Trade, Climate Change and Development Monitor

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

Volume 16, Issue 05, June 2019

CONTENTS

OPINION IN LEAD

Vegetable imports: To regulate or not to regulate?

The government's decision to make pesticide residue test mandatory for the import of vegetables and fruits, and the subsequent decision to suspend this notice within a span of mere 18 days, have caused much stir. The general crux of the arguments posited in the media is that pesticide residues are pernicious, and hence the government has jeopardised the health of its citizens by recanting its own policy. This argument is stretched further by emphasising that India routinely uses non-tariff measures to discourage Nepal's exports, and hence we should not have any qualms about giving them some taste of their own medicine.

While it is certainly the government's responsibility to ensure the safety of foods its citizens consume, the way in which the government set out to achieve this objective reveals major lapses in planning, troubling lack of foresight, disquietingly poor coordination among government agencies, and a blatant disregard for international laws and agreements...

To continue reading the article [click here](). This opinion piece, published in [The Himalayan Times on 16 July 2019](), is written by Mr. Kshitiz Dahal, Research Officer, SAWTEE and Ms. Dikshya Singh, Senior Research Officer, SAWTEE.

REPORT

Mega deals drive FDI in South Asia

Mega deals in manufacturing, communication and financial services helped foreign direct investment (FDI) inflows to South Asia grow by four per cent, latest World Investment Report figures show.

The investments were primarily driven by India, Bangladesh and Sri Lanka, according to United Nations Commission on Trade and Development's flagship report for 2018. Investment in India – the subregion's largest recipient – rose by six per cent to USD42 billion with strong inflows in manufacturing, communication, financial services and cross-border merger and acquisition (M&A) activities. Notable mega deals included the acquisition of Flipkart, India's biggest e-commerce platform, by Walmart (United States). In addition, telecommunication deals involving Vodafone (United Kingdom) and American Tower (United States) amounted to USD2 billion. Similarly, flows to Bangladesh and Sri Lanka rose to a record level, to USD3.6 billion (up by 68 per cent) and USD1.6 billion, respectively. On the other hand, Pakistan witnessed a 27 per cent decline in investment to USD2.4 billion. This was largely due to the completion of some projects related to the China−Pakistan Economic Corridor, and a balance-of-payments challenge that may have delayed new inflows. FDI flows increased in Nepal by 24 per cent to USD161 million.

On the contrary to South Asian increment, global FDI flows continued their slide in 2018, falling by 13 per cent to USD1.3 trillion. The global decline – the third consecutive year's fall in FDI – was mainly due to large-scale repatriations of accumulated foreign earnings by United States multinational enterprises in the first two quarters of 2018, following tax reforms introduced in that country at the end of 2017. FDI flows to developed economies reached the lowest point since 2004, declining by 27 per cent. Inflows to Europe halved to less than USD200 billion, due to negative inflows in a few large host countries as a result of funds repatriations and to a sizeable drop in the United Kingdom. Inflows in the United States also declined by nine per cent to USD252 billion.

Flows to developing countries remained stable, rising by two per cent. As a result of the increase and the anomalous fall in FDI in developed countries, the share of developing countries in global FDI increased to 54 per cent, a record. FDI flows to structurally weak and vulnerable economies continued to account for less than three per cent of the global total. Flows to the least developed countries recovered from their 2017 fall, back to USD24 billion, the average for the decade.

The report cautions that the underlying FDI trend has shown anaemic growth since 2008. FDI net of one-off factors such as tax reforms, mega deals and volatile financial flows has averaged only one per cent growth per year for a decade, compared with eight per cent in 2000–2007, and more than 20 per cent before 2000. Explanations include declining rates of return on FDI, increasingly asset-light forms of investment and a less favourable investment policy climate. The long-term slide of greenfield investment in manufacturing halted in 2018, with the value of announced projects up 35 per cent from the low value in 2017. Among developing countries – where manufacturing investment is key for industrial development – the growth was mostly concentrated in Asia and pushed up by high-value projects in natural resource processing industries.

The report calls attention to new national investment policy measures of the countries across the world which show a more critical stance towards foreign investment. In 2018, some 55 economies introduced at least 112 measures affecting foreign investment. More than one third of these measures introduced new restrictions or regulations – the highest number for two decades. They mainly reflected national security concerns about foreign ownership of critical infrastructure, core technologies and other sensitive business assets. Furthermore, at least 22 large M&A deals were withdrawn or blocked for regulatory or political reasons – twice as many as in 2017. Screening mechanisms for foreign investment are gaining importance.

Nevertheless, attracting investment remains a priority globally, the report acknowledges citing 40 international investment agreements (IIAs) that were singed in 2018. Many countries are also developing new model treaties and guiding principles to shape future treaty making. IIA reform is progressing, but much remains to be done, the report concludes.

This piece is excerpted from UNCTAD's latest [World Investment Report](#).

NEWS

India wins solar case against US at WTO

India won a major trade dispute against the US at the World Trade Organization (WTO), with a dispute settlement panel pronouncing that subsidies and mandatory local content requirements instituted by eight American states breached global trade rules.

In a 100-page report, the three-member panel largely upheld India's claims that subsidies and local content requirement in 11 renewable energy programmes in eight US states violated core global trade rules. The panel also asked the US to ensure that these states are in conformity with trade rules.

India had claimed that the "domestic content requirements and subsidies instituted by the governments of the states of Washington, California, Montana, Massachusetts, Connecticut, Michigan, Delaware and Minnesota in the energy sector" violated several provisions of the Trade-Related Investment Measures (TRIMs) Agreement and Subsidies and Countervailing Measures Agreement.

The panel urged the US to bring the eight states in conformity with US obligations under Article III:4 of "national treatment". Under the national treatment provision, foreign producers must be treated on a par with domestic producers.

The US can still challenge the panel's ruling before the Appellate Body (AB); however, the AB itself is feared to have become dysfunctional after 11 December because the US has been blocking appointments to it.

Source: https://www.livemint.com/news/india/india-wins-solar-case-against-us-at-wto-1561634893762.html, 27.06.2019

Chinese port halts scrap metal imports as stockpiles mount

The port of Sanshan in southern China's Guangdong province stopped accepting scrap metal shipments on Thursday after an excessive build-up of stockpiles caused by importers racing to bring in cargoes ahead of new rules starting next week.

China, the world's biggest metal consumer, is restricting imports of eight types of scrap metal, including high-grade copper scrap, from 1 July in a crackdown on foreign solid waste to reduce pollution in the country.

Because scrap stockpiles at the port have grown too large, customs decided to bring forward the deadline for scrap cargoes to arrive at Sanshan from 29 June to 26 June, according to a notice from the Sanshan port authority sent to customers and reviewed by Reuters.

Shipments arriving from 27 June could not be accepted, said the notice, whose authenticity was confirmed by a port official.

The environment ministry last week released the first batch of quotas, which for copper scrap totalled around 240,000 tonnes, mostly for companies in Zhejiang, another of China's metal recycling centres.

Source:https://www.scmp.com/news/china/society/article/3016349/chinese-port-halts-scrap-metal-imports-stockpiles-mount, 27.06.2019.

Fruits, vegetables from India stopped at customs, requiring pesticide clearance

Following the Government of Nepal's decision that fruits and vegetables will be allowed entry into the country only after verifying that they are free of pesticides, 17 trucks carrying onion and potato from India were stopped at Bhairahawa Customs point.

The government had published a notice in the Gazette on 17 June that quarantine test and examination of pesticide residue must be done at the customs point while importing fruits and vegetables.
Following the notice, movements of trucks carrying fruits and vegetables halted at the border points.

However, government withdrew the decision on 3 July owning to lack of adequate infrastructure—laboratories and testing facilities at the border points.

The decision has been implemented under the government's trade deficit minimization plan.

Source: https://myrepublica.nagariknetwork.com/news/fruits-vegetables-from-india-stopped-at-customs-requiring-pesticide-clearance-1/,24.06.2019 and https://myrepublica.nagariknetwork.com/news/nepal-revokes-pesticide-tests-for-fruits-vegetables-under-indian-pressure/, 06.07.2019.

India to impose retaliatory tariffs on 28 US goods

India has imposed higher retaliatory tariffs on 28 US products including almonds, apples and walnuts from 16 June, following Washington's withdrawal of key trade privileges for New Delhi.

The new duties, which took effect from 16 June, is latest in trade row between India and the US since President Donald Trump took office in 2017 vowing to act against countries with which Washington has a large trade deficit.

From 5 June, Mr. Trump scrapped trade privileges under the Generalized System of Preferences (GSP) for India, the biggest beneficiary of a scheme that allowed duty-free exports of up to USD5.6 billion. India termed that "unfortunate" and vowed to uphold its national interests.

India is by far the largest buyer of U.S. almonds, paying USD543 million for more than half of US almond exports in 2018, US Department of Agriculture data shows. It is the second largest buyer of US apples, taking USD156 million worth in 2018.

New Delhi's new rules in areas such as e-commerce and data localization have already angered the United States and hit companies such as Amazon.com, Walmart Inc, Mastercard and Visa, among others.

Source: https://www.reuters.com/article/us-usa-trade-india/india-to-impose-retaliatory-tariffs-on-28-us-goods-from-sunday-idUSKCN1TG0H0, 15.06.2019

AIIB approves first loan to Nepal

The Asian Infrastructure Investment Bank (AIIB) has approved its first loan to Nepal since the China-backed institution was established in 2014. Nepal will receive USD90 million for the construction of the 216 MW Upper Trishuli 1 hydropower plant in Rasuwa.

AIIB, hailing its first investment in Nepal as an example of how to facilitate investments in the energy sector, said that the USD647.4 million hydel plant would increase the country's power generation by almost 20 per cent.

The AIIB is set to start disbursing the pledged amount from October 2019. The project, being developed under a 35-year build-own-operate-transfer model by Nepal Water and Energy Development Company, is financed with a mix of debt and equity funding. The total debt stands at USD453.2 million and is entirely financed by foreign capital with funds from sponsors including International Finance Corporation, Asian Development Bank and others.

According to International Finance Corporation, a stakeholder and lender to the developer, the plant has a capacity to provide 40 per cent of the country's expected annual output during the dry seasons including the peak winter demand months.

The hydel plant with three units, each churning out 72 MW of electricity, is expected to be commissioned in October 2024.

Nepal is one of the 22 signatory countries that signed a memorandum of understanding to establish the AIIB in 2014. In January 2016, Nepal was elected to the bank's board of directors.

Source: https://kathmandupost.ekantipur.com/news/2019-06-11/asian-infrastructure-investment-bank-okays-first-loan-to-nepal.html, 11.06.2019

China RMG factories may shift to Bangladesh

Some Chinese garment makers have expressed their interest to set up factories under joint venture in Bangladesh as they see the country as a competitive destination to relocate plants amid raging US-China trade war and the rising cost in the world's second largest economy.

Chinese textile and garment industry owners have invested heavily in neighbouring Vietnam and Cambodia in the last two decades, but now they are focusing to shift their factories to Myanmar and Bangladesh.

The reasons for the change in focus include a lack of skilled workforce in Chinese textile and garment industry, rising cost of production, shifting industrial base to industries such as information technology and over-investment in Vietnam and Cambodia where labour costs are lower.

Some entrepreneurs of Hong Kong-based Chinese Manufacturers' Association visited Dhaka from 22 to 26 May to explore investment opportunities.

So far, Bangladesh hasn't allowed foreign investment in basic apparels, limiting their presence in high-end and value-added textile and garment items.

Source: https://www.thedailystar.net/business/news/china-rmg-factories-may-shift-bangladesh-1752367, 02.06.2019

EDITOR
Dikshya Singh

CONTACT

South Asia Watch on Trade, Economics and Environment (SAWTEE)
P.O. Box: 19366, Tukucha Marg, Kathmandu, Nepal
Tel: 977-1-4424360, 4444438 Fax: 977-1-4444570
Email: enewsletter@sawtee.org
Web: www.sawtee.org

In order to subscribe or unsubscribe, send us an email with subject: 'subscribe' or 'unsubscribe'.