Trade and Development Monitor

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OPINION IN LEAD

Prospects for sustainable development

With the possibility of recession in the European Union and slowdown in major economies, policy makers the world over are looking for pragmatic policy initiatives to avert further hardships brought about by a series of crises—food, fuel, financial, economic, environment and sovereign debt. Given this backdrop and the increasing anxiety over the long term resilience of people and the planet, it is high time the world chose to integrate economic, social and environmental dimensions of development and move on the path of sustainable development, which has been defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". To this end, recently, the High-level Panel on Global Sustainability urged in its report presented to the United Nations Secretary-General Ban Ki-moon that in order to achieve sustainable development, the people should be placed at the centre of any development strategy. By urging for the integration of social and environmental costs while determining world prices and measuring economic activities, it calls for a set of sustainable development indicators that go beyond the traditional approach of Gross Domestic Product, and recommends that governments develop and apply a set of Sustainable Development Goals that can mobilize global action and help monitor progress.

The 22-member panel, established by the Secretary-General in August 2010 to formulate a new blueprint for sustainable development and low-carbon prosperity, was co-chaired by Finnish President Tarja Halonen and South African President Jacob Zuma. The Panel's final report titled "*Resilient People, Resilient Planet: A Future Worth Choosing*" contains 56 recommendations to put sustainable development into practice and to mainstream it into economic policy. If fully implemented, these measures will have profound implications for societies, governments, and businesses.

The report argues that the eradication of poverty and improving equity must remain priorities for the world community and that empowering women and ensuring a greater role for them in the economy is critical for sustainable development. Furthermore, it calls for improving health and education; ending of subsidies on fossil fuels, which is around US$400 billion each year, and agricultural subsidies, which is also around US$400 billion in the Organisation for Economic Cooperation and Development (OECD) countries alone; changing financial market regulation to promote long-term, stable and sustainable investment; improving access clean water, sanitation and food; meeting the Millennium Development Goals (MDGs) and going beyond them; ensuring universal access to affordable sustainable energy by 2030; and having universal telecommunications and broadband access by 2025. The Panel's report underscores the importance of science as an essential guide for decision-making on sustainability issues. It calls on the Secretary-General to lead efforts to produce a regular Global Sustainable Development Outlook report that integrates knowledge across sectors and institutions, and to consider creating a Science Advisory Board or Scientific Advisor.

The report provides a timely contribution to preparations for the UN Conference on Sustainable Development (Rio+20) in Brazil in June 2012. A recently leaked draft agenda document for the Rio+20 asks countries to sign up for 10 new sustainable development goals for the planet and promise to build green economies at the first earth summit in 20 years. Importantly, the recommendation of the panel, if implemented, will put the world in a path of sustainable development that will not only propel prosperity, but also ensure measures to sustainably utilize natural resources and environment to meet that end. As global population reaches 9 billion by 2040 and middle-class consumer increases by 3 billion over the next 20 years, the world will need at least 50 percent more food, 45 percent more energy and 30 percent more water. These cannot be addressed with the existing development paradigm. The world needs to adopt a new approach to the political economy of sustainable development to address the sustainable development challenges in a new and operational way. It is time to work for a sustainable planet, a just society and a growing economy.

ANALYSIS

Time intra-SAARC trade improved

Intra-regional trade accounts for roughly 65 percent of the European Union's total trade. It is 51 percent in the North American Free Trade Agreement (NAFTA) area, 25 percent in the Association of Southeast Asian Nations (ASEAN) and 16 percent in the Latin American trade bloc, Mercosur. However, this ratio is just 5 percent in the South Asian Free Trade Area (SAFTA) despite the existence of logistical advantages.

Is it political hostility alone, especially between two major partners, India and Pakistan, that has kept intra-regional trade and investment flows among South Asian Association for Regional Cooperation (SAARC) nations low? This question acquires significance when developed countries, faced with economic slowdown and rising unemployment, are resorting to growing use of non-tariff barriers, e.g., tighter emission controls to check imports into their territories.

This leaves developing nations with no other option but to look for increasing trade among themselves. In the absence of large domestic markets, intra-regional trade can help to achieve economies of scale (more so in case of smaller nations such as Nepal or Bhutan) and rapid economic growth. Increasing trade can also help to reduce political animosities. Besides, intra-SAARC trade can be a low carbon option compared with, say, India-Latin America trade because of geographical proximity and low transport cost among SAARC nations.

Over the years, several attempts have been made to increase intra-regional trade through preferential trading arrangements. The Agreement on SAFTA, which became operational in 2006, is the most important among all such attempts. Yet, India's trade with South Asia has not kept pace with its otherwise rapidly growing external trade. The share of SAARC region in India's export remained stagnant over the last decade. Its import share has, in fact, declined. This is expected as SAFTA is limited in nature and focuses mainly on gradual duty reduction for promotion of trade, which is only one of the trade barriers. SAFTA has not been successful in addressing other trade barriers affecting growth of intra-regional trade flows.

What has kept intra-regional trade so low?

While politics is certainly one of the key factors restricting growth of trade among South Asian nations, there are other factors that are probably more important, such as lack of enabling policy environment and supporting infrastructural facilities which have not let intra-SAARC trade, including between India and Pakistan, the two biggest nations of the region, take off.

India-Pakistan trade routes: At present, India-Pakistan trade can take place either through Atari (by rail) or Wagah (by road) or Mumbai-Karachi sea route. Trucks carrying goods are not permitted to cross over one side to another, adding to the cost of cargo loading/unloading, damage and delays. Again, moving goods from Delhi to Mumbai by rail and then to Karachi by sea route costs almost three times that of moving them directly from Delhi to Atari by rail route. This has to change if we want India-Pakistan trade to realise its true potential, which is several times higher than the current US$2.6 billion.

Transit trade problems: While goods from Afghanistan may come to India via Pakistan (through land route) Indian goods are not allowed into Afghanistan via Pakistan. Similarly, Pakistani goods are not allowed to go to Bangladesh or Nepal via India. Only Nepal and Bhutan have got transit facilities from India for their trade with Bangladesh, but not without hassles and constraints. Intra-SAARC trade can easily multiply if seamless movement of goods and services across the region is ensured.

Rules of Origin: Further, complex rules of origin make it difficult to benefit from SAFTA duty preference. Many a time, exporters, especially small and medium enterprises, forego preferential duty access because of the difficulties associated with compliance in terms of time and cost.

Poor infrastructure: Infrastructure is a key determinant of trade competitiveness. Most SAARC countries, except Sri Lanka to an extent, fare badly in terms of trade-friendly infrastructure, in particular export-import formalities, time/cost of documentation, customs procedures, efficiency of ports and inland connectivity, as shown by world bank's ease of doing business reports. These factors keep intra-SAARC trade low. Restriction on transit movement of merchandise further adds to the transaction cost.

Given the poor record of South Asia in infrastructure, especially port-related infrastructure, its development needs urgent attention for businesses to benefit from progressive duty reduction under SAFTA. Experience of Southeast Asia shows that trade and investment go hand in hand, so it is time policy-makers contemplated deepening the existing FTA into a comprehensive cooperation agreement covering not only trade in goods but also services and trans-border movement of investment and personnel. The other areas that need immediate attention are rationalization of trade documentation and removal of non-tariff barriers.

While Pakistan granting most favoured-nation status to India is certainly a welcome step, more needs to do be done to take intra-SAARC trade from the current level of 5 percent to, say, 10 percent by 2015 and to 20 percent by 2020.

Adapted from Ritesh Kumar Singh's article in The Hindu, January 8, 2012

NEWS

Nepal looks to diversify economic ties with Bangladesh

Nepal has initiated a number of moves to enhance bilateral trade with Bangladesh. “We depend fully on India for our export-import trade. Now we want to diversify,” Krishna Hari Baskota, finance secretary of Nepal, told *The Daily Star*. "Bangladesh will be our first choice in the SAARC region as we pursue trade diversification. The Nepalese people are particularly happy to learn that Dhaka is ready to broaden its economic ties with them."

The top bureaucrat of the landlocked Himalayan country also expressed gratitude towards the Bangladesh government for allowing it transit and access to sea. "But we expect more routes and more transit facilities from Bangladesh," he said. Two-way trade between the two countries averages Tk 500 crore a year, with Nepal exporting goods worth Tk 150 crore and importing Tk 350 crore. As part of improved bilateral relations, Baskota said his government has already initiated a treaty to avoid the double taxation on income earned in any of these countries. “I expect the treaty will be effective in a few months,” said the bureaucrat.

Once the treaty is in place, he said Bangladeshi businesses can easily invest in Nepal and the Nepalese in Bangladesh. But this move alone cannot boost investments unless there is an investment protection agreement, he added. “Accordingly, we have initiated to ink bilateral investment protection agreements with all members of SAARC,” said Baskota. The finance secretary also discussed his country's economy, intra-regional trade in SAARC, non-tariff and para-tariff barriers, harmonization of different standards and rules, transit, hydropower potential and exchange of students.

He said both Bangladesh and Nepal have to explore the trade potential between each other. "Bangladesh can buy construction materials like stones and cement while Nepal can buy readymade garments from Bangladesh as we are fully depend on imports for clothing items." Nepal is not a major export destination for Bangladesh's readymade garment items as the country charges 15 percent duties. But Baskota said the tariff can be reduced through bilateral talks.

Source: The Daily Star, 31.01.12.

Grain buying implications worry India's finance ministry

The ambitious scheme of providing food security to the large masses of India is giving much worry to the Union finance ministry. The concerns include the additional subsidy burden and the extra grain state agencies will need to purchase, leaving little surplus in the market.

"It needs to be figured out how to address some practical problems. More than the availability of money to fund the scheme, the worry is about procuring food grains. Reduced food grain supply in the open market will put pressure on prices. Moreover, if there is a bad crop in a year, India will have to buy from the international market at high prices," said a ministry official.

Food subsidy is estimated to cost the government about Rs 100,000 crore a year, with the amount going up every year, depending upon the increase in Minimum Support Price (MSP). This is more than a tenth of estimated tax collections in the current year and about 1 percent of India's GDP.

Earlier, an experts' panel headed by the Prime Minister's Economic Advisory Council Chairman C Rangarajan had also raised concern over procurement if a wider section of the population was covered. Once the contemplated law is implemented, average annual procurement will rise to 60-65 million tonnes of food grains, about 10 million tonnes more than current levels. Implementation is expected to cost Rs 3.5 lakh crore.

The food ministry, though, feels the subsidy burden will escalate by just around Rs 28,000 crore and grain procurement as percentage of production will remain at around 30 percent. "Since 2007-08, the average annual procurement of grains by government has been 30 percent of total production. Assuming a normal growth in production, it will not be difficult to procure at least 30 percent. As such, it won't impact private trade," said a senior food ministry official, actively involved in framing the law.

Earlier, agriculture minister Sharad Pawar had opposed the huge subsidy proposed under the programme. Some state governments, including Bihar, Tamil Nadu, West Bengal and Uttar Pradesh, also made their apprehensions clear about sharing any financial burden for implementing the proposed Act. Some states insist there be a proper budgetary provision by the central government for implementing the landmark Bill.

The Bill, aimed at providing access to nutrition at affordable rates, was introduced in the Lok Sabha in December. It seeks to give a legal right to cheaper food grains to 63.5 percent of the population.

It provides for coverage of 75 percent of people in rural areas, with 46 percent of those covered in priority sections, and 50 percent of people in urban areas, with at least 28 percent in the priority category. People in the priority category will be entitled to 7 kg of food grains, comprising rice, wheat and coarse grains, per person per month. Rice will be provided at Rs 3, wheat at Rs 2 and coarse grains at Rs 1 per kg. The general category will get at least three kg of grain at a rate not exceeding 50 percent of the minimum support price.

Currently, under the targeted public distribution system, the government provides 35 kg of wheat and rice per month at subsidized rates of Rs 4.15 and Rs 5.65 per kg, respectively, to 65 million below-poverty-line families. And, it provides rice and wheat at Rs 6.10 and Rs 8.30 per kg, respectively, to 115 million above-poverty-line families.

Business Standard, 30.01.12

Outlook for global labour market worsens: ILO

The outlook for the global labour market has worsened from last year, according to the International Labour Organization (ILO). It called the situation an "urgent challenge" and said governments needed to create 600 million jobs over the next decade. The ILO said it was more pessimistic because of the weaker global economy. It added that globally some 1.1 billion people were either unemployed or living in poverty.

One bright spot was the ILO's finding that job creation was pushed up by good economic conditions in large emerging economies in Latin America and East Asia.

The ILO made its claims in its annual Global Employment Trends report.

"Despite strenuous government efforts, the jobs crisis continues unabated, with one in three workers worldwide, or an estimated 1.1 billion people, either unemployed or living in poverty," said ILO director-general Juan Somavia. The ILO cited three years of crisis conditions in the global labour market as the reason for its worsening assessment.

"Our forecast has become much more pessimistic than last year's, with the possibility of a serious deceleration of the growth rate," said the ILO's senior economist Ekkehard Ernst. In its report, the ILO said that there are 29 million less workers in the global labour force than they forecast before the economic slowdown started in 2009.

Those 29 million people are referred to as "discouraged workers", or people that have decided to stop looking for work because they think they are unlikely to find a job. If these discouraged workers were counted in the total jobless figures, then that would push the global unemployment rate to 6.9 percent from 6 percent, the ILO said. That is about 225 million people worldwide.

The ILO also added that young people continue to be among the worst hit by the jobs crisis and that future prospects for them are bleak. "Judging by the present course, there is little hope for a substantial improvement in their near-term employment prospects," the report said.

Source: BBC News, 24.01.12

Sri Lanka: Tea rich but nutrient poor

Tea in Sri Lanka is one of the country's biggest cash crops, but families working on tea estates are among the nation's poorest in terms of earnings as well as nutrition, say experts who back regional approaches to tackle nutrition disparity.

One in every five children younger than five is malnourished nationwide and one in six newborns has a low birth weight, one cause of infant deaths, according to a recent study from the Colombo-based Institute of Policy Studies (IPS). But the situation is worse for children of tea estate workers, with one in three classified as underweight and 40 percent of babies born with too-low weight, IPS noted.

Household income plays a major role in determining nutrition levels of under-fives, with those among the country's poorest 20 percent three times more likely to be malnourished as those in the richest quintile, noted IPS. In the government's most recent demographic and health survey (DHS) conducted in 2006-2007 some 17 percent of under-fives surveyed were stunted, a sign of chronic malnutrition and lack of nutrients.

Nuwera Eliya District—150km south of the economic capital of Colombo—and the adjoining Badulla District, which both have large tea plantations, recorded the highest stunting rates nationwide that year, 44 percent and 33 percent respectively.

Source: IRIN News, 20.01.12.

SAARC Secretary General Saeed resigns

SAARC Secretary General Fathimath Dhiyana Saeed resigned from her post with effect from 22 January. SAARC practice provides each Member State an opportunity, on an alphabetical rotation basis, to nominate a candidate of their choice as Secretary-General of SAARC for a three-year term.

The Maldives is to soon propose another name to succeed Dhiyana for the remainder of her term. Dhiyana, the first woman to be elected to the post, assumed office on 1 March 2011 and her tenure was supposed to end only towards the end of February 2014. Her resignation follows the Maldives government's outrage over her remarks against the arrest of the country's Criminal Court Chief Judge Abdulla Mohamed. "I did not interfere with any internal affairs of the Maldives and I will submit my resignation," she was quoted as saying in the media.

Source: http://www.deccanherald.com, 28.01.12.

Nepal urges SAARC members to open up their markets

Nepal has urged SAARC member countries to open up their markets for tourism, education, health, information technology (IT) and other services that have been identified as highly potential service sectors. Nepal has urged SAARC member countries to open up their markets for tourism, education, health, Information Technology (IT) and other services that have been identified as highly potential service sectors by Nepal Trade Integrated Strategy (NTIS) — a government blue print to promote the country´s international trade.

Nepal made the request when technical experts from eight SAARC member countries gathered for a two-day long eighth meeting of Expert Group on SAARC Agreement on Trade in Service in Kathmandu.

"Keeping in view our potential and expertise, we have requested other member countries to open up their market for investment and marketing of services such as tourism, education, health, IT and also other sectors included in NTIS," said a source at the Ministry of Commerce and Supplies (MoCS).

NTIS has suggested 19 priority export potentials for Nepal that includes 12 manufacturing and seven service areas. Services identified by NTIS are tourism, labor, health, and education, IT and Business Process Outsourcing (BPO), engineering and hydro-electricity.

Even if member countries open up their market, Nepali investors will not be able to make investment in foreign countries. That is because existing Nepali laws restrict Nepali investors from investing in foreign land in both goods and service business. "We still pushed SAARC member states for opening up these sectors because we have expertise and capacity in those areas and will be able to tap them," said the source. During the meeting, India and Pakistan pushed the SAARC member countries to open almost all service sectors, a demand which goes beyond the commitments made under World Trade Organization (WTO).

However, Bangladesh, Bhutan, Afghanistan, Sri Lanka and the Maldives did not make any request for opening additional service sectors. SAARC countries are presently negotiating a framework for trade in services after the 16th SAARC Summit held in Bhutan in 2010 decided to introduce free trade agreement for services under South Asia Free Trade Area (SAFTA). Presently, SAFTA incorporates provisions for trade in goods only.

As per the summit´s mandate, SAARC members have so far made initial offer to open up more than 170 sub-sectors of services for trade and investment in line with the commitments made under the WTO. Nepal has already agreed to open up to 70 sub-sectors of 11 services, which goes in line with its WTO commitments, allowing 80 percent foreign investment in the sectors.

Source: South Asian News Agency (SANA), 21.01.12.

BIMSTEC ministers endorse Poverty Plan of Action

The second Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) ministerial meeting on poverty alleviation endorsed the regional Poverty Plan of

Action (PPA) issuing the Kathmandu Statement. They pledged to incorporate the PPA in their respective countries' plan and programme in fighting against poverty The PPA — that was drafted and proposed by Nepal in consulting with the representatives from the member countries — includes increased cooperation on technology transfer, capacity building, sharing of best practices, promotion of trade and tourism and improved transportation and communications among member countries.

The seven member sub regional bloc — consisting of five South Asian and two East Asian countries — also agreed on regular consultations among member countries on the issues of international trade and investment and increase human capital investment specifically targeted to the poor and the vulnerable groups.

The endorsed Plan — with its eight broad strategy including accelerated, pro-poor and inclusive growth, social development, implement targeted programmes for poor, increase coverage for social protection, increased preparedness to address adverse effects of climate change, disaster risk management, good governance and periodic progress review — will analyse trends of income, human development and non-income dimensions of poverty and human development, identify best practices and learn lessons for poverty reduction and suggest common areas of international cooperation to alleviate poverty in BIMSTEC member states.

The meeting in Kathmandu concluded that mutual cooperation in research and technology transfer in agriculture, easy access to markets for agricultural products, facilitating flow of plant and livestock breeding materials, testing and certification capacity building, encouraging flow of tourists through product development, promotional activities and improved connectivity, promoting trade through reduction of non-tariff barriers and sharing best practices could be areas of cooperation in the region to accelerate, pro-poor and inclusive growth. Similarly, the members also planned poverty mapping and identification of poor households, mobilising, organising and empowering poor through their own organisations, integrated package support programme through poor sensitive institutional support structure and increasing financial services to poor could help implement targeted programmes for poor.

Earlier, in his inaugural address in the morning, deputy prime minister and minister for Foreign Affairs Narayan Kaji Shrestha highlighted the role of global fraternity for poverty alleviation. "This century may well see economic power shift to Asia with new powers continuing to grow and making the presence felt in the global arena," he added.

Speaking on behalf of delegates minister for National Planning and Economic Development of Myanmar U Tin Naing Thein underlined the need for all the member states of the sub-region to work together to reduce poverty which has been drawing global attention in the recent time.

Similarly, National Planning Commission (NPC) vice chair Deependra Bahadur Kshetry said that the Poverty Plan of Action, endorsed by the meeting, would help reduce poverty in the sub region through mutual efforts. The first BIMSTEC Ministerial meeting on Poverty Alleviation in Dhaka in 2008 had decided to endorse the PPA at the second meeting in Kathmandu. The third ministerial meeting on poverty alleviation will be held in Sri Lanka.

Source: The Himalayan Times, 16.01.12.

ACTIVITIES

Participation in Green Growth Knowledge Platform conference

SAWTEE participated in the inaugural conference of the Green Growth Knowledge Platform on 12-13 January 2012 in Mexico City. The conference was organized by Mexico's National Institute of Ecology (INE), the Organisation for Economic Cooperation and Development (OECD), United Nations Environment Programme (UNEP), and World Bank offices in Mexico City.

The aims of the conference were to take stock of the current understanding of the economics of green growth; engage researchers and practitioners in an ongoing dialogue to increase understanding of how green growth approaches can be applied in the field; identify knowledge gaps and establish priorities for knowledge-building work and implementation; and launch follow-on efforts. Leading scholars and experienced practitioners participated in the conference to address a number of potential connections between economic growth and environmental resource management in a range of topic areas, including innovation; trade; natural resource management; infrastructure and urban development; employment and poverty; ecosystem resilience; human behaviour and welfare measurement.

SAWTEE shares Nepal's WTO accession experiences with Afghanistan delegation

SAWTEE organized a half-day interaction programme for the Delegation of Government of Islamic Republic of Afghanistan to share Nepal's experiences on accession to the World Trade Organization (WTO), on 8 January 2012. A 20-member delegation led by the Ministry of Commerce and Industry, Afghanistan and having representation from nine ministries of Afghanistan and the Afghanistan Chamber of Commerce and Industry (ACCI)—the apex chamber of commerce—and a development partner participated in the meeting. The objective of the meeting for the foreign delegation was to learn from Nepal's WTO accession experience and utilize the knowledge during Afghanistan's ongoing accession negotiations at the WTO. The delegation, led by Deputy Minister Mr. Mozammil Shinwari, Director General of International Trade Directorate of the Ministry of Commerce and Industry, is currently in Nepal for a week-long WTO study tour.

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