Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Home truths amidst added difficulty

The early months of the COVID-19 pandemic were witness to the spectacle of allies in the global arena jostling with one another for face masks by diverting consignments of the suddenly-prized product and restricting exports of the same. This scramble served to remind the world at large that each nation has to fend for itself, crunch time.

When a vaccine—or, most likely, multiple vaccines—against the novel coronavirus is developed, will it be made available at affordable prices to all? This will be a test of major and aspiring global powers' stated commitment to protecting human rights and welfare.

The multilateral trading system was under strain from the US-China trade war. The differential in controlling the pandemic has exacerbated it. If there were any illusions that the trade war is only about the bilateral trade deficit, they have been dispelled. The technological gap between the world's largest two economies has narrowed—so much so that the rising power leads the established power in a number of tech domains. This has forced a bipartisan rethink in the lone superpower over continuing with the existing trade regime that was once touted as a win-win for all but which is now deemed to be ill-equipped to deal with "unfair" trade practices, including "forced technology transfer" and "theft" of intellectual property.

From the perspective of the vast majority of people living in developing and least developed countries, most of which have no global or regional power ambitions, the trade regime was never structured to serve their basic livelihood interests. Having to concede too much policy space, disproportionate to their level of development, while still facing restricted market access in products of immense interest to them galvanized these countries into attempting to rectify World Trade Organization (WTO) agreements in line with their development needs through the Doha Development Agenda (DDA). The fairness, or otherwise, of trade rules lies in the eyes of the beholder—or, in this context, the trade participant in question. Suppose the US and China reach a modus vivendi. For the most of the world, that will not make the trading system any fairer, as long as they are denied the policy levers available to, and utilized by, the now-developed countries, the East Asian tigers and China during their industrialization phases. Remember, a section of developed countries had no hesitation in expressing their scepticism about the relevance of the Doha Round in the declaration of the Nairobi Ministerial Conference of the WTO in 2015. Most people had not heard of Mr Trump back then.

Do the above arguments smack of protectionism? Well, protectionism lies in the experiences and the mind of the exporter or the importer, or the trade partners or geopolitical rivals squaring off. The US accuses China of forcing US companies investing in China to share their technology with local firms. China dismisses the accusation as a politically motivated charge. An idea deemed protectionist or otherwise at a point in time could be considered the opposite at another. Voices have long been raised over the hazards of dependence on imports for critical items, such as staple food. Developing countries' demands for a special safeguard mechanism that allows them to protect their agriculture from price falls and import surges and for a wider berth for public stockholding for food security are a bone of contention in WTO negotiations. Those who oppose these demands as protectionist are now, nevertheless, alarmed by the extent of their dependence on imported medicines and active pharmaceutical ingredients originating in a single country. They call for achieving self-reliance in medical goods, or at least reducing dependence on such imports. There is only a fine line between arguing for self-reliance in medicines and self-reliance in food.

Apparently, self-reliance is no longer a taboo. There are also calls for diversifying supply chains. Existing supply chains are heavily shaped by cost and market access considerations. Apparently, efficiency is not everything. This would imply that, in certain circumstances, the trade-off between efficiency and strategic or national interests becomes binding. But this should not mean only a narrow set of countries has the right to decide what those circumstances are. These strategic/national interests could be geostrategic interests in the case of a hegemon or its challenger or simple food security for a landlocked country that has been blockaded at least four times.

There are prominent economists based in the rich world who argue that globalization has gone too far, causing hardships to the person on the street in rich and poor countries alike. Some of their policy prescriptions, even while advocating a restoration of policy space to make globalization work, are delivered, perhaps unconsciously, with an ideological tinge. Harvard economist Dani Rodrik recommends that countries be allowed to uphold national standards in labour markets, finance, taxation and other areas, and to do so by raising barriers at the border if necessary, "when international trade and finance demonstrably threaten domestic practices enjoying democratic support". In The Globalization Paradox, he proposes that the WTO's Agreement on Safeguards be expanded in scope and converted into an Agreement on Developmental and Social Safeguards, which would provide members, developed and developing alike, the option of opt-outs from WTO obligations even for reasons other than a competitive threat to the domestic industry. There is a caveat, though: the raising of barriers at the border to uphold national standards should be deemed legitimate only if "democratic process" has been followed. Rodrik argues that authoritarian regimes must not count on getting the same benefits/preferences in the multilateral trading regime, and that such regimes must meet stricter requirements to exercise opt-outs (an argument he also makes in another book, One Economics Many Recipes). The Achilles heel of this argument lies in the difficulty—nay, impossibility—of determining whether the domestic practices under threat "enjoy democratic support", not to mention ascertaining whether a regime is authoritarian or not. It will be a value judgement—nothing more or less. And the World Governance Indicators are no final arbiter. As I have argued elsewhere, "It is somewhat paradoxical that in attempting to suggest a way to expand and preserve domestic policy space under a multilateral economic system so that nations can uphold their national standards in virtually any area, Rodrik tends to prescribe multilateral harmonization, as it were, of standards in democracy."

This piece is written by Dr. Paras Kharel, Research Director at SAWTEE.

OUTLOOK

Without help, LIDC risk a lost decade

While the COVID-19 crisis is sending shockwaves around the globe, low-income developing countries (LIDCs) are in a particularly difficult position to respond. LIDCs have both been hit hard by external shocks and are suffering severe domestic contractions from the spread of the virus and the lockdown measures to contain it. At the same time, limited resources and weak institutions constrain the capacity of many LIDC governments to support their economies.

Growth in LIDCs is likely to come to a standstill this year, compared to growth of 5 percent in 2019. Further, absent a sustained international effort to support them, permanent scars are likely to harm development prospects, exacerbate inequality, and threaten to wipe out a decade of progress reducing poverty.

Multiple shocks take a heavy toll

LIDCs entered the COVID-19 crisis in an already vulnerable position—for example, half of them suffered high public debt levels. Since March, LIDCs have been hit by an exceptional confluence of external shocks: a sharp contraction in real exports, lower export prices, especially for oil, less capital and remittances inflows, and reduced tourism receipts.

Take remittances, for example, that exceeded 5 percent of GDP in 30 (out of 59) LIDCs in 2019. Between April and May, they fell by 18 percent in Bangladesh, and by 39 percent in the Kyrgyz Republic, compared to the previous year. The repercussions are likely to be felt widely where remittances are the main source of income for many poor families.

As for the domestic impact, while the pandemic has evolved more slowly in LIDCs than in other parts of the world, it is now inflicting a sizeable toll on economic activity. Many LIDCs acted swiftly to contain the spread. From mid-March, when reported infections were still low, they put in place containment measures including international travel controls, school closures, the cancelation of public events and gathering restrictions.

Mobility—a proxy for domestic economic activity—also declined sharply, and continued to retreat as measures were broadened to include workplace closures, stay-at-home orders, and internal movement restrictions. From late April/early May, containment measures have gradually loosened and mobility has recovered, but has yet to return to pre-crisis levels.

Managing difficult trade-offs with scarce resources

Most LIDCs cannot sustain strict containment measures for long as large segments of the population live at near subsistence levels. Large informal sectors, weak institutional capacity, and incomplete registries of the poor make it difficult to reach the needy. Further, governments have only limited fiscal resources to support them.

Recent surveys conducted across 20 African countries reveal that more than 70 percent of respondents risk running out of food during a lockdown that lasts more than two weeks.

Faced with such constraints, the short but sharp front-loading of containment fulfilled a critical purpose: it flattened the infection curve, while granting time to build up capacity in the health sector. Many LIDCs have followed this path: while they expended less fiscal support to their economies than advanced or emerging market economies, the share of additional spending dedicated to health has been higher.

As broad-based containment becomes difficult to sustain, LIDCs should transition to more targeted measures, including social distancing and contact tracing—Vietnam and Cambodia are good examples. Policy support should focus on supporting the most vulnerable, including the elderly, and on limiting the health crisis's long-term fallout.

For example, protecting education is critical to ensure that the pandemic does not—as highlighted in a recent Letter to the International Community by a group of eminent persons—"create a COVID generation who loses out on schooling and whose opportunities are permanently damaged."

Where the necessary infrastructure exists, technology can sometimes be leveraged in innovative ways. For example, to limit the spread of the virus, Rwanda is leveraging its digital finance infrastructure to discourage the use of cash. Togo employs the voter registration database to channel assistance to vulnerable groups.

A decade of progress under threat

Despite the best efforts of LIDC governments, lasting damage seems unavoidable in the absence of more international support. Long-term "scarring"—the permanent loss of productive capacity—is a particularly worrisome prospect.

Scarring has been the legacy of past pandemics: mortality; worse health and education outcomes that depress future earnings; the depletion of savings and assets that force firm closures—especially of small enterprises that lack access to credit—and cause irrecoverable production disruptions; and debt overhangs that depress lending to the private sector. For example, in the aftermath of the 2013 Ebola pandemic, Sierra Leone's economy never recovered to its pre-crisis growth path.

Scarring would trigger severe setbacks to LIDCs' development efforts, including undoing the gains in reducing poverty over the last 7 to 10 years, and exacerbating inequality, including gender inequality. The Sustainable Development Goals (SDGs) will thus be even more difficult to achieve.

LIDCs cannot make it alone

The support of the international community is key to enable LIDCs to tackle the pandemic and recover strongly. Priorities include: (1) guaranteeing essential health supplies, including cures and vaccines when they are discovered; (2) protecting critical supply chains, especially for food and medicines; (3) avoiding protectionist measures; (4) ensuring that developing economies can finance critical spending through grants and concessional financing; (5) ensuring that LIDCs' international liquidity needs are met, which requires International Financial Institutions to be resourced adequately; (6) reprofiling and restructuring debt to restore sustainability where needed, which, in many cases, may require relief beyond the G20/Debt Service Suspension Initiative; and (7) keeping sight of the United Nations' SDGs, including by reassessing needs when the crisis subsides.

The COVID-19 pandemic will be defeated only when it and its socioeconomic consequences are overcome everywhere. Urgent action by the international community can save lives and livelihoods in LIDCs. The International Monetary Fund is doing its share: among other things, the IMF has provided emergency financing to 42 LIDCs since April. It stands ready to provide more support and help design longer-term economic programs for a sustainable recovery.

This article is written by Daniel Gurara, Stefania Fabrizio, and Johannes Wiegand and was first published in IMF Blog on 27 August 2020.

NEWS

India's GDP shrinks 23.9 percent in Q1, FY21

India's gross domestic product (GDP) contracted 23.9 percent in the April-June quarter of 2020-21 from that in the same quarter last financial year, showed official data released by the National Statistics Office (NSO). This was mainly on account of limited economic activity in the country during the quarter amid lockdowns to control the spread of the coronavirus pandemic.

This is the first instance of an economic contraction for the country in at least four decades, and also the first GDP decline since India began publishing quarterly numbers in 1996. In the January-March quarter of this year, the economy had grown by 3.1 percent year-on-year — the lowest rate in over 17 years — and by 5.2 percent in the June quarter of 2019-20. The rate of India's GDP growth had declined from 6.1 percent in FY19 to 4.2 percent in FY20, the slowest in 11 years.

India is not alone in reporting dismal GDP numbers. Even as China managed to buck the trend and, in fact, see an expansion of 3.20 percent during the April-June quarter, the UK's economy shrank 21.7 percent, Germany's by 10.10 percent, and the US' by 9.10 percent.

The official figures were broadly in line with estimates by various agencies, all of which had forecast a decline in GDP during the quarter, though they had different in the extent of drop — from 15 percent to 35 percent.

Source: https://www.business-standard.com/, 31.08.2020.

Nepal defies projections of remittance plunge

Nepal's remittance inflows dropped by a marginal 0.5 percent in the last fiscal year that ended mid-July, despite popular labour markets in the Gulf Cooperation Council countries and Malaysia being severely impacted by the Covid-19 pandemic that left millions of expat workers with no choice but to pack their bags and leave.

According to the Nepal Rastra Bank's annual macroeconomic report released on Monday, Nepali migrant workers sent home NPR 875.03 billion in the last fiscal year. The report shows that Nepal received an all-time high remittance of NPR 100.16 billion during the last month of the fiscal year (mid-June to mid-July) that boosted the overall remittance earning.

In April-end, a little over a month after the lockdown was imposed on March 24, the Nepal Rastra Bank had projected a drop of over 15 percent in remittances in the last fiscal year 2019-20. In the same month, the World Bank also projected remittances to go down by 14 percent. Similarly, the Central Bureau of Statistics also projected a reduction of NPR 163 billion, or over 18 percent.

As the source countries, mainly Saudi Arabia, Bahrain, Qatar, the United Arab Emirates and Oman are still continuing their manufacturing activities, migrant workers have not been laid off in expected numbers. And estimated decline in the informal trade due to restrictions and lockdowns that eventually have helped remittance come through formal channels, according to Gunakar Bhatta, Spokesperson of Nepal Rastra Bank.

Source: https://kathmandupost.com/, 25.08.2020.

No new US-China trade talks on the horizon, US official says

No new high-level trade talks have been scheduled between the United States and China, but the two sides remain in touch about implementing a phase-one deal, White House Chief of Staff Mark Meadows told reporters on board Air Force One.

US President Donald Trump earlier told reporters during a visit to Yuma, Arizona, that he had postponed an August 15 review of the trade agreement signed with China in January because he was frustrated over Beijing's handling of the coronavirus pandemic.

During visits to Arizona and Iowa, Trump expressed frustration about China's handling of the health crisis and what he said was its failure to contain the disease, but he also lauded record purchases by Beijing of US farm products.

China's imports of US farm and manufactured goods, energy and services are well behind the pace needed to meet a first-year targeted increase of US$77 billion above 2017 purchases. But its purchases have increased as China's economy recovers from its coronavirus lockdown earlier this year.

On Friday, the US Department of Agriculture reported the sale of 126,000 tonnes of soybeans to China, marking the eighth consecutive weekday with large sales to Chinese buyers. Crude oil sales have also increased.

Source: https://www.aljazeera.com/, 19.08.2020.

Tea industry in India suffers double whammy from rains and Kenya

India’s long-established tea industry is struggling as heavy rains and the absence of tea pickers because of lockdowns have hammered production and sent local prices spiraling to records, while top buyers are turning to Kenya where the market has dropped.

Output in the world’s second-largest producer is set to shrink to the smallest in five years, falling 13 percent to about 1.21 billion kilograms, while exports will drop 16 percent to about 210 million kilograms, a six-year low, according to Mcleod Russel India Ltd., one of the country’s biggest growers.

Domestic production is falling after excessive rain in June and July and because lockdowns kept workers away from the plantations, while importers in the UK, Egypt and the Middle East may switch to Kenya, he said.

Auction prices in the African nation have fallen after production of black tea climbed more than 40 percent in the first half from a year earlier on good weather, according to the Tea Directorate. By contrast, prices are at a record in the main growing areas of India as average prices jumped about 60 percent between April and early August from a year earlier.

Still, even with the higher prices, lower volumes are hurting the cash flow of Indian tea companies.

Source: https://economictimes.indiatimes.com/, 12.08.2020.

Nepal-Bangladesh trade to get leg-up with new transit route

Bangladeshi government included a rail route in the Bangladesh-Nepal's existing transit agreement to give a much-needed boost to bilateral trade by cutting distance.

The cabinet amended the existing transit protocol to add Rohonpur in Chapainawabganj as an additional transit entry and exit point for Nepal. The amendment came as it gave the nod to the draft addendum to the protocol to the transit agreement.

Bangladesh and Nepal inked the transit agreement and the protocol to the transit agreement in 1976 and identified six ports of calls for the movement of transport vehicles to and from Nepal. The ports of calls were Khulna-Chalna (currently Mongla Port), Chattogram Port, Biral (Pashchimbanga, India), Banglabandha, Chilahati and Benapole.

But most of the products coming from Nepal use the Banglabandha port, according to the documents of the commerce ministry of Bangladesh.

Two routes have been proposed as the new rail link. The first one is Rohonpur-Zero Point-Singabad (Pashchimbanga)-Jogbani (Bihar)-Birat Nagar (Nepal). The second one is Rohonpur-Zero Point-Biral (Pashchimbanga)-Radhikapur (Pashchimbanga)-Roxol (Bihar)-Birgunj (Nepal).

Because of the lack of direct land connectivity, trade between Bangladesh and Nepal has been very low. Bangladesh exported goods worth US$38.1 million to Nepal in fiscal 2018-19, up from US$10.8 million in fiscal 2010-11, data from the commerce ministry showed. In fiscal 2018-19, Nepal's exports stood at US$9.9 million, down from US$49 million in fiscal 2010-11.

Source: https://www.thedailystar.net/, 11.08.2020.

Bangladesh's remittance inflows hit record

While a sharp rise in inbound remittance is a relief for Bangladesh's economy amid the COVID-19 pandemic, the decline in remittance inflow from some countries has raised concerns.

In the fiscal year 2019-20, the country's remittance inflow hit a new record of US$18.20 billion, up by 10.87 percent compared to FY 2018-19. In July, Bangladesh received US$2.60 billion in remittance from expatriates, up by 62.74 percent compared to US$1.59 billion in the same period last year.

Amid the record foreign currency received from Bangladeshi migrant workers, remittance inflows from five countries, the United Arab Emirates (UAE), Kuwait, Qatar, Italy and Bahrain, witnessed a decline.

The decline in remittances was observed in the months of March, April and May, when these countries went through strict lockdowns and working hours fell significantly.

This decline indicates that in the coming months, Bangladesh may see a further decline in remittance inflow as over 60,000 migrants have returned home from these countries.

The concern is these countries contribute 33.66 percent share to the country's remittances. As many as 4.27 million people are employed in the top five countries, according to the Bureau of Manpower Employment and Training (BMET).

Source: https://www.dhakatribune.com/, 8.08.2020.

India's solar boom threatened by anti-China trade tariffs

India's great strides on solar development could be hampered by anti-China sentiment, which is compelling the government to cut ties with its most powerful neighbour at any cost.

While the relationship between China and India has been historically strained, in June a military standoff at the northeastern border, which left 20 Indian soldiers dead, escalated the conflict into a full blown trade war.

Since 2018 India has been imposing anti-dumping measures to protect local solar manufacturers from cheap Chinese imports. The government is now doubling down with a new round of custom duties on cells and modules imported from China and Malaysia, where some Chinese companies have set up shop to avoid trade barriers.

According to the Power and Renewable Energy Ministry, the plan is to impose up to 25 percent duties on solar modules and a 15 percent tariff on cells during the first year, increasing them to 40 percent and 30 percent respectively in the second year. While these penalties were meant to kick in only after the previous measures had expired, the government has decided to extend the existing safeguard duties for another year, basically taxing all imports twice.

India is aiming to reach 100GW of solar capacity by 2022. As of 31 March 2020, only 37GW were installed. Professionals worry that drastic, short term measures will harm both developers and manufacturers, further slowing India's progress.

India's dependence on China is so deep that manufacturers won't be able to replace imports with homegrown tech in just two years. And while foreign investors are increasingly attracted to Indian solar installations, Indian manufacturing doesn't spark the same interest.

Source: https://www.climatechangenews.com/, 06.06.2020.

Sri Lanka GDP contracts 1.6-pct in Q1

Sri Lanka's gross domestic product has contracted 1.6 percent in the first quarter of 2020 with a steep contraction in agriculture and manufacturing amid a Coronavirus lockdown, the state information office said.

The services sector had grown 3.1 percent with telecoms growing 15 percent, IT programming growing 9.6 percent and postal and courier services growing 7.7 percent. Hotels and restaurants contracted 6.2 percent. Industries contracted 7.8 percent with most areas contracting except, electricity and water. Agriculture had also contracted 5.6 percent despite rice expanding 4.1 percent and vegetable up 5.0 percent.

Source: https://economynext.com/, 05.08.2020.

PUBLICATION

SAWTEE's works related to COVID-19

In a bid to chronicle the impact of the pandemic and the containment measures and responses to counter the impact, SAWTEE has prepared a webpage containing its works on COVID-19 in Nepal and South Asia. **Please click** here **to access the page**. The page includes the rapid situation assessment report prepared by SAWTEE team in early May on the initial impacts of the COVID-19 and the lockdown on the major sectors of Nepal's economy, providing specific sector-wise recommendation to keep the economy running. The page has a collection of articles that look into various aspects of the pandemic published in different media and SAWTEE's publications. The page will be updated as and when new material is added.

EDITOR
Dikshya Singh
Assisted by Alabhya Dahal

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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