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TAX-INFRASTRUCTRE

RM36 BLN ANNUALLY FROM PROPOSED INFRASTRUCTURE TAX ON RICH

KUALA LUMPUR, March 22 (Bernama) -- Close to US\$9.4 billion (RM35.72 billion) is expected to be collected annually if tax is imposed on rich countries to finance infrastructure projects in poor nations.

Suggesting the tax to be collected for 20 years, Prime Minister's economic adviser, Tan Sri Nor Mohamed Yakcop said: "It may be easier to persuade the rich countries with a proposal for a limited time rather than in perpetuity."

In an article to discuss Datuk Seri Dr Mahathir Mohamad's proposal on the tax when the latter spoke at the Boao Forum for Asia on Feb 27, 2001, Nor projected that US\$188 billion (RM714.4 billion) could be raised from the tax over a 20-year period.

"This amount, if wisely invested in infrastructure projects in the poor countries, can quickly raise the living standards in the poor countries to decent levels," he added.

Suggesting that US\$10,000 (RM38,000) per capita income on a purchasing power parity (PPP) basis be used as the minimum level for taxation, he said based on this 45 nations would be eligible to pay the tax, including Malaysia.

Nor said the international infrastructure tax should be imposed on a sliding scale. Countries with per capita gross domestic product (GDP) (PPP) of US\$30,000 (RM114,000) and above, the tax rate (percent of GDP) should be 0.50.

For countries with US\$25,000 (RM95,000) to below US\$30,000 the rate is 0.45, US\$20,000 (RM76,000) to below US\$25,000 is 0.35, US\$15,000 (RM57,000) to below US\$20,000 is 0.20 and US\$10,000 (RM38,000) to below US\$15,000 is 0.10.

For the US and Japan, whose proposed tax rate would be 0.5 each, they would pay US\$4.354 billion (RM16.55 billion) and US\$1.538 billion (RM5.84 billion) per annum respectively while Malaysia, at 0.10 would have to pay US\$7.463 million (RM28.36 million).

With regard to the definition of poor countries, Nor said all the 64 countries in the low income category, or with nominal GDP per capita of US\$755 (RM2,869) or less should be included.

A total of 2.4 billion people live in the 64 low income countries, accounting for 40 percent of the world's population whereas 890 million populate the high income countries, accounting for 15 percent of the world's population.

Out of the 64 low income countries, 30 are Islamic countries (defined as OIC-members) with a population of 854 million people, accounting for 69 percent of the OIC (Organisation of Islamic Countries) population.

"The magnitude of the world's poverty level is obvious from the figures above. There is, therefore, an urgent need for the international community to rise to meet the challenges of helping the poor countries," stressed Nor.

Apart from taxing on a sliding scale, Nor outlined the other two basic parameters of the tax proposal. They are:

- * Use the tax proceeds to build infrastructure projects in poor countries.

- * Use existing international institution to perform the task of collecting the tax and to carry out the projects identified by the recipient countries together with the managers of the Infrastructure Fund.

Both must agree before the project is implemented.

Nor said the fund raised should not be distributed in the way aid was given out before, but instead payment be made as construction progressed.

As to the collection and administration of the tax, Nor proposed the responsibility to be handled by an institution associated with the United Nations, possibly United Nations Development Programme (UNDP).

"If an additional staff are required, this can be arranged by way of secondment from some of the upper middle income countries.

"This will be their contribution to the scheme since most of them would not be subject to the tax," said Nor.

He explained that administrators of the tax would study the request for an infrastructure project together with the recipient country and it would determine the best way to implement it.

Some suggested guidelines are as follow:-

- * Projects must be chosen such that the multiplier and linkage effects in the recipient country are maximised.

- * The infrastructure projects would be largely hard infrastructure, such as roads, railways, bridges, dams, pipelines and power plants.

- * The criteria should be poverty eradication and economic development enhancement. They should be free of ideological and other considerations.

- * The projects must be built and administered by the international agency with the recipient country providing all the support necessary. But the locals must be given as many job opportunities as possible and to be trained in the operation of the facilities.

On why should the rich countries agree to pay the tax, Nor said the rich must be prepared to part with a little of the wealth they earned from the globalised world, so the poor countries could also enjoy some of the amenities the rich take for granted.

To the question of why use the tax collected to fund infrastructure projects, Nor said: "It is common knowledge that the construction and provision of infrastructure stimulate economic activities.

"The construction of the infrastructure itself will create jobs for the locals, build a market for their produce and earn them better prices. So will maintenance of these infrastructure.

"But the rich will also get their share for only they are capable of providing the technology, the sophisticated machinery and the engineering skills.

"A portion of the fund will therefore go back to the rich countries in the form of earnings by their contractors and suppliers."

He said the infrastructure fund and projects would create a win-win situation benefitting the rich and the poor and establishing a much more evenly developed and wealthier world. -- BERNAMA

MAD KTC