for Singapore, cantered on Asia and its fast-growing economies like China and Vietnam as well as the Middle East. Singapore companies have become some of the most active Asian importers and re-exporters of US goods and services. American exports in 2007 to ASEAN rose to over US$60 billion, making ASEAN's combined market the fifth largest trading partner for the United States. Approximately 43% of exports from the United States to ASEAN countries went to Singapore. Singapore is the 11th largest export market for American products, with over US$26 billion.

A noteworthy change for Dutch trade is the recent growth of imports from China. A large share of goods imported from China is destined for other countries. Exporting partners often declare the Netherlands as the destination of goods intended for re-export. This is because suppliers are unaware of the final destination of goods. Asia supplies 25 percent of the Netherland's goods for re-export, with China as the leading supplier from the region. Other large re-exporting countries include Belgium, Germany, and the United States where more than 10 percent of their exports are re-exports. Re-exports for the United States were \$90 billion in 2004. Reported exports to the Netherlands as reported by partners are 14 percent higher than what the Netherlands reports as imports from the world. About 15 percent of the Netherland's exported commodities were reported as unclassified commodities. Based on estimates from this method, re-exports for the Netherlands account for about 50 percent of total exports.

Similar to Hong Kong, the most significant re-exporting sector in the Netherlands is the electronic equipment sector. Reported gross exports (\$53.7 billion) far exceed estimated domestic exports (\$7.9 billion).

For example, the Netherlands, reported exports of electronic equipment to Germany \$11.3 billion in electronic equipment to Germany. These exports were reduced to \$1.6 billion after adjusting to eliminate re-exports. There are numerous unsolved puzzles with trade taking place between Singapore, Hong Kong and the Netherlands. The actual reported amount of trade from Singapore to Hong Kong includes Singapore's re exports, which are re-exported again by Hong Kong. However, re-export data is not available on a source and destination basis as it is for Hong Kong. About \$7 billion in unclassified commodity exports are reported by Singapore. Singapore reports exports of \$18 billion to Hong Kong of which 50 percent are re-exports from other countries.

The Gambian economy and especially its public finances are highly dependent on this trade because imported goods destined for re-export pay the normal import duties. Gambia has served as a regional entry port, using the river as a transportation link to the hinterland. Relatively low import taxes, well-functioning port and customs services, and limited administrative barriers reinforced the Gambia's position as a trading center. About 80 percent of Gambian merchandise exports consist of re-exports to the sub-region.

Panama availed the opportunity of unique geographical location. The Colon Free Trade Zone is a gigantic entity at the Atlantic gateway to the Panama Canal, dedicated to re-export an enormous variety of merchandise to Latin America and the Caribbean. It is also the largest free zone in the Americas and second largest in the world. It started operations in 1948 and occupies about 600 acres (2.4 km^2). It is located near the Atlantic Entrance of the Panama Canal.

The ASEAN nations are exploring trade and investment opportunities in Malaysia under seamless trade, utilizing the country as a gateway to emerging markets in South Asia and the Middle East. In International Trade (Intrade) Malaysia 2010 event shared the view that the country had high potential to serve as a centre for trade with Muslim countries. The ASEAN members are eyeing to markets of Muslim countries under the Asean Free Trade Agreement (Afta).

Free Trade zones have transformed themselves into leading service centers for attracting foreign investment in the world. The rise of Dubai as a global economic and trading powerhouse is largely owed to its strategic location on the Gulf with access to both the West and the fast-growing markets of Asia. Singapore companies have become some of the most active Asian importers and re-exporters of foreign goods and services. Bangladesh can also have the similar opportunity. Its strategic location between two fast growing economies China and India provides the opportunity to be re-export hub for the markets having more than 350 billion buyers.

Many decision-makers in World Trade Organizations like UNIDO, UNCTAD, OECD and the European Commission have an opinion that when tariffs disappear economic incentives for free zones will die and zones will dissolve but the significant contribution made to the economy by the 36 free zones operating in the UAE. The UAE's Free Zone model has proved to be an excellent catalyst for development in line with our vision for diversified economic growth. Our free zones are very unique in that they were developed in accordance with an economic development strategy that puts economic diversification and creating a suitable economic and business climate as a top priority.

The position of Bangladesh within the global map makes it a natural candidate to become a regional hub economy. However, the globe wouldn't come to it unless it aligns itself to become a hub. Much has been written before about how to make sure that Bangladesh becomes a regional hub that smoothens the interaction of three Asian Engines (China, India and ASEAN). Re-export has a big promise for the economic development of Bangladesh. It also has the potential to facilitate trade for land locked Nepal, Bhutan or other land-locked Indian provinces in the North-East.

Deficiency of Free Trade

Some countries like Bangladesh have inefficient procedures and burdensome documentation requirements resulting in exporters incurring extremely high costs. In the end the firm simply gives up on receiving a refund or the refund received has been drastically reduced in value due to inflation of cost of products. It is important to note that in many countries there has been massive drawback refund fraud when Customs does not exercise proper controls when goods are exported or does not perform post-audit checks. This problem can be especially acute in developing countries where the fiscal situation is such that the government may at time, not have sufficient budget to pay drawback refunds, and is instead obliged to provide credits against duty/tax payable on future imports. Given the fact that duty/tax is being temporarily deferred, it is very important that Customs services exercise effective controls to ensure that there is no leakage of such raw materials into the domestic market.

Conclusion

We are negotiating with India for some transit fee and asking for transit facilities to Nepal and Bhutan as a relatively weak party. But we can stop bargaining for transit fee and also avoid the political conflict and confusion about Transit versus corridor. There is no need for negotiation with any country if we can re-export country through allowing EPZ as manufacturing and free trade zone. The nation can decide alone without any negotiation with any other country over the matter.

If India can re-export to Bangladesh why Bangladesh will voluntarily ban re-export to India and other countries? It may not be a difficult question for the policy makers to answer.