Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Down goes the Indian Rupee: Regional implications

Over the past few months, the Indian Rupee (INR) has been highly volatile and has subsequently depreciated by 16 percent to the greenback this year, making INR the worst performing currency in the Asia Pacific. Previously, INR was elevated due to the inflows of billions of dollars in investment into the Indian economy. But recently, INR has been sliding down as foreign investors pull money out of India to benefit from the rising yield on the United States (US) bonds, and also in response to the US Federal Reserve's decision to begin scaling back the easy-money policies that flooded the global markets with excess cash. Additionally, India's dimming growth prospects, given the country's ballooning fiscal deficit coupled with large trade and current-account deficit mainly due to high imports of petroleum and gold, have collectively pushed INR off the cliff.

The extraordinary measures by the Indian central bank to drain liquidity and curb gold imports and to cut India's huge oil import has not helped much as INR continues to take a beating in the global currency market. On a positive note, devaluation of INR is proving to be exactly what India needs to boost its exports and help close the current-account deficits. The depreciation of INR is already increasing tea exports to the US and Europe. Exports of textiles, automobile component and other manufactured products to countries such as Sri Lanka, the US and Germany is also likely to increase since it is now more profitable for these countries to import from India than from China. While the devaluation of INR is likely to boost exports, it is important to note that a weaker currency can destabilise the domestic economy by adding to inflation and increasing the government's subsidies on fuel. Arguably, the depreciation of INR is not such a bad thing after all, controlling for the rise in inflation—a situation very hard to achieve.

Unfortunately, the weakening Indian currency is likely to have substantial impact on other South Asian countries since India is the major player in the South Asian economy accounting for near 82 percent of the regional GDP and 49 percent of intra-regional trade. The impact has been fast emerging, and the South Asian countries are keeping a close eye on the falling INR. The impact of weaker INR is more profound on its two northern neighbours: Bhutan and Nepal. Because both the countries have been maintaining a pegged exchange rate to the INR, the sharp devaluation of INR has also depreciated the currencies of both the countries, i.e., Bhutanese Ngultrum (BTN) and Nepali Rupee (NPR).

More importantly, Bhutan and Nepal are not well placed to fully benefit from increased export competitiveness due to the depreciation of their currencies because 75.7 percent and 67.7 percent of Bhutan and Nepal's total exports are destined for India. Amid the structural bottlenecks as well as supply-side constraints, any export competitiveness the countries may have over other exporting nations might be exploited by Indian exports. Additionally, Bhutan and Nepal are also likely to suffer from the significantly increased import bills owing to their relatively price inelastic imports. The rising import bills will further widen the current account deficit in both the countries, not to mention rising inflation due to increase in fuel prices.

On the brighter side, the devaluation of BTN and NPR will boost the tourism sector in both the countries as tourists might opt for relatively cheap holidays in these countries. The governments' tax revenue earnings from the imported goods might go up along with the receipt of better exchange for any foreign grants and loans received by Bhutan and Nepal. This is also a golden opportunity for both the countries to diversify export destinations for their niche products, if not mass produced goods, and avoid excessive dependence on the Indian market.

While the devaluation of BTN and NPR due to the pegged exchange rate with INR is more than likely to destabilise the economy of both Bhutan and Nepal, many other South Asian economies are also expected to be affected by the depreciation of INR despite a floating exchange rate they maintain with India. For example, Sri Lankan importers have reportedly diverted their imports from China to India, and many fear that rising Sri Lankan imports from

India could adversely impact the Sri Lankan economy. Thus, the Sri Lankan government wants to limit vehicle imports and tighten funding for imports.

For Bangladesh, the ongoing depreciation of INR is a bad news as it threatens the country's garment industry. If the devaluation of INR continues, garment exports from India may at some point be more competitive and could divert garment imports away from Bangladesh. However, the equilibrium in export competitiveness may go either way between India and Bangladesh as Bangladesh is a large importer of raw materials and intermediate inputs such as cotton from India, and thus the country may now avail of the decreased cost of production, thus still enjoying a competitive edge over Indian goods. As far as Pakistan is concerned, the sharp depreciation of INR has been reported to have significantly decreased India's imports from Pakistan, mainly through Attari-Wagah land route since financial transactions between traders of Pakistan and India are carried out in US dollars. Due to the volatility in the exchange rate, Indian importers are substantially scaling down import quantities, the continuation of which will seriously affect the bilateral trade between the two countries.

Given its regional ramifications, the sharp devaluation of INR is clearly not just a problem for India, but for all South Asian countries. It is thus imperative that the free-fall of the Indian currency be stopped as soon as possible. But for now, it seems there is little that can be done to stop the depreciation. Indian Government's attempts to stop the depreciation by raising interest rates to attract more foreign investment is going to further depress the Indian manufacturing sector, which is already contracting. On the other hand, if the depreciation is left unchecked, exports are expected to rise but at the cost of rising inflation, which could get out of control. There seems to be no easy way out of this situation. Given the circumstances, policy makers are likely to let the currency float freely but hold the rise in interest rate and discourage imports; in the hope that the economy will rebound soon and the currency will stabilise. In the meantime, the rest of South Asia is left to deal with the implication of devaluated INR, decreased import demand and India's increased export competitiveness.

ANALYSIS

Managing climate change, water resources and food security in South Asia

South Asia, home to the majority of the world's poor, is one of the most vulnerable regions to climate change. The vulnerability is exacerbated by the region's geography coupled with high levels of poverty, dependence on natural resources and population density. Climate change and variability will have a significant impact on food and water security in South Asia, and will eventually affect the socioeconomic condition of the region. Hence, the ongoing impacts and future predictions of climate change is not something that the region can choose to ignore.

The consequences of climate change will impact South Asia's poor in many ways: decrease in water quantity and quality in many arid and semi-arid regions, an increased risk of floods and droughts; reduction in water regulation in mountain habitats; decrease in the reliability of hydropower and biomass production; increased incidence of waterborne diseases like malaria, dengue, and cholera; increased damages and deaths caused by extreme weather events; decreased agriculture productivity; adverse impacts in fisheries; and adverse impacts on many ecological systems, etc.

One of the major impacts of climate change, especially through irregular rainfall, flooding and droughts, is on agriculture. These impacts are likely to affect the supply of agricultural products, mainly through its impacts on productivity, yields and the availability of arable land and water. Those low income and rural population that rely on traditional agricultural systems are particularly vulnerable to these effects of climate change. As a result of these effects, climate change could hamper the achievements of many millennium development goals (MDGs), including those on poverty eradication, child mortality, malaria and other diseases as well as environmental sustainability.

The food insecurity in South Asia cannot be addressed at an individual country-level alone. Due to the trans-boundary nature of the problem, it is important to explore regional and global solutions for the problems. One option in that regard is making use of international and regional trade, through connecting food surplus countries with those that have a food deficit. It is projected that regional trade in South Asia is likely to compensate the changes in agricultural productivity in the region.

The ability to use trade as a solution to address climate change and food security in South Asia mainly depends on regional cooperation and the creation of a platform for sharing information and adaptive practices. Liberalization of trade between nations while simultaneously removing national barriers and insecurities between countries is a step that South Asia needs to take to ensure food security and enhance the ability to adapt to changing climatic conditions in the region. Also, using the South Asian Association for Regional Cooperation (SAARC) as an effective platform for tackling challenges related to water conflicts, agriculture and other climate change impacts is an immediate step that South Asian countries need to move towards.

It is thus imperative to understand and develop better water sharing mechanisms to maximise the production of staples within the region. There is also a need for research collaboration to facilitate the development of climate friendly technology tuned to South Asia. Developing a regional platform for collaborative research on food production and adaptive agriculture practices is an immediate step that South Asia needs to foster, to prevent further famine and ensure food security in the future.

Excerpts from the paper ***Managing climate change, water resources and food security in South Asia*** *prepared by SAWTEE for plenary session #2 of the 6th South Asia Economic Summit, 2-4 September 2013, Colombo.*

NEWS

Pakistan and Afghanistan agree to deeper economic ties

On 23 August 2013, Pakistan sought an "early and full implementation" of the Transit Trade Agreement with Afghanistan, and vowed to reinforce energy and communication links with its neighbour through trans-regional initiatives.

‘We believe these initiatives offer rich dividends for Afghanistan, Pakistan and the region’, Pakistani Prime Minister Nawaz Sharif said in his remarks in a joint media statement with visiting Afghan President Hamid Karzai, after holding delegation-level talks in Islamabad.

Sharif announced that the two sides, in the meeting of their finance ministers, had agreed on several projects on communications, power and railway. These included the early completion of Torkham-Jalalabad additional carriageway and initiation of other highway projects, besides the early implementation of Central Asia-South Asia Electricity Transmission and Trade Project (CASA 1000) and development of a joint hydel power project on Kunar river. The two sides also agreed on the establishment of rail links to connect Torkham and Jalalabad as well as Chaman to Spin Boldak.

Pakistan Finance Minister Ishaq Dar and his Afghan counterpart Mohammad Umer Daudzai also signed the "agreed minutes" of their meeting, which was witnessed both by Prime Minister Sharif and President Karzai.

Sharif said, ‘Constructive engagement between Afghanistan and Pakistan was good for both the countries, good for the region and good for the world’. Meanwhile, Karzai stressed the need to fully exploit the economic opportunities available for both countries.

Source: http://www.ekantipur.com, 31.08.2013.

Greater trade liberalization called for from SAARC members

SAARC Secretary General Ahamed Saleam, addressing the 7th South Asian Free Trade Area (SAFTA) Ministerial Council meeting in Colombo, called for greater reduction of sensitive lists, non-tariff barriers and aligning of customs procedures to boost trade in one of the most populous regions in the world.

According to figures available to the SAARC Secretariat, SAFTA trade has crossed the US$2.5 billion mark, which is largely due to member states reducing sensitive lists by at least 20 percent before the 17th SAARC Summit in 2011. However, Saleam admitted that SAARC is still often criticised because its regional trade is low compared to other regional organisations such as the Association of Southeast Asian Nations and Latin American Free Trade Association.

'One of the reasons cited is that the number of trade items in the region is still in the sensitive lists of the member states such as agricultural commodities. I am happy however to note that the Phase II exercise to further reduce sensitive lists and liberalize those lists have been undertaken and two meetings in this regard have already been held', he told delegates from member countries.

Saleam also acknowledged that larger volumes of trade are taking place via bilateral free trade agreements inked between SAARC members than through SAFTA but insisted that both forms could be integrated for common growth. The Trade and Services Agreement that was signed in 2007 has also been ratified and Saelam appealed to SAARC leaders to fast track its implementation.

SAFTA is an agreement reached in January 2004 at the 12th SAARC Summit in Islamabad, Pakistan. It created a free trade area of 1.8 billion people in Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016.

Source: http://www.business-standard.com, 23.08.2013.

Nepal-Pakistan cooperation in energy, tourism, agriculture

At a two-day "Nepal-Pakistan joint economic forum" meeting with a Nepali delegation in Islamabad, Pakistani Prime Minister Nawaz Sharif highlighted that the relation between Nepal and Pakistan has remained intact, sustained and fruitful despite political upheavals in both countries. He added that Nepal and Pakistan can promote mutual cooperation in energy, tourism and agriculture sectors by allowing private sectors of both the countries to take the lead.

At the meeting, Nepal and Pakistan signed an agreement to promote mutual investment in agriculture, tourism, trade, education and health sectors. On the occasion, Nepali Finance Minister Shankar Prasad Koirala stressed the need to effectively implement common policies by the respective governments to promote private sector. Stating that Nepal-Pakistan joint economic meeting has paved the way for forming a bilateral economic agenda, Koirala stressed the need for increased investment in trade. He also underlined the need to organise bilateral trade fairs on a regular basis.

Pakistani Finance Minister Mohamad Ishaq Dar said the meeting was successful and expressed hope that the understanding reached at the meeting will be effectively implemented.

Source: http://www.myrepublica.com, 21.08.2013.

Talks on SAARC visa liberalization begin

SAARC began deliberations on one of the much touted issues of the region—visa liberalization within member states—in Kathmandu on 13 August 2013.

During the fourth SAARC Summit in Islamabad (29-31 December 1988) leaders realised the importance of people-to-people contacts in member countries and decided that certain categories of dignitaries should be entitled to a special travel document, which would exempt them from visas while travelling in the region. Subsequently, the fifth SAARC Summit held in November 1990 in the Maldives decided to launch the scheme with a view to putting in place a visa free regime in South Asia. The SAARC visa exemption scheme was finally launched in 1992.

The two-day meeting of the “core group” of immigration and visa experts from all the eight member states held at the SAARC Secretariat aimed to expand the scope of the visa exemption scheme. The scheme currently entitles only a limited number of people to visa-free travel within the region. Currently, the list includes 24 categories of persons, including dignitaries, judges of higher courts, parliamentarians, senior officials, businessmen, journalists and sportspersons.

‘The presence of delegates from all the member states not only signifies the importance of this meeting, but also augurs well for its success, paving the way for the smooth functioning of the SAARC visa exemption scheme’, Secretary-General of the regional grouping, Ahmed Saleem, said in his address in the meeting.

The visa stickers issued by the respective member states to these persons are generally valid for one year. The guidelines and procedures governing the visa scheme provide for annual meetings of immigration authorities of member states in order to facilitate its smooth functioning.

The fifth meeting of immigration authorities held in Malé on 24 September 2012 had recommended holding the “core group” meeting to see if new categories of persons could be included in the visa list.

In the past, India and Pakistan were cagey over the several visa liberalization proposals due to the security concerns among the two countries. To give momentum to the process, the Asian Development Bank and the SAARC chamber of commerce and industries have prepared a draft proposal to expand the visa scheme in the grouping.

Source: http://www.ekantipur.com, 14.08.2013.

World Bank asks Islamabad to open up trade with India

In the backdrop of escalating tension due to cross-border exchange of fire, the World Bank has asked Islamabad to take action on addressing country-specific risks and open up trade with India to avoid a looming second balance of payments crisis in five years.

‘Pakistan's rebound from the global financial crisis has been slow and fragile, and unless the economy changes course swiftly, it could face its second balance of payments crisis in five years’, the World Bank warned the new government in an economic memorandum titled "Pakistan: Finding the Path to Job-Enhancing Growth".

The document was prepared on the request of the Pakistani government for a professional roadmap to the country's deep-rooted economic challenges. Among many other things, the

World Bank asked Pakistan to create "New Special Economic Zones" to attract Indian, Chinese and Malaysian firms due to their growth potential.

'In the short-term, removing distortions and completing India's normalisation process has promising growth potential to achieve a US$95 billion export target by 2015', it said. Additionally, tangible improved customs and logistics procedures at the Wagha border could deliver a visible demonstration effect.

According to the bank, Pakistan's recovery from the 2008-09 global financial meltdown has been the weakest in South Asia.

Source: http://articles.timesofindia.indiatimes.com, 14.08.2013.

SAFE 'rule book' launched

The South Asian Federation of Exchanges (SAFE) has announced the completion of the first version of its "rule book" which details uniform model of regulations for adoption by all SAARC member countries to financially integrate the region. An official of South Asian Federation of Exchanges elaborated the regulatory model prepared by SAFE to financially integrate the region.

The proposed regulations are related to market operations, market integrity, enforcement regulations and all SAFE members in Pakistan, India, Sri Lanka, Bhutan, the Maldives, Bangladesh and Nepal would be encouraged to adopt provisions of the "rule book" in order to promote market integrity, efficiency and transparency.

Project Manager of SAFE, Bushra Tahir, emphasised the need to increase cross-border financial activities within the South Asian region to create strong intra-regional links and an integrated economic region.

Source: http://dawn.com, 02.08.2013.

ACTIVITIES

Training programme for economic journalists: Budget and health sectors in Nepal

SAWTEE, in partnership with the Society of Economic Journalist-Nepal (SEJON), organised a one day training programme on "Budget and health sectors in Nepal" on 30 August 2013 in Kathmandu. The main objective of the training programme was to enhance the capacity of the participant journalists to more effectively cover issues relating to public finance, especially the national budget formulation and implementation mechanism in Nepal. Around 30 journalists from various media organisations—both print and electronic—in Nepal participated in the training. A total of three presentations were made during the training.

The training programme started with the presentation by Dr Posh Raj Pandey, Executive Chairman, SAWTEE in which various fiscal instruments that are available to the government for budget formulation were discussed. It was followed by the presentation on budget preparation and implementation mechanisms in Nepal by Mr Prithvi Raj Ligal, Former Vice Chairman, National Planning Commission of Nepal that dealt in detail with the procedures in budget preparation. The last presentation by Mr Shanta Lall Mulmi, General Secretary and Executive Director, Resource Center for Primary Health Care (RECPHEC) focused on the health sector spending in the national budget of Nepal over the years. The training programme that was actively participated by Nepal's economic journalists was applauded for its carefully chosen contents.

Nepal's preparation for the fifth session of the governing body of the ITPGRFA

SAWTEE and the Government of Nepal's (GoN) Ministry of Agricultural Development (MoAD) jointly organised a two day discussion programme on "Nepal's preparation for the fifth session of the governing body of the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA)" on 29-30 August 2013 in Kathmandu. The objectives of the programme were to brainstorm on major issues to be discussed and to identify Nepal's concerns and possible areas of collaboration with other developing and least developed countries during the upcoming governing body meeting to be held from 24-28 September 2013 in Muscat, Oman.

During the programme, experts discussed deeply on some of the critical articles of the ITPGRFA such as, multilateral system of access and benefit sharing, standard material transfer agreement (SMTA), farmers' rights, and sustainable use of plant genetic resources. They also discussed the linkages between the Convention on Biological Diversity (CBD) and ITPGRFA, and its implications in Nepal. At the end of the programme, a list of agendas to be raised during the governing body meeting by the GoN was prepared. Some of the agendas include—expansion of crops to be included in the multilateral system of access and benefit sharing, simplifying the SMTA and making it more accessible to farmers and their organisations, need for technical assistance and technology transfer, strengthening and expanding farmers' access to funding, and increasing the duration of the cycle of the projects offered by benefit sharing fund from two to three years.

Dr Prabhakar Pathak, Joint Secretary at MoAD and focal person of the ITPGRFA, appreciated the work of SAWTEE, especially for organising policy dialogues in a participatory way and assisting the government in the policy formulation and international negotiations. He further stated that he would put his complete effort to raise and lobby for the listed agendas at Oman. A total of 17 participants including government officials from MoAD, senior scientists from Nepal Agricultural Research Council, representatives of different civil society organisations, experts, and farmer representatives from community seed banks contributed to the discussion.

Access and benefit sharing in relation to crop genetic resources

SAWTEE organised a discussion programme on "Access and benefit sharing in relation to crop genetic resources" on 5 August 2013 in Kathmandu in association with the Fridtjof Nansens Institute (FNI), Norway. The programme was organised as part of a study project being implemented in Nepal and India by SAWTEE in collaboration with the FNI.

Ms Tone Winge, Research Fellow, FNI, provided an overview of the project and said that conditions for the successful implementation of three international agreements—Convention on Biological Diversity (CBD), International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) and Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)—need to be identified so as to create synergies in the management of crop genetic resources and to address the turf struggles between these three agreements.

Dr Posh Raj Pandey, Executive Chairman, SAWTEE, said that though crop genetic resources are important for agriculture as well as the country's economy, issues related to access and use of such resources are becoming complex and controversial in recent years. Therefore, legal mechanisms that recognise communities' rights over such resources and their knowledge are required for promoting fair and equitable sharing of the benefits arising out of the utilisation of such resources. Mr Puspa Sharma, Research Director, SAWTEE, stated that the lessons that would be derived from the experiences of Nepal and India under this project would be beneficial to other developing countries and least-developed countries. Dr Anitha Ramanna-Pathak, consultant from India, said that despite having enacted some of the relevant laws, India is still in the process of understanding how benefit sharing should be made to work for the communities.

In the technical sessions, participants discussed in detail about the above-stated three international agreements and issues related to their implementation in Nepal. About 35 participants representing government organisations, civil society and research institutions actively participated in the discussion programme.

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