# Trade, Climate Change and Development Monitor

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## OPINION IN LEAD

### Increased regional cooperation for better economic prospects

The World Bank, in its flagship publication *Global Economic Prospects*, projects an optimistic prospect for the Indian economy. The largest economy in the South Asia region is expected to come out of the doldrums, and grow 6.3 percent in 2015 and 6.6 percent in 2016. The prospect of a hefty rate of growth comes after the economy had slowed down to 4.5 percent in 2012 and to an estimated 4.7 percent in 2013. India's annual growth averaged an impressive 7 percent from 1997 to 2011.

The report also paints a positive picture of South Asian economy, which is expected to grow at 5.3 percent in 2014, and rise to 5.9 percent in 2015 and 6.3 percent in 2016 due to increased global growth and a modest pickup in industrial activity in the region. The growth in gross domestic product (GDP) in South Asia was expected to slow down to 4.7 percent in market price terms in 2013, owing to the subdued manufacturing activity and a sharp investment shortfall in India. Meanwhile, developing countries are headed for a third consecutive year of disappointing growth below 5 percent.

According to the report, gradual pickup of domestic investment in India and rising global demand are key to the growth prospects of South Asia. The forecasts assume that reforms are undertaken to ease supply-side constraints (particularly in energy and infrastructure), improve productivity, and strengthen the business environment, which would help to raise the region's underlying growth potential. Continued fiscal consolidation would create additional space for private investment, while maintaining a credible monetary policy stance, together with a gradual easing of supply-side constraints would help reduce inflation.

One important caveat highlighted by the report is the weak tax base in the developing countries including in South Asia. As compared to their GDPs, the tax revenue was lower than expected for South Asian nations. In this precarious situation, the report cautions increased pressure on the expenditure side in case countries require stimulus to support weak growth, or if they fail to reform subsidies. The report argues that the simplification of the tax system with broadening of the tax base could help raise tax revenue as share of GDP and aid in fiscal consolidation in India, as well as other developing countries.

Meanwhile, a stronger electoral mandate has improved the chances of a quicker-than-expected recovery in the investment cycle in India—the driver of regional growth in South Asia. The new Indian government showing signs of economic reforms and bringing in transparency in governance, among others, should help lift its own and in turn South Asia's growth.

At the South Asia level, the new Indian government has been giving more primacy to regional trade within a region where political hostility and suspicion have impeded economic integration for decades. The new Indian government looks determined to deepen trade and investment ties with its neighbours. India's technical and financial support for improved trade in the region through increased investment and support in trade facilitation measures is only going to boost regional growth. South Asia lags behind other parts of the world in regional trade; South Asia has a meagre five percent intra-regional trade against robust 25 percent in the Association of Southeast Asian Nations (ASEAN). Therefore, improved regional integration presents an opportunity to restore the lost opportunity for shared prosperity in South Asia.

Amid the optimism after formation of the new government and its subsequent economic reform measures, India is likely to encounter several immediate hurdles in its growth prospects. India's stressed banking sector coupled with El Niño that would adversely affect the agriculture sector will likely emerge as two imminent risks to growth. There is an additional risk of higher energy costs due to worsening of Ukraine-Russia relations. Moreover, for 2014, the report has already scaled down India's growth estimate to 5.5 percent from 5.7 percent projected in April. "Medium-term forecasts have been marked down by nearly half a percentage point, reflecting the effects of slowing investment in recent years on potential growth, structural capacity constraints and sustained inflationary pressures," the report says. It is thus even more important for India to start enhanced economic cooperation with other South Asian countries, among others, to build a regional value chain that is going to contribute raw materials for ailing, but improving, Indian manufacturing sector.

With too many false starts and missed opportunities in regional cooperation, South Asia poses a tough environment for optimists. Let us hope that the Indian Government goes beyond the geniality of South Asian Association for Regional Cooperation (SAARC) Government heads getting together for a group-photo. Recent visit of the Indian Foreign Minister to Bangladesh, and the announcement of several concessions—ranging from relaxation of visa requirements, supply of more power and increase in investments to address trade skewness in its favour—can be taken as a good first step towards a giant leap for enhanced regional integration in South Asia.

No matter what—as projected by the World Bank—South Asia is bound to grow. Amid improved economic cooperation, with India at its helm, South Asia will only grow more. Hopes are high for some rejuvenation to be added to the lacklustre regional economy.

# ANALYSIS

## Rising trade restrictiveness amid trade facilitation efforts

Despite their strong statement of commitment to open trade and investment at their last summit meeting in Saint Petersburg, Russia on September 2013 and having extended their standstill pledge to roll back new protectionist measures until the end of 2016, Group of Twenty (G-20) Members continued to put in place new trade-restrictive measures during the following six month period. According to the recent report released by the World Trade Organization (WTO) on G-20 Trade and Investment Measures—which covers the period between mid-October 2012 and mid-May 2013—112 new trade-restrictive measures were introduced; slightly down from the number of restrictive measures introduced in the previous review period.

As in the past, the number of trade remedy actions—policy measures against imports—account for more than half of the number of new restrictive measures. Moreover, the number of trade-restrictive measures applied during the review period also exceeds the number of liberalizing measures. However, unlike in the past, the liberalizing measures now represent a larger share of all recorded measures (45 percent) than in the period before the September meeting (33 percent). While this can be taken as a significant positive development towards open trade and investment, much needs to be done since the vast majority of trade-restrictive measures put in place since the onset of the global financial crisis remain in place. Only around 21 percent of the measures introduced since October 2008 have been removed thus far.

When viewed against this backdrop, it is clear that current pact of removal of existing trade-restrictive measures and the continuing addition of new restrictive measures will only prolong the impacts of a sluggish global economy. Considering that existing import restrictive measures are estimated to cover around 4.1 percent of world merchandise imports and around 5.2 percent of G-20 imports, increasing trade restrictiveness is an eminent threat to the economy of countries highly dependent on international exports, developing and least developed countries in particular. Since G-20 countries are among the largest consumers of world imports, failure to take immediate actions to overcome growing trade protectionism will have increasingly significant negative impact on world imports. For developing and least developed countries, the economic impact of the shrinking export market will be devastating.

While Members continue to resort to trade-restrictiveness measures to protect individual economies from the impacts of economic slowdown, the investment policy-making during the last six months have been largely subdued. In all, the investment measures pointed towards greater openness and transparency. Notably six emerging economies—including China and India—were more active in amending investment policies that involved relaxation of conditions for investment and for forming joint ventures with foreigners.

In recognition of the risks of economic slowdown posed by the protectionist pressures, G-20 Members need to show leadership in addressing such pressures. Though the most recent economic forecast indicates that the volume of world merchandise trade will grow by 4.7 percent in 2014 and 5.3 percent in 2015, significantly larger than in 2013, the world economy continues to struggle and grows inconsistently. Considering the importance of imports for facilitating exports in the global economy dominated by global value chains, adoption of trade restrictive policy measures by G-20 countries could push the struggling world economy back into a global recession. Thus, Members must keep their markets open and not resort to trade protectionism.

Undoubtedly, increasing trade and investment is an important driver of economic growth and development. But trade and investment will not be able to support the world economy if G-20 economies continue to adopt trade and investment restrictive policy measures. In this regard, the multilateral trading system presents the best alternative to trade protectionism.

Though the effectiveness of the multilateral trading system has often been questioned, the successful conclusion on Trade Facilitation Agreement (TFA), among others, during the WTO's Ninth Ministerial Conference in Bali last December has helped restore faith in the multilateral trading system and can help countries gradually liberalize their trade within the framework of TFA. However, the follow-up of decisions made in Bali and the successful implementation of commitments under the TFA will be pivotal in determining the effectiveness of the multilateral trading system in ensuring that countries pursue trade liberalization policies and remove obstacles to global trade.

While protectionist pressures are arguably bound to remain due to slow global recovery and high unemployment, G-20 Members should nonetheless work on reinforcing open and transparent multilateral trading system.

*Based on the WTO Reports on G20 Trade and Investment Measures (Mid-November 2013 to Mid-May 2014), 18.06.2014.*

## NEWS

### Chabahar port in Iran holds key to boost Indo-Afghan trade ties

India's trade with Afghanistan could take a quantum leap from the current US$600 million if the Chabahar port in Iran is commissioned soon. The port will shorten the distance for transporting goods between the three countries, said Afghanistan's Ambassador to India, Shaida Mohammad Abdali.

All three countries have an agreement on preferential treatment and low tariff for goods moved through Chabahar. Experts see India's move to support Chabahar as a strategy to counter China's recent takeover of the Gwadar port in Pakistan, 70 km away from Chabahar. In an exclusive interview, Abdali said that with his country being re-built after three decades of war, it has several business opportunities in store for Indian companies. The port will provide a new route between Central Asia and South Asia, and help Indian companies reach newer markets in Central Asia, he added.

According to a study, emerging opportunities in Afghanistan and the new connectivity offered by Chabahar could see trade between the two countries jump from US$600 million to US$5 billion over three years. According to Abdali, India has already committed about US$100 million for port development infrastructure. While Afghanistan offers a number of opportunities in constructing highways, power plants and railways, Abdali said, mineral resources such as iron ore, gold, precious stones, coal and gas need to be tapped.

*Source: http://www.thehindubusinessline.com, 26.06.2014.*

### Delhi seeks Bangladesh help in transit of food-grains

India has sought help from Bangladesh for transit of foodgrain to the Northeast in view of disruption of a rail link in Assam because of gauge-conversion that will affect four northeastern states. Accordingly, Dhaka has agreed to allow transit of 10,000 tonnes of foodgrain in June through its territory. The consignment will be shipped from Visakhapatnam port to a Bangladesh port and then transported by river to Ashuganj in Chittagong division and into Tripura.

"Foreign minister Sushma Swaraj will request the Bangladesh government for shipping of another 35,000 tonnes of foodgrain to Tripura," Indian home ministry sources said.

If Dhaka agrees to the transit arrangement, shipping of essentials to Tripura will be easier. However, the landing port will be in southern Tripura. The government will still be left with the logistical challenge of transporting goods to southern Assam, parts of Manipur and Mizoram. Transport of essential commodities to Tripura is through the highways in Assam or the vital rail link from Lumding in Nagaon district of Assam. However, the Lumding-Badarpur section of the Northeast Frontier (NF) Railway is undergoing a medium-to-broad gauge conversion.

"There will be a mega block for about one-and-a-half years," a source said.

An action plan is being prepared for tackling the huge logistical challenge. National Highway 44 will be the alternative artery for transporting essentials items, including foodgrain, to southern Assam areas like Silchar, north Tripura and Mizoram. The highway connects from the Meghalaya border to Silchar and onward to Tripura. Additionally, the government will be preparing various highways via Haflong in Assam and Jiribam in Manipur for transporting essentials to these states.

*Source: http://www.telegraphindia.com, 25.06.2014.*

## US, EU want India to detail food support programmes to WTO

India and China have been asked to submit information on their food subsidy programmes to the WTO by the United States (US), the European Union (EU) and some other countries. The countries want it to be a pre-condition to starting negotiations on finding a permanent solution to India's problem of legitimising food procurement subsidies.

India has also been asked to explain how it establishes that the recipients of its support programme for poor farmers, at a recent meeting of the Committee on Agriculture at the WTO. The US, Australia, Brazil, the EU, Pakistan, Canada, Thailand, Costa Rica and Paraguay have also raised concerns about India's wheat programme as the country also exported the foodgrain.

Last December in Bali, WTO members had agreed to a pact for streamlining movement of goods across borders by upgrading infrastructure and cutting down transaction time (Trade Facilitation Agreement) being pushed by developed countries. India and some other developing countries had given their assent to the pact as the developed countries had promised to allow them to give food procurement subsidies without attracting sanctions, as a short-term measure, while promising to work on a long-term solution to the problem soon after the Ministerial.

It is important for India to be allowed higher level of farm subsidies, which is currently fixed at 10 percent of agriculture production, as it could breach the limit once its Food Security programme is fully implemented. But without a permanent solution to the problem, India faces the risk of action by any Member which is not satisfied with the information on prices, subsidies and procurement of agricultural items submitted by the country.

Commerce Secretary Rajeev Kher, in a press conference had said that India was unhappy with the fact that while much progress had happened on implementation of the trade facilitation agreement, some countries were not allowing talks on food security to begin. New Delhi has demanded that work on all issues agreed to in Bali, including the package of incentives for Least Developed Countries, move at the same pace.

*Source: http://www.thehindubusinessline.com, 15.06.2014.*

## Government of India mulls urea price hike to curb fertiliser subsidies

Government of India plans to raise the price of urea—the fertiliser most used by farmers—by at least 10 percent in order to contain subsidy costs that are straining the budget, government and industry officials told Reuters. The first major price hike in four years would mark an important step by Prime Minister Narendra Modi's new government to cut wasteful use of urea and ease fiscal pressures resulting from a weak economy.

Fertiliser subsidy costs have quadrupled over the past decade as the previous government kept urea prices below the cost of production, fearing a backlash from the influential farm lobby. But now, a proposed doubling of natural gas prices is expected to force the government to take action. Gas accounts for four-fifths of the cost of making urea, a nitrogenous fertiliser that consumes more than half of India's US$11 billion annual fertiliser subsidy bill.

"The gas price rise is making the urea price hike a compulsion. The government has no choice. We are expecting a decision before the budget or in the budget," said a senior official with a state-run fertiliser company.

Government last year approved a hefty rise in gas prices to more than US$8 per million British thermal units in a bid to boost returns for local energy producers, spur investment and ease acute power shortages. However, Modi will have the final say on a proposal to implement the natural gas price hike from July 1.

*Source: http://www.business-standard.com, 09.06.2014.*

## China announces incentives for SAARC states

China has announced a comprehensive package of incentives for the SAARC member states to boost economic and trade cooperation with South Asian nations by investing in various fields including infrastructure projects, energy and telecommunications.

“As a policy we will pursue zero tariff regime on 95 percent of trade for less-developed countries in South Asia,” said Chinese Vice Prime Minister while addressing inaugural ceremony of the 2nd China-South Asia Exposition that was attended by five heads of state of South Asian states.

Chinese Vice Premier said these projects would be carried out on a public-private partnership basis, which he believed would create millions of jobs across the South Asian region and contribute to economic development. He highlighted that two parallel roads and maritime routes are being developed including China-Pakistan Economic Corridor and India, Bangladesh and Myanmar Economic Corridor, which he believed would change the economic setting of the region and would lead to prosperity. In addition, Chinese leader said that Beijing has decided to increase investment in South Asia by 48 percent per annum.

The Bangladeshi premier Sheikh Hasina Wajid also stated that the Bangladesh-China-India-Myanmar economic corridor was a very encouraging development and once implemented, it would go a long way in regional integration. Similarly, in his address, Nepalese Prime Minister Sushil Koirala expressed hope that China would play a major role in ensuring progress and development in South Asia region. Meanwhile, Vice President of Maldives Mohammad Jamil praised China’s generosity and urged the Chinese investors to come and invest in Maldives.

*Source: http://www.nation.com.pk, 07.06.2014.*

## Pollution-ridden Bangladesh unveils green tax in budget

Bangladesh has imposed a radical new "green tax" to force polluting factories to pay extra levies as it looks to clean up the country's increasingly dirty rivers and air. The environmental tax was announced as part of a US$32 billion budget for the fiscal year 2014-15.

Industrial effluent and waste from urban sewage "is severely contaminating our rivers and taking heavy toll on the aquatic environment and its surroundings", Finance Minister A.M.A. Muhith said as he announced the budget in the parliament.

"I propose to impose a one percent Environment Protection Surcharge or Green Tax on an ad-valorem basis on all kinds of products manufactured in Bangladesh by the industries which pollute the environment," Muhith said. He also announced tax exemptions for the country's 6,000 brick factories if they build environmentally friendly kilns.

A revenue official told that the tax would be imposed on a company's turnover if it is found to have polluted "air, soil and water".

Bangladesh is one of the world's most polluted nations. Muhith said the green tax would help "get rid of this situation" and encourage industries "to set up effluent treatment plants". Factories currently face one-off fines if they are found in breach of pollution standards, but bosses often bribe inspectors to turn a blind eye.

The new tax would mostly affect the powerful textile and leather processing industries that often pour untreated effluent straight into the country's rivers. There are around 200 hide-processing factories based in the Hazaribagh district of Dhaka, listed as the world's sixth most polluted place by an environment group, but none of them have effluent treatment plants.

*Source: http://timesofindia.indiatimes.com, 05.06.2014.*

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## EDITORS
Asish Subedi
Sudeep Bajracharya



## 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


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