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OPINION IN LEAD

Impending rise in food prices

With late and low monsoon in South Asia and droughts in major food-producing and food-exporting countries, there are worrying signs that food prices might escalate in the coming months. The Food and Agriculture Organization of the United Nations (FAO) Food Price Index averaged 213 points in July 2012, up 12 points from June. Though this is still less than the peak of 238 points reached in February 2011, overall food prices have started to increase again due to upward price pressures coming from grain, sugar and oil/fats prices. This has come amid disappointing news about monsoon rains, and floods and droughts in major grain-producing nations. South Asia will get particularly affected by this as festival season, when demand for daily consumed food items is higher than normal times, is just around the corner in several countries the region.

In its August food price update, the FAO stated that the adverse maize and corn production prospects in the United States (US) due to droughts and setbacks in wheat production in Russia, Kazakhstan and Ukraine (which accounts for nearly a quarter of global wheat export) amidst projected sharp rise in demand from the livestock sector are driving prices upward. Furthermore, untimely rains in Brazil, the largest sugar exporter in the world, have raised concerns about sugarcane production and its prices in the coming months.

In South Asia, India, which is also the largest producer and exporter of food items, had 21 percent less rainfall than average. The Indian government is considering releasing grains stored in government warehouses around the country. In Nepal, agriculture production is projected to be lower than last year's due to late and low monsoon and a shortage of fertilizers during peak planting season. Other countries in the region also are one way or the other affected by late monsoon, floods and droughts this year. Consequently, the prospects of high food prices are real and will impact the food security situation in the region.

Keeping in mind the impending rise in food prices during and after the festival season, South Asian nations need to be prepared to take actions both at national and regional levels. First, emergency release from stocks should be the priority to stabilize prices. Second, market imperfections arising from rigging of prices by middlemen or cartels should be monitored. Third, building crucial agriculture infrastructure such as irrigation and roads for market access also helps as only about one fifth to two fifths of farmers are "significant participants" in agriculture markets. Fourth, targeted food subsidies and social protection programmes should be designed and implemented well in advance. Fifth, large grain-producing and -exporting nations like India should refrain from export bans as the other countries in the region are net food importers.

Additionally, realizing the destabilizing impact of droughts on global grain production and contribution to keeping prices high since 2007, in a recent report, the FAO highlighted the "need for transform the way water is used—and wasted—throughout the entire food chain". Conserving water by using it more "sustainably and intelligently"—such as modernization of irrigation, better storage of rainwater at farm level, recycling and re-using, pollution control, and substitution and reduction of food waste—will not only help boost food production and stocks, but also is an important climate change adaptation strategy. As 75 percent of South Asia's poor people live in rural areas and depend on rain-fed agriculture, changing the way water is used in agriculture is crucial for supporting livelihoods, sustainably boosting production and controlling food prices. Globally, one third of food for human consumption is either lost or wasted.

South Asian governments need to closely monitor the prospects for rapidly spiralling food prices and implement appropriate remedial measures as and when required. Else, it will once again push thousands of people below the poverty line, increase vulnerability and heighten food insecurity.

ANALYSIS

FDI: A major milestone in Indo-Pak ties

The announcement by the Indian Government on 1 August to allow foreign direct investment (FDI) from Pakistan has given yet another fillip to Indo-Pak economic relations — that too in a somewhat uncertain political environment.

There are still some unanswered questions. Once these are addressed, India and Pakistan would have covered yet another milestone in their journey towards normalizing trade and economic relations. Until recently, India had Sri Lanka, Bangladesh and Pakistan on the negative list, but in 2006 and 2007, India permitted FDI from Sri Lanka and Bangladesh respectively, leaving Pakistan as the only country from which India did not permit any FDI inflows.

The recent announcement to allow FDI from Pakistan marks a significant change on two counts. First, in its FDI policy, India no longer has any country on its negative list of foreign investors and, second, it has restored the confidence among many who perceived a slowdown in the momentum of economic ties between the two countries.

This was following a series of events starting May 2012, when a widely expected liberalized visa agreement between India and Pakistan was postponed at the Home Secretary-level talks in Islamabad, after Pakistan insisted on "political participation". After this, there was a change in the portfolios of Commerce Secretary of India Rahul Khullar and Commerce Secretary of Pakistan Zafar Mehmood, who had steered the talks successfully and then left for different tasks that their countries had assigned to them. The biggest doubt arose when there was a delay in following up on the promise by Commerce Minister Anand Sharma in April this year, just a few hours before opening of the new integrated check post at Attari, to allow FDI from Pakistan.

Another dampening factor was the "inconclusiveness" of bilateral energy talks which had started in March this year. Trade in energy can bring about a quantum jump in bilateral trade. The US$4 billion plant on the northern border with Pakistan at Bhatinda —a venture of Mittal Energy investments and Hindustan Petroleum, which went on stream in April—was expected to gain significantly from the energy talks.

The slowdown in the process was reversed on 1 August when the Department of Industrial Policy and Promotion notified changes in the consolidated FDI policy to allow investment from Pakistan in sectors/activities apart from defence, space and atomic energy, through the government route, and made the requisite amendment.

However, what still remains to be done is an amendment to the Foreign Exchange Management Act (FEMA), which bans investment from Pakistan into India.

It is now time to seek answers on India's policy on outward investment from India to Pakistan. Indian data on outward FDI flows confirm that so far there has been no outward FDI from India to Pakistan. The inhibiting factor is the FEMA regulation, which also restricts outward investment from India to Pakistan under automatic route. In fact, it is not too clear if investments can be made with prior approval. This policy has been applicable to Pakistan alone. It is hoped that the amendment to the FEMA regulation would remove the restriction on inward and outward investment flows — thus furthering the bilateral economic agenda. The private sector will soon step in to assess bilateral investment possibilities. It appears that the investment possibilities for Pakistani investors are limited. In 2011, Pakistan's outward FDI flow was only US$62 million while India's was US$14,752 million.

Even though the country-wise break-up of FDI outflows from Pakistan are not available, data from the Board of Investment in Bangladesh indicates that Pakistan has invested in telecom towers, table fans, readymade garments, textile weaving, switch gears and voltage stabilizers in Bangladesh.

The Chambers of Commerce in the two countries have identified clothing, clothing accessories, fabric, surgical instrument and cutlery as some of the possible sectors for Pakistani investment. There are larger possibilities for Indian investors in Pakistan in sectors such as chemicals, pharmaceuticals, automobile components and information technology.

An enabling business environment between the two countries will promote joint ventures and allow firms to access technologies, which in turn will lead to improvements in productivity, generating growth and employment opportunities.

The next obvious step of the governments of India and Pakistan should be to set up an institutional mechanism that would guarantee each other's investments. The countries should work towards signing a bilateral investment treaty which protects and promotes investments on a reciprocal basis and includes provisions on fair and equitable treatment, protection from expropriation and national treatment.

As India moves towards completing the important task of liberalizing investment flows, it should reinforce its commitment to the trade and investment agenda laid down by the two countries in April 2011.

Stronger and deeper economic ties will not only benefit the two countries but also serve as a powerful means of confidence building and eventually a peaceful bilateral relation.

(Adapted from Nisha Taneja and Samridhi Bimal's article published in Business Line, The Hindu on 22 August 2012)

Maldives to enhance trade relationship with Sri Lanka

The Maldives is looking forward to extending trade and investment relationship with Sri Lanka while addressing issues that hamper the progress at present. "We are confident that further improvement of trade and investment relationship between the two countries could be achieved. There are opportunities for Sri Lankan companies to set up branches in Maldives with the streamlining of existing regulations", Sri Lanka-Maldives Bilateral Business Council President Hussein Hashim said.

The two island nations of South Asian Association for Regional Cooperation (SAARC) could promote tourism, trade and commercial activities for mutual benefit, he said, addressing the Sri Lanka-Maldives Bilateral Business Council meeting held in Colombo in August. Trade between the two countries is improving and the Maldives is Sri Lanka's third largest trading partner in the SAARC region. Trade between the two countries increased from US$54 million in 2010 to US$76 million in 2011.

The Maldives' imports from Sri Lanka grew by 17 percent last year. Bilateral trade is expected to reach US$80 million this year. Hashim stressed that bilateral trade needs to be further expanded and diversified by exploiting opportunities and addressing skill development requirements.

The two countries have entered into agreements related to education, tourism, national security, legal framework and environment. There are 15 major ongoing investment projects in the Maldives by Sri Lanka. Sri Lanka is the biggest supplier for the Maldivian tourism industry. Maldives expects to attract one million tourists by the end of this year.

Source: Daily News, 27.08.12.

Bangladesh farmers caught in vicious cycle of flood and debt

Seven-year-old Mili Begum knows her classroom like the back of her hand. She should, because she has been living in it for the past six weeks. The flood waters that surged through her village in the Sunamganj district of north-east Bangladesh have receded, but her family is one of many struggling to cope after losing both home and belongings.

The monsoon floods killed more than 100 people and displaced an estimated 600,000 in June and July, mainly in the north-east and south-east of the country. Although most of those displaced have returned home, experts say they remain vulnerable.

"People assume that since floods happen almost every year in Bangladesh, flood-affected people have learnt to cope, but it's not that easy," said Abdul Mannan, a senior official at the Ministry of Food and Disaster Management. "The next month will be hard. These people are in real danger of falling into debt."

Flooding is a significant obstacle to the development of Bangladesh, which is home to two of the largest river systems in the world: the Brahmaputra and the Ganges. This year the floods arrived after the harvest of the dry season rice crop—locally known as boro—but the waters hampered planting for the next crop and prevented villagers in some areas from taking their produce to the market. Because flooding leaves communities isolated, income-generating activities are also severely curtailed.

Studies carried out after a major flood in 2004 showed that flooded households often fall into a vicious cycle of debt and roughly a fifth of flood-hit families are pushed below the poverty line. Other studies have confirmed that flood-affected rural communities often deal with short-term shocks by adopting extreme coping mechanisms—including borrowing money to buy food, reducing expenditure by skipping meals, and selling assets such as cows and goats. Vulnerable families coping with the destruction of their homes, unsafe drinking water and reduced calorie consumption are faced with crippling interest rates—ranging from 21 percent to 67 percent—charged by local loan sharks.

After severe flooding in 1998, studies showed that a child living in a household exposed to the floods faced a seven times greater risk of wasting—low weight for height—than one not exposed at all. Many children never recovered to pre-flood levels of health.

Poor sanitation, lack of food, water-borne diseases and loss of family income all contribute to increased malnutrition among children during floods. Experts say the destruction of home gardens is particularly harmful, because vegetables represent the most important source of micronutrients in the diet.

Source: Guardian, 23.08.12.

New climate projection to help Nepal plan better

Climate change is expected to increase temperatures in Nepal by several degrees by 2060, but a new database set up by the Asian Development Bank (ADB) should help the geographically diverse country better prepare for various climate change impacts.

“The potential applications of this database are manifold: If a farmer has a better idea of how rain patterns are going to change, he can make better decisions about the crops he will plant, while the engineer can make a more informed decision about how to build roads that will last, and the government official can better direct public spending,” said senior water resources specialist at ADB Cindy Malvicini.

Information on climate change impacts across the country has, until now, been very general. This was not very useful given that Nepal’s topography ranges from Arctic regions to tropical plains, all within a 200 km span from north to south. Frequent earthquakes, landslides and melting glaciers also make it highly vulnerable to climate change.

Under a project called “Strengthening capacity for managing climate change and the environment”, ADB has coordinated a more specific set of climate change projections for areas as small as 12 sq km. The previous climate change data provided projections for wide swathes of up to 100 sq km.

The new data is more targeted, allowing for more effective climate response plans to be drawn up. Data show that between 2030 and 2060, the annual mean maximum temperature will increase in most areas of Nepal. While it will rise only slightly in the central part of the country, it will go up by about 3 degrees Celsius in the north-western high mountain region. Meanwhile, average annual rainfall will increase slightly across the whole country, but will increase most in the western and northern high mountain regions.

Source: The Himalayan Times, 26.06.12.

Bangladesh to trial weather index-based crop insurance

Bangladesh is planning to introduce crop insurance based on a weather index to reduce farmers' economic vulnerability to shifting climate patterns and extreme weather events. The Asian Development Bank (ADB) is helping the South Asian country develop the new insurance scheme. The bank considers climate change and weather variability as a big challenge for the country's agriculture sector. Similar insurance products have been launched in East Africa, India and other parts of Asia, but their impact is still being monitored.

In a document submitted to Dhaka, the ADB describes index-based insurance as an innovative tool to boost the ability of rural farm households to adapt to changing climatic conditions. "The insurance policy will link possible insurance payouts with an index calibrated with the weather needs of the crops being insured," the ADB report says.

Unlike regular crop insurance, policies based on a weather index assess the likelihood of crop failures based on forecasting. Premiums will be higher if crops are projected to be at risk of failure, and lower if they are not.

Bangladesh has some 7.5 million hectares (18.5 million acres) of arable land, according to the World Bank, but this is declining by around 1 percent each year due to river erosion, urbanization and other pressures from a growing population. In many low-lying areas, farmers harvest only once a year, leaving their families exposed to hunger if a natural disaster destroys their crop. It has become commonplace for farmers to lose crops to drought, floods and salt intrusion, especially in coastal districts.

The new insurance programme goes beyond the government's existing disaster risk management measures, such as emergency relief and credit provision. It will benefit vulnerable groups least able to protect themselves against weather-related hazards aggravated by climate change, according to the ADB. The bank also says index insurance avoids the weaknesses of traditional agriculture insurance, such as costly and time-consuming assessments of individual farms, and the risk of farmers making fraudulent claims.

Source: AlertNet, 21.08.12.

Members streamline WTO accession process for poorest countries

World Trade Organization (WTO) Members, on 6 July 2012, validated their decision taken in the Sub-Committee on Least Developed Countries to streamline and facilitate the accession process for the least-developed countries (LDCs). WTO Director-General Pascal Lamy said: "These improved guidelines provide a simpler framework for the entry of LDCs into the WTO family. It is another example of positive action in favour of the world's poorest countries."

WTO Ministers requested that the Sub-Committee on LDCs develop recommendations to bolster and make more specific the Accession Guidelines—a decision adopted in 2002 to facilitate accession negotiations with acceding LDCs.

"LDC accessions have a special systemic value because they demonstrate the development dimension of the Organization. Trade opening and legislative reforms provide a tool for faster economic growth and poverty alleviation. However, it is also true that the WTO accession is not an easy process, especially given the limited capacity in many of the world's poorest countries. The agreement reached by WTO Members recognizes this careful balance. These improved guidelines provide a simpler framework for the entry of LDCs into the WTO family. It is another example of positive action in favour of the world's poorest countries," said WTO Director-General Pascal Lamy.

Among the 48 LDCs listed by the United Nations, 32 to date have become WTO members, including four LDCs which acceded after the establishment of the WTO in 1995. These are Cambodia (2004), Nepal (2004), Cape Verde (2008) and Samoa (2012). Vanuatu completed its accession process in 2011 and will become a member upon completion of its domestic ratification.

Another 10 LDCs are in the process of acceding to the WTO: Afghanistan, Bhutan, Comoros, Equatorial Guinea, Ethiopia, Lao PDR, Liberia, Sao Tome & Principe, Sudan and Yemen. Among them, the accessions of Lao PDR and Yemen have reached their final stage and are poised for conclusion this year.

The proposed decision will set benchmarks for acceding LDCs for market access negotiations. It also provides some concrete guidelines to operationalize the notion of "restraint" when seeking commitment from acceding LDCs. The decision contains five key elements: benchmarks on goods, benchmarks on services, transparency in accession negotiations, special and differential treatment and transition periods, and technical assistance.

Source: WTO, http://www.wto.org/english/news_e/news12_e/acc__03jul12_e.htm

WTO membership rises to 157 with the entry of Russia and Vanuatu

The World Trade Organization's (WTO) membership rose to 157, with the Russian Federation becoming its 156th member on 22 August and Vanuatu its 157th member on 24 August.

"Both accessions show that joining the WTO remains high on the countries' agendas since trade can bring a predictable and stable basis for economic growth. This is especially important as the world goes through troubled times and continues to suffer from one of the worst global economic crisis in memory. Joining the WTO is a sign of confidence in the organization and in what it can deliver for its members", said WTO Director-General Pascal Lamy.

From the date of accession, the Russian Federation has committed to fully apply all WTO provisions, with recourse to very few transitional periods. On average, the Russian Federation will apply a final bound tariff for 7.8 percent for goods and has made specific commitments on 11 services sectors.

Vanuatu committed that, from the date of accession, it will fully apply all WTO provisions and did not require recourse to any transitional period except on intellectual property and on the publication of trade information. Vanuatu will apply an average final bound rate of 39.7 percent and has made specific commitments on 10 services sectors. The services sector has been growing and now accounts for three quarters of Vanuatu's gross domestic product.

Source: WTO, http://www.wto.org/english/news_e/pres12_e/pr671_e.htm

Bhutan apple export beset with problems

Despite some Bangladeshi buyers agreeing to price rises, there have still been problems for Bhutanese exporters of apples, due to the quality of the fruit. Most exporters said apples were not ripe enough to meet the standard set by the Bhutan Agriculture and Food Regulatory authority (BAFRA).

They also said that some of the clients from Bangladesh, who objected to hikes in the price of apples, were willing to import, because of a major demand back home, fuelled by the Eid festival. Exporters feared that once the festival ended, on 18 August, it would be difficult to sell the fruit if the quality did not improve.

Meanwhile, a few exporters said that with financial institutions discontinuing export packaging credit, a type of loan extended to help buy apples from farmers, their business would be adversely affected.

Source: Kunselonline.com, 07.08.12.

ACTIVITIES

5th training programme on CGE modelling

The Fifth South Asian Training Programme on CGE Modelling was held in Kathmandu from 27-31 August 2012. It was organized by SAWTEE, South Asian Network on Economic Modelling (SANEM), Dhaka and Centre for WTO Studies (CWS), New Delhi. The objective of the training programme was to provide basic knowledge of theory and applications of computable general equilibrium modelling (CGE) to researchers of South Asia; enhance the capacity of researchers of South Asia to do policy research on issues of the interlinkages between trade, climate change and food security using CGE models; expand the South Asian network of researchers on trade, climate change and food security issues; and provide research grant to select researchers who have participated in the training to conduct studies on trade, climate change and food security issues using CGE models. Some 30 researchers and policy makers from South Asian participated in the training.

Publications

Title: Technology needs and transfer issues in South Asia
Type: Policy brief
Author: Krishna Ravi Srinivas
Publisher: SAWTEE

Title: Regional Economic Integration: Challenges for South Asia during turbulent times
Type: Book
Editors: Saman Kelegama, Ratnakar Adhikari, Puspa Sharma and Paras Kharel
Publisher: SAWTEE and South Asia Centre for Policy Studies (SACEPS)

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