Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Nepal's palm trade

Nepal's trade deficit fell about 12 percent in the first quarter of the current fiscal year, compared to same period in the previous year. For a country grappling with an ever-widening trade deficit, this is a piece of welcome news. However, closer scrutiny of the figures shows that increased exports could be attributed largely to one commodity—refined palm oil. Interestingly, Nepal does not produce palm.

In the first three months of fiscal year 2019/20, Nepal exported refined palm oil worth NPR5.7 billion, amounting to the fifth of Nepal's total export. A similar surge of the palm oil was experienced in the last fiscal year as well. It was the most exported commodity of Nepal in 2018/19, making about 11 percent of total exports. The surge of export of palm oil from Nepal coincides with India's move of increasing tariff on import of crude and refined palm oil. Since the destination of Nepal's all palm exports is India, it could be safe to assume that Nepali palm oil refineries are taking advantage of the tariff differentials arising from increased import duties in India oil and lower tariff levied to countries like Nepal under South Asia Free Trade Agreement (SAFTA).

To protect and promote domestic soybean and sunflower farmers, India—the world's largest buyer of palm oil—had increased import duty on refined palm oil to 54 percent in March 2018. And the import duty on crude palm oil was increased to 44 percent. In December 2018, India reduced the duties by four percentage points for the imports from Southeast Asian countries. However, Malaysian refined oil was levied only 45 percent duty based on the Comprehensive Economic Cooperation Agreement between the two countries. In September 2019, India slapped an additional 5 percent duty on Malaysian imports of the palm oil.

Amidst this, Nepali refineries emerge as a cheaper alternative source of refined palm oil for Indian importers. Nepal charges only 10 percent tariff (excluding 13 percent VAT) on crude palm oil import compared to 45 percent in India, making it cheaper to bring raw crude in Nepal. This provides a relative advantage to the refining of crude oil in Nepal. Furthermore, under SAFTA's provisions for the least developed countries like Nepal, India charges zero custom duty on refined palm oil. Thus, tariff differential grants Nepali exporters a significant advantage compared to other palm oil-exporting countries. As a result, Nepal's palm oil export to India doubled to US$ 92.8 million within six months of the Indian fiscal year 2019/20 (starting in April), making the Himalayan country the second-largest exporter of palm oil to India.

Although Nepal does not have any palm plantation, the refined palm oil export has been able to satisfy Rules of Origin criteria under SAFTA. SAFTA's product-specific Rules of Origin for HS151190 (palm oil refined), which Nepal is exporting to India, is relaxed compared to the general rule of 30 percent value addition requirement. There is a change in tariff sub-heading requirement instead of change in tariff heading, that is the final product and the non-originating material must differ at the 6 digit level and rather than at the 4 digit level. The former is a less stringent requirement than the latter. Note that Nepal-India trade treaty requires change in tariff heading, and is hence more stringent than SAFTA for this particular product. This is a very likely explanation for the SAFTA route being taken by Nepali entrepreneurs. However, it should be noted that such advantages pertaining to tariff differentials comes with a host of challenges and is not the substitute to sound domestic policy.

Tariff concessions under any bilateral, regional, or multilateral agreements are given to promote industrialization, identify comparative advantage, and provide high-value addition to the economy. In this case too, the question is: has the concession helped Nepali refineries gain efficiency in production? If that is the case, then why is Nepali refined palm oil not being exported to any other destination? After all, palm oil is demanded all over the world. The current situation signals that differential tariff is the key reason for surging palm oil export. It is concerning because if the situation persists, Nepal's export figures will be highly dependent on Indian policies. Nepal has already experienced a similar fate in the case of vegetable ghee. In the early 2000s, it was the largest export of Nepal to India, but ultimately the whole industry collapsed when India imposed a tariff rate quota on its import.

Further, the reduced trade deficit due to a surge in palm oil export also could set in policy complacency. In the first quarter, increased exports have been complemented by reduced imports. Although factors like declining international prices of petroleum products and other factors have contributed in bringing down the import figures, the government has attributed the reduction in imports to higher duties levied for import-substitution as well as to the policy to discourage imports of luxury goods. However, given the pressure to meet revenue target and that the customs collection already is falling short to meet the target due to slowing imports, policymakers may find respite in pushing palm oil as a viable alternative to reducing trade deficit without sacrificing imports.

Increase in exports for a country witnessing stagnating exports and a meteoric rise in trade deficits is indeed a development to be positive about. However, the gains brought forth by a single product, susceptible to lose its advantageous position, should not be relied upon too much. Most importantly, the focus should be on exports that can contribute significantly to economic growth and job creation, exports which can be mutually beneficially to other countries and are not too sensitive to policy change from a single country.

This article is written by Alabhya Dahal, Research Assistant, SAWTEE.

REPORT

Hunger in South Asia still serious

South Asia still has a long way to go before reducing a serious level of hunger, according to recently published results of the Global Hunger Index (GHI) Report.

South Asia scored the highest level of hunger driven by the high rates of child undernutrition, according to the latest figures published by Concern Worldwide and Welthungerhilfe. The child stunting rate for the region is 37.6 percent, and the child wasting rate is 17.5 percent; both are the highest levels of any region in this report. In South Asia, the key factors that contribute to stunting are a poor infant and young child feeding practices, poor nutrition among women before and during pregnancy, and poor sanitation practices. The study of six South Asian countries (Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka) found that a lower maternal body mass index was significantly associated with child wasting in five of the six countries. Inadequate access to improved water sources and low family wealth were also associated with child wasting in some countries, but not systematically so. Because a reduction in poverty does not necessarily imply adequate access to improved water sources and sanitation, poverty alleviation policies may not be sufficient to reduce child wasting.

The report attributes the GHI indicator values of India having an outsized impact on the indicator values for the region because of the South Asian country's large population. India's child wasting rate is extremely high at 20.8 percent—the highest wasting rate of any country in this report for which data or estimates were available. Its child stunting rate, 37.9 percent, is also categorized as very high in terms of its public health significance. In India, just 9.6 percent of all children between 6 and 23 months of age are fed a minimum acceptable diet, says the report. As of 2015–2016, 90 percent of Indian households used an improved drinking water source while 39 percent of households had no sanitation facilities. This situation jeopardizes the population's health and consequently children's growth and development as their ability to absorb nutrients is compromised.

The report lauds progress made by Bangladesh and Nepal in child nutrition, calling their experiences are instructive. Citing a 2015 study, the report attributes the decrease in stunting in Bangladesh primarily to rising household wealth associated with pro-poor economic growth and gains in parental education, as well as health, sanitation, and demographic factors reflecting decreased fertility rates. Similarly, Nepal's remarkable reduction in child stunting from 56.6 percent in 2001 to 40.1 percent in 2011 is associated with, and likely attributable to, increased household assets (a proxy for household wealth), increased maternal education, improved sanitation, and implementation and use of health and nutrition programs, including antenatal and neonatal care.

After South Asia, Africa South of the Sahara was in the serious levels of hunger category due to high undernourishment and child mortality rates, as well as high child undernutrition. In contrast, the 2019 GHI scores for Eastern Europe and the Commonwealth of Independent States, Latin America and the Caribbean, East and Southeast Asia, and the Near East and North Africa indicated low or moderate hunger levels.

Despite the existence of serious hunger, the report shows globally undernourishment, child stunting, child wasting, and child mortality have shown improvement since 2000. It coincides with a decline in poverty at the global level from 28.6 percent in 1999 to 9.9 percent in 2015. However, the reduction in GHI scores at the global scale brings into sharper focus the many challenges that remain in the fight against hunger and undernutrition. Extreme climatic events, violent conflicts, wars, and economic slowdowns and crises continue to drive hunger in many parts of the world. Inequalities within country borders allow hunger and undernutrition to persist even in countries that appear to do well according to national averages. The prevalence of undernourishment—the percentage of the population without regular access to adequate calories—has stagnated since 2015, and the number of people who are hungry has actually risen to 822 million from 785 million in 2015.

This piece is excerpted from Global Hunger Index 2019.

NEWS

Nepal, Bangladesh, India mull implementing BBIN motor vehicle deal without Bhutan

Nepal, India and Bangladesh are mulling over putting into operation the Bangladesh, Bhutan, India and Nepal (BBIN) motor vehicle agreement even if Bhutan chooses to opt-out of the agreement.

Bangladeshi Prime Minister Sheikh Hasina proposed bringing the motor vehicle agreement among the three countries into operation at the earliest during a meeting with Nepal’s Prime Minister KP Oli on the sidelines of the 18th Summit of the Non-Alignment Movement held in Baku, Azerbaijan on 26-27 October 2019.

Although Nepal, India and Bangladesh have already ratified the BBIN Motor Vehicle Agreement, Bhutan is yet to ratify it through its parliament. Earlier, Bhutan had said that it would not be able to endorse the agreement for the time being as it is in the process of addressing concerns raised by domestic stakeholders and completing the necessary formalities to ratify the agreement.

The Bhutanese government has yet to endorse the BBIN Motor Vehicle Agreement, but the Royal Bhutan Government had earlier decided to give its consent for the entry into force of the agreement among the three-member states without any obligations to it. Nepal has remained positive about implementing the agreement even if Bhutan takes times to complete the procedural issues.

Source: https://myrepublica.nagariknetwork.com/, 31.10.2019.

Far more people at risk of rising seas than feared

Climate change will put three times more people at risk of coastal flooding by 2050 than previously thought, according to a new study, with swathes of Asia and cities in North America and Europe all vulnerable to rising seas.

The research by Climate Central, a US-based non-profit climate science and news organization, underscored the scale of the upheaval projected to unfold as global warming increasingly threatens some of the world's most densely-populated regions. China, Bangladesh, India and Vietnam account for the bulk of the at-risk population.

The study found that 300 million people are now living on land that is likely to flood at least once a year on average by mid-century without adequate sea defences, even if governments manage to make sharp cuts in emissions.

Earlier estimates had put that figure at about 80 million. The authors said they had used artificial intelligence to correct systematic errors in a previous dataset that had suggested many inhabited coastal zones were at higher elevations — and thus safer — than they actually are.

The threat that advancing seas will overwhelm the ability of countries to build coastal defenses and force many millions of people to migrate has long been regarded as one of the most potentially destabilizing impacts of the climate crisis.

Even if governments manage some curbs on emissions, the new study, published in Nature Communications, said that about 237 million people spread across China, Bangladesh, India, Vietnam, Indonesia, and Thailand are likely to face annual flooding by mid-century, unless they establish adequate sea defenses.

Source: https://reuters.com, 29.10.2019.

Green Climate Fund replenishment fails to fill hole left by US

Rich countries failed to increase the amount of money pledged to the Green Climate Fund (GCF) on 25 October, after struggling to mitigate Donald Trump's refusal to provide green finance.

The GCF, which was created to help poor countries curb their emissions and cope with the impacts of climate change, was seeking fresh contributions to replenish its funding, due to run-out at the end of the year.

A total of 27 countries raised US$9.8 billion at a pledging conference in Paris to fund green projects for the 2020-2023 period – including 4 percent in zero-interest loans. That was less than the US$10.3 billion donors promised for the first period to 2020 and not enough to fund the US$15 billion pipeline of projects identified by the GCF as of December 2018.

In 2014, under Barack Obama's administration, the US pledged US$3 billion to the fund – the biggest pledge to the fund. Donald Trump reneged on the US commitment to the tune of US$2 billion.

Both the US and Australia said they would not pledge new money to the GCF, leaving smaller European countries along with Japan, Canada and New Zealand to compensate for a US$3.2 billion hole. They fell around half a billion short.

To bridge the gap, 13 countries announced a doubling or more of their contributions—Germany, Norway, France, UK, Sweden, South Korea, Denmark, Iceland, Poland, New Zealand, Luxembourg, Ireland and Monaco.

Source: https://www.climatechangenews.com/, 25.10.2019

India's tea exports to Pakistan tank over 50 percent

Uncertainty over payments amid growing tensions between the two sides has led to a drop of over 50 percent in India's tea exports to Pakistan so far this calendar year.

According to Tea Board data, India's tea exports to Pakistan during January-August 2019 stood at 3.14 million kilograms, valued at US$4.80 million, against 6.17 million kilograms (worth US$9.02 million) during the same period last year. Pakistan is the world's biggest tea importer after Russia in value terms.

Exporters say that the main reason for declining tea exports is that nobody wants to stick their neck out and be seen as exporting to Pakistan at a time when cross-border skirmishes are common and Pakistan's assertions over the withdrawal of Kashmir's special status are creating controversies.

After the Pulwama attack, in which 40 Central Reserve Police Force (CRPF) personnel were killed in February this year, India increased import duty on Pakistani goods by 200 percent, even as the latter maintained the import duty on tea at 11 percent.

Pakistan has traditionally been a good market for budget tea varieties from South India.

According to sources, during times of strife between India and Pakistan, Indian exporters mostly route their consignments via other countries to stave off any trade crisis. Dubai in the UAE, Kazakhstan and Egypt are some hubs for such routing of tea to Pakistan.

Under this mechanism, tea from India is billed to a buyer in one of these countries. This buyer accepts the shipment and then forwards it in its original sealed form to Pakistani ports, and then to the intended final buyer in Pakistan. But the Pakistani buyer makes payment to the Indian exporter directly, not through intermediaries. This time, however, such re-routing of tea is also not happening.

Exporters fear that shipments might now get tracked as it is not too difficult to find out the final port of delivery or destination.

In fact, Tea Board data reveal that in the January-August period, exports to UAE fell by 37.87 percent to 3.74 million kilograms, and those to Egypt by 69.77 percent to only 1.59 million kilograms. Exports to Kazakhstan fell by 16.41 percent to 3.31 million kilograms.

Source: https://www.business-standard.com/, 23.10.2019

Nepal likely to export power to Bangladesh using Indian grid

Nepal, India and Bangladesh are close to signing a pact on using the Indian grid to transfer electricity from Nepal to Bangladesh, four months after a secretary-level meeting between Nepali and Bangladeshi energy officials agreed to trade power through India's transmission network.

According to officials, the Seventh Joint Steering Committee meeting on Nepal-India Cooperation which concluded on 15 October has decided to hold a tripartite meeting within three months.

The meeting is expected to fix transmission modalities and commercial terms for use of the Indian grid, paving the way for direct power trade between Nepal and Bangladesh through India," according to the secretary of the Ministry of Energy, Water Resources and Irrigation.

Nepal's proposal is compatible with the 2014 power trade agreement between Nepal and India which states that the parties shall allow non-discriminatory access to cross-border interconnections for all authorized and licensed participants in the common electricity market.

Indian energy officials have agreed to call a trilateral meeting through India’s Ministry of External Affairs to settle the commercial terms for Nepal-Bangladesh electricity trade through Indian territory within three months.

The 15th Joint Steering Committee meeting between Bangladesh and India has also agreed to build transmission lines in a synchronous mode for smooth exchange of power between the countries.

Nepal and India have also agreed to invest in a second high capacity cross-border power line, the 400 kV New Butwal-Gorakhpur Transmission Line, to synchronize the power grid of the two countries.

Source: https://kathmandupost.com/, 16.10.2019.

Hutchison Port makes fresh US$240m investment in Pakistan

Hutchison Port Holdings, a world's leading port operator, committed to invest US$240 million in expanding container terminal capacity at Karachi port.

A delegation of Hong Kong-headquartered Hutchison Port Holdings, led by Group Managing Director Eric Ip, announced the investment commitment during a meeting with Prime Minister Imran Khan.

The fresh investment into Pakistan approximating US$240 million would make available a significant amount of new container terminal capacity at the Karachi Port, and increase Hutchison Ports' total investment in the country to US$1 billion.

Hutchison Port Holdings, owned by CK Hutchison Holdings, has more than 30,000 employees, operating 52 ports and terminals in 27 countries spanning Asia, the Middle East, Africa, Europe, the Americas and Australia.

Source: https://www.thenews.com.pk/, 16.10.2019.

EVENT

Roundtable discussion on "President Xi's visit: outcome and road ahead"

South Asia Watch on Trade, Economics and Environment (SAWTEE) organized a roundtable discussion on, President Xi's visit: outcome and road ahead on 21 October 2019. Twenty instruments (agreements and memoranda of understandings), which include trans-Himalayan connectivity, boundary management, tunnel construction and governance capacity building, among others, were signed and exchanged during President Xi's visit to Nepal. Against this backdrop, the discussion aimed to review the outcome of President Xi's visit to Nepal and discuss the next steps that Nepal should undertake to gain maximum benefits. Dr. Posh Raj Pandey, Chairman, SAWTEE moderated the discussion and Mr. Gyan Chandra Acharya, Head of SAWTEE Centre for Sustainable Development provided the participants with a brief overview for of the high-level visit. Participants of the discussion included representatives of leading political parties, foreign policy experts, and civil society members among others.

PUBLICATION

Trade Insight: International Rule and E-commerce

As South Asia is caught between an aspiration to tap the growth potential offered by digital technologies, and a reluctance to engage in the making of global rules on e-commerce, the latest issue of Trade Insight explores ongoing negotiations on e-commerce rules at the WTO, provides detailed explainer on Cryptocurrency, highlights how consumer interests should be protected in the era of digital economy and how e-commerce could yield benefits to the small nations and their enterprises, among others. Click here to access the digital version of this issue.

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