Trade, Climate Change and Development Monitor

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

Volume 11, Issue 3, March 2014

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OPINION IN LEAD

Improved trade logistics for competitiveness and growth

Trade facilitation has become a buzzword after the Agreement on Trade Facilitation reached during the recently concluded Ninth Ministerial Conference of the World Trade Organization (WTO). The Trade Facilitation Agreement (TFA) aims at reducing administrative and logistical hassles in trade. It includes provisions for expediting the movement, release and clearance of goods along with the special and differential treatment for developing and least-developed countries (LDCs) to implement the agreement.

TFA, therefore, represents multiple opportunities, especially for the developing countries, towards the creation of improved trade-enabling regimes. With the full conclusion of Doha Development Agenda (DDA) still in limbo, and the sluggish progress in market access negotiations, trade facilitation comes as the most doable measure to enable countries reap the benefits of trade.

But when it comes to trade-enabling environment in South Asian countries, it is often argued that South Asia is the least integrated region with a low level of development of trade-enabling apparatuses. In a recently published Global Enabling Trade Report of the World Economic Forum, South Asian countries remain at the bottom half of the rung. Among the 138 economies considered in the report, Sri Lanka (84) leads all other South Asian countries, namely India (96), Bhutan (107), Pakistan (114), Bangladesh (115) and Nepal (116). The rankings are calculated based on four factors: i) market access; ii) border administration; iii) transport and communications infrastructure; and iv) business environment. Simply put, as reiterated by the report, South Asia is one of the least open regions to international trade, lagging behind in policies, infrastructure and institutional mechanisms, *inter alia*, to facilitate free flow of goods into the countries and over the borders.

Apparently, another similar report published by the World Bank—Logistics Performance Index (LPI)—also portrays a dismal level of trade logistic mechanism in South Asian countries. LPI ranks 160 countries on a number of dimensions of trade, including customs performance, infrastructure quality and timeliness of shipments, that have increasingly been recognized to facilitate trade. Among the South Asian countries covered in the report, India tops the list at 54, followed by Pakistan (72), Maldives (82), Sri Lanka (89), Nepal (105) and Bangladesh (108). Bhutan (143) and Afghanistan (158) languish much below the better performers of the region. No wonder, South Asian countries—with low development of institutional and infrastructural mechanisms—present a bleak picture when it comes to trade logistics.

Improvement in logistics performance is undoubtably important for increased competitiveness and growth, since seamless and sustainable logistics is crucial to intergrate into the global value chains. Quality of logistics, connectivity and border administration are supposed to play an equal, if not more important, role as tariffs in determining trade costs. Moreover, better security—a prerequisite to improve logistical performance—can also help secure property rights, which in turn contributes to further logistics improvements. Inefficient logistics, on the other hand, raises the costs of trading and reduces the potential for global integration which is a hefty burden for developing countries trying to compete in the global market.

Regrettably, South Asian countries lag not only in terms of economic integration, but also in factors that facilitate trade at more practical level such as improvement of infrastructure and customs agency at border points, including reforms of border agencies such as those responsible for sanitary and phyto-sanitary controls. Moreover, common barriers to trade such as red tape at borders, corruption, inadequate infrastructure and low levels of security also persist despite an overarching effort by these countries to eliminate such barriers.

In a time where the nexus between trade and growth, and in turn between growth and poverty reduction, is widely accepted, improving trade logistics and promoting regional integration is of utmost important for countries in South Asia since the region is home to the largest number of poor people in the world. But while some of the barriers to trade such as the red tape at the border clearance can be removed relatively quickly at a low cost, others need a coherent mix of political will and investment, both of which are something difficult to achieve in a near future.

ANALYSIS

Economic outlook: Fueling growth in South Asia

With diminishing fear of a return to a recession, the global economy is well on its way to post-recession recovery. Though the combined GDP of United States (US), European Union (EU) and Japan grew a meager one percent in 2013, this year the same is expected to nearly double. But as the economy recovers, US is winding down its crisis-response stimulus which is already having a significant impact on investment dependent economies, mainly in South Asia. According to the Asian Development Bank's Report—*Asian Development Outlook 2014: Fiscal Policy for Inclusive Growth*—released this April, despite positive growth, South Asia was one of the slowest growing subregions, with the regional economy expanding by 4.8 percent in 2013. However, the regional GDP is likely to increase to 5.3 percent in 2014, conditional on successful reforms in India, the region's major economic player.

India's economic growth bottomed out in 2013 due to the sudden draining of foreign investment and pressure on the exchange rate. Fortunately, strong policy measures put in place in India is expected to push the growth to 8 percent in 2014. However, the Indian economy remains susceptible to external shocks given its dependence on capital inflow, and is plagued by high inflation, fiscal imbalance and inefficiencies that require structural reforms.

Meanwhile, macroeconomic and security challenges continue to weigh down South Asia's second largest economy, Pakistan. The country's economy has been on the decline in recent years and the trend is expected to continue; GDP growth is projected at 3.4 percent in 2014, the lowest in South Asia. Considering Pakistan's high fiscal deficit and low tax-to-GDP ratio of 8.5 percent, achieving fiscal stability is going to be a major challenge for policy makers in the coming years.

The widening gap between domestic revenue and government's expenditure is an issue that require due consideration in Afghanistan and Sri Lanka. While domestic revenue as a share of GDP is lower in Afghanistan than almost anywhere else in the world, revenue ratio remains low in Sri Lanka at 13.6 percent of GDP in 2013 and is declining. Hence, for Afghanistan and Sri Lanka to achieve projected growth of 3.5 percent and 7.5 percent respectively in 2014, improving revenue collection through tax policy reforms and administration is critical. Fortunately for Sri Lanka, exports are likely to pick up in the coming years with better economic performance in the EU and the US, Sri Lanka's major export partners.

While export prospect for Sri Lanka is likely to improve, the same is not true for Bangladesh, world's second largest garment exporter. The country's GDP growth is expected to decrease from 6 to 5.6 percent in 2014 reflecting slower expansion of exports, falling remittances and political unrest. Importantly, Bangladeshi garment sector might face a significant blow if foreign buyers postpone orders in response to delays in implementing agreed fire and building safety standards to prevent further industrial accidents. Like Bangladesh, remittance inflow decreased in Nepal—a country where remittance accounts for nearly quarter of national GDP—which largely contributed to slow GDP growth (3.6 percent) in 2013. But the economic outlook is better—the economy is expected to expand at 4.5 percent in 2014. However, taming the persistent high inflation is one of the country's major macroeconomic challenges. Average inflation has been hovering near two digits for the last five years mainly due to weak currency, supply-side constraints, anticompetitive practices and inflation in India. Therefore, effective market supervision and monitoring, along with prudent fiscal policies and addressing structural bottlenecks will be essential first steps in freeing the country from the grip of inflation.

High inflation is also an issue of concern in Bhutan, a country that is highly dependent on imports from India. Inflation was 8.6 percent in 2013 and is expected to rise to 10.2 percent this year. Additionally, Bhutan adopted various policy measures to alleviate growing shortages of Indian rupee reserves in 2012 which had subsequent effect on GDP, decreasing it to 5.2 percent in 2013. However, with a series of hydropower projects currently underway, Bhutanese economy is expected to expand in 2014 to 6 percent. But considering that the national economy is highly dependent on hydro power sector and agriculture, it is necessary to focus on the expansion of other sector for inclusive and sustainable growth. Lack of diversified economic base is also a prominent economic issue in Maldives where tourism sector alone accounts for nearly 40 percent of GDP growth in 2013. Buoyed by the tourism sector, the GDP grew at 3.7 percent in 2013 and is expected to expand at 4.5 percent in 2014. Moreover, the heavy reliance on imports has resulted in substantial fiscal imbalances and is also expected to increase inflation to five percent in 2014. Thus, the government has to look beyond tourism to address country's reliance on imports and to improve persistently large account deficits.

Though South Asia's regional growth has lifted many out of poverty, widening inequality and the prospect of tighter global liquidity are threatening to undermine sustainable regional economic growth. In light of the regional outlook and the problem that continue to overwhelm South Asian countries, regional authorities need to explore a wide range of options to raise revenue for investment and decrease vulnerability to external shocks. Improving tax collection, taming inflation, and investing in economic and trade infrastructure are all highly important. But notably, India will have to lead the way and implement successful reforms to accelerate regional growth.

NEWS

Indian sugar exports rise, but WTO members demand removal of subsidies

Several members of the WTO—including the EU, Australia, Brazil and Colombia—have demanded India to remove the subsidies that were granted to its sugar exports in February 2014. This demand comes amid the surging sugar exports from India.

At a recent WTO meeting, India was asked about the new policy that involves the payments of incentives to Indian sugar exporters. The incentive paid to them—INR 3,300 per tonne—has helped Indian exporters find newer and cheaper markets overseas. The availability of a substantial amount of water has also helped farmers increase the production of sugar.

"In addition to the possibility that India might be violating a commitment, some of these countries said they were concerned that the subsidies would distort world markets by depressing prices, hurting producers in their countries", a WTO official stated. "The first priority of WTO is to try to settle issues through discussions in the committees", he added.

Along with the facts and figures, some of the countries asked what the legal basis under the WTO was for the export subsidies. India aruged that the policy was designed to encourage diversification away from white sugar to raw sugar, and that no intervention payments had been paid yet, and that the export subsidies would be notified to the WTO.

Meanwhile, Brazil asked how India could justify the subsidies since there has been no consensus to extend these special provisions for developing countries. Responding to similar questions raised in the past, India had argued that developing countries were still allowed to use the special provision, because the 2005 Hong Kong Ministerial Declaration stated that developing countries would continue to benefit from the provisions of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies, adding that export subsidies had not been eliminated yet.

Paraguay, Thailand, El Salvador, Canada, the US, Pakistan and New Zealand also shared the same concern about the subsidised exporting of sugar from the country.

Source: http://www.fnbnews.com, 31.03.2014.

Sri Lankan government to establish a guaranteed price for potato, big onion and dried chilli

Moves are afoot to ensure a guaranteed price for potato, big onions and dried chilli in accordance with the Sri Lankan government's objective of achieving national food security and the target of 10 percent growth in the agriculture sector. The government also plans to create an uninterrupted access to competitive markets both in Sri Lanka and abroad for value added agricultural products.

About 25,000 farmers are engaged in potato cultivation in the Nuwara Eliya and Badulla District. The livelihood of 250,000 people depends directly and indirectly on potato cultivation although the country still produces only 40 percent of the potato requirement which is about 12,000 metric tons per month. Although Sri Lankans consumed 200,000 metric tons of big onions per year, only 87,660 are produced resulting in the country having to spend LKR 6000 million in foreign exchange on big onion imports. However local farmers are supplying 93 percent of the country's red onion requirements.

Considering these facts, Government anticipates to reach a 50 percent self sufficiency in potato, big onion and dry chili production by 2015 targeting to transfer from a net food importing economy to a net food exporting economy and expecting to reach the export market by exporting the surplus production by year 2020.

Accordingly, the actions were taken by the government to provide reasonable price for agricultural production by introducing guaranteed price for potato, big onions and dried chilli.

The scheme has established the per kg guaranteed price at LKR 80, 60 and 350 for potato, big onions and dried chilli respectively. It has further established the per kg price of LKR 160 for seed potato and LKR 12,000 for big onion seeds.

Source: http://www.lankabusinesstoday.com, 30.03.2014.

Proposal to halve wheat reserves rejected in Pakistan

Pakistan's National Food Security and Research Ministry has turned down a proposal put forward by the Ministry of Finance to halve the country's strategic wheat reserves from 1.0 million tonnes to 0.5 million tonnes because of a limited fiscal space. A senior official at the food ministry said that the strategic wheat reserves would continue to be maintained at 1 million tonnes as per the country's international obligations.

In an official communication to the Food Ministry, the Finance Ministry suggested that the reserves of 0.5 million tonnes should be declared from within Pakistan Agricultural Storage & Services Corporation Limited (PASSCO) which maintains the food bank in Pakistan.

Poverty, food security and food safety remain major issues facing Pakistan. Despite consistent increase in the production of wheat—with production in 2013 exceeding 24 million tonnes—some 30 percent of the population is undernourished.

The Food Ministry said that the wheat stocks available with PASSCO and provincial governments are sufficient to meet the demand of the country till the arrival of next crop next month.

A recent meeting of the wheat review committee observed that the commodity's prices in the market were higher than the government's price of PKR 1,200 per 40 kg which would be main hindrance in achieving procurement targets for 2013-14.

During 2013, public sector procured 5.95 million tonnes of wheat against a target of 7.91 million tonnes. Low procurement was due to short supply in the open market. During the last three years, the official wheat procurement on an average has remained around 6 million tonnes a year.

The food ministry's proposal to fix the wheat procurement targets by PASSCO and provinces has been approved by the economic coordination committee of the federal cabinet. Out of the total procurement target of 8 million tonnes, 1.6 million tonnes will be procured by PASSCO.

Meanwhile, the Food Security Ministry has drafted the 'Agriculture and food security policy' that is waiting for an approval from the government. The policy suggests that the current wheat procurement schemes will be replaced by a more rationalized programme that procures the quantities needed to provide subsidized wheat or flour to well-defined food insecure consumers in rural and urban areas. The draft policy also says that food security and malnutrition have not received due attention, and remain the major problems despite the fact that the constitution enshrines right to food in Pakistan.

Source: http://www.dawn.com, 16.03.2014.

Nepal, India agree to speed up construction of ICPs

Nepal and India have agreed to speed up work on the planned Integrated Check Posts (ICPs) which provide various facilities including immigration, customs check, quarantine, freight forwarding, information and communication technology management, financial institutions and others for the convenience of traders.

Currently, the construction of an ICP in Birgunj has been started while preliminary works at three other customs points in Biratnagar, Bhairahawa and Nepalgunj are currently underway. India has been building the ICPs at all the four places on both sides of the border as per the agreement reached between the two countries in 2009.

Amid slow progress so far in the construction of the ICPs, the two sides met in New Delhi on Wednesday to review the progress and speed up construction work on both sides. Members of the Nepal delegation mentioned that Nepal had resolved land acquisition problems in Biratnagar and Bhairahawa, and that it was now time to speed up work on the ICPs. Moreover, since the number of warehouses in the customs area and the parking area has been found to be a little small considering the increased movement of vehicles and goods, Nepal asked for the expansion of the area by changing the design of the proposed ICPs.

With the faster progress of the construction of the ICPs on the India n side of the border, Nepal had also requested the India n side to complete the projects on both sides at the same time. According to the Commerce Ministry, about 75 percent of the ICP structure in Raxaul, India has been completed while the blocks for administrative work and surveillance have been completed in Birgunj.

The India n government has earmarked a total of INR 1.20 billion for the Biratnagar-Jogbani customs. Similarly, an estimated INR 340 million each has been allocated for the Birgunj-Raxaul customs and the Bhairahawa-Sunauli customs while INR 290 million has been set aside for the Nepal gunj-Rupaidiya customs. India is reported to be constructing a total of 13 ICPs with its neighbouring countries including Nepal , Bangladesh, Myanmar and Pakistan to facilitate bilateral trade.

Source: http://www.ekantipur.com/, 15.03.2014.

US-India trade ties worsen amid claims of protectionism

US-India trade ties have continued to worsen in recent weeks, with Indian Trade Minister Anand Sharma recently accusing Washington of “high and unacceptable protectionism.” The remarks from New Delhi’s top trade official comes after months fraught with tension, with the two sides openly sparring on topics ranging from renewable energy policies to patent protections.

In his remarks, Sharma defended India’s compliance with the WTO’s Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Washington has repeatedly said that New Delhi’s policies on patent protections effectively put US pharmaceutical companies at a disadvantage compared to Indian producers of generic drugs. Sharma has denied this, saying that what the US wants from India goes above and beyond TRIPS’ terms—adding that India “will never accept” TRIPS-plus style policies.

Another area of disagreement between the two sides has been India's domestic content requirements for solar energy products, which led Washington to file its second complaint with the WTO on the subject in February.

The US claims that these requirements not only make it difficult for its exports to enter the Indian market, but also hinder the spread of renewable energy resources globally. New Delhi trade officials have denied these claims, asserting that national policy is in full compliance with its WTO obligations.

In what analysts have said is another sign of worsening tensions, Indian government officials also decided last month to block probes by the US International Trade Commission (USITC) into their domestic trade practices, saying that bilateral disputes should instead be reviewed in the WTO context.

Source: http://ictsd.org/i/news/bridgesweekly/185018/, 06.03.2014.

China emerges as India's top trading partner: Study

India's eastern neighbour China has emerged as its biggest trading partner in the current fiscal year replacing the United Arab Emirates (UAE) and pushing it to the third spot, according to a study conducted by India based PHD Chamber of Commerce and Industry.

India-China trade has reached US$49.5 billion with 8.7 percent share in India's total trade, while the US comes second at US$46 billion with 8.1 percent share and the UAE third at US$ 45.4 billion with 8 percent share during the first nine months of the current fiscal year, the study revealed.

The UAE was India's biggest trading partner in the 2012-13 fiscal.

India's trade (exports and imports) with China was only of US$7 billion in 2004 which rose to US$38 billion in 2008 and to US$65 billion in 2013.

"India's direction of foreign trade has exhibited a structural shift during the last decade. Trade volume and trade share of emerging and developing economies has increased while the share of conventional trading partners has showed a declining trend," PHD Chamber President Sharad Jaipuria said.

However, with the revival of demand in advanced economies, the US has re-emerged as India's top exports destination. India's exports to the US during April-Dec 2013 stood at US$29.3 billion followed by the UAE at US$ 22.3 billion and China at US$10.8 billion. In 2012-13, UAE was India's top exports destination followed by the US and Singapore, the study pointed out.

Besides, UK and Germany have come down in the list of the top export destinations, while Belgium and Italy are out of the list. On the other hand, Saudi Arabia and Netherlands have made it to the list of top ten export destinations.

One significant development in India's import scenario is the emergence of Saudi Arabia, UAE, Kuwait, Qatar, Iraq and Switzerland amongst the country's top ten import sources.

Source: http://articles.economictimes.indiatimes.com, 02.03.2014.

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