

# Trade and Development Monitor

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## OPINION IN LEAD

### Monitoring the programme of action for LDCs

Four of the eight members of the South Asian Association for Regional Cooperation (SAARC) are least-developed countries (LDCs): Afghanistan, Bangladesh, Bhutan and Nepal. The Maldives graduated from the LDC category on 1 January 2011, but remains highly vulnerable. LDCs differ from other low-income countries in terms of the severity of structural handicaps that they face.

In the economic vulnerability index (EVI), one of the three indicators used in categorizing low-income countries as LDCs, Nepal has crossed the graduation threshold, Bangladesh is just short of the graduation threshold, while Afghanistan, Bhutan and the Maldives are still within the inclusion threshold and hence highly vulnerable. In the human assets index (HAI), Afghanistan, Bangladesh, Bhutan and Nepal are within the inclusion threshold, the Maldives is well past the graduation threshold and has the greatest HAI value in South Asia as a whole. The Maldives remains vulnerable on account of extremely high vulnerability as indicated by its EVI. On gross national income (GNI) per capita, Afghanistan, Bangladesh and Nepal are within the inclusion threshold while Bhutan and the Maldives are above the graduation threshold (in fact, the Maldives graduated largely on account of its performance on the income indicator).

The Istanbul Programme of Action (IPoA), agreed in mid-2011, has an ambitious target of halving the number of LDCs by 2020. It has listed the actions to be taken by LDCs, development partners and jointly by both in identified priority areas, including building productivity capacity, trade, commodities, and agriculture and food security. As one year has already passed since the IPoA was agreed, it is time to start monitoring the implementation of the compact. Remember, weak monitoring was a key reason why the IPoA's predecessor, the Brussels Programme of Action, was poorly implemented. It is welcome, therefore, that the LDCIV Monitor has been launched as a civil society platform for independent monitoring of the IPoA—in the spirit of the acknowledgement of the need for such a monitoring in the IPoA itself. However, a robust monitoring of the IPoA under United Nations aegis must also be ensured. The two monitoring exercises combined have the potential to make the IPoA positively different from past such programmes of action in terms of outcomes.

LDCs are a heterogeneous lot. Even within South Asia, the LDCs differ in the nature and intensity of structural handicaps they face (as represented by the HAI and the EVI) as well as income levels. This heterogeneity has to be fully taken into account in the monitoring exercises. The complementary nature of the two structural handicap indices, their role in keeping incomes low (another LDC indicator) as well as other factors that keep incomes low have to be analysed. Furthermore, the monitoring exercises must entail a monitoring of not just the outcomes (where mentioned in the IPoA and quantifiable) but also the *actions* committed to by LDCs and development partners in the IPoA. Given the heterogeneity of LDCs, monitoring may be more meaningful if overall monitoring is complemented by some disaggregated analyses, including through country case studies and group-wise analysis based on shared characteristics such as degree of commodity dependence and geography.

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## ANALYSIS

### Self-employment and structural transformation

Structural transformation entails reallocation of labour from low-productivity to high-productivity sectors in an economy. A new World Bank working paper\* offers insights into the patterns of structural transformation as depicted by sectoral compositions of the employed labour force in developing countries.

Using micro-level household survey data of 74 low-income and middle-income countries (including four from South Asia—Bangladesh, India, Pakistan and Sri Lanka), the paper

examines the distribution between own account workers, employers, non-paid employees and wage and salary employees, further divided into agriculture and non-agriculture. Jobs are found to exhibit a clear pecking order, in terms of correlates such as household per capita consumption and workers' education, with employers better off than wage and salary employees, who in turn are better off than own account workers, who in turn are better off than non-paid employees. Unsurprisingly, all categories of non-agricultural workers are better off than agricultural workers.

An overwhelming majority of workers in low-income countries are self-employed workers engaged in low-productivity activities. Most of the self-employed are own account workers (not employers). The paper sheds light on shifts in national-level employment composition as per capita incomes increase. It finds that as per capita gross domestic product (GDP) increases, workers transition out of agriculture and self-employment. Within the low-income country group, increases in per capita GDP lead to net shifts out of agricultural non-paid employment and own account work and into non-agricultural own account jobs. As countries move from low- to lower-middle income, workers shift into wage and salaried work (within both agriculture and non-agriculture). Finally, as countries move from lower-middle to upper-middle-income status, most remaining agriculture workers become non-agricultural wage and salary employees and, to a lesser extent, non-agricultural employers.

The paper finds that one group of self-employed are those with limited growth prospects who are either self-employed by necessity, due to the lack of wage employment opportunities, or have voluntarily chosen self-employment over wage employment. In contrast, a higher tier of self-employed consists of innovative, successful entrepreneurs with greater potential and ambition for growth. A substantial minority of own-account workers reside in non-poor households, suggesting that their profits are often a secondary source of household income. Defining successful self-employed people as employers (as opposed to own account self-employed workers), the study estimates 7 percent of self-employed workers, or 3 percent of all workers, in low- and middle-income countries are successful. Defining successful self-employed people as self-employed people living in non-poor households, the estimate of successful self-employed workers increases to 34 percent of all self-employed workers and 12 percent of all workers. Interestingly, about one third of the unsuccessful entrepreneurs share similar characteristics with their successful counterparts, suggesting they have the potential to be successful but face constraints to growth.

It is found that as the per capita income of a country rises, the proportion of the self-employed who are either successful or have high potential for success increases rapidly. For example, while the proportion of the self-employed who are either successful or have high potential for success in low income countries is between 17 percent and 33 percent (depending upon the definition of success used), for upper-middle-income countries, the proportion in this group increases to between 66 percent and 94 percent.

Although as per capita incomes and levels of education rise some of the unsuccessful self-employed become successful entrepreneurs, most of the unsuccessful self-employed are absorbed into wage and salary work, leading the authors to argue that while there is a role for policies that help to remove constraints from a select group of high-potential but unsuccessful self-employed, the private wage and salary sector remains the dominant engine of growth and better jobs.

The authors conclude that although interventions such as access to credit can benefit a substantial portion of the self-employed, effectively targeting the minority of self-employed with higher growth potential is important, particularly in low-income contexts.

\* Gindling, T. H. and David Newhouse. 2012. "Self-employment in the developing world," World Bank Policy Research Working Paper 6201.

*(Adapted from the cited working paper).*

## 5th South Asia Economic Summit calls for building on positive developments

The 5th South Asia Economic Summit was held in Islamabad on 11-13 September 2012. The Summit called for enhanced regional cooperation to address South Asia's woes by building on the recent positive developments that have taken place in the region, mainly the improvement in the relationship between India and Pakistan.

The three-day Summit brought together about 200 participants, including experts and academics, policy makers, private sector representatives, civil society representatives and media persons from all eight South Asian countries. The goal of the event, held under the theme "Making growth inclusive and sustainable in South Asia", was to provide inputs to the 18th SAARC Summit. The Summit was organized by Sustainable Development Policy Institute, Islamabad. South Asia Watch on Trade, Economics and Environment (SAWTEE) was one of the co-organizers of the event.

Speaking as the chief guest of the concluding session, Foreign Minister of Pakistan Hina Rabbani Khar said that the solutions to the myriad problems plaguing the region can only come through confidence and trust among SAARC member states. She emphasized the need for the people of the region to look at themselves first as citizens of the region, arguing that the prosperity of an individual country depends on the prosperity of the region. Referring to the recent improvement in Pakistan's relations with India and Afghanistan mainly on the trade front, she reiterated Pakistan's commitment to remove all bottlenecks to its trade with its neighbours, which would ultimately benefit the entire region. She also expressed Pakistan's commitment to address issues of food insecurity and climate change through a regional approach.

Discussing the development agenda for a new South Asia, Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue, Dhaka, said that growth in South Asia has never been inclusive; therefore, to make the growth process inclusive, people's access to assets is necessary. He added that one way of doing so would be getting people engaged in value addition process. Dr Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka, identified three opportunities for South Asia in the next several decades: a demographic dividend, a rising middle class, and surging remittances. In the same session, Dr Jagadish Chandra Pokharel, former member of National Planning Commission, Nepal, stressed the need to link the regional cooperation process with the Millennium Development Goals, and highlighted the critical importance of collaboration of institutions of higher learning in the region.

Speaking in a session on Climate Change Challenges for Sustainable Development, Antoine Bouet, Senior Research Fellow, International Food Policy Research Institute, presented the findings of a research that South Asia is likely to be strongly adversely affected in terms of agrofood production and real income due to climate change, with Pakistan suffering the most. He argued that trade policy reforms can help mitigate the impacts of climate change only if they are ambitious. Puspita Sharma, Research Director, SAWTEE highlighted the gap between ambitious commitments in declarations and woefully poor implementation in issues of climate change in SAARC. He emphasized the need to shift the focus of the climate finance regime at the global level to adaptation from the existing excessive focus on mitigation. He suggested that the SAARC Technological Initiative be utilized to harness the potential of harnessing South-South technological transfer within South Asia. Fahmida Khatun, Head of Research, Centre for Policy Dialogue, pointed at the huge gap between commitment and disbursement of climate finance. She further argued that the SAARC Development Fund has not been utilized to finance climate change-related projects.

Speaking in a session on the global economic crisis, experts unanimously agreed that the global economic crisis which started in 2008/09 has now entered into the second stage and has started taking a toll on the economies of South Asia. Along with raising concerns about the growth prospects of South Asia, the economic crisis has also provided an opportunity to enhance regional cooperation. Dr Posh Raj Pandey, Executive Chairman of SAWTEE, said that there is every possibility that the current Eurozone crisis could result in a full-blown

financial crisis. Therefore, South Asian countries, most of which are dependent on Europe and the US for their exports, need to prepare themselves by taking a balanced growth strategy that entails shift to domestic demand-oriented growth trajectory.

In a session on competition, participants stressed the need to get competition laws and policies implemented at the national level. Since the issue of competition extends beyond the national level when considering bilateral and regional trade, there is need to have cooperation among competition agencies in South Asia. Paras Kharel, Research Coordinator of SAWTEE, specifically argued that anti-competitive practices prevalent in almost all countries of South Asia have aggravated food price inflation. Therefore, while a strong political will is needed to implement the existing competition legislation, there is also a need to raise consumer awareness in this area, he argued.

Participants also noted that trade alone is not enough for deeper regional integration; it has to be complemented by reforms related to investment, a cooperative mechanism to manage and utilize natural resources such as water and cooperation between regulatory bodies and promotion of supply chains.

## Washington and Beijing spar at WTO

Trade tensions between Washington and Beijing flared up rapidly as the two sides lodged challenges against each other at the World Trade Organization (WTO) on 17 September just weeks ahead of the United States (US) presidential election. In what represents the latest in a long-running series of disputes between the two trading giants, Washington launched proceedings over Chinese automobile and auto parts export subsidies, as Beijing filed its own complaint over US anti-dumping and countervailing measures on various Chinese exports.

Between 2002 and 2011, the US consistently remained China's largest export market for auto parts. According to US figures, the value of China's exports of autos and auto parts increased during this period from US\$7.4 billion to US\$69.1 billion. Washington argues that this rapid expansion was aided by a complex system of unlawful export subsidies. China called the challenge politically motivated.

Beijing, for its part, launched its own WTO case against Washington, challenging US anti-dumping and countervailing measures said to cover 24 types of products exported to the US market, worth US\$7.2 billion. The exports concerned include paper, steel, tyres, magnets, chemicals, kitchen appliances, wood flooring and wind towers.

*Source: Bridges Weekly Trade News Digest, Vol.16, Issue 31, 19.09.12.*

## EU rethinks biofuel policy

Top European Union (EU) officials confirmed on 17 September that the 27-country bloc is rethinking its controversial policies on biofuels, in the face of criticism from environmental and aid groups concerned with the impact on climate and the price of food.

Proposed new legislation would cap the share of food-based biofuels at 5 percent of transport fuels, said a joint statement from Connie Hedegaard, European Commissioner for Climate Action, and Günther Oettinger, her counterpart on energy. "It is wrong to believe that we are pushing food-based biofuels," the commissioners said, in a bid to rebut claims made in a recent report from the development agency Oxfam. "In our upcoming proposal for new legislation, we do exactly the contrary: we limit them to the current consumption level, that is five percent up to 2020."

As part of a broader push to scale up renewable energy in the EU, national governments must currently ensure that 10 percent of energy in the transport sector comes from renewable sources by 2020, according to mandatory targets set out in the Renewable Energy Directive three years ago.

Source: *Bridges Weekly Trade News Digest*, Vol.16, Issue 31, 19.09.12.

## **APEC agrees on environmental goods list**

Asia-Pacific Economic Cooperation (APEC) leaders' meeting in Vladivostok, Russia in September agreed on a list of over 50 environmental goods for liberalization by 2015, following up on a commitment made in 2011. In the 2012 Vladivostok Declaration, leaders outlined a list of 54 environmental goods—including solar panels and wind turbines—where applied tariff rates would be cut to 5 percent or less by the end of 2015, “taking into account economies' economic circumstances and without prejudice to their positions in the World Trade Organization.”

While the commitment is technically non-binding—APEC members face no penalties for non-compliance—country officials stressed openly that the list is key toward meeting the region's green growth goals, and trade sources noted privately that the declaration's non-binding nature might actually have helped negotiators in being more adventurous in their liberalization.

While the APEC list is not tied to World Trade Organization discussions, observers note that the conclusion of such a list might send a positive signal to the talks in Geneva. APEC leaders are next expected to address non-tariff measures, as notifications of these by the group's members have steadily increased in recent months; the regional grouping is also likely to work on building momentum toward liberalizing trade in services.

Source: *Bridges Trade BioRes*, Vol. 12, No. 15, 13.09.12.

## **India, Pakistan sign visa and trade-related agreements**

In a continuity of the improving ties between India and Pakistan, a series of agreements was signed in September. The two countries, on 8 September, signed the much-awaited liberalized visa agreement, introducing for the first time group tourist and pilgrim visas, separate visa for businesspeople and visa on arrival for those over 65 years of age. It replaces a 38-year-old restrictive visa agreement and is expected to pave the way for time-bound visa approval and greater people-to-people contacts, and boost trade.

Following this, on 21 September, during the seventh round of talks between commerce secretaries held in Islamabad, they signed three agreements, including a trade grievances agreement, a mutual recognition agreement and a customs cooperation agreement, to bolster existing bilateral trade mechanisms. The commerce secretaries “directed the customs and the port authorities to resolve all the issues through mutual cooperation, harmonization of customs procedures, provision of laboratory facilities, scanners, weigh bridges, cold houses, containerized services and automation of the business processes,” the joint statement said. The meetings of the Customs Liaison Border Committee are to be held on a monthly basis. The Land Customs Station at the Wagah-Attari border is to operate seven days a week.

Source: *PTI*, 08.09.12; *ANI*, 21.09.12.

## **Sri Lanka to host exclusive auto SEZ for Indian companies**

Indian companies in the business of auto components and engineering products will have a first of its kind special economic zone (SEZ) in Sri Lanka. The two countries are scouting for members of a joint working group to study a proposal to this effect made during a recent visit by Commerce and Industry Minister Anand Sharma to Colombo. The development assumes importance as Sri Lanka did not show a positive response to India's offer to expand the free trade agreement between the two countries to a comprehensive economic partnership agreement.

Officials said an exclusive Indian SEZ focusing on engineering products and automobile components would be set up in the Trincomalee area in Sri Lanka. The proposed SEZ would

also include an Industrial Training Institute to be set up with the involvement of Indian private sector companies. The two countries are also looking at the possibility of setting up a manufacturing hub for pharmaceuticals.

Sri Lanka is India's largest trading partner in South Asia. Bilateral trade in 2011 stood at US\$5.16 billion compared to US\$3.63 billion in 2010, with exports at US\$4.44 billion and imports at US\$0.71 billion. Leading Indian companies to have invested in Sri Lanka include IOC, the Tata group, Ceat, Nicholas Piramal, Ashok Leyland, SBI, ICICI Bank, Axis Bank and LIC

Source: [www.business-standard.com](http://www.business-standard.com), 25.09.12.

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## ACTIVITIES

### 5th South Asia Economic Summit held

SAWTEE co-organized the 5th South Asia Economic Summit in Islamabad on 11-13 September 2012. The lead organizer of the event was SAWTEE's network member Sustainable Development Policy Institute, Islamabad. (See news section above for details)

### Book launch

SAWTEE and South Asia Centre for Policy Studies (SACEPS) launched a book titled *Regional economic integration: Challenges for South Asia during turbulent times* amidst a function on 5 October 2012 in Kathmandu. The book contains contributions from South Asian authors on a range of issues that have far-reaching implications for regional economic cooperation in South Asia. Contributions range from problems and challenges of regional economic integration; impediments to goods and services trade liberalization; regional connectivity and trade facilitation; analysis on the financial flows to South Asia in the form of remittances at a time of global turbulence; finance required for more effective integration of LDC members of SAARC into the regional economic cooperation framework; the role of civil society and the private sector in expediting regional economic integration; to South Asia's interests in the WTO negotiations on liberalization of environmental goods and services.

### Publications

Title: Trade Insight (Vol. 8, No. 3)  
Type: Magazine  
Cover theme: Non-tariff barriers  
Publisher: SAWTEE

Title: Gender dimension of climate change and food security  
Type: Briefing paper  
Author: Lopamudra Patnaik Saxena  
Publisher: SAWTEE

The publications are available at [www.sawtee.org](http://www.sawtee.org)

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