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ACTIVITIES
Aid for Trade: Need for robust monitoring and evaluation

Six years into the implementation of the Aid for Trade (AfT) initiative under the World Trade Organization (WTO), a robust and comprehensive monitoring and evaluation mechanism is yet to be put into place. One major multilateral mechanism is the publication of an annual Aid for Trade at a Glance Report by the Organisation for Economic Co-operation and Development (OECD) and the WTO and discussions based on the report at regular intervals at Global Review of Aid for Trade. The Report for 2011, in its own words, paints a "positive and vibrant picture of aid for trade in action". The findings were disseminated at the Third Global Review held in Geneva in July. The Report analyses AfT flows based on the OECD's Creditor Reporting System (CRS) database and broad qualitative trends in AfT based on questionnaires filled out by recipient countries. Following criticism of the largely top-down Geneva- and Paris-based monitoring and evaluation exercise and growing calls for country-based assessments, the OECD and the WTO have included 269 "case stories" in this year’s Report.

Realizing the shortcomings of the present monitoring and evaluation systems, South Asia Watch on Trade, Economics and Environment (SAWTEE) and the International Centre for Trade and Sustainable Development (ICTSD) prepared a methodology for assessing the effectiveness of AfT, based on which case studies were conducted in 2011 in four developing countries: Cambodia and Nepal in Asia, and Malawi and Mauritius in Africa. The aspects of AfT considered in the SAWTEE-ICTSD case study of Nepal are largely based on the recommendations made by the Task Force on AfT constituted by the WTO Director General as mandated by the Hong Kong WTO Ministerial Declaration in 2005.

The Report shows that in 2009 AfT commitments reached approximately US$40 billion (in 2009 constant prices), a 60 percent increase from the 2002-2005 baseline period. Likewise, disbursements have been increasing at a constant growth rate of between 11-12 percent for each year since 2006, reaching US$29 billion in 2009.

The Report concludes that the increase in AfT commitments in the post-2005 period has been additional, i.e., not at the expense of aid to other sectors, on the ground that the average share of AfT in total sector allocable official development assistance (ODA) since the 2002-2005 baseline period has remained stable at 33 percent. There are a number of problems with this approach. The Report assesses additionality in commitments but not in disbursements, and does not assess additionality at the country level. Moreover, the basis for determining additionality used in the Report may not yield meaningful results in all cases. For example, even if the share of AfT in total sector allocable ODA had increased, there could still be additionality, provided that the growth of non-AfT ODA had not declined compared to the baseline period.

The distribution of AfT flows across recipient countries is highly unequal, slightly more so than the distribution of overall ODA. According to the Report, although low-income countries got almost 50 percent AfT commitments in 2009, up from 39.5 percent in 2008 and the LDCs' share rose from 26.5 percent to 30.4 percent, the top 10 recipients got 45 percent of country-specific AfT commitments during 2002-2009. The presence of countries like Iraq (ranked second), Afghanistan (fourth) and Egypt (tenth) in the top 10 list—attracting AfT in volumes disproportionate to their economic and population size, and, more important, the trade-related constraints they face—strongly points to strategic considerations reigning supreme in the allocation of AfT resources by donor countries.

Another issue related to the volume of AfT flows is that while the Report compares AfT commitments made in the years 2006-2009 with the average commitments made in the baseline period 2002-2005—globally as well as for individual countries—it does not do the same for disbursements. That it is important to look at changes in average disbursements is demonstrated by the finding of the Nepal case study that disbursements to Nepal have actually fallen in the period 2006-2009 compared to the baseline period.
Most of the analyses in the Report are based on commitments rather than disbursements. The ratio of disbursements to commitments at the global level was 72.5 percent in 2009. The Report argues that commitments are forward looking and show the amounts that donors will spend on certain development activities and are often multiyear (e.g., infrastructure) with subsequent disbursements spread over several years, with the result that disbursements always trail commitments. These arguments are valid, but other factors that may explain the divergence between disbursements and commitments—such as the absorptive capacity of recipients and donors' onerous procedural requirements—are not analysed. The Report does not discuss the predictability issue in the light of the commitment-disbursement gap, although it identifies inadequacy and unreliability of external funding as "a recurring brake on project success" when presenting case-story findings.

In what is one of its major limitations, the Report does not assess the sustainability aspect of AFT despite it having been emphasized in the WTO's AFT Task Force Report. Sustainability, here, means sustaining the achievements made through AFT even after donor support ceases. The Nepal case study assesses sustainability in terms of financial, institutional and human resource sustainability. Financial sustainability calls for mobilization of funds for the continuity of AFT programmes/projects even after donor funding dries up. However, financial sustainability alone is not enough to ensure effective sustainability. An institutional home for the AFT programmes/projects to carry on is of utmost importance. The human resource aspect of sustainability basically refers to efficient human resource planning to ensure effective designing and implementation of AFT programmes/projects.

The broadness of definition of AFT on the basis of which AFT is monitored and evaluated by the WTO has been a major criticism of the AFT initiative. The first two categories—infrastructure and building productive capacity—are so broad that a lot of aid activities remotely related to trade can be included in them. This problem takes on additional significance when one notes that the main objective of the AFT initiative is to address trade-related supply-side constraints and that these categories represent the most important areas for addressing such constraints. The inclusion of the aid for the construction of an urban transport system in Istanbul and mass transit system in Bangkok is an example of how the broadness of definition distorts the AFT picture.

The Report does admit that definition remains an issue and that the OECD's AFT categories are at best proxies to keep track of aid flows geared towards "supporting" trade. It quotes Nepal's dissatisfaction with the broadness of definition. Possible ways to address this problem are not explored, however. Because the definitional issue is fundamental to any reliable assessment of AFT, the WTO and the OECD should seriously engage in sorting it out, although determining the precise "trade" component of aid is impossible, as pointed out in the Report.

The broadness of definition would not have been such a critical issue if there were a robust mechanism at the local level through which both donors and recipients could monitor AFT flows. One way to partly address the issue could be the channelizing of AFT through a single dedicated AFT fund in which donors pool their AFT resources. While Cambodia has already successfully adopted a sector-wide approach to mobilizing AFT, Nepal's Ministry of Commerce and Supplies is taking steps for the creation of a Trade Trust Fund. Channelizing AFT through a dedicated fund will not only help in making the definitional issue less crucial (as the recipient country will have to agree that any particular aid project/programme is indeed AFT) but, even more importantly, also contribute to sustainability, ownership, alignment, transparency and, hence, overall effectiveness. Despite evidence of pooled funding showing positive results in the social sector (e.g., in Nepal) as well as in the trade sector (e.g., in Cambodia), the Report is dismissive of the idea of a dedicated AFT fund.

The 2011 Report finds that almost 60 percent of the partner countries that changed their trade-related objectives and priorities since 2008 mainstreamed these changes in their development strategies. In 2008, more than half the partner countries had fully mainstreamed trade and another almost 40 percent had partially mainstreamed trade. However, the 2008 Report used a narrow definition of mainstreaming and the 2011 Report continues with it. In
the 2008 Report, those who ticked the box “Trade is a key priority and the plan includes well developed trade-related priorities and implementation actions” were considered to have “fully” mainstreamed trade in their national development plans. The AfT Global Review, therefore, does not consider the quality or substance of mainstreaming—for example, whether trade has been incorporated into sectoral policies like agricultural policy, industrial policy and forestry policy. The SAWTEE-ICTSD methodology as well as the Nepal case study make a distinction between mainstreaming in the formal sense (as adopted by the Global Review) and mainstreaming at the substantive level.

Two major components of alignment are donor alignment with country strategies (including policies and priorities) and donor alignment with country systems (including public financial management and procurement systems). The Report finds that alignment is improving albeit unevenly, but its assessment of alignment is almost exclusively centred on the first aspect of alignment. The tendency of some donors to bypass the national systems and deliver aid through parallel implementation units emerged as a serious issue in the Nepal case study, as did the excessively “bureaucratic” national Procurement Act. An assessment of this aspect of alignment in Report would have been illuminating.

The Report finds that AfT’s main achievements so far relate to raising awareness about trade’s role in development and to improving the delivery of AfT. This finding is based on the responses of partner countries. Partner countries report having achieved less in terms of improved economic and trade performance, with positive answers for “increased trade” and “increased exports” below 50 percent.

The Report points to the measurement problem in assessing trade-related outcomes—importantly, the problem of attribution—as a possible reason why positive economic and trade results may be underreported. It also cites a time-lag effect to explain the gap between partner countries’ objectives (improved economic and trade performance) and the results achieved. It does not, however, investigate the role of the breadth of AfT definition in the difficulty in establishing strong links between AfT and positive trade and economic performance.

The purpose of collecting “case stories” for the 2011 Report was “to probe more deeply into the objectives, challenges, and processes of trade-related assistance so as to better understand the results of such assistance”. A “great majority” of the programmes and projects in the case stories reported “at least some elements of success”. The Report candidly admits that the case stories are not a scientific approach to evaluation: the sample reflects selection bias (mostly written by governments, donors or consultants working in the project), and generalizations should be “taken with a grain of salt” (because of omitted variables and attribution problems). Further, most case stories suffer from a dearth of quantitative information.

Based on the case stories, the Report identifies some essential conditions for successful AfT: ownership at the highest political level built upon the active engagement of all stakeholders; adequate and reliable funding; leveraging partnerships (including with providers of South–South cooperation); and combining public and private investment with technical assistance. It also notes that complementary policies—especially stable fiscal and monetary policies—and flexible labour market policies, together with good governance, can greatly enhance the chances of success.

The inclusion of case stories for the Third Global Review of AfT marks a welcome and refreshing departure, even if on a small scale, from the hitherto completely top-down approach to AfT monitoring and evaluation. However, given the limitations of such stories, the OECD and the WTO must now go for independent monitoring and evaluation at the local level so that the "positive and vibrant picture of aid for trade in action" that they paint stand up to scrutiny on the ground.
ANALYSIS

PTAs and the WTO

On average, a World Trade Organization (WTO) member is a party to 13 preferential trade agreements (PTAs). There are around 300 preferential trade agreements (including both notified and not notified to the WTO) in force as of 2010. However, only 16 percent of global merchandise trade receives preferential treatment and less than 2 percent of world trade is eligible for preference margins above 10 percentage points.* This indirectly implies that despite the proliferation of PTA—which are becoming more complex, involving pacts between regions, as well as between countries or within regions—the WTO’s multilateral system also has a role to play in reducing trade related complexities, according to the latest World Trade Report, a flagship publication of the WTO.

PTAs are going beyond tariffs and other traditional measures of lowering trade barriers. They are increasingly incorporating domestic policies such as regulations on services and investment, intellectual property protection and competition policy, which the report calls “deep PTAs”. The report argues that these kinds of deep PTAs reflect the growth of global production networks. It is estimated that deep integration PTAs increase trade in production networks by almost 8 percent on average.

Meanwhile, the WTO has still remained the main dispute settlement body despite the growing number of PTAs. For instance, the report estimates that, on average, about 30 percent of WTO disputes are between members who are parties to the same PTA.

Source: WTO Secretariat.

Despite the proliferation of PTAs, the trade that receives preferential treatment is still low. In fact, most “sensitive” sectors have remained “sensitive” in PTAs. The report estimates that approximately 66 percent of tariff lines with non-preferential or most-favoured-nation (MFN) rates above 15 percent have not been reduced in PTAs. This is also true in the case of the Agreement on South Asian Free Trade Area (SAFTA) as total intra-regional exports as a percentage of the region’s total world exports are dismally low at 6 percent, and the member countries have maintained a large list of products in their sensitive lists. Non-tariff barriers, particularly those related to sanitary and phytosanitary measures and technical standards, also stifle intra-regional trade.
SAFTA does not mention any of the obligations that are outside the current mandate of the WTO (and also when legally enforceable).** But there are five WTO-plus provisions. For SAFTA to be successful as envisioned, it has to go for a “deep PTA”. Major steps in that direction would be to rationalize the sensitive lists, simplify the rules of origin, and address non-tariff barriers through mutual recognition of standards.

Notes:


** A total of 50 such obligations are compiled. See new dataset on the content of PTAs, http://www.wto.org/english/res_e/publications_e/wtr11_dataset_e.htm

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OTHER NEWS

**Food deficiency calls for lasting measures in Nepal**

Food shortage remains a perennial problem in many hill and mountain districts in the country’s Mid Western Region. The crisis is growing more severe every year and the state-run food agency, Nepal Food Corporation (NFC), has had to increase food supply to the region by 20-25 percent annually. Besides this, food assistance to affected areas is being provided by the UN food agency, the World Food Programme (WFP).

Despite efforts made by NFC and WFP to solve the deficit through food distribution, the shortage has shown no sign of abating. Harihar Shrestha, the chief of the Nepalgunj-based regional office of the NFC, says food distribution is only a temporary fix. “What we need is a long-term solution but no one seems to be thinking about it,” Shrestha said.

Dependency on food aid has already pushed the region’s agriculture production to a dismal state. As more and more people have gotten used to standing in line to receive their share of food handouts, arable land is left uncultivated. Nepal has been relying heavily on food imports since 2005. According to statistics provided by the Ministry of Agriculture and Cooperatives (MoAC), Nepal imported around 227,000 tonnes of food annually during the period 2005-2010, which increased to 290,000 tonnes in Fiscal Year 2010/11.

If NFC and WFP were to stop food delivery for just a month, 11 districts in the Mid Western Region would most certainly witness famine. Although crops like wheat, maize, millet, barley and buckwheat are cultivated in the region’s hill and mountain districts, production has declined drastically in recent years. Agriculture experts claim that besides climatic factors and outdated farming techniques, dwindling production of local crops is a major reason for the increased dependency on food aid. In Rolpa, for instance, local food production fell by 45 percent this year compared to the last year.

According to Hari Dahal, spokesperson and joint secretary at the MoAC, considering that over 80 percent of the farmers depend on monsoon rains for farming, there is a need for capacity building among farmers. Experts say that setting up seed research centres, improved irrigation systems and distribution of high-yield seeds and fertilizers at subsidized rates would help address the crisis.

MoAC statistics show that 38 out of Nepal’s 75 districts are suffering from food shortage. And, 33 out of 38 districts facing food scarcity are in the hill and mountain regions. WFP estimates that food crisis affects more than half a million people in Mid and Far Western Nepal. While food handouts may seem like a logical approach to provide immediate relief to a hungry population, it is not a lasting solution to the problem. “How long will the state deal with the food crisis this way?” asks Shrestha. “The government and other stakeholders should ponder on the issue seriously.”

Source: The Kathmandu Post, 29.08.11, www.ekantipur.com/the-kathmandu-post
Millions of Asians escape poverty despite crisis

More than 245 million Asians were lifted out of extreme poverty in the last five years despite the global economic crisis, the Asian Development Bank said, citing the region's brisk economic growth.

China, the world's most populous nation, outperformed other Asian countries, with an estimated 141.13 million people leaving the ranks of the extreme poor, defined as those who earned less than US$1.25 a day (at purchasing power parity). "The results indicate that even during the global economic crisis, Asia managed to further reduce the number of poor," said the report, which was released on Tuesday by the Manila-based lender. "The continued poverty reduction during the crisis and recovery periods can be attributed to robust economic growth in the region."

Some 149.9 million Asians escaped extreme poverty between 2005 and 2008, and a further 95.4 million from 2008 through 2010, the bank said. But some low-income countries such as Indonesia, Pakistan and Nepal fared badly, with the number of poor people growing last year compared with 2005.

Others like the Philippines made no dent in poverty during this period. "This may be attributed to population growth outstripping poverty reduction due to sluggish gross domestic product growth and/or worsening inequality," the study said.

As of last year, the extreme poor constituted 18.7 percent of the population of developing Asian countries, down from 27.09 percent in 2005, the bank said. Despite the dramatic progress, the bank said the region was still home to the largest number of the world's poor.


Fruit and vegetables rot as hunger stalks India

For Sunil Sharma, a young tomato farmer in northern India, trucking his produce to New Delhi's wholesale vegetable market is a weekly obstacle course—and a race against time. He must navigate poor roads from his farm in the Himalayan foothills, landslides triggered by monsoon rains and petty corruption by police, all before the crop in the back of his blazing hot truck degrades to worthless rot.

During one recent journey trucking tomatoes for himself and two other farmers to the capital, he was stuck for three days. "Of the 350 crates of tomatoes I started out with, I could salvage only around 150 crates. The rest had turned to pulp," a despondent Sharma said.

India is plagued by malnutrition and soaring inflation, but it's not for lack of food. It is the world's second largest grower of fresh produce, but loses an estimated 40 percent of its fruit and vegetables to rot because of a lack of refrigerated trucking, poor roads, inclement weather and corruption.

Post-harvest food losses of the scale found in India are a problem throughout the developing world and translate into lower incomes for farmers and higher prices for consumers. Inflation is already undermining living standards across Asia with world food prices at record highs since December last year, according to the Food and Agriculture Organization of the United Nations (FAO). In India, home to more than a third of the world's 150 million malnourished children under five, food inflation reached nearly 10 percent in July.

"It's criminal neglect on the part of the government to allow this volume of wastage," says Biraj Patnaik, an adviser to India's Supreme Court on food policy issues. "Just cutting back on the waste would make such a dent in bringing down food inflation, making food more affordable, and hence, available to poor families."

The government, as well, has expressed horror and frustration at the rot. It has begun work on a strategy to cut post-harvest losses by building modern grain silos, cold storage
warehouses and setting up farmers’ markets in remote areas to link vegetable growers with retail outlets in the cities, Food Minister K V Thomas said. Plans are also afoot to assign special— though not refrigerated—railway wagons to transport vegetables on a priority basis to modern warehouses, he said.

Source: AP, 30.08.11, www.ap.org

B'desh transport infrastructure needs to be developed for transit trade

Bangladeshi Finance Minister AMA Muhith has said the present condition of the roads, railways and waterways in the country is not "favourable" for giving transit to neighbouring countries.

"We need to develop our roads, railways and waterways first, before operationalizing transit for India, Bhutan and Nepal that aims to enhance regional trade and increase economic growth," he said while speaking at the inaugural session of the day-long dialogue on regional trade facilitation in South Asia as the chief guest in the capital Wednesday.

The Federation of the Bangladesh Chambers of Commerce and Industry (FBCCI), International Finance Corporation (IFC) and UKaid jointly organized the programme titled "Public Private Dialogue for Enhancing Trade Facilitation in South Asia" in Dhaka.

Describing Bangladesh as a transit hub in South and Southeast Asian regions, the Finance Minister said that an improved trading environment such as a developed communication system is vital for economic growth and development of the member countries of the South Asian Association for Regional Cooperation (SAARC) and also those of the Association of Southeast Asian Nations (ASEAN). "We need to develop our roads, railways and waterways for regional connectivity for ensuring inclusive growth in the SAARC," Muhith said. "If we start transit initially between Bangladesh, India, Bhutan and Nepal, then it could later be expanded to the ASEAN countries such as Thailand, Myanmar, Vietnam, and China," he added.

He suggested simplification of tariff and non-tariff barriers, and the taking of appropriate measures for trade facilitation for faster economic progress through the development of connectivity, infrastructure and communication linkages in South Asia.

Source: The Financial Express, 25.08.11, www.thefinancialexpress-bd.com

Maldives receives US$10 million credit line from Sri Lanka

The Sri Lankan government has granted a US$10 million line of credit to the Maldives, which comes in the light of President Mohamed Nasheed’s visit to Sri Lanka in July. A senior government official said that the credit facility was arranged in order to encourage Maldivian resort hotels to import food supplies such as fruits and vegetables from Sri Lanka.

“Several Maldivian resorts buy their fruits and vegetables from Sri Lanka. We want to build confidence amongst hotel owners in Maldives to continue the purchase of Sri Lankan food products. This line of credit will help build closer economic ties between both countries," he said. “This will also help Sri Lanka to increase its exports earning and contribute to strengthening the Sri Lankan economy,” he said. He also added that discussion are yet continuing between the two countries to have a Sri Lanka- Maldives currency swap which is expected to strengthen trade ties between both countries.

President Nasheed signed the agreement on behalf of the Maldivian government with the Sri Lankan government-owned Bank of Ceylon which was facilitating the credit on 18 August. The Maldivian President, speaking at the signing of the agreement in Colombo, stated that his government plans on further relaxing the customs duties on goods imported from Sri Lanka.

At the signing of the agreement, the Chairman of the Bank of Ceylon, Dr. Gamini Wickremasinghe, announced that the bank expects to open a second branch in the Maldives
before the next Summit of the South Asian Association for Regional Cooperation (SAARC) to benefit Sri Lankan exporters and strengthen trade relationships between the countries.

President Nasheed, meanwhile, said in his weekly radio address to this nation that the credit line would provide additional opportunities to merchants importing goods from Sri Lanka, and ease the difficulties being faced due to the foreign currency shortage.

Source: Haveeru Online, 19.08.11, www.haveeru.com.mv

**ADB to ratchet up connectivity, energy co-operation in S Asia**

The Asian Development Bank (ADB) is planning to lend US$1.5 billion to improve cross-border connectivity and increase energy cooperation among five South Asian countries—Bangladesh, India, Sri Lanka, Nepal and Bhutan—over a period of three years. The indicative lending programme of the ADB has been included in its draft regional cooperation strategy (RCS) for 2012-2014. The planned lending programme will soon be placed at the board meeting of the Manila-based bank for final decision.

Of the total, US$1.11 billion or 74 percent will be spent against the head of improving cross-border connectivity, US$325 million or 23 per cent for energy cooperation and the rest of above US$40 million or three percent of the total fund has been earmarked for trade facilitation, according to the RCS of the Bank.

If the efficiency of transport and trade facilitation was improved, intra-regional trade within South Asia would increase by almost 60 per cent and trade with the rest of the world would increase by over 30 per cent, according to the estimate of ADB included in the RCS.

According to the planned outcome of the lending programme, average cross-border transit time of trucks from Kolkata to Dhaka will be reduced from the current 20 days to 11 days; sub-regional cross-border freight traffic will be increased from the current US$5 billion to US$6 billion in 2015 after the successful completion of the lending programme.

Besides, at least 1,000 kilometres of regional transport routes will be constructed or improved under the project. Container handling capacity of Colombo port facilities will be increased by 50 percent. The US$1.5 billion regional development project of the ADB has projects to develop road, rail networks, air and maritime gateways.

Under the project, 500 megawatt (MW) power transmission capacity will be attained between Bangladesh and India, 1,000 MW power transmission capacity will be attained between India and Nepal, another 1,000 MW cross-border line will be constructed and 1,000 MW of power transmission capacity will be attained between India and Sri Lanka.

Source: South Asian News Agency (SANA), 12.08.11, www.sananews.net

**ACTIVITIES**

**Fourth South Asian Training Programme on CGE Modelling**

Based on previous experience of holding three training programmes and the encouraging feedbacks/responses received so far, SAWTEE and South Asia Network on Economic Modeling (SANEM) are organizing the fourth Computable General Equilibrium (CGE) Modelling training programme from 20-24 September 2011 in Kathmandu. The objective of the training programme is to help build the capacity of researchers in South Asia by providing them with basic knowledge of CGE modelling using GAMS software so that they are able to contribute to informed trade, climate and development policy making and implementation in South Asia, and help the region in its pursuit of an effective and meaningful integration into the global economy.
SAWTEE presents on food security issues in CSO meet in Jakarta

SAWTEE participated in a regional workshop “Translating Commitments to Actions toward Results: An Asian CSO Regional Workshop on Food Sovereignty” from 22-23 August 2011 in Jakarta, Indonesia. The event was jointly organized by the Global Secretariat of the Alliance Against Hunger and Malnutrition (AAHM), which includes the Food and Agriculture Organization of the United Nations (FAO), among several other organizations, and the Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC). SAWTEE made a presentation from civil society organizations’ perspectives on the major challenges, opportunities and mechanisms to address food insecurity, hunger and malnutrition in the context of Nepal and South Asia.

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