Trade and Development Monitor

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

Volume 7, Issue 9, September 2010

CONTENTS

OPINION IN LEAD

Help for Pakistan

The devastating floods in Pakistan have affected about 20 million people and caused immense damage to crucial economic infrastructure and livelihoods. The economic cost of the damage has been put at US$7 billion by the country's prime minister. The international community has been mobilizing resources as immediate relief aid for the flood victims. The United Nations has estimated that least US$459 million is required to fund initial relief efforts. The International Monetary Fund has said it will provide Pakistan with an emergency US$451 million loan to help the country rebuild its economy.

Besides aid, a section of the international community is also mulling providing trade preferences to Pakistan to help rebuild its economy. The European Union (EU) on 16 September agreed to reduce duties on key imports from Pakistan temporarily "as soon as possible". The duration, coverage, and depth of the proposed trade concessions remain to be determined. The EU asked its executive body, the European Commission, to present a proposal for specific concessions in October. Pakistan has sought additional tariff concessions under the Generalized System of Preferences (GSP) scheme from the United States (US) and the EU.

Following the Indian Ocean tsunami in 2004, the EU and the US had provided trade preferences under their respective GSP schemes to affected countries. The extension had also entailed, in some cases, relaxation of rules of origin requirements.

It is the duty of the international community to help Pakistan in this time of crisis. Extension of commercially meaningful trade preferences is more effective than aid for rebuilding the economy from a long-term perspective. However, it should be done in as objective a manner as possible so that it does not run foul of World Trade Organization rules and invite complications.

ANALYSIS

Climate finance gets attention

Climate finance is high on the agenda of the ongoing climate change negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) ahead of the 16th session of the Conference of Parties to the UNFCCC to be held in Cancun, Mexico from 29 November-10 December.

This is partly because there has been little or no progress on other fronts, particularly mitigation, since the 15th COP in Copenhagen late last year. The Copenhagen Accord, which was only taken note of and not approved by the 15th COP, had no binding emissions reduction commitments for the period after the expiry of the Kyoto Protocol in 2012. However, it contained a pledge by developed countries to provide US$30 billion for adaptation and mitigation in developing and least-developed countries for a three-year period 2010-2012. Despite the non-transparency of the process that gave birth to the Accord and its lack of binding emissions targets, the part on financing was a saving grace for the Accord. The developed countries pledged that the funding would be new and additional. Also, developed countries committed to a goal of mobilizing jointly US$100 billion dollars a year by 2020 for mitigation efforts in developing countries.

In an informal meeting in Geneva, Switzerland, co-hosted by Mexico and Switzerland, on 2-3 September, ministers and other high level officials are reported to have made progress on establishing the details of how climate aid will be raised and distributed. UN climate chief Christina Figueres said the funding issue was the “golden key” to convincing poor nations that developed countries are serious about addressing climate change. Indian’s environment minister Jairam Ramesh also underscored the need for tackling funding to allow UNFCCC talks to move forward. Mexico’s foreign minister Patricia Espinosa assured those attending the meeting that there was still time to agree on the details of a new climate fund before the 16th COP. However, Espinosa’s optimism was tempered by the insistence of the United States that related issues—including curbs on greenhouse gasses and monitoring of national pledges—be agreed upon before any fast-start funding flows. Notably, ministers from a number of key countries in the climate change discussions—including Australia, China, South Africa, and the United Kingdom (UK) —were not present at the Geneva meeting.

While the three-year funding of US$30 billion is meant to be allocated for adaptation and mitigation in a balanced manner, the US$100 billion annual long-term funding is envisioned for mitigation only, although long-term funding is equally needed for adaptation. The scale of damage wrought by the recent floods in Pakistan indicates that a far greater funding than pledged in Copenhagen is required. By one estimate, at least US$600 billion a year is needed for mitigation and another US$600 billion a year for adaptation. The fund pledged in Copenhagen is only one-sixtieth of what is required for adaptation and one-sixth for mitigation. The allocation for adaptation is particularly low although urgency of funding is greater for adaptation for developing and least-developed countries since some impacts of climate change are unavoidable.

The funding mechanism is yet to be resolved. The developed countries generally want the fund to be managed by the World Bank while the developing countries want it to be managed by the UNFCCC itself or some other independent body.

Discussion in the informal meeting also delved into the source of public funding with a call from developing countries for greater transparency to ensure cash for the fund is not composed of “recycled” funds transferred from existing development projects. The Copenhagen Accord calls on developed countries to provide “new and additional resources” for the fund, but some countries—notably the UK— have said that fast start funding would not be additional to official development assistance.

The Netherlands has launched a website—backed by the UN—that aims to track whether developed countries are honouring their fast-start funding pledges. The site currently lists only six “contributing countries”: Denmark, France, Germany, the Netherlands, Norway, and the UK.

The next round of UNFCCC talks will take place in Tianjin China from 4-9 October. Earlier expectations that parties could reach a comprehensive deal by Mexico are increasingly dubious as many issues are still unripe for agreement.

(Adapted from Bridges Trade Biores, Vol. 10, No. 16, 10.09.10)

OTHER NEWS

UN, IMF say economic crisis has dealt major blow to aid

The United Nations (UN) and the International Monetary Fund (IMF) said on 16 September that the global financial crisis has dealt a critical blow to aid for poor countries with billions of dollars needed to meet shortages. Both institutions said that the world must return to sustainable growth to hope to reach global poverty and health targets.

UN Secretary General Ban Ki-moon said the economic "upheaval has caused further shortfalls on aid, trade and debt, and on affordable access to medicines and technology." The impact has particularly hit Africa, according to a new UN report on the funding gap on reaching the Millennium Development Goals.

"Although official development assistance is at an all-time high, we are 20 billion dollars short on commitments made for this year," Ban said. "Africa accounts for 80 per cent of that gap, that means 16 billion dollars.

IMF managing director Dominique Strauss-Kahn also said that reaching the Millennium Development Goals depends on a return to global growth. The IMF said developing countries should invest in infrastructure and create a stronger business environment to create growth, and make their economies more resilient to shocks. IMF first deputy managing director John Lipsky said in a speech in Washington that "years of progress appear to have been lost, and the positive momentum has been derailed. Most important, the lost growth means delayed prospects for poverty reduction."

Source: AFP, 16.09.10.

India inks “rider-free” trade pact with Japan

India has clinched a bilateral trade pact with Japan, the world’s third largest economy, without taking on iron clad commitments on opening government purchases to foreign companies and agreeing to tighter intellectual property rules.

The final agreement is scheduled to be signed during Prime Minister Manmohan Singh's visit to Tokyo in October, opening greater trade opportunities for India. India ran up a trade deficit of US$3.1 billion with Japan in 2009-10.

India has told Japan that it could not negotiate a deal in the two areas as it would affect small industry as well as farmers. These two issues had held up the agreement as Japan wanted procurement and intellectual property to be part of the pact, while India was firm that it could not take on additional obligations.

The comprehensive agreement will open up Japanese markets for Indian manufacturers in most product categories, as Japan will keep maintaining high tariffs on only farm products (by making them part of the negative list).

India gives some carve-outs to its small scale sector in bids for government contracts in the form of price preferences. These could be contested as soon as India takes on commitments at the bilateral or multilateral level.

India is not a signatory to the World Trade Organization (WTO)'s government procurement agreement, which allows it to put restrictions on foreign companies if it wants the government business, estimated at US$80 billion annually, to go to Indian companies.

“The idea behind not taking any bindings is to be in a position to take measures in favour of domestic companies when the need arises,” points out WTO expert and Federation of Indian Chambers of Commerce and Industry (FICCI) economist Manab Majumdar.

India also firmly resisted Japan's demand for intellectual property rules beyond that agreed under the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS), as they could hit its generic drugs producers and affect the availability of low cost medicines. Japan was also insisting on plant variety protection, which could have affected farmers by affecting availability of seeds.

Japan has been running a trade surplus against India for a number of years. India exported US$3.63 billion worth of goods to Japan while imports from the country amounted to US$6.7 billion in 2009-10.

Source: economictimes.indiatimes.com, 27.09.10.

Trade key to SAARC's success: Secretary General

The South Asian Association for Regional Cooperation (SAARC) could become a success if there was adequate stress on trade promotion and facilitation, said SAARC secretary-general Sheel Kant Sharma.

In a speech on prospects and challenges of South Asian regionalism at the Indian Council for World Affairs on 14 September, Sharma said that the Agreement on South Asian Free Trade Area (SAFTA), which came into force in 2006, showed that despite bilateral issues, there was a way to move forward.

“Success in trade, transit and transport would have their impact all along the value chain. Therefore, trade, transport and related investment remain key to SAARC's success,” he said.

As per a 2008 Asian Development Bank study, SAFTA has the potential of US$85.1 billion worth of trade. Currently, trade under SAFTA certificates of origin is US$687 million, which is rather modest but significant for initial years, Sharma said.

However, at the same time, the key impediment to strengthening regional cooperation is lack of physical and soft connectivity, he noted. “Infrastructure constraints like power shortages, underdeveloped road and rail transport constraints, port congestion etc., seriously hinder full realisation of regional trade potential,” said Sharma. He lamented that the media in south Asia was not able to understand the importance of SAARC.

Source: http://sify.com, 14.09.10.

Nepal-Bhutan trade talks in November

The second Joint Secretary level meeting between Nepal and Bhutan in November in Thimphu will prepare a bilateral trade agreement.

“The trade talks will include issues regarding list of exportable products from both the countries,” said Surya Prasad Silwal, Joint Secretary at the Ministry of Commerce and Supplies (MoCS). The issues regarding trade routes and business procedures will also be discussed during the meeting, he added.

The two sides will discuss the modality for a formal trade treaty.

Bhutan’s exports to Nepal during 2008-09 were around NRs. 352 million whereas Bhutan’s imports from Nepal were around Rs 194.8 million.

Sonam P Wangdi will lead the Bhutanese team. The first joint-secretary level trade talks between the two countries in March 2010 focused on a bilateral trade agreement proposed by Bhutan about eight years ago, he said.

Delegations of chambers of business of both nations have been exchanging visits.

In 2004, Nepal and Bhutan signed an agreement to increase the number of flights between Paro and Kathmandu from twice a week to seven flights a week. Traditionally, most foreign trade of Bhutan used to be with Tibet. After 1960, however, following the closing of the Bhutan-China border and the development of closer ties with India, formal trade with India replaced that with Tibet.

Source: thehimalayantimes.com, 20.09.10.

Agreement on Nepal transit trade through Bangladesh likely by year-end

The Bangladesh government is set to charge a fee for using the country's road as traffic-in-transit under the operating modalities for the carriage of transit cargo between Bangladesh and Nepal.

The core group of connectivity issues at a recent meeting has decided to frame a separate rule for charging toll or transport fees for plying foreign cargo.

The provision of charging a fee on transit cargo might be incorporated in the draft agreement on operating modalities for the carriage of transit cargo between Bangladesh and Nepal, officials said.

Members of the core group have agreed on this matter as the country's roads will be damaged for plying transit cargo, officials said.

"We are reviewing the pros and cons of the fees whether they would be imposed on cargo or vehicles," said Bangladesh communications secretary Md. Mozammel Huq Khan. Presently the Indian government is charging toll for bridges, not for roads, he added.

On finalization of the draft operating modalities, he said the agreement is expected to be finalized by this year.

Bangladesh and Nepal signed a transit and trade agreement in 1976. Both the governments agreed to amend some of the articles of the agreement at a meeting in July. The authorities have agreed to eliminate the “bilateral trade” part of the agreement and focus on transit cargo, said an official.

Biral (entry and exit)-Parbatipur-Abdulpur-Ishwardi-Jessore-Khulna-Mongla (entry and exit) route will be used for rail cargo, while another route will comprise Rohanpur to Mongla, according to the draft agreement.

The draft agreement will also eliminate the provision of termination of the agreement by giving three months' prior notice in writing. The agreement will be effective from the date of signing it and remain valid for five years. The customs release order for loaded vehicles will be required for cargo vehicles. Driving licences issued by the Nepal government will be recognized by Bangladesh government.

Source: http://www.thefinancialexpress-bd.com, 28.09.10.

ACTIVITIES

Media training

SAWTEE, together with Local Initiatives for Biodiversity, Research and Development (LI-BIRD), Pokhara, and Economic Journalists' Society (EJS), organized a training programme for Nepali journalists in Butwal, west Nepal, on issues related to trade, development and farmers' rights, on 8-9 August.

EDITOR

Paras Kharel

CONTACT

South Asia Watch on Trade, Economics & Environment (SAWTEE)
P.O. Box: 19366, 254 Lamtangeen Marg, Baluwatar, Kathmandu, Nepal
Tel: 977-1-4415824, 4444438 Fax: 977-1-4444570
Email: enewsletter@sawtee.org
Web: www.sawtee.org

In order to subscribe or unsubscribe, send us an email with subject: "subscribe" or "unsubscribe".