Trade, Climate Change and Development Monitor

Monthly E-Newsletter of South Asia Watch on Trade, Economics and Environment (SAWTEE)

Volume 10, Issue 2, March 2013

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OPINION IN LEAD

Is South Asia driving global human development?

The rapid human development progress in the developing world has been one of the most promising developments in recent years. According to the 2013 Human Development Report - *The Rise of the South: Human Progress in a Diverse World*, transformation of many developing countries into dynamic major economies is driving the global rise in human development.

"Over the past decades . . . all groups and regions have seen notable improvements in all Human Development Index (HDI) components, with faster progress in low and median HDI countries," says the Report. Although most developing countries made significant progress, a few have done particularly well, mainly India.

India's economic takeoff began with about one billion people and doubled output per capita in less than 20 years. With an HDI value of 0.554 in 2012 (0.410 in 1990), India has averaged 4.7 percent income per capita growth a year over 1990-2012 and has dramatically reduced the proportion of its people living on less than US$1.25 a day from 49.4 percent in 1990 to 32.7 percent in 2010. In 2010, India's trade to output ratio was 46.3 percent, up from only 15.7 percent in 1990. Foreign direct investment also reached 3.6 percent of gross domestic product (GDP) in 2008, up from less than 0.1 percent in 1990.

With exports representing 14.5 percent of its GDP in 2010, India is a prime example of human development and economic progress. However, other South Asian countries like Sri Lanka and Bangladesh have also demonstrated significant progress in recent years despite their small economic size. Sri Lanka and Bangladesh have averaged 4.4 percent and 3.9 percent yearly per capita income growth over 1990-2012, and improved their HDI value from 0.608 and 0.361 in 1990 to 0.715 and 0.515 in 2012 respectively. Both countries have sustained growth by increasing public investments overtime while avoiding fiscal deficits.

Despite the significant progress made by a few South Asia countries in recent years, the progress of the region as a whole is far from impressive. The region still faces many challenges and shelters many of the world's poor. Although South Asia reduced proportion of its poor from 61 percent in 1981 to 36 percent in 2008, more than half a billion people still live on less than US$1.25 per day. Furthermore, in 2012 the region had one of the lowest HDI value (0.558) following Sub-Saharan Africa (0.475). South Asia also had an average gross national income per capita of only US$3.343 compared to the global average of US$10.184. In addition, according to the Multidimensional Poverty Index (MPI), an alternative to income-based poverty, multidimensional poverty is high in South Asia with 58 percent in Bangladesh, 49 percent in Pakistan and 44 percent in Nepal.

Clearly, human development progress and economic growth in India—South Asia's biggest economy—has not yet translated into the overall progress of the region. While India, Sri Lanka and Bangladesh are reshaping ideas about how to attain human development, other countries in the region like Nepal and Pakistan have made little contribution to the rise of the South. Fortunately, countries lagging behind can learn and benefit from the success of other developing countries, mainly India. Through regional trade, finance and technology transfer, India can and has been providing other South Asian countries with affordable capital goods and investment funds. In fact, the Reserve Bank of India recently announced a US$2 billion swap facility for members of the South Asian Association for Regional Cooperation (SAARC). Subsequently, South Asian countries need to realize that the most important source of economic growth in the future is their domestic market. The middle class in South Asia is not only growing in size but also in median income. It is estimated that by 2025, the developing world will account for three-fifths of the one billion household earning more than US$20,000 a year.

Going forward, it is important for South Asian countries to make policy and structural changes in preparation to deal with long-term environmental challenges. The Report argues that environmental threats such as climate change, natural disasters and deforestation are likely to have a greater negative impact on poor developing countries. Under the "environmental challenge scenario" which accounts for adverse effects of global warming on agriculture production, access to clean water and pollution, the average regional HDI value in South Asia is estimated to be 12 percent lower than the world average.

Similarly, an accelerated progress scenario suggests that by 2050 aggregate HDI in South Asia could rise by 36 percent, given nations commit to policy changes aimed at enhancing equity. However, the cost of inaction will rise, especially for low HDI countries including India, says the Report. According to the report, India will soon surpass China as the most populated country. India is thus likely to face many demographic and social challenges in the coming decades which could also have a negative impact on the overall development of South Asia.

Based on Human Development Report. 2013. The Rise of South: Human Progress in a Diverse World, United Nations Development Programme.

ANALYSIS

Can trade restrictions be justified on environmental grounds?

Carbon markets look green around the gills. The price of carbon on Europe's emissions-trading system has slumped. Barack Obama's hope of getting a cap-and-trade proposal through Congress seems as distant as ever. There is also no sign of action in places like India and Brazil. But it is easy to forget how far carbon markets have come. They exist or are on their way in Europe, Australia, California, China and South Korea. One day, carbon prices will vary greatly between countries.

When they do, those with higher carbon prices will be at a competitive disadvantage because the cost of emitting carbon will be embodied in the overall price of goods, raising them relative to goods produced in countries with no or low carbon prices. A new study *Greenprint: A new approach to co-operation on Climate Change* by Aaditya Mattoo of the World Bank and Arvind Subramanian of the Centre for Global Development, looks to quantify this disadvantage. They reckon that, if rich countries were to impose unilateral restrictions upon themselves to reduce their carbon emissions in 2020 to 17 percent below what they had been in 2005, the measure would cut exports of energy-intensive manufactured goods by 12 percent in America, and boost US imports of those goods by four percent.

Would a border tax be justified to offset this competitive disadvantage? The idea, the two economists argue, would not necessarily be protectionist. If domestic producers are required by law to purchase carbon allowances—i.e., to pay a carbon price, which is incorporated into prices of the final product—then this is like a consumption tax. Trade law permits consumption taxes to be levied on imports to level the playing field between importers and domestic producers (though, admittedly, the World Trade Organisation has not yet decided whether carbon tariffs are permitted).

In addition, border taxes on carbon can be justified on the ground that they align incentives behind the goal of cutting carbon emissions. "If you only impose restrictions on greenhouse-gas emissions from domestic sources, you give consumers no incentive to avoid purchasing products that cause emissions in other countries," argues Prof Krugman in his blog. If the makers of those products are dirtier and more polluting, the result would be an increase in emissions.

While the idea might be defensible in theory, in practice however, carbon tariffs could be abused for protectionist purposes. The obvious way would be to set a tariff based on the carbon content of imports. For instance, if America had a carbon price of US$10 a tonne and if 20 tonnes of carbon were emitted during the production of, say, a Malaysian car, then America could impose a carbon tariff of US$200 on cars imported from Malaysia. But there are two problems with this approach.

First, this tax would be difficult to implement since a car from Malaysia made of steel imported from energy-efficient Brazil should presumably be taxed at a different rate from the same Malaysian model made of steel from energy-inefficient Russia.

The second problem is that the tariffs would be punitive. Emerging markets like China and India use a lot of carbon in their manufacturing: more than 500 tonnes for every US$1m of output. By comparison, America uses 200 tonnes and Europe and Japan less than 100 tonnes. So the tariff required would have to be huge: rich countries would impose a 21 percent tariff on Indian manufactures and 26 percent for goods made in China, reckon Messrs Mattoo and Subramanian. This would hammer the giants' manufacturing: the economists calculate that such a tax would mean a 20 percent cut in Chinese manufactured exports and a 16 percent fall for India. Environmentalists might applaud, but such a drastic reduction would produce a slump in world trade—the two economists reckon global welfare would fall by one percent.

Fortunately, this is not the only sort of carbon tariff. The authors suggest that it would be better to impose a tax on imports which is based on the carbon content of domestic production (i.e., by assuming that imports contain an amount of embedded carbon equal to that in goods made in America or Europe). This approach would tax imports uniformly, applying the same rate to goods from dirty India as from greener Brazil. But it would be easier to calculate, and has the advantage of not slashing trade. Manufactured exports would decline by only three percent in China and India, the economists calculate. This strikes a better balance between taxing emissions and not wrecking the world economy.

But, there is a final twist. Trade theory says a tax on imports is equivalent to a tax on exports because it changes the relationship between domestic and foreign prices in the same way. So a carbon tariff would penalise exporters twice: once when they pay the domestic carbon price and again, indirectly, through the border tax. The authors suggest an import tax based on the carbon content of rich countries' production but with a rebate for exporters. This reduces the competitive losses of American and European energy-intensive manufacturing and moderates the impact on Chinese and Indian manufactured exports without changing the cut in global carbon emissions. Their analysis is bittersweet, however. Messrs Mattoo and Subramanian provide an answer to how a system of carbon tariffs might be designed. But in so doing, they show the practical and political complexities involved.

Adapted from The Economist, 23.02.13.

NEWS

TRIPS Council: LDC extension take centre stage

WTO members at the 5-6 March meeting of the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) discussed a proposal by least developed countries (LDCs) to extend their transition period for implementing the organisation's intellectual property rules, which is set to expire this July.

When the WTO agreements entered into force in 1995, LDCs were given until 1 January 2006 to implement the obligations contained in the then-newly adopted WTO TRIPS Agreement. In 2002, the LDC transition period was extended until 2016 for pharmaceutical patents, with a later 2005 decision extending the period for all intellectual property (IP) rights until July 2013. At the WTO's 2011 Ministerial Conference, trade ministers directed the TRIPS Council "to give full consideration to a duly motivated request from least developed country members for an extension of their transition period," in light of the impending deadline.

In this context, Nepal presented on the LDC Group's behalf a proposal—first tabled by Haiti at last November's TRIPS Council meeting—that would extend the period for such members to enforce the TRIPS Agreement until a given country "cease[s] to be a least developed country member." "[LDCs] have not been able to develop their productive capacities, which limit their meaningful integration into the world economy [and] continue to be characterised by multiple structural constraints that include low per capita income, low level of human development, and extreme vulnerabilities to external shocks," Nepal noted. Non-LDC developing countries voiced their support for the extension proposal. India, for instance, indicated that the provisions of TRIPS Article 66.1, upon which the LDC request is made, "are precise and provide no discretion to the TRIPS Council to either deny the request or impose any further conditions on the LDCs." Developed countries, for the most part, also supported the principle of an extension of the transition period, while saying that further consultations are needed on its modalities. The EU, for its part, said that any extension of the transition period should be based on assessment of "the reality on the ground."

Despite there being overall support regarding the possibility of an extension, members did not specify whether this should be granted for as long as a country remains an LDC—as per the LDC Group's proposal—or whether another deadline should be set. The extension proposal has been publicly backed by the Director of the World Health Organization, along with the United Nations Development Programme and the UNAIDS. In addition, around 375 civil society organisations have co-signed a letter calling on WTO members to unconditionally agree to an extension of the transition period, in line with the terms of the LDC Group's request.

The topic will be examined at the upcoming TRIPS Council meeting in June, ahead of the July expiration date.

Source: Bridges Weekly Trade News Digest, Vol. 17, No.8, 06.03.13.

Bangladesh overtakes Sri Lanka as India's largest trade partner in South Asia

Bangladesh has overtaken Sri Lanka as India's largest trading partner in South Asia with total trade volumes expected to be more than US$5 billion in the current financial year, says an India Commerce Ministry official. Between April (2012) and January (2013) in the current fiscal year, India's trade with Bangladesh rose to US$4.5 billion from US$3.3 billion in the year earlier. During the same period, India's trade with Sri Lanka fell to US$3.5 billion from US$4.2 billion.

There has been rise in agricultural exports to Bangladesh, while imports has also increased due to concessions in duty on textiles. On the other hand, the fall in trade with Sri Lanka has been attributed to the increase in customs duty by Sri Lanka on Indian automobiles starting April 2012. Sri Lanka has also substantially increased the excise duty on automobiles. In April-December of the current fiscal year, India's automobile exports to Sri Lanka were US$357 million as against US$1 billion in 2011-12.

"Bangladesh itself is a fast-growing economy. They have recorded something like six percent growth consistently. It is a large market, 150 million, with a growing middle class. So Bangladesh itself, apart from the export opportunities or the opportunities of access to India, presents a number of opportunities," Indian foreign secretary Ranjan Mathai said.

Source: www.theindependent.lk, 13.03.13.

Pakistan, Tajikistan and Afghanistan to sign trilateral transit pact

Construction of the railway link connecting Tajikistan, Afghanistan and Turkmenistan as well as implementation of the Central Asia-South Asia Electricity Transmission and Trade Project (CASA 1000) were the focus of a meeting of Tajik President Emomali Rahmon with Afghan Foreign Minister Zalmai Rassoul that took place in Dushanbe on 29 March.

According to the Tajik president's official website, the sides also discussed cooperation between relevant bodies of the two countries for implementation of ambitious regional projects. They reportedly expressed hope that a trilateral trade and transit pact would be signed between Tajikistan, Afghanistan and Pakistan which would pave the way for further expansion of trade and economic cooperation between the nations. President Rahmon noted that Tajikistan was ready to provide assistance to Afghanistan with training of personnel for its railway and other sectors. The sides also discussed regional security and a number of other issues which are of mutual interest, the source said. Afghanistan and Pakistan had signed a memorandum of understanding (MoU) for the Afghan-Pak trade transit agreement (APTTA) in July 2010. The two nations also signed a MoU for construction of rail tracks in Afghanistan to connect with Pakistan Railways.

Source: www.nation.com.pk, 31.03.13

Despite tension, India eyes trade with Pakistan

Despite a spike in tensions between South Asia's nuclear rivals, India's ambassador said on 22 March that her country wants closer trade ties with Pakistan. Nirupama Rao, New Delhi's envoy to Washington, also said that overland trade from war-battered Afghanistan to India via Pakistan would be a boon to regional stability. Her comments at a public meeting come despite a fraying in recently improved relations between the nuclear rivals that was driven by the mutual benefit each would get from more commerce. Rao did not directly address the current tensions but said whatever their differences, India and Pakistan cannot ignore the fact they are close neighbours. She said it was "very encouraging" that Pakistani businessmen in particular have a great desire to open trade with India. Much of the current trade goes through third-countries or illegal channels.

Pakistan announced in late 2011 that it would grant India most favoured nation (MFN) trade status, which would reduce tariffs. That step was seen as significant as it signaled support from Pakistan's powerful army for more trade as the troubled nation's economy stutters. Last September, the two countries signed a visa agreement to ease travel for business people and tourists.

"Pakistan has assured us that it is going to provide MFN status to India. We are waiting for that decision to be announced formally and implemented. That will certainly boost confidence and clear the way for closer trade ties," Rao said. The ambassador also made a pitch for the prospect of more trade from Afghanistan, which has itself been a source of India-Pakistan dispute as the two countries have vied for influence in the region. Rao said Afghanistan is a potential trade hub linking Central and South Asia. "We have to insure Afghanistan can fulfil that role for its own stability and well-being and our well-being in the region. Transit and trade for Afghanistan through Pakistan into India is important in that context," she said.

Source: *www.dawn.com*, 27.03.13.

Asian giants tiptoe toward free trade deal

China, Japan and South Korea are inching ahead with talks for a free trade zone that would rival the European Union and North America in economic heft. Despite the achievement of setting aside their often acrimonious relations to begin negotiations, progress will be slow. An agreement to start talks took 10 years.

After three days of meetings in Seoul that finished on 8 March, South Korea said officials agreed to hold two more rounds of negotiations this year, with the second meeting to be held in China either in June or July. Negotiations will cover goods, services and investment and might be extended to intellectual property rights and electronic commerce. Trade between the three Asian powers totalled US$684 billion in 2011, an increase of more than five times from 1999, underlining Asia's growing weight in the world economy after more than two decades of breakneck growth in China and the earlier rise of Japan and South Korea as manufacturing powerhouses.

The progress toward a free trade zone that would be the world's third largest could easily be interrupted by any flare-up in political tensions. A separate Japan-South Korea trade deal has languished since talks were halted in 2004 as they could not narrow disagreements over opening agricultural trade. Negotiating a three-way deal among countries at different stages of development, and each with industries lobbying for protection from competition is by itself a complicated affair.

"Usually, it takes around one to three years at the least to conclude FTA talks with a large trading partner, but I think the ongoing talks may take some more time, considering the importance and size of the involved countries and the fact that there are three-way negotiations," Choi Kyong-lim, South Korea's chief negotiator, told reporters according to Yonhap.

The talks between China, Japan and South Korea come amid a slew of moves to lower trade barriers as nations seek to reinvigorate economic growth that is still lagging in the aftermath of the 2008 global financial crisis.

Source: www.thenewstribune.com, 29.03.13.

India cabinet approves food security bill

The Indian cabinet has approved an ambitious plan to subsidise food for two-thirds of the population. The Food Security Bill proposes to make food a legal right and seeks to provide 5kg of grain every month to some 800 million poor people. The bill proposes to provide a kilo of rice at three rupees, wheat at two rupees and millet at one rupee.

Millions live below the poverty line, and many children are malnourished in India.

The scheme is likely to cost 1.3 trillion rupees (US$23.9bn; £15.8bn) every year. The bill will now go to parliament for discussion and approval, Food Minister KV Thomas said on 19 March.

The bill was an election promise made by the ruling Congress party and, correspondents say, its implementation will help the party in general elections due next year.

Source: www.bbc.co.uk, 19.03.13.

EU carbon tax may hit Indian carriers' Europe flights

Indian carriers apprehend that if European Union persists with “illogical demand” of carbon tax, then their flights to Europe could be affected. On the other hand, the Government has made it clear that no Indian carrier has submitted emission details to European Union. At present, Air India and Jet fly to Europe while Kingfisher flies to London but has now withdrawn its service.

India joins China in asking its airlines to boycott the European Union's carbon scheme.

“Though the European Union has directed Indian carriers to submit emission details of their aircraft by 31 March 2012, no Indian carrier is submitting them in view of the position of the Government,” Mr Ajit Singh, the Civil Aviation Minister, replied in *Rajya Sabha,* the upper house of the Parliament of India. Hence, the imposition of carbon tax does not arise, he added. He also explained that pursuant to the adoption of the Moscow Declaration of 22 February 2012 by over 30 countries on the European Union-Emission Trading Scheme (EU-ETS), a basket of measures are available to the Government as counter measures. He said, “Depending upon EU's consideration of the resolution of Moscow Declaration, appropriate retaliatory measures would be undertaken by all signatories to the Declaration and also other nations wishing to join.”

Since January, all airlines using EU airports became liable to pay for carbon emissions, but carriers will not be handed a bill until next year. Initially, they will also be given free allowances to cover the bulk of the cost. The 31 March deadline is one of a series of deadlines for airlines to comply with the various EU requirements.

Source: www.thehindubusinessline.com, 23.03.13.

India's poverty cuts slower than Nepal, Bangladesh: study

India is lagging behind its neighbours Nepal and Bangladesh in reducing poverty, according to a study from Oxford University. Nepal and Bangladesh were among the best performers out of 22 countries when it came to reducing their multidimensional poverty index (MPI), which reflects deprivation in health, education and living standards rather than simply income levels.

India's MPI reduced by 1.2 percentage points between 1999 and 2006, whereas Nepal saw its percentage of poor people drop by 4.1 percentage points a year between 2006 and 2011, the report found.Bangladesh's poverty rates were down by 3.2 percentage points a year between 2004 and 2007, said the Oxford Poverty and Human Development Initiative, which carried out the analysis released on 18 March. Researchers described India's performance as "positive" but said "progress has been made at less than a third of the speed of some of its neighbours, which are significantly poorer in terms of income". According to the World Bank, India has a gross national income per capita of US$1,410 , against US$780 in Bangladesh and US$540 in Nepal. The study said the share of deeply poor people in India decreased from 26.4 percent in 1999 to 19.3 percent in 2006—the latest year for which data was available for the study.

India's MPI reduction was especially slow in the nation's poorest states and among the poorest groups such as tribes, Muslims and households headed by women. "Nearly a fifth of the Indian population—more than 200 million people—were still deeply poor in 2006," said the report, which stressed that the success of low-income countries proved that progress was possible. "In Nepal and Bangladesh, at least, an active, vocal, and at times disgruntled civil society has clearly played a role, as has the rise of women's voices in politics as well as civil society," said researchers.

The MPI is calculated by looking at 10 indicators at a household level such as school attendance, nutrition and sanitation. It is used in the United Nations Development Programme's Human Development Report.

Source: Economic Times, 19.03.13.

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