Trade, Climate Change and Development Monitor

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

Volume 17, Issue 4, April 2020

CONTENTS

OPINION IN LEAD

Proposals to drive the recovery in South Asia

South Asia, the world's most populous region, could be the next hotspot for the COVID-19 pandemic. Governments across the region are faced with the grim calculus of trading off health for the economy which is in lockdown. Coherent national strategies, backed by regional cooperation efforts, are the way forward for economic recovery in South Asia.

COVID-19 has sparked both a public health emergency and an economic shock in South Asia. As of 24 April, South Asia accounted for 1.5 per cent of global cases, while the US accounted for 32 per cent, and the EU for 34 per cent. South Asia has moved from the fastest-growing region in the world in 2019 to a slow growth scenario in 2020. Trade, investment and tourism have collapsed. Stock markets have tumbled and business confidence is vanishing. Daily life has been disrupted and millions face poverty. Some speculate that a return to pre-COVID-19 normal life can only occur once a vaccine is readily made available sometime in 2021.

While a V-shaped economic recovery in South Asia in 2021 may be hampered by weak global demand and business uncertainty, economic fundamentals favour growth including a youthful population, a growing middle-class and a strategic geographical location. By focusing on the policy steps ahead, governments can increase the likelihood of recovery.

First, fiscal and monetary stimulus measures - tailored to national circumstances - can mitigate long-term economic damage in South Asia. The pandemic has affected every sector of the economy and every segment of the population in South Asia. Several governments have announced relief measures and stimulus packages to respond to damages wrought by the pandemic. For example, India has announced a stimulus package equivalent to 10 per cent of GDP, while Bangladesh's is 3.3 per cent of GDP and Pakistan's is 2.6 per cent of GDP. Reflecting limited financial resources, most South Asian countries' packages are modest compared to those of developed countries. However, to mitigate lasting economic damage, South Asian countries should increase the measures they have undertaken. While part of the funds can come from readjusting domestic resources and raising taxes, South Asia should also seek support from developed countries and international financial institutions. It is additionally opportune for governments to re-vitalize existing mechanisms under SAARC, like the SAARCFINANCE, to exchange ideas on stimulus measures.

Second, investing in South Asia's under-developed and over-stretched health systems is essential. Reflecting a history of chronic under-spending on public health, South Asia lags others. For instance, in 2017, South Asia spent only 0.9 per cent of its GDP on public health, which is half the figure for Sub-Saharan Africa (1.9 per cent) and one-fifth of that of East Asia and the Pacific (4.5 per cent). Strikingly, Afghanistan, Bangladesh and Pakistan even spend below the regional average. As this means fewer doctors, drugs and hospital beds to cope with the pandemic, South Asia should target a gradual increase in public health spending to about 4 per cent of GDP. Furthermore, the region should invest in technologies to improve public health efficiency such as helplines that work and telemedicine as well as ambulances to ferry the sick to hospital. Sri Lanka's 1990 Suwaseriya national ambulance service set up with Indian aid is a good example of aid effectiveness.

Third, reforms should focus on pro-poor growth. The closure of manufacturing and services activities across South Asia means rising job loss and pay cuts for workers. Household income of the poorest households, linked to tourism, remittances and informal sector activity, will be hard hit. A protracted COVID-19-driven crisis may threaten food security, particularly for the most vulnerable and in LDCs like Afghanistan and Nepal. After tackling the immediate pandemic threat, attention should focus on reforms for pro-poor growth in all South Asian economies. Such reforms should tackle the challenging issues of food security, targeted social safety nets, women's empowerment, and small enterprises. Efforts should also continue to improve the investment climate including cutting red tape affecting business and digitization of public services.

Fourth, while lockdowns are necessary for South Asia, they should be temporary and humanely administered. Lockdowns and social distancing interrupt transmission of the virus and save health systems from collapse. But a prolonged lockdown risks causing significant economic damage and personal suffering. This is particularly so in South Asia, which is unable to offer costly social protection measures feasible in developed countries. Furthermore, governments should provide for basic food supplies, either free or at controlled prices, for the poor during lockdowns. Lifting of lockdowns should also be carefully planned. A gradual approach to lifting restrictions will prevent the danger of another outbreak.

Fifth, the SAARC COVID-19 Emergency Fund should be used as a building block to revive regional cooperation. SAARC leaders met virtually on 15 March 2020 to discuss joint action and announced the launching of the fund. At the senior officials' level, discussions are being held on health issues arising from the transit of goods and people as well as fostering intra-regional trade. The SAARC Comprehensive Framework on Disaster Management provides a roadmap for cooperation in natural disasters including pandemic like COVID-19.

Recent effort is a good beginning to share responsibilities and to reactivate the SAARC process, which may help mitigate the slump. The process of trust building can be enhanced by regular regional dialogue of governments and relevant stakeholders to strengthen SAARC cooperation in the post-COVID period. Think-tanks in this region can be tasked with relevant research and advocacy.

To tackle the pandemic and economic crisis, South Asia needs to ramp up its response. Working together offers the best hope for the region to succeed.

This is a joint article authored by Dr. Ganeshan Wignaraja, Executive Director, LKI, Sri Lanka; Dr. Selim Raihan, Executive Director, SANEM, Bangladesh; Dr. Puspa Sharma, Executive Director, SAWTEE, Nepal; Dr. Vaqar Ahmed, Joint Executive Director, SDPI, Pakistan; and Dr. Prabir De, Professor, RIS; and Head, ASEAN-India Centre, India. An earlier version of this article was published in The Economic Times on 25 April 2020.

OUTLOOK

COVID-19 pandemic batters South Asia's economies

South Asia is staring into a gloomy economic future as the COVID-19 pandemic appears untameable in spite of severe containment measures imposed by South Asian countries.

South Asia has detected 132,190 number of cases of coronavirus infection with 3,541 deaths as of 13 May 2020. Either whole or at least major parts of the countries in South Asia have been in curfew-like strict lockdown in the past one and a half months. In the face of an unconquerable pandemic, arresting movement of people to prevent the virus from spreading is the most suitable containment measure, more importantly for countries that do not have adequate healthcare infrastructure to face-off a viral outbreak. However, the prospect of economic contraction has become more evident as the lockdown keeps getting extended.

The economic outlook of the individual countries has worsened in the last one and a half months since the lockdowns were imposed, bringing almost all of the economic activities into a standstill. The direst of the warning is sounded by the World Bank. According to the multilateral development assistance agency, South Asia 'will likely experience the worst economic performance of the last 40 year'. The South Asia Economic Focus estimates that regional growth will fall to a range between 1.8 and 2.8 percent in 2020, down from 6.3 percent projected six months ago. However, Asian Development Bank's projections are relatively generous which estimates the region's growth to slow to 4.1 percent in 2020 compared to the 5.1 percent growth achieved in 2019. The ADB has said that the COVID-19 slowdown will be the mildest in South Asia in developing Asia.

The World Bank report says that the impact on South Asia mostly will be felt through the slump in the service sector, which is quite labour-intensive and provides employment to millions of informal workers in the region. Considering high poverty rate and unequal societies, arrested manufacturing growth, overdependence on agriculture and informal works, insufficient social protection, South Asia is particularly vulnerable to the economic fallout. According to an estimation by the United Nations University World Institute for Development Economics Research, the COVID-19 will push 16 million people in South Asia into extreme poverty.

Projections for India, the world's fifth largest economy and South Asia's largest, range from the International Monetary Fund's projection of 1.9 percent to ADB's projection of 4.2 percent to the World Bank's projection of 5 percent. Moody's, the rating agency, downgraded India's economic growth outlook for 2020, from 2.5 to 0.2 percent. Indian economy was already mellowed as the troubles in the non-bank financial institutions already had dampened domestic demand and credit. Likewise, a poll of Indian economists suggests the economy will shrink by 5.2 percent in the second fiscal quarter, which would be India's first quarterly contraction since at least the 1990s. Although, at the end of April, as the country partially opened some of the economic activities, the unemployment rate fell to 21.1 percent compared to the 26.2 per cent rate recorded in the preceding week. However, the bounce is accompanied by a decline in labour participation as many working-age people quit the labour market. Too boost the economy and preserve jobs, the Indian government announced a US$265 billion economic stimulus package on May 12.

In the case of Nepal, the national statistical agency, the Central Bureau of Statistics, has projected GDP growth rate for fiscal year (FY) 2019/20 to limp to 2.28 percent, against the government target of 8.5 percent, which was revised to 7.01 percent considering the tepid prospects of agriculture sector. The biggest brunt of the slowdown due to COVID-19 containment measures will be experienced by the hotels and restaurants sector, which is estimated to contract by 16.3 percent. The World Bank has also downgraded the growth to 2.8 percent, reflecting lower remittances, trade and tourism, and broader disruptions caused by the COVID-19 outbreak. It has also warned that 31.2 percent of the population faces significant risks of falling into poverty due to reduced remittance, foregone earnings and job losses. According to the World Bank's Migration Brief, Nepal could see remittance, the major source of foreign exchange income for Nepal, contracting by as much as 14 percent this year due to global economic fallout. The CBS has projected an 18.5 percent slump in remittances this fiscal year. Besides affecting household consumptions, Nepal's balance of payments will come under strain due to slowing remittance. Further, the ranks of the unemployed will swell, if the returnees are not absorbed into gainful employment.

Bangladesh is estimated to grow by 2 percent according to the IMF projections while the World Bank expects the growth to level to 3 percent. Although the most obvious impact of the pandemic is visible on the readymade garment sector, which contributes about 12 percent of the GDP, the month-long lockdown has impacted fishermen, artisans, and retail businesses which have foregone the business during the lucrative month of Ramzan. According to some estimate, the cancelled order for fast fashion items could amount to US$4 billion. The disruption comes at a time when Bangladesh's exports have been on a decline as the first half of the fiscal year ending in 2020 had seen garment orders decline by 5.8 percent. But according to Moody's this disruption could be short-lived and the orders can bounce back, but analysts and economists are not as optimistic about Bangladeshi economy's resilience. The other impact on the Bangladeshi economy is through a slowdown in remittance, which is expected to fall by 22 percent. These all will have ramifications on income and poverty level. According to an estimation by South Asian Network for Economic Modelling (SANEM), the poverty rate in Bangladesh may rise to 40.9 percent if there is a 25 percent fall in family incomes due to the pandemic.

Pakistan, which was already under mild recessionary pressures, is estimated to witness a contraction in its GDP by 1.3 percent according to the World Bank, and by 1.5 percent according to the IMF. The country has been undergoing a balance of payments crisis leading to difficulty in sovereign debt repayment. IMF has provided the country with a US$1.4 billion loan under its rapid financing scheme. Similarly, other creditors of Pakistan have also offered bilateral debt relief with repayment deferrals allowing the country to buy some time. Pakistan has launched a US$7.5 billion relief package to stimulate the economy. However, the prospects of double-digit inflation will further dampen the recovery.

In 2020, Sri Lanka was expected to grow between 4.5 to 5 percent owing to modest recovery from the Easter Sunday attacks in April 2019 and the political stability after the Presidential elections. However, the global spread of COVID-19 and the containment measures are expected to hit the Sri Lankan economy bad enough for the GDP to contract by 0.5 percent according to both the World Bank and the IMF while ADB has estimated the growth to be 2.2 percent. In the first three months of 2020, the country saw a 30 percent decline in tourists, and apparel exports, which makes up to 46 percent of Sri Lanka's total export, will weigh down the economy reeling from the lockdown. In additions, Sri Lanka's high indebtedness (debt to GDP ratio is 87 percent) has left the country with small fiscal space to provide a greater fiscal response to fight the disease.

Among the economies in South Asia, the Maldives is expected to fare the worst as its GDP is expected to contract by as much as 8.5 percent according to the World Bank, while the IMF expects the contraction to be by 8.1 percent as the COVID-19 has hurt the tourism sector the most. For similar reasons, Bhutan's growth rate is also expected to slowdown to 2.9 percent (World Bank) and 2.7 percent (IMF). Afghanistan, whose economic prospects were expected to have improved in 2019, will also see the GDP contract by 3.8 percent (World Bank) and 3 percent (IMF). Besides the obvious impact of COVID-19 that has halted the economic activities and forced almost a million migrant to return home from their employment in neighbouring Iran, ongoing political instability and deteriorating security conditions with Taliban forces accelerating the bombings even during the month of Ramzan will have equal ramifications on the economy.

The COVID-19 pandemic has deteriorated economic conditions of South Asian economies that were already staring into a host of problems ranging from slowing export growth, waning remittance incomes, increased political instability, piling of external debts, among others. However, the drastic circumstances that now these economies are facing have made evident that the 'business-as-usual' responses to stimulate the economies will fall short. It is crucial that government step up and take measures to protect the health and well-being of the most vulnerable and in doing so restore consumer and business confidence to prevent job losses.

NEWS

Bangladesh restarts some garment factories, India debates an easing of restrictions

More than 500 garment factories in Bangladesh that supply to global brands reopened on 27 April after a month-long shutdown to curb the spread of the coronavirus, while in India calls grew for an easing of its lockdown which has caused deep economic pain.

Clothing manufacturers in Bangladesh's capital Dhaka and the port city of Chittagong have been permitted to resume work by undertaking proper protection measures.

Industry groups for the sector, which boasts some 4,000 factories employing 4.1 million workers, had warned the shutdown could cause the country to lose US$6 billion in export revenue this financial year.

Bangladesh's competitors such as Vietnam, China and Cambodia have already resumed operations, Hatem said. Bangladesh has reported more than 5,000 cases of the coronavirus and 145 deaths.

In India, where a strict shutdown for its 1.3 billion people is due to end on 17 May, Prime Minister Narendra Modi is in talks with the chief ministers of the country's 28 states to decide on what restrictions should be kept in place.

Ashok Gehlot, the chief minister of the western state of Rajasthan, said any extension of the severe lockdown could lead to people starving and the government should allow economic activity to begin in less-affected areas. Some 300 of India's 730 districts have reported no cases of the coronavirus.

India's has 27,891 confirmed infections of the new coronavirus, according to government data on 27 April, the second highest amount in Asia after China. So far 872 people have died.

The government says the lockdown has meant that it now takes 10 days for cases to double, compared with 3.6 days last month.

The Indian Ocean island nation of Maldives also reported a spike in cases, mostly among migrant workers living in packed dormitories in the capital Male. The country has 200 confirmed cases, the government said, a large number of them Bangladeshi migrant workers.

Source: https://www.reuters.com/, 27.04.2020.

Remittances to South Asia to dip 22 percent in 2020

The World Bank expects remittances to South Asia will drop 22 percent this year, underscoring the economic distress stemming from the Covid-19 pandemic and the ensuing lockdown aimed at curbing the disease. This reflects loss of income for expatriate Indians working in the Gulf and elsewhere who support families back home in Kerala and other states at a time when the local economy is at a near standstill.

Globally, remittances are projected to decline by a record 20 percent this year from a high of over US$714.2 billion in 2019, the World Bank said in a release on 21 April. The projected fall, which would be the sharpest decline in recent history, is largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country, it said.

South Asia gets 22 percent of global remittances, which amounted to US$122.4 billion last year.

Source: https://economictimes.indiatimes.com/, 23.04.2020.

Global firms look to shift from China to India

Global manufacturers have initiated talks with Indian firms to explore the possibility of shifting a part of their supply chains from China as they seek to diversify their operations following the covid-19 outbreak.

Most of these multinationals have suffered widespread disruptions to their businesses as authorities enforced strict lockdown measures to contain the pandemic, which originated in Wuhan city in China’s Hubei province. Wuhan is one of China’s so-called “motor cities", housing several automotive factories.

First of the lot are companies interested in sourcing automobile components and electronic products from India, according to industry executives.

Hero Motors Co. said the auto parts maker has received several enquiries from companies who have operations in China, but now want to de-risk their supply chain.

Part of the demand is also coming from Indian companies who were heavily reliant on China for sourcing components, but suffered because of the novel coronavirus-induced disruption in China, which, over the years, has emerged as a manufacturing powerhouse.

Among global firms that have shown interest in India are US-based makers of medical electronics products Teledyne and Amphenol, and medical equipment makers such as Johnson and Johnson.

At home, most local firms are actively looking for alternative sources to China and are bound to reduce imports from there though the process is expected to be gradual.

Source: https://www.livemint.com/, 22.04.2020.

EIF to track pandemic impact on LDCs’ trade, economy

The Enhanced Integrated Framework (EIF), a dedicated multilateral partnership platform to support the poorest countries in trade, has set up a dedicated webpage to examine the impacts of the COVID-19 pandemic on trade in the Least Developed Countries (LDCs).

The share of LDCs in world trade of goods and commercial services was 1.16 percent in 2018, according to an estimation of the World Trade Organisation (WTO).

The EIF is also going to organize a series of webinars with partner experts that look into the various ways LDCs are being affected by the coronavirus crisis.

The dedicated web page (https://trade4devnews.enhancedif.org/covid-19) within the EIF’s Trade for Development News will provide news and analysis so that this information can help keep LDC trade flowing even in a time of crisis.

There are 47 LDCs, of which 36, are currently the members of the WTO. Bangladesh was the leading importer and second-largest exporter among the LDCs.

Source: https://thefinancialexpress.com.bd/, 25.04.2020.

Taskforce formed to promote entrepreneurship ecosystem in Nepal

Nepal government has started preparing for programme to engage the youths facing job losses due to the coronavirus pandemic in entrepreneurship within the country itself.

This topic was deliberated during a meeting held at the Ministry of Industry, Commerce and Supplies on 19 April. The meeting dwelt on creating job opportunities within the country and the kind of initiatives required for this purpose.

Representatives of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), the Confederation of Nepalese Industries (CNI), Federation of Nepal Cottage and Small Industries, Nepal Chamber of Commerce and other trade and business organizations were present in the meeting.

The meeting decided to form a committee under the coordination of the Industrial Investment and Promotion Division at the Ministry for preparing a special plan for involving the youths returned home from across the world losing jobs due to COVID-19 in productive entrepreneurship.

The meeting, likewise, decided to provide the salary of workers working in industries for the lockdown period. All the industries that have closed due to the lockdown have been divided into three phases and a decision made to present a proposal to the high-level committee for the operation of these industries, the Ministry has stated.

Source: https://myrepublica.nagariknetwork.com/, 20.04.2020

.

China's exports, imports fell in March but not as much as expected

China reported that its dollar-denominated exports and imports both fell from a year ago in March, but they were better than what economists had expected.

China's exports fell 6.6 percent in March from a year ago, while imports slipped 0.9 percent in the same month, data from the General Administration of Customs showed.

Economists polled by Reuters had expected exports from China to fall 14 percent in March from a year ago, while imports were projected to fall 9.5 percent over the same period.

The country's March trade surplus was US$19.9 billion, as compared with the US$18.55 billion that economists polled by Reuters had expected.

Earlier this year, China reported combined trade data for the months of January and February.

Over the two months, exports fell 17.2 percent from a year ago while imports fell 4 percent as the coronavirus outbreak put the brakes on the world's second largest economy.

China's trade surplus with the U.S. narrowed to US$15.32 billion in March from US$25.37 billion in January and February, according to Reuters calculations.

Source: https://www.cnbc.com/, 13.04.2020.

WTO sees "ugly" trade plunge, likely worse than financial crisis

The World Trade Organization forecast that goods trade would shrink more steeply this year than in the global financial crisis a decade ago before rebounding in 2021 as the COVID-19 pandemic recedes - if countries worked together.

The WTO said global trade would fall this year by between 13 percent and 32 percent, giving a wide range because so much about the economic impact of the health crisis was uncertain.

"These numbers are ugly – there is no getting around that," WTO Director-General Roberto Azevedo said in a statement.

Keeping markets open and predictable, he said, would be critical to spurring renewed investment. Countries working together would see a faster recovery than if each country acted alone.

The Geneva-based WTO said that for 2021 it was forecasting a rebound in global goods trade of between 21 percent and 24 percent, depending largely on the duration of the coronavirus outbreak and the effectiveness of policy responses.

The WTO also confirmed that 2019 had ended on a sombre note, with a 0.1 percent decline in goods trade, weighed down by trade tensions, notably between the United States and China, and an economic slowdown.

In October, the WTO forecast trade growth would grow 2.7 percent in 2020 after expanding 1.2 percent in 2019.

Source: https://www.reuters.com/, 08.04.2020.

India eases hydroxychloroquine, paracetamol export restrictions

India has partially eased restrictions on the export of anti-malarial drug hydroxychloroquine and paracetamol, cited by some as key to the fight against Covid-19, to fulfil existing orders and to meet the needs of neighbouring countries.

Existing orders from other countries for hydroxychloroquine and paracetamol will be cleared only after meeting all domestic requirements.

The external affairs ministry said the two drugs will also be supplied in “appropriate quantities” to all neighbouring countries dependent on India’s capabilities.

India, the largest producer of hydroxychloroquine, initially banned exports of the drug on 25 March to ensure adequate domestic supplies. Rules were tightened on 4 April by barring exports of hydroxychloroquine and formulations made from it from special economic zones (SEZs) and export-oriented units (EOUs). Such bans don’t usually apply to SEZs and EOUs, which are meant to promote exports.

Source: https://www.hindustantimes.com/, 07.04.2020.

Nearly half a million Chinese firms close in first quarter

More than 460,000 Chinese firms closed permanently in the first quarter as the coronavirus pandemic pummeled the world’s second largest economy, with more than half of them having operated for under three years, corporate registration data shows.

The closures comprised of businesses whose operating licenses had been revoked, as well as those who had terminated operations themselves, and included 26,000 in the export sector, according to Tianyancha, a commercial database that compiles public records.

At the same time, the pace of new firms being established slowed significantly. From January to March, around 3.2 million businesses were set up, a 29 per cent drop from a year earlier.

Most of these new companies were in traditional centres of economic power, such as Guangdong province in southern China, and close to half of them were in distribution or retail.

The number of business closures underlines the challenges facing China as it tries to revive its economy, which is at risk of a contraction in the first quarter for the first time since 1976.

Chinese business owners who can no longer afford to maintain operations face a number of hurdles before they can walk away from a company.

If an insolvent firm wants to cancel its company registration, it needs to go through bankruptcy procedures or show a liquidation report confirming it had no unpaid debt or other obligations.

Given the costly nature of bankruptcy proceedings, particularly for small businesses struggling with cash flow or without sufficient assets, the number of bankruptcy filings this year would not be high.

Fears over a growing number of companies going bust also appears to have played some part in Chinese courts rejecting and delaying bankruptcy filings, according to lawyers and official documents.

Source: https://www.scmp.com/, 06.04.2020.

Nepali farmers destroy produce due to lack of market

Farmers in Nepal have started destroying their agricultural products as they have not been getting a market due to the coronavirus.

Recently, farmers in Kapilvastu threw milk on the road while farmers in Nawalparasi and Rupandehi distributed the milk free of cost. As per Nepal Dairy Association, around 50,000 litres of milk has been destroyed so far as a protest against the government for not securing a market for their products.

Milk consumption has declined drastically and we have not been getting a market even though the government has eased transportation restrictions for the farmers. The largest consumers like hotels, restaurants, tea and coffee shops and sweet shops are closed at present due to which consumption has declined.

Moreover, companies producing milk powder have also refused to collect milk as they have to clear their previous stock and they do not have any more capacity.

The milk powder plant in Chitwan, which is the largest in the country, has a capacity to process around 100,000 litres of milk per day, while the other two plants located in Biratnagar and Pokhara can process only 40,000 to 50,000 litres of milk per day.

March and April are the months when milk consumption generally increases.

Meanwhile, vegetable farmers are also destroying their products as they have not been able to sell their produce in a smooth manner as the markets are only partially open.

According to Nepal Farmer Group Federation (NFGF), farmers in the Tarai region have been more affected than those in the hilly region. If the situation prevails longer then destroying products will be the only option for farmers as vegetables are perishable items and small farmers do not have access to cold stores.

Source: https://thehimalayantimes.com/, 03.04.2020.

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