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CONTENTS

OPINION IN LEAD

Financing trade facilitation: Need for regional cooperation

For trade liberalisation to allow developing economies become part of the global supply chains, and benefit them through some of the extensively documented impacts of global trade, including the whole notion of export-led growth, transfer of technical know-how and so on; trade facilitation can be a key means.

It has been highlighted time and again that South Asia is one of the least integrated regions in the world, with the combined share of nearly 2 percent of world trade, despite 20 percent share in world population. Moreover, intra-regional trade constitutes a miniscule 5 percent of the total trade of the region, which speaks volumes about the importance of strengthening regional economic cooperation and ensuring better intra-regional trade facilitation.

Unfortunately, physical infrastructural bottlenecks in the form of poor transport and communication facilities, archaic procedural requirements and outmoded customs environment marred by inefficiencies and red tapism, are some major stumbling blocks to both intra- and inter-regional trade in South Asia. Coupled with the physical infrastructural gridlocks are the regulatory constraints introduced at the gateways and border crossings that makes trade facilitation a challenging affair in South Asia.

A recent study conducted by a Delhi-based think tank, Research and Information System for Developing Countries (RIS) for the Asian Development Bank and the UN Economic and Social Commission for Asia and the Pacific has detailed how trade through three key corridors in the four countries viz., India, Nepal, Bangladesh and Bhutan faces major delay because of tardy procedural clearances. For example, procedural approvals for both importers and exporters to transport pulses from Nepal to Bhutan via India takes at least 23 days. Bilateral coordination is at the helm of the affairs as delays on one side of the border might be a consequence of tedious and cumbersome procedures and/or poor communication and coordination across the border. This situation calls for concerted efforts towards introducing necessary changes in trade procedures.

Though an arduous task, yet extremely worthwhile would be strategic negotiations of effective bilateral and multilateral trade and transit agreements, along with the simplification and harmonization of border procedures to facilitate trade diversification. Effective implementation of the initiatives proposed by the World Customs Organization (WCO) such as standardizing commodity codes, introducing a single declaration form, introduction of computers for processing customs data and ensuring transparency, could also bring about much needed improvements in antiquated custom procedures. Investment in infrastructure, especially provision and maintenance of transport services and increasing efficiency of border crossings would also largely contribute to improving corridor performance. This necessitates development and maintenance of road and rail transport services, and supporting private sector involvement wherever viable. Also, the initiatives for trade facilitation need to be focused in major intra-regional trade corridors.

Against this backdrop, the establishment of the SAARC Development Fund (SDF) and other such initiatives can go a long way in funding the infrastructure deficits in the South Asian region, thereby providing a fillip to a host of other trade facilitation related activities. First proposed by Bhutan at the 15th SAARC summit, SDF became fully operational in 2010 to compensate for the inadequacies of the existing South Asian Development Fund (SADF). SDF operates through three Windows, viz. social, economic and infrastructure. Currently, under the ‘Social Window’, various projects are under implementation in SAARC countries. Meanwhile, SDF is also in the process to operationalize the ‘Economic’ and ‘Infrastructure’ Window to try and step up the tempo of economic growth and infrastructure development in SAARC countries. The ‘Economic Window’ shall primarily extend funding to non-infrastructural projects related to trade and industrial development, agriculture, service sector, science and technology and other non-infrastructure areas.

Among the recent developments, India is considering the establishment of a South Asian development bank that will fund infrastructure projects and promote trade in the region. If implemented, this initiative can be seen playing a critical role in facilitating trade within the eight-member SAARC. As stated recently by the official in the Commerce Department of India, "Most of the non-tariff barriers are an infrastructure deficiency which needs money. So the trade facilitation is actually a question of finding money. That is what the South Asia Development Bank will facilitate”.

It is therefore, essential to coordinate strategies for enhancement and growth of trade in South Asia with a concrete funding mechanism at the forefront backing the initiatives directed towards improving logistics to ensure smooth economic integration among the countries in the region. Improvement in trade facilitation arrangements have to move in tandem with greater mutual trust and cooperation between the South Asian nations.

ANALYSIS

Rising income inequality: A menace to global economic stability

After years of sluggish growth, with the United States (US) in the driving seat, the global economy is now slowing bouncing back. But while many are optimistic about the future, income disparities in countries all around the world are worsening, which is threatening the stability of the global economy. The growing concern for income inequality was clearly visible at the World Economic Forum’s annual meeting in Davos, Switzerland where income disparity was the dominant theme. In line with the theme, Oxfam, the British relief charity, released a report—*Working For the Few: Political Capture and Income Inequality*, which revealed that in the past quarter of a century, wealth has become highly concentrated in the hands of a few people. According to the Report, almost half of the world’s wealth is now owned by just one percent of the population, while the bottom half of the world’s population owns less than the richest 85 people in the world.

The widening income gap comes amid strong economic growth and an overall increase in national wealth in some major developing countries. But the uneven distribution of wealth in these countries has immensely contributed to greater inequality. Unfortunately, data on the share of national income going to the rich are not available in the developing countries, and other measures of income inequality, such as the Gini coefficient, are also scarcely available. None the less, according to the latest available data (World Development Indicators 2013), the Gini index in South Asia ranges from 28 (Afghanistan) to 39 (Bhutan), an indication that Afghanistan has had the most equitable distribution of income over the years, while income/wealth is most unequally distributed in Bhutan. Meanwhile, the distribution of income/wealth is highly skewed with more than quarter of the total national income/wealth in the hands of the top 10 percent of the national population in all South Asian countries, except Afghanistan. According to the Oxfam Report, rising levels of inequality are a prominent feature of middle-income countries like India and Pakistan, where—the richest 10 percent of the population have acquired a much greater share of national income than the poorest 40 percent over the past 30 years, with the trend set to continue. Note that this is not a trend confined to the developing world; even high-income G20 countries (except South Korea) are currently experiencing rising inequality.

While a certain level of income inequality is needed to drive growth and innovation by rewarding those who take entrepreneurial risks, extreme high levels of wealth concentration is a significant threat to inclusive political and economic systems. Equality of opportunity is a core tenet of inclusive societies, and recent evidence shows that income inequality and inequality of opportunity are highly correlated. Therefore, if rising income inequality is left unchecked, its consequences will certainly undermine much needed economic growth, but also challenge the social and political order as political institutions and governments continue to serve the interest of the economic elites. Moreover, income inequality can also contribute to other forms of inequalities based on gender, ethnicity and several other factors; though not exclusively caused by economic inequality. Due to these consequences, chronic income inequality can stunt long-term economic growth, making it more difficult to reach many of the targets set by the Millennium Development Goals (MDGs), mainly the target of reducing the proportion of people living on less than US$1.25 a day by a half.

In the case of South Asia, despite incredible economic progress made by many South Asian countries in the recent past, poverty and inequality remain a growing concern. Moreover, government spending on the needs of the poorest and most vulnerable groups remains remarkably low. For instance, in the past decade, India has produced more than 50 billionaires, but according to the World Bank data (2010), more than 32 percent of the population still lives on less than US$1.25 per day. The Oxfam Report argues that the concentration of wealth has largely been made possible by the coaction of government and powerful groups, whereby the economic rules of the game are rigged in favour of the elites. This practise of rigging the system is visible in South Asia’s second largest economy, where tax avoidance and regressive tax systems have enabled the already wealthy to accumulate more wealth while squeezing the middle class and the poor, which is preventing the growth of a vibrant and strong middle class, and perpetuating Pakistan’s widening economic and political inequality.

Fortunately, the global trend of rising income inequality can be reversed. Countries like Brazil, Mexico and Argentina have successfully reduced inequality in the last decade through progressive taxation, public services, social protection and decent work opportunities. However, particular combination of policies required to reverse rising economic inequalities should be tailored to each national context. In the case of South Asian countries, a notable first step should be to strengthen the political representation of the poor and the middle class so that the political system does not favour the few but rather the majority.

Based on Oxfam Report - Working For the Few: Political Capture and Income Inequality presented at World Economic Forum’s annual meeting in Davos-Klosters, Switzerland, 22 - 25 January 2014.

NEWS

India, Nepal amend bilateral transit treaty

India and Nepal have formalised an amendment to the 'Export Procedure' prescribed under the Memorandum to the Protocol to the Nepal-India Treaty of Transit for goods of third country origin exported from Nepal. According to the earlier procedure, only goods of Nepalese origin were allowed to be exported through India to third countries. This restriction has now been removed and now goods of non-Nepalese origin would also be allowed transit through India for export to third countries.

This provision would facilitate Nepal's genuine third country export which may be required for re-export of goods imported into Nepal for display in fairs and exhibitions. The amendment would also facilitate re-export of third country origin capital goods from Nepal to third countries for repair and return and also re-export of rejected goods from Nepal. Most importantly, the change would facilitate Nepalese business as it would allow re-export of goods imported from third countries into Nepal after some value addition in Nepal for which a legal provision was made in Nepal's Finance Act 2009.

There are two other important trade facilitation measures which were discussed by the two sides in the last Nepal-India Inter-Governmental Committee (IGC) meeting held in Kathmanduin 2013 pertaining to allowing movement of imported vehicles on their own power from Kolkata port into Nepal, and facilitating the import of bulk cargo into Nepal by operationalisation of multi-modal transport link from Kolkata port through Jogbani-Biratnagar and Sunauli-Bhairahawa land routes.

Proposals for making these amendments in the Treaty of Transit have already been finalised by the Indian government and are presently under consideration by the Nepal government. Once finalised, these measures would further facilitate Nepal's transit trade through India.

Source: http://www.business-standard.com, 31.01.2014.

Fair Pakistan-India market access, 24/7 truck trade agreed

Commerce ministers of Pakistan and India have reaffirmed the commitment of their governments to expeditiously establish normal trading relations and provide Non-Discriminatory Market Access (NDMA) on a reciprocal basis. The provision of non-discriminatory market access to Indian companies by Pakistan is an indirect and informal way of granting Most Favoured Nation (MFN) status to the neighbouring country, which had already granted that status to Pakistan.

In a meeting in New Delhi, trade ministers of the two countries agreed to allow 24 hours non-stop movement of trucks and containers through their main Wagah-Attari land route, as earlier the trade was limited to just 8 to 10 hours of daytime.

In yet another major step, the two ministers also approved a liberalised visa policy for businessmen to help expand bilateral trade. The ministers also agreed that both sides will convene the meetings of the technical working groups of Customs, Railways, Banking, Standards organisations and Energy to devise the modalities for effective implementation of all requisite measures.

Moreover, Pakistani Commerce Minister said that Pakistan's central bank had proposed its Indian counterpart to grant banking licences to three Pakistani banks, a move which would be reciprocated by his side.

India and Pakistan had started negotiations to normalise trade ties in January 2011 and had made several concessions for each other before the talks came to an abrupt halt last year due to violence across the Line of Control in Kashmir. Two years ago, the two countries set a goal of taking bilateral trade to US$6 billion by 2014, which now stands at around US$3 billion.

Source: http://www.nation.com.pk, 19.01.2014.

Pharmas in Nepal demand removal of non-tariff export barriers

Pharmaceutical entrepreneurs in Nepal have urged the government to remove non-tariff barriers to exporting their products to India. They said that additional duty and lengthy paperwork had been slowing exports of allopathic medicines and herbal products to the southern neighbour.

According to the Association of Pharmaceutical Producers of Nepal (APPON), exporters have to pay additional duty besides going through lengthy procedures to register their products and get them certified by Indian authorities. APPON General Secretary Deepak Prasad Dahal said countervailing duty was levied on allopathic and ayurvedic medicines exported to India. "After registering the pharmaceutical products with the Indian authorities, traders have to wait for at least another seven months to get them certified by labs in India," he added.

According to Dahal, *ayurvedic* medicines too have to be put through the tedious process before they can be shipped to India. "However, herbs in raw and unprocessed form can be exported to India easily," he added.

Criticising the government policy, APPON's President Umesh Lal Shrestha said that Indian products which are banned in India were being registered without any hindrance in Nepal. He also demanded that the government restrict imports of general medicines that are being produced in Nepal. As per an APPON study, Nepal is self-reliant in 77 types of general medicines. "However, the government is providing licences to sell products that could face duplication in the domestic market."

Shrestha also urged the government to facilitate sales of Nepali products when supplying subsidised medicines in rural areas. "The government buys NPR3 billion worth of medicines annually for distribution to the poor, and most of the procurement contracts go to foreign-based companies," he added. According to Shrestha, the bidding process for Nepali pharmaceuticals is too complicated compared to the conditions applied to foreign-based companies.

Meanwhile, the Department of Drug Administration (DDA) said it had started work to restrict sales of foreign allopathic medicines which are being manufactured locally in a bid to protect domestic industry. Narayan Prasad Dhakal, drug administrator at the DDA, said they had started discussions with stakeholders. "We have been discussing whether to put these general medicines in the negative list or impose similar technical barriers in order to reduce their imports," he added.

Source: http://www.ekantipur.com, 07.01.2014.

Afghan transit trade continued to divert to Iran during 2013

According to a recent study carried out by the Pakistan-Afghanistan Joint Chamber of Commerce and Industry (PAJCCI) in both the countries, the transit trade via Chaman (Spin Boldak), Balochistan, Pakistan is currently five percent of what it was during 2010, while the transit trade via Pakistan as a whole has fallen about 75 percent from June 2011.

The traders, who contributed to the PAJCCI research study, list several reasons behind the decline of Afghan transit trade via Pakistan. Amongst a host of others, these include out-dated and under-powered trucks, a depilated road infrastructure near the border points of Chaman and Torkham, and "unnecessary delay" at Customs for weeks, due to which Afghan traders have to incur avoidable detention and demurrage charges. Apart from these impediments, they pointed out a set of issues, which a senior trade observer called the "security overkill", referring to the three requirements of (a) bonded carriers (private trucks hired on rent or road charges), (b) financial securities, and (c) tracking devices.

Voicing their concerns, the observers demanded that the requirements of bonded carrier and insurance guarantee be abolished, saying that tracker devices and the documentation trail of the goods in transit are sufficient to nail the perpetrators in the case of any unlawful pilferage enroute.

Another two major issues perceived to be hurting the Afghan transit trade via Pakistan fall in the sphere of macroeconomic urgency and political economy. The trade observers from the Pakistani side opined that macroeconomic imperatives of increasing revenue collection has diverted the focus of the Federal Board of Revenue (FBR) away from streamlining the Afghan transit trade, since transit trade does not yield any customs duties.

The confluence of all these factors, the study says, has reportedly diverted Afghan transit trade from Pakistan to Iran despite the fact that Afghan traders prefer to use Pakistan as their transit point because of the ease of access, as well as tribal or otherwise historical relations.

According to a briefing paper for the Planning Commission of Pakistan, Iran enjoyed 25 percent share of Afghanistan's total transit trade in 2010, against Pakistan's share of 34 percent. Iran's share in Afghan transit trade has now reportedly gone up to 60 percent, according to some traders and officials.

Source: http://www.thenews.com.pk, 03.01.2014.

Sri Lanka included in new GSP of European Union

Many European Union (EU) Generalised Scheme of Preferences (GSP) beneficiary economies have witnessed an end to their benefits on 1 January 2014 with the activation of the new GSP scheme. However, some notables, including Sri Lanka has clinched 10 more years of this promising lifeline from the world's largest trading bloc.

The EU is the largest economy and the largest trading block in the world, acting as the top trading partner for no less than 80 countries—a feat of strength that no other economy has matched in modern times. EU even ranks first in both inbound and outbound international investments. Importantly, EU is also Sri Lanka's largest global trading partner and holds a clear promise for Lankan exports.

According to the Department of Commerce of Sri Lanka, there is an increasing trend in trade and the balance of trade between EU and Sri Lanka has been in favour of Sri Lanka. Total trade between Sri Lanka and EU was US$3 million in 2004, but rose to US$4.9 billion in 2012.

Sri Lanka's major export items to EU are apparel, diamonds, tea and rubber products. EU is also one of the most diversified investors in Sri Lanka, with leading European companies operating in almost all sectors of economy.

In June 2012, EU redesigned its GSP scheme and as a result, the beneficiary countries were reduced from 177 to 90. Of the former 177 GSP beneficiaries, 90 countries will continue to benefit from GSP—with Sri Lanka among them. The new GSP scheme will remain in effect for ten years from January 1. Sri Lanka is listed in the 'Low and Lower Middle Income GSP beneficiaries' category in the new scheme, and several other countries in the same category too will continue to be entitled to EU GSP—notable among them are Thailand, Vietnam, Nigeria, Pakistan, Panama, the Philippines, Indonesia, India and China.

Source: http://www.lbt.lk, 02.01.2014.

Bangladesh garment factories failing to pay minimum wage

Though the Bangladesh government had agreed to raise the minimum monthly wage for the country's four million garment workers to US$68last November—an increase of 77percent—nearly 40percent of factories surveyed in and around Dhaka were still not paying the new amount, while the figures were much higher for the port city of Chittagong, the Bangladesh Garment Manufacturers and Exporters Association said.

The association surveyed the country's garment industry to determine which of the 4,500 factories were paying the new legally required wage. But Union leader Babul Akter disputed the association's figure on the number of factories complying with the hike, saying separate research by union groups showed only 20 percent were paying workers the new wage.

"Workers were downgraded from experienced category to trainee just to make sure that the manufacturers don't have to raise wages that much," Akter said.

Meanwhile, government figures show a boom time for the world's second largest garment export industry. Garment shipments grew by an impressive 20 percent in the six months to December compared to the same period last year, data released in January showed.

In November 2013, a governmentappointed panel voted to raise the minimum salaries to BDT 5,300 (US$68) from BDT 3,000, following the protests and a series of disasters that highlighted appalling conditions. Even with the pay rise, Bangladeshi garment workers still remain among the lowest paid in the textile sector in the world.

Source: http://www.industryweek.com, 23.01.2014.

India raises interest rates to stem inflation

The Reserve Bank of India (RBI) raised the benchmark repo rate—the amount at which it charges to lend to commercial banks—to 8 percent from 7.75 percent. India's main gauge of inflation, the wholesale price index (WPI), rose 6.16 percent in December, from a year earlier.

While that was a slight fall on from the previous month, the rate continues to remain an issue with the central bank. Meanwhile, the country's consumer prices index (CPI)—which is seen as the key gauge of inflation across most other countries—rose at an annual rate of 9.87 percent in December.

India has been struggling to control what is Asia's highest inflation level, which was running at about 10percent last year. Rising prices have impeded economic growth in the country, which has also been under pressure from a weakened currency. The Indian rupee has lost about 14percent of its value over the past 12 months, which has made the cost of imported products more expensive. Higher inflation causes consumers to spend less, and its impact is felt most by India's poor.

The central bank said in its statement that "inflation is also a tax that is grossly inequitable, falling hardest on the very poor". Companies' higher input costs have prompted some to raise prices. Authorities have been trying to bring down prices, as inflation is also a politically sensitive issue in India. The country is due to hold general elections in May.

Source: http://www.bbc.co.uk, 28.01.2014.

China overtakes US as world's largest goods trader

China became the world's biggest trader in goods for the first time last year, overtaking the US for all of 2013 and finishing the year with record trade figures in December.

Coming fast on the heels of China taking over as the world's largest oil importer, the shift is another milestone as the country takes its place among the world's most powerful nations. Trade with the rest of Asia and increasing flows with the Middle East represent a shift in power away from the US, still the world's largest economy.

The total value of China's imports and exports in 2013 was US$4.16 trillion, a 7.6 percent increase from a year earlier on a renminbi-adjusted basis, according to figures released by the Chinese governmeny. The US will release its full-year figures in February, but its total imports and exports of goods amounted to US$3.57 trillion in the 11 months from January to November 2013, making it a virtual certainty that China is now the world's biggest goods trading nation.

"This is a landmark milestone for our nation's foreign trade development," said Zheng Yuesheng, chief statistician of the Customs Administration.Mr Zheng said he expected a stronger showing in 2014, thanks to an improving world economy, the impact of structural reforms in China and a lowered outlook for commodity prices, which would help offset rising costs of labour and financing for Chinese manufacturers.

According to the World Trade Organisation, the total value of China's goods trade in 2012 trailed the US figure by a mere US$15 billion, or roughly a day and a half of China's average daily trade value in 2012.

China's rise to dominance of world trade has happened over a very short period, with the value of Chinese trade roughly doubling every four years over the last three decades.The country became the world's biggest goods exporter in 2009 and Chinese imports and exports now account for more than 10 per cent of global goods trade, up from just 3 per cent in 2000.

Source: http://www.ft.com/, 10.01.2014.

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