Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Economic Outlook: 2014 and beyond

With the start of a new year, economic forecasting is in full swing and the consensus outlook is pretty optimistic. According to the Organisation for Economic Co-operation and Development's (OECD) latest Economic Outlook, the global economy is expected to continue expanding at a moderate pace over the coming years, but policymakers must ensure that instability in financial markets and underlying fragility in some major economies are not allowed to derail growth. GDP growth across the 34-member OECD is projected to grow at 2.3 percent in 2014 and 2.7 percent in 2015. Meanwhile, the world economy will likely accelerate to 3.6 percent and 3.9 percent in 2014 and 2015 respectively.

China's growth was moderate in 2013 due to increased focus on domestic market, aided by a small fiscal stimulus and rapid credit expansion. With the gradual shift from the export-oriented and investment dominated economic model towards domestic-oriented and consumption dominated economic model, China's growth is likely to pick up in 2014 and edge down to around 7.5 percent in 2015.By past standards though, China's growth is subdued, reflecting a marked slowing in potential growth in the past few years. Regrettably in the euro zone, recovery is lagging and uneven, unemployment—especially among the young—remains very high and inflationary pressures are very subdued. The European Central Bank is struggling with its one-size-fits-all monetary policy, as the crisis has exposed the difficulties presented by a monetary union across countries with considerable structural differences. Fortunately, economic activity is projected to recover in 2014 and 2015, but the pace will remain moderate at best. Meanwhile, the United States (US) is expected to be driving the economy in 2014.

In the spirit of optimism, the US Federal Reserve just recently decided to start curtailing its unprecedented monetary stimulus, based on the strength of recent signals from the economy. However, the Federal Reserve should only gradually wind down asset purchases to limit the impact of US monetary policy on vulnerable emerging-market economics that are most reliant on foreign investment or where credit growth has been rapid. Moreover, as America's economy gains strength in 2014, investors may expect rise in interest rates which could send bond yields sharply higher, thereby possibly clobbering growth in other economies around the world. For instance, following America's recent decision to cut down on monetary stimulus, the Indian rupee (INR) plunged to new lows, putting pressures on India's inflation and public finances. In addition, India's new Food Act is only going to add to the rising current account deficit, albeit not directly but through the fiscal account.

Unfortunately, rising inflation and high current account deficit are regional problems in South Asia. Public finances in the entire South Asian region are under pressure, with Governments increasing already large deficits and regularly missing the deficit reduction targets. Given the weak regional growth and the difficulties in raising tax revenues and curbing expenditure growth, government deficits is likely to remain large in the near term. Meanwhile, the region continues to face high inflation rates, mainly owing to elevated inflationary expectations, rapid credit growth, localized food price pressures and structural bottlenecks such as energy shortages.Thus, priority should now be given to address inflation, manage public finance, implement pending tax reforms, reform the labour market and enhance exports.

On a more positive note, economic activity in India is expected to recover gradually in 2014 as the INR depreciation supports exports, boosts tourism and increases the inflow of remittances. The same applies to countries which have been maintaining a pegged exchange rate to the INR, namely Bhutan and Nepal. Additionally, expansion of the US economy in coming years will lead to greater demand for goods from developing countries. Unfortunately, the benefits of increased demand for South Asia's exports in the US will be limited for many South Asian countries since much of the export competitiveness of South Asian countries might be exploited by India, given the significant depreciation of the INR.

With China, Europe and the US accounting for roughly two-thirds of global output, sluggish growth will continue to characterise the world economy since growth is not gathering much pace in any of the three economic regions. Amid volatile economic growth and uncertain growth prospect, the role of developing countries in supporting global economic progress is not to be underestimated. Many developing countries have shown promising growth in services exports, tourism and remittances which have been among the significant sources of economic growth in recent years. But developing countries need to do more to meet their long-term growth potential, for which structural reforms are vital. Meanwhile, if developing economies all aspire to Western living standards through the consumption-led growth model, the strain placed on the society and the environment could wipe out the progress made in the past 20 years of economic development.

Growing middle class, widening income inequality and inaction on climate change are some of the major issues that need to be urgently addressed if developing countries are to improve their economic prospects in the future. In this context, developing countries should look to invest in quality human capital to raise productivity and encourage innovation. At the same time, governments need to improve the business environment to boost productivity, and invest in public goods and infrastructures. The focus should be on simplifying business procedures, easing the access to credit and supporting the growth of small to medium sized businesses. More importantly, given the global concerns on environment degradation and climate change, developing and developed countries alike should enhance green growth and strengthen disaster risk management.

Time and again, global experiences have shown that debt financed consumption and investment led growth is not sustainable. Sustainable and robust macroeconomic growth requires export led real sector growth and increased inflow of foreign direct investment (FDI). Thus, it is necessary to facilitate exports and subsequently create a consistent and predictable policy environment to attract more FDI to ensure sustainable high growth in the coming years. Unfortunately, the slowdown of the global economy in recent years has forced many developed countries to resort to trade protectionism. In 2013 alone, several G-20 members put in place over 200 new trade restrictions or measures such as initiation of anti-dumping investigations, tariff increases and more stringent customs procedures that have the potential to restrict trade. While some G-20 members have taken measures that facilitate trade, the accumulations of trade restrictions continue. However, in light of weak economic growth forecast, it is important that countries recognize the importance of trade and investment in economic growth and thus keep their markets open. Strong leadership by G-20 nations is crucial to move beyond the success in the WTO's 9th Ministerial Conference and to strengthen the multilateral trade system which remains the best defence against protectionism and the strongest force for economic growth, sustainable recovery and development.

Based on latest Organisation for Economic Co-operation and Development (OECD) Economic Outlook (http://www.oecd.org/economy/economicoutlook.htm) and the WTO Reports on G20 Trade and Investment Measures (Mid-May 2013 to Mid-November 2013).

ANALYSIS

Financial inclusion for sustainable development

Access to financial services has been gaining a growing recognition as having a critical role in reducing extreme poverty, boosting shared prosperity and supporting inclusive and sustainable development, according to the Global Financial Development Report 2014-*Financial Inclusion* co-published by the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Defined as the proportion of individuals and firms that use financial services, the Report states that financial inclusion has become a subject of considerable interest with some 50 countries setting formal targets and goals for financial inclusion.

The Report presents the data on the level of financial inclusion for countries and country-groups by taking various indicators. The percentage of the adult population—people above 15 years of age—having at least one account at a formal financial institution has been taken as one of the important indicators of financial inclusion. According to the Report, more than 2.5 billion people, equivalent to half of the world's adult population, do not have an account at a formal financial institution. The Report uses the Global Financial Inclusion (Global Findex) Database to show that the percentage of adults who reported having an account at a formal financial institution varies across regions. The weighted average value (weighted average by total adult population in 2011) shows that while 89.2 percent people in high income countries have at least one such account, the percentage is just 23.3 percent for low income countries. In South Asia, only 33.1 percent adults have at least one account which is much below the global average (50.6 percent) and just a little less than in the Middle East & North African region (33.9 percent). However, the South Asian region outperforms the Sub-Saharan African region, where only 23.8 percent adults have any kind of account at a formal financial institution.

In the World Bank's recent study, 78 percent of financial sector practitioners surveyed indicated that access to finance in their countries had improved substantially in the last five years. However, the Report highlights that there are various factors like the prohibitively high costs of financial services, or the unavailability of the services due to the factors like the regulatory barriers, legal hurdles or an assortment of market and cultural phenomena that keeps away many people beyond the reach of the formal financial system. The Report makes it clear that the lack of use of financial services should not be confused with the lack of access as some people may have access to financial services at affordable prices, but choose not to use certain financial services.

The Report meanwhile points out that the ill-implemented efforts in promoting financial inclusion can lead to defaults and various negative effects. The most important of all may be the negative consequences of the promotion of credit without sufficient regard for financial stability just like the recent sub-prime mortgage crisis in the US. Thus, the Report rightly points out that the social issues cannot be resolved purely with an infusion of credit. Against this backdrop, the Report prescribes policies for financial inclusion with the careful review and synthesis of recent and ongoing research on financial inclusion, although the views of policy makers and expert are widely split on the policies that work best for financial inclusion.

Firstly, public policy should address market failures, especially in developing countries, where the use of financial services is constrained by market failures that cause the costs of these services to become prohibitively high or cause the services to become unavailable. The

Report suggests the creation of legal and regulatory framework for protecting creditor rights, regulating business conduct and overseeing recourse mechanisms to protect consumers. Additional suggestion is to support setting up standards for disclosure and transparency, and promote credit information sharing systems and collateral registries. The Report also highlights the need for policies to expand account penetration such as requiring banks to offer basic or low-fee accounts and granting exemptions from onerous documentation requirements. In addition, the Report pushes for government interventions such as directed credit, debt relief, and lending through state-owned banks with the strengthening of the state institutions.

The importance of technology—such as mobile payments, mobile banking—has also been highlighted by the Report as something that make it easier and less expensive for people to use financial services, while increasing financial security. Last but not the least, the Report stresses the need for enhancing the financial capability—financial knowledge, skills, attitudes, and behaviors—through well-designed, targeted interventions. Financial education, with the proper delivery channels such as entertainment education, and the proper content, may have a measurable impact in promoting financial inclusion, says the Report.

Based on the Global Financial Development Report 2014.

NEWS

Four trade routes being upgraded to six-lane

The Government of Nepal is upgrading four important trade routes to six-lane to facilitate bilateral trade with India and China. Out the four routes, upgradation work has already started on Butwal-Belhiya and Rani-Itahari routes, while the works on Surya Binayak-Dhulikhel and Birjung-Pathalaiya sections are yet to begin.

Based on the importance of the routes, the Department of Roads (DoR) had implemented “Trade Route Improvement Project” to upgrade and widen the four selected sections of trade routes to six lanes three years ago. Narrow roads, traffic congestions and lack of parking facility have long remained as major problems on these routes, according to traders.

“The widening of the road sections is expected to help make timely delivery of goods allowing easy movement of large trucks and containers,” said Shankar Prasad Pandey, Chair of Trade Committee of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI).

Despite the need for an urgent upgradation, the department has not been able to carry out construction on all four sections at once due to budget constraints. With the government failing to allocate adequate resources, the department is considering to upgrade the 15.4 km Suryabinayak-Dhulikhel section of the Araniko Highway with soft loan from the Japan government. Department officials said Japan has expressed interest in providing the loan at 0.1 percent interest with a 30-year repayment period and 10-year grace period. The Tinkune-Suryabinayak section was also upgraded to six-lane under the Japanese grant assistance. Similarly, a study is being carried out for the improvement of Birgunj-Pathlaiya (28 km) section under the build-own-operate and transfer (BOOT) modality.

The Suryabinayak-Dhukhil section is estimated to require around NPR 3 billion, Birgunj-Pathalaiya NPR 5 billion, Butwal-Bhairahawa NPR 2.6 billion and Rani-Itahari NPR 4 billion. The government has planned to take the Rani-Itahari road to Dharan. The government this fiscal year provided NPR 940 million to the project (all four routes) and officials say the work is expected to complete within the next five-seven years. Currently, the department is working on a 5 km stretch of the Butwal-Belhiya (24.04 km) route and a 3km stretch of the Rani-Itahari route.

Source: http://www.ekantipur.com, 10.12.2013.

Nepal-India trade, transit talks fruitful

The two-day Nepal-India Commerce Secretary level meeting concluded with the signing of minutes that allow Nepal to import bulk cargoes from third countries via two more customs points, bring in vehicles from third countries by driving them from Indian ports and export Nepali-language books and newspapers to India. Agreements were also reached on facilitating exports of goods imported from third countries and resolving quarantine-related issues on export of agricultural and livestock products.

Emerging from the marathon inter-governmental committee talks held after two years, Secretary at the Ministry of Commerce and Supplies Madhav Prasad Regmi, who had led the Nepali delegation, called the meeting a ‘success’. “We were able to clarify many issues on trade, transit and unauthorised trade…. and settle issues that had been in a limbo for two years,” he told media persons.

One of the major agreements reached at the meeting was on import of vehicles from third countries. Nepali traders have to use wagons or containers to transport vehicles that arrive at India’s Kolkata and Haldiya ports from third countries. “But the meeting agreed on allowing Nepal to take its own decision on it, meaning Nepali traders can now drive vehicles from Indian ports, which until now was banned,” Joint Secretary at the Ministry of Commerce and Supplies Jib Raj Koirala told The Himalayan Times.

Another gain made by Nepal was a deal reached on opening of customs points at Biratnagar and Bhairahawa to import bulk cargoes dispatched from third countries. Till date, only the customs point in Birgunj is being used to import such cargoes. India has also agreed to revise modalities on transshipment for Nepal-bound goods.

India also agreed to resolve issues related to rules of origin while exporting goods imported from third countries back to those countries. “An institutional arrangement would be made in this regard in January,” states a release issued by the Ministry of Commerce and Supplies. India has also agreed to sign a separate mutual recognition agreement to resolve issues related to the issuance of quarantine certificates while exporting agricultural, livestock and other products from Nepal. India has also agreed to lift ban placed on exports of milch cattle to Nepal.

Other agreements reached during the meeting include allowing exports of Nepali-language books and newspapers to India and addressing problems faced by Nepalese while carrying trade fair materials to India.

Source: http://www.thehimalayantimes.com, 22.12.2013.

Sri Lankan government in talks with India to amend FTA

The Sri Lankan government has started fresh talks with India, in a bid to bring changes to the existing Indo-Lanka Free Trade Agreement (FTA), as the controversial Comprehensive Economic Partnership Agreement (CEPA) has not come to fruition due to protest from various quarters. M.M.C. Ferdinando, Secretary at the Sri Lankan Investment Promotion Ministry, said the objective of these discussions was to look at how the FTA could be re-structured to make it more favourable to Sri Lanka.

The government has taken a lot of flak trying to promote a CEPA with India, but despite the successful bilateral discussions, a pact could never be signed due to protest from local businessmen, nationalistic forces and the public alike due to fears of cheap Indian goods flooding local markets.

“Because there were a lot of objections against CEPA, the Ministry of Industry and Commerce is currently in (other) discussions with India in order to see the possibility of eliminating unfavourable provisions and conditions in the FTA,” Ferdinando explained.

Meanwhile Minister Lakshman Yapa Abeywardena said that the government had included more items into the sensitive list (negative list) affecting imports from India as the Mahinda Rakapaksa regime has been promoting import substitution though autarky has failed in many countries in the past.

According to a recent study carried out by the Colombo University Professor in Economics Sirimal Abeyratne, the Indo-Lanka FTA covered only 56.3 percent of imports from India, indicating that the non-FTA imports also remained significant. Under the Indo-Lanka FTA, Sri Lanka’s negative list covered 1,220 products compared to India’s negative list of 431 products, affecting Sri Lanka’s exports to India.

Despite Sri Lanka’s lengthy sensitive list affecting imports from India, the expansion of non-FTA imports was greater than the FTA imports during the decade up to 2010s. As Sri Lanka Customs reported, 91.8 percent of total imports from India (6,522 products) and 85.7 percent of total exports to India (1,765 products) were covered by the Indo-Lanka FTA. In value terms in 2010, 56.3 percent or US$1.4 billion of the total imports from India and 88.2 percent or US$423 million of the total exports to India provides ample testimony to this.

Source: http://www.dailymirror.lk, 11.12.2013.

Pakistan secures GSP Plus status

Pakistan on December 12, 2013 succeeded to secure the long awaited duty-free access to the European markets for four years, by winning the Generalised Scheme of Preferences (GSP) Plus status with an impressive count of votes. According to sources, 406 members of the European Parliament expressed their support for Pakistan while 186 lawmakers voted against the status at a session held in Brussels.

The European Parliament approved the Single Delegated Act under which 10 countries including Pakistan are entitled to the Generalised System of Preferences Plus (GSP Plus) Scheme. The Act will come into force from January 1, 2014.

The GSP Plus status will allow almost 20 percent of Pakistani exports to enter the EU market at zero tariff and 70 percent at preferential rates for four years till 2017. Experts said that under the scheme, Pakistan can export most of its textile products to 27 European Union (EU) nations at concessionary duty rates or absolutely duty free, making Pakistani products cheaper for European importers.

As per industry sources, under GSP Plus, Pakistan will be allowed to get benefit on almost 2,500 tariff lines out of which around 900 belong to the textile sector. Pakistan's textile and clothing exports to the EU currently constitute over half of the country's total exports to the bloc worth US$9.5 billion. They said that as a result of the GSP Plus, the textile industry alone is expected to earn profits up to one trillion Pakistani rupees per year.

Textile exports had been declining in Pakistan, as manufacturers and exporters were finding it hard to compete with Sri Lanka and Bangladesh who already had duty-free access to European markets. This special status will provide Pakistan duty free or preferential duty rate access on 3,500 products to EU markets against the current 11 percent duty on the country's textile exports.

"Award of GSP-Plus status shows confidence of the international markets in the excellent quality of Pakistani products," Prime Minister Nawaz Sharif said in a statement. The status will enable Pakistan to export products worth over US$1 billion to international markets and the textile industry alone is expected to earn profits of more than 1 trillion Pakistani rupees a year, the spokesman said. President Mamnoon Hussain said that EU's GSP Plus Scheme would not only further strengthen our trade relations with the member countries of the EU but would also help strengthening our economy through greater trade.

Source: http://www.nation.com.pk, 13.12.2013.

RBI talks tough on inflation, yet holds rates for now

Despite high inflation, the Reserve Bank of India (RBI) has unexpectedly decided to hold its policy interest rate unchanged, saying it will be ready to act even if the country struggles to raise its low growth rate.

The RBI's decision to keep the repo rate at 7.75 percent surprised investors, who had widely expected the central bank to hike the main lending rate. Instead, the RBI noted that prices of vegetables, which are driving the inflation rate higher, are easing, while highlighting "the weak state" of the economy and the uncertainty posed by a possible withdrawal in the US monetary stimulus.

Although many economists predicted the RBI could still raise rates by another 25 basis points in the next few months, the decision to hold interest rates brought some relief, for now, to businesses and investors worried about an economy growing even below the decade-low of 5 percent in the previous fiscal year.

The RBI's decision to pause comes as wholesalers say vegetable prices have eased this month, after the most recent data showed consumer prices in November posted their biggest annual rise on record—11.24 percent—while wholesale inflation hit a 14-month high.

At the heart of India's surging inflation are the prices of vegetables such as onions and potatoes, which disproportionately hit the country's poor. However, analysts have expressed doubts about the effectiveness of monetary policy in curbing vegetable prices, whose jump has been driven by India's poor infrastructure and transportation methods.

The RBI's decision came only hours before the conclusion of a US Federal Reserve policy meeting. Any decision to start withdrawing its monetary stimulus would raise concerns about a repeat of August, when fears of this sparked outflows that made the Indian rupee plunge to a record low. Under Raghuram Rajan, the RBI has rolled back most of the emergency steps taken in July and August to prop up the rupee, which included raising short-term interest rates.

Source: http://in.reuters.com, 18.12.2013.

Monsanto import stopped: CG Seeds

Amid growing concerns over import of genetically modified organism (GMO) seeds manufactured by Monsanto Company in Nepal, the Chaudhary Group (CG) Seeds and Fertilizers Pvt. Ltd. has clarified that it has not imported GMO seeds. The subsidiary of Chaudhary Group—one of the most reputed business-houses of the country, however, admitted that it had imported Monsanto manufactured hybrid corn seeds a year ago, but has now discontinued its import.

“We have stopped the import of Monsanto hybrid seeds, and we are now collaborating with a Bangladesh-based company to produce hybrid seeds of international standards in Nepal,” Abinash Pant, one of promoters of CG Seeds and Fertilizers Pvt. Ltd., said. “We no longer want to be associated with Monsanto.”

The recent notice of CG Seeds and Fertilizers Pvt. Ltd., seeking proposals from interested suppliers for selling Monsanto’s hybrid corn seeds, had stoked controversy and courted widespread furore. As the Monsanto controversy flares up, some new issues have surfaced in the sector of seed import. Sources said one of the five imported government certified seeds has been banned internationally. The seed in question Kargil 900M, it is said, is being marketed in Nepal as Super 900M.

On 25 April 2012, the now-defunct Parliamentary Natural Resource and Means Committee had directed the Agriculture Ministry to conduct multi-location testing of imported hybrid seeds for two years through Nepal Agricultural Research Council before registering these seeds in the country. The current provision requires such hybrid seeds be put under test for a year before registration. The committee had also directed the ministry to enforce a blanket ban on sales and distribution of unregistered imported seeds. But regardless of the directive, Dilaram Bhandari, Chief of Seed Quality Control Center under the Agriculture Ministry, had certified the hybrid seeds produced by Monsanto two years ago.

Nepal’s Seed Act stipulates mandatory registration of import and distribution of open-pollinated varieties and hybrid seeds. But, the import of any varieties of genetically modified seeds is illegal. As of now, Nepal has only improved varieties of seeds, with “Gaurav” being the only hybrid maize seed that had been put to the test by Nepali agro scientists in the past.

In various meeting conducted earlier to finalise the Agriculture Development Strategy (ADS) draft—a roadmap for a 20-year vision and a 10-year planning horizon for Nepal’s agriculture—the farmers’ association has been opposing the involvement of multinational corporations and genetically modified (GMO) crops in the Nepali farm sector.

Source: http://www.ekantipur.com, 20.12.2013.

ACTIVITIES

SAWTEE's participation at the Ninth WTO Ministerial Conference

SAWTEE participated in the Ninth World Trade Organization (WTO) Ministerial Conference (MC9) and organised two different sessions in the "Trade and Development Symposium" that took place on December 3-5 on the sidelines of the MC9.

On 4 December 2013, SAWTEE, in collaboration with the Overseas Development Institute (ODI) and the Commonwealth Secretariat, United Kingdom, organised a dialogue "The Future of Aid for Trade at the WTO". SAWTEE's Non-resident Research Fellow Dr Yurendra Basnett presented the current status of Aid for Trade (AfT) initiative at the global level and set the stage for further discussion. The speakers discussed the future of AfT at the WTO in a rapidly changing global trade and financial landscape. The discussion mainly focused on reinvigorating the AfT initiative so that it responds to the changes in a way that strengthens the WTO in years to come. Participants stressed the high need for continued support to the least-developed countries (LDCs) through initiatives like the AfT. The floor also stressed the need for making AfT an important tool for developing value chains in the low-income countries.

Subsequently, on 5 December 2013, SAWTEE organised a session "Integrating Trade Issues in Post-2015 International Development Framework: Ongoing Debates and Potential Opportunities" in collaboration with the Centre for Policy Dialogue (CPD), Bangladesh; the Commonwealth Secretariat, United Kingdom; and the Office of the United Nations High Representative for the LDCs, LLDCs and SIDS (UN-OHRLLS). The session focused on the role trade had played in poverty alleviation and structural adjustments in LDCs during the implementation of the United Nations' Millennium Development Goals (MDGs). Speakers discussed possible ways how trade related concerns will be addressed in the post 2015 development agenda. Participants stressed on the structural challenges and emerging development issues facing the LDCs that need to be addressed by the post 2015 agenda. Dr Posh Raj Pandey, Executive Chairman, SAWTEE, addressing the session put forth his views that the LDCs should reap maximum benefits from international trade while carefully checking the income inequality that may be reinforced through trade.

Dr Pandey was also invited as one of the speakers during the session "Trade Facilitation in South Asia" organised by Indian Council for Research on International Economic Relations (ICRIER), India. The session focused on impediments to intra-South Asian Association for Regional Cooperation (SAARC) trade and assessed the existing measures undertaken for trade facilitation by SAARC members. Dr Pandey put forth the experience of Nepal in trade facilitation, especially the trade facilitation experience—problems and prospects—of the landlocked LDC like Nepal. He stressed on the need for increased regional cooperation in South Asia to mutually benefit from the efficient trade facilitation regime.

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