Trade and Development Monitor

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

Volume 8, Issue 10, November 2011

CONTENTS

OPINION IN LEAD

LDCs and South-South cooperation

The economies of the least-developed countries (LDCs) represent approximately 1 percent of the world´s total merchandise exports and their share of total foreign direct investment (FDI) is around 2.5 percent. The LDCs represented one eighth of the total world population, but accounted for less than one hundredth of total world output in 2009. Until now the major markets for the LDCs have been the Northern countries, especially the United States (US) and the European Union (EU). With the EU embroiled in a deep debt crisis and projections of a slowdown of the entire euro area, and the US facing persistently high unemployment and stagnant growth, the LDCs might see negative impacts on their export performance and growth. Against this backdrop, it is highly significant for the LDCs to look at the Southern markets. The Southern economies have the potential to provide the LDCs with vast markets for their exports, share development experience and technical knowhow, and increase development assistance.

A recent report titled *Least Developed Countries Report 2011: The Potential Role of South-South Cooperation for Inclusive and Sustainable Development*, published by the United Nations Conference on Trade and Development (UNCTAD), states that developing countries contributed to nearly half of the expansion in LDCs´ total merchandise exports and 60 percent of their imports over the past decade, and that the importance of Southern markets for LDCs has been steadily on the rise. However, their exports to the South are dominated by primary commodities, which account for over 90 percent of the total exports. Meanwhile, manufactured goods represent approximately two thirds of LDC imports from Southern markets. Note that though Southern economies have provided alternative markets to the LDCs following the financial and economic turmoil in the Northern economies, this does not mean that the Southern markets are the panacea to the development of exports sector of LDCs. The Southern markets should not be looked as substitute to the Northern markets. Instead, they should be treated as a complement to North-South trade and cooperation.

Importantly, the LDCs will have to confront the challenge of overdependence on exports of primary commodities to developing productive capacities so that goods with high value addition are produced and exported. It will shield them from sudden swings in commodity prices and help them sustain the growth of the exports sector. They have to focus on creating dynamic comparative advantage, and ensuring the availability of financial resources for long-term investment and for the development of new productive capacities. In this regard, South-South cooperation could serve an important mechanism to complement the existing North-South cooperation. Like the Northern economies, the Southern economies could provide the LDCs with greater access to finance, capital and technology. The UNCTAD report states that between 2003 and 2010 FDI inflows to the LDCs grew at 20 percent per year and the share of investment projects from Southern investors increased from 25 percent to 40 percent. Furthermore, labor migration for work in developing and emerging economies might have a significant impact on economic growth and development in remittance-dependent economies. It is estimated that nearly two thirds of the US$26 billion of remittance inflows to the LDCs in 2010 originated in Southern economies.

For the LDCs, the Southern economies have emerged as important markets at a time when the Northern markets are showing signs of weakness. Treating them as complements to the existing North-South cooperation on trade and development issues is the right way to move forward. South-South cooperation could be strengthened in trade, development cooperation and assistance, transfer of technology and knowledge, climate change, and investment. The success of emerging and developing economies such as China, India and Brazil, among other countries, has opened up avenues for cooperation and, importantly, learning in promoting vibrant small- and medium-sized enterprises, addressing rural poverty by launching innovative and targeted schemes, and building broader consensus on achieving sustainable growth by keeping environment sustainability in focus.

ANALYSIS

What's in the 17th SAARC Summit declaration?

The 17th Summit of the South Asian Association for Regional Cooperation (SAARC) was held on 10-11 November, 2011 in Addu City, the Maldives. The heads of the eight member states attended the summit, whose theme was "Building Bridges"—both in terms of physical connectivity and figurative political dialogue. Founded in 1985, the SAARC is an organization of eight South Asian nations, namely Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka.

The Summit saw the signing of the SAARC Agreement on Rapid Response to Natural Disasters, the SAARC Seed Bank Agreement, the SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment and the SAARC Agreement on Implementation of Regional Standards. Moreover, it also decided to set the timeline for finalizing a framework for rail and sea connectivity. Specifically, the attending heads of state decided to finalize a Regional Railways Agreement and complete the preparatory work on an Indian Ocean Cargo and Passenger Ferry Service by the end of this year. The declaration also decided on an early demonstration run of a Bangladesh-India-Nepal container train. Furthermore, the member states committed to conclude the inter-governmental framework agreement for energy cooperation and the study on regional power exchange concept.

Regarding economic integration and trade, the emphasis was on effective implementation of The Agreement on South Asian Free Trade Area (SAFTA), pruning sensitive lists, eliminating non-tariff barriers (NTBs) and harmonizing standards and customs procedures. These barriers have been partly contributing to limiting intra-regional exports to 5 percent of total world exports by South Asian economies. Still, the member countries are sitting on a lengthy list of sensitive products and imposing various forms of NTBs. A mere call for grater trade cooperation and reduction of the number of products in sensitive lists will not suffice. There has to be concrete action and the leaders have to walk the talk to show that they are genuinely committed to greater economic integration and cooperation in South Asia. Cooperation is happening at a gradual pace, which needs to be sped up in the coming days. On the eve of the Summit, Pakistan announced most-favored-nation (MFN) treatment in trade and commerce to India. Additionally, Pakistan has committed to reduce its sensitive list by 20 percent and allow tariff concessions on further 233 items under SAFTA by February 2012. During the Summit, India announced the reduction of its sensitive list for LDCs to 25 items.

With respect to cooperation in combating the negative impacts of climate change, the Summit was a disappointment. It just made a passing reference to this very important issue. The declaration states that the member countries are "conscious of the environmental degradation and particular vulnerabilities of the region to the threat of climate change" and hoped for timely implementation of the Thimphu Statement on Climate Change. Similar is the case with the commitment to alleviate poverty and reduce income inequalities within the societies: It reaffirmed the member's resolve "to improve quality of life and well-being of people through people-centred sustainable development", but made no specific actions, activities and commitments.

The leaders also agreed to hold 18th SAARC Summit in Nepal.

OTHER NEWS

India cuts sensitive products' list

India reduced its sensitive products' list by 20 percent during the 17th SAARC meeting at Maldives.

Indian Prime Minister Dr. Manmohan Singh announced trade incentives for the member states and said that India has decided to reduce the sensitive list for the least-developed countries under the Agreement on South Asian Free Trade Area (SAFTA) from 480 to 25 tariff lines.

Zero basic customs duty access would be given for all items from immediate effect, he declared at the SAARC summit. He also highlighted the efforts for Regional Railway Agreement and Motor Vehicle Agreement and urged other members to conclude these agreements.

Source: The Himalayan Times, 12.11.11, www.thehimalayantimes.com

WTO ministerial conference to tackle food security

Trade ministers from World Trade Organization (WTO) members are scheduled to gather in Geneva in December to discuss measures to ensure food security amid a drop in crop production due to natural disasters in many countries.

The 153 ministers will also discuss exchange-rate stability and related issues, anti-protectionism measures amid an expected sluggish global economy next year, and concerns over the Doha Round of trade talks.

Srirat Rastapana, director-general of the Trade Negotiations Department, said the talks on food security will be the major item on the agenda for trade ministers this year as concerns mount over skyrocketing food prices, mostly caused by natural disasters in food-producing countries this year.

The WTO's Eighth Ministerial Conference, scheduled to take place in Geneva from December 15-18, will also discuss measures to strengthen the WTO system, as member states appear to have all but accepted that hopes are slim of concluding a multilateral agreement from the so-called Doha Round of talks in the next few years. Some countries have urged the WTO to launch a new platform for negotiations, including having a plurilateral agreement among a majority of countries, rather than wait for consensus agreement from all member states, or seeking an "early harvest" agreement to proceed on some issues.

Discussions will also continue on issues such as temporary waiver of customs taxes for e-commerce transactions.

The Nation, 07.11.11, www.nationmultimedia.com

COP 17: Deep divisions at global warming talks

Battle lines were drawn in Durban between developed and developing countries, as the two groups squared off over the future of the Kyoto Protocol and the level of cuts required to avert dangerous climate change.

South African (SA) Water and Environmental Affairs Minister Edna Molewa said SA hoped to ensure that the international climate change talks would see countries signing on to a second commitment period for the Kyoto Protocol. She warned that countries needed to be far more ambitious in their commitments to curb global warming. "The current level of pledges of the whole world does not bring us to the required level of ambition (to keep average global warming below 2°C)."

European negotiators have proposed a "road map" for a future agreement. Polish Environment Minister Marcin Korolec, whose country holds the European Union (EU) presidency, said Europe was open to a second Kyoto commitment period providing its conditions were met. These include new market- based mechanisms established to help emerging economies cut emissions at the least cost.

Latin American countries, represented by the Alba bloc, warned that the talks threatened not only the Kyoto Protocol but also key elements of the United Nations Framework Convention on Climate Change.

The Kyoto Protocol is the world's only target-based legal instrument to reduce greenhouse gas emissions, while the convention sets a general framework for international action on emissions. "There is a deep danger of having not only the protocol lost but also the convention," said Bolivian negotiator Rene Orellana.

The convention includes two key principles that have informed subsequent negotiations: that of common but differentiated responsibility, which acknowledges that developed countries are responsible for historic emission levels and should therefore do more to cut back; and technology and finance assistance for developing countries. Mr Orellana said it was possible that a future climate regime would not distinguish between developed and developing countries.

Venezuelan negotiator Claudia Salerno criticized the level of emissions pledges on the table. "Developing country pledges are bigger than the pledges made by developed countries.... How are they going to raise the level of their ambitions?" she asked. If weak forestry accounting rules were included in the analysis of pledges, "the amount pledged is close to zero".

Canada, widely believed to be pulling out of the Kyoto Protocol, came in for criticism. The country was "actually demanding stronger commitments from developing countries than it is prepared to make itself", said Mohamed Adow of Christian Aid.

Greenpeace International's Tove Ryding said: "The EU needs to stand by the Kyoto Protocol and defend it, or it will also get the blame." Ms Ryding said countries that were only in Durban to block progress should be left on the sidelines. "You don't need consensus to get a second commitment period. You could see a vote."

The face-off shows the fissures that have emerged since the 2008 economic crisis, with the developed world reluctant to help the developing world.

Business Day, 30.11.11, www.businessday.co.za

Bangladesh urges LDCs to be united on trade issues in WTO meeting

Bangladesh has urged trade ministers of 31 least-developed countries (LDCs) to get united on LDC-related issues in the upcoming World Trade Organization (WTO) Ministerial Conference, scheduled to be held in Geneva, Switzerland from 15 to 17 December.

Commerce Minister Faruk Khan recently wrote official letters to all trade ministers of 31 LDCs who are members of WTO to this effect. Currently, the number of LDCs in the world is 48. Faruk highlighted three major LDC-related issues in his letter: duty-free and quota-free market access for products originating from the LDCs with simplified rules of origin, lifting subsidy on cotton and movement of natural persons under the Mode 4 of the General Agreement on Trade in Services (GATS).

"I would, therefore, like to request for your continued support to help build and sustain broad-based political commitment in support of delivering on the LDC-specific priorities at MC8 (Eighth Ministerial Conference)," reads the letter.

"I would urge you to impress upon those of our partners who are still not ready or willing to consider the possibility of such an outcome that the priority issues that we have identified are nothing new and are expected to result in the translation of earlier commitments into concrete deliverables," the letter added.

The decision on duty-free and quota-free market access for products originating from the LDCs was taken at the Hong Kong Ministerial Conference in 2005, but is yet to be implemented.

Commerce ministry officials said Bangladesh supports the move of African LDCs for lifting subsidy from cotton by developed countries, including the United States, as the African LDCs gave assurances of extending their support for duty-free and quota-free market access.

Source: The Financial Express, 24.11.11, www.thefinancialexpress-bd.com

Europe crisis hits Indian exports, growth lowest in 2 years

The Euro zone crisis has begun biting Indian exports which grew year-on-year by 10.8 percent to US$19.9 billion in October, the lowest in the last two years.

Being pushed by expensive crude oils and vegetable oils, imports grew at a faster rate of 21.7 percent to US$39.5 billion leaving a trade deficit of US$19.6 billion—the highest ever in any month in the last four years.

From a peak of 82 percent in July, export growth has slipped to 44.25 percent in August, 36.36 percent in September and 10.8 percent in October.

"In any sector, it is the lowest in the last three months, deceleration is uniform," commerce secretary Rahul Khullar told reporters. But, for the cumulative April-October period, exports aggregated to US$179.8 billion showing a handsome growth of 46 percent, thanks to a sterling trend witnessed in the previous months of the current fiscal year.

"The picture is not going to be rosy for the next six months," he said. A steady rise of 31 percent in imports for the seven-month period to US$273.5 billion has left the trade gap widening to US$93.7 billion.

This has led to worries about the balance of trade. The sectors which depend heavily on the European markets have been hit hard. Electronic goods, the bulk of which goes to Europe, have shown a deceleration of 18 percent in October.

Source: The Times of India, 08.11.11, www.timesofindia.indiatimes.com

Significant portion of aid not channelled through budget

A significant portion of the foreign aid does not flow through the government systems, according to the 2011 Survey on Monitoring the Paris Declaration, Nepal Country Report. The report says only 58 percent of the foreign aid figures in the country's annual budget.

The Paris Declaration seeks to give more ownership to the recipient country in aid management and alignment of priorities with the government to increase aid effectiveness.

Although the Organisation for Economic Co-operation and Development (OECD), a grouping of major donor countries, has targeted to increase the portion of aid flowing through the recipient country's budget to 85 percent, the target is yet to be realized in Nepal.

According to the report, donors usually do not report the channelling of their aid through non-government organizations, their technical assistance, scholarships and debt-relief funds. This creates discrepancy in donors' report on aid disbursement and the Nepal government's figures.

Other OECD's targets on aid effectiveness have also been not realized in Nepal despite the country's progress in several indicators, according to the report. The country has witnessed some improvements in indicators including coordinated technical assistance, parallel project implementation units, in-year aid predictability, programme-based approaches, joint missions and joint country analytical work.

There have also been declines in some indicators such as using the country public financial management system and country procurement system.

According to the report, donors are hesitating to use Nepal's procurement system, citing slow budget release process, cumbersome procurement system and weakness in financial reporting and auditing procedures.

Nepal has made significant improvement in avoiding parallel implementation structure, reducing such units to 68 from 106 in 2008. The USAID has the largest number (18) of independent implementing units, while multilateral donors do not have any. "There are strong evidences that such parallel units tend to undermine the national capacity building efforts and confuse accountability for development," states the survey.

The Kathmandu Post, 19.11.11, www.ekantipur.com

Pakistan grants India MFN status

Pakistan's cabinet unanimously agreed to grant India most-favoured-nation (MFN) status, a long-pending move which is expected to strengthen trade and bilateral relations between the two neighbours and provide a boost to the peace process.

Following the announcement, Pakistan will now allow trade in more goods by shifting to a system of negative list, which will only restrict shipments of products mentioned on this list. At present, it uses a system of positive list, which means trade is permitted only in a handful of products, resulting in consignments getting routed through third countries such as the United Arab Emirates.

According to the World Trade Organization, MFN status means that a country should treat goods and services from all WTO members equally. India granted MFN status to Pakistan in 1996 and has been demanding that Islamabad reciprocate but political developments hurt progress on the issue.

In September, during a meeting between the commerce ministers of the two countries, India and Pakistan agreed to work to more than double bilateral trade within three years, from the current level of US$2.7 billion per annum to about US$6 billion. New Delhi had pointed out that trade in petroleum, energy and commodities would be significant steps for building long-term stakes in each other's economy and had identified strengthening the border infrastructure as top priority.

Industry groups say the MFN status would help cut down on illegal and third-country trade. Indian pharmaceutical, engineering goods, plastic industry, silk and cotton textiles are expected to benefit from the announcement. Trade in commodities between India and Pakistan is also expected to get a huge boost.

Source: The Times of India, 03.11.11, www.timesofindia.indiatimes.com

---

EDITORS

Paras Kharel
Chandan Sapkota

CONTACT

South Asia Watch on Trade, Economics and Environment (SAWTEE)
P.O. Box 19366, Tukucha Marg, Baluwatar, Kathmandu, Nepal

Tel: 977-1-4444438, Fax: 977-1-4444570
Email: sawteenewsletter@gmail.com
Web: www.sawtee.org

Please send comments and suggestion to sawteenewsletter@gmail.com

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