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OPINION IN LEAD

Gulf oil woes hurt remittance income in South Asia

Relief was the initial reaction to the oil price plunge in South Asia. Low crude price meant eventual reduction in the prices of fuel, which evidently tricked down to commodities and services becoming cheaper. However, as the months passed with prolonged oil price slump, the sinister implications of low oil price have started to hit—mostly in the form of lowered remittance receipt.

The extended oil price collapse has resulted in the slowdown of the oil exporting economies in the Western Asia, which were the biggest employers of the low- or semi-skilled migrant workers from South Asia. For the South Asian economies, remittance from the migrant labourers is one of the most important sources of foreign exchange. Nepal's remittance receipt was as big as 29 per cent of its GDP in 2015. India, Bangladesh, Pakistan and Afghanistan are among the top 10 countries with the largest emigrant population in the region. According to the World Bank, of the total South Asian population of 1.7 billion, 2.22 per cent are emigrants. Half of this migrant population is working in the Gulf Cooperation Council (GCC) countries.

The GCC countries have been “growing by oil and slowing by oil”. The oil-dependent GCC countries that were riding high on the back of oil income since past couple of decades have been undertaking massive scale of construction works employing millions of labourers from the developing countries. The crude oil price, which had reached peak of US$112 in June 2014, fell below US$30 per barrel in January 2016. Since then it has been bobbing near US$40 per barrel. This slump has battered these economies so much so that their growth rate has halved since 2014. According to the Brookings Institute, the fall in oil prices wiped out US$360 billion of GCC revenue in 2015 alone.

On one hand, the slump translated as lowered oil price world over, which is favourable to the oil importing countries. For countries such as China and India, lowered oil price means reduced import bills and cheaper fuel to bolster economic activities. However, economic slowdown in the host countries has constricted the flow of valuable source of foreign exchange for economies in South Asia that are highly dependent on remittance income. South Asia has already started to suffer as the remittances grew by just two per cent in 2015, down from 4.3 per cent in 2014, according to the World Bank. It is estimated that the region will only attain marginal growth in remittance receipt in 2016.

World’s largest remittance receiver, India, saw the remittance decline by 2.2 per cent in the year 2015. Money from GCC countries, which contributes half of total remittance income to India, declined to US$35.8 billion in 2015 compared to US$36.7 billion received in the previous year, according to the World Bank data. Bangladesh, another labour exporting country, also recorded decline of 2.4 per cent in remittance income to US$14.93 billion in the financial year that ended in July 2016. In addition, number of outbound labourers has also slumped from the beginning of the year as the destination countries, mostly oil-exporting nation in the Western Asia, have pulled back their spending.

Although Nepal has yet to register any decline, the rate of growth has decelerated in past 11 months, according to the central bank’s report. Numbers of migrant workers leaving for work abroad has gone down by 18 per cent between July 2015 and July 2016, according to the statistics published by the Department of Foreign Employment. Tapering of remittance flow could be detrimental to Nepal. Foreign income received by the migrant workers’ family has made the country comfortable in terms of foreign reserve inspite of low productivity and poor competitiveness. The sudden halt in the flow of money to the country without any back up plan may turn out to be disastrous.

In Sri Lanka, slowing remittance has worsened its struggles to tackle the bloated balance of payments (BoP) deficit. The credit rating agency, Moody’s Investors Service, has warned Sri Lanka that remittance flows might grow less than GDP in 2016. The growth of remittances slowed to 0.5 per cent in 2015 from 9.6 per cent in the previous year. Remittance income is more than essential to the island nation, at present, as the country facing the BoP crisis was compelled to take a US$1.5 billion emergency loan from the International Monetary Fund in April 2016.

Among the remittance recipients in South Asia, Pakistan seems to have been least affected. According to the State Bank of Pakistan, overseas Pakistani workers remitted US$19.9 billion in the fiscal year 2015-16 which is a growth of 6.38 per cent compared to US$18.71 billion received during previous year. Income from Saudi Arabia and other GCC countries have increased by 8.6 per cent. Similar receipts from other GCC countries have also increased with the exception of the United Arab Emirates.

Except for Nepal, remittance income does not make more than 10 per cent of GDP in South Asian countries. However, this income makes up a large part of import bill financing. Moreover, most of the South Asian migrant workers belong to the low-income group that are willing to sweat in the inhospitable environment of Western Asia for the salary of couple of hundred dollars. Income from abroad is attributed as one of the major factors for slashing absolute poverty in countries such as Nepal and Bangladesh. The waning employment opportunities in the Gulf countries will hurt the cash strapped households in the countries for whom best possible option to escape abject poverty had been the gruelling works in the Gulf.

Amid this decreasing demand for labourers in the destination countries, South Asian governments lack a backup plan to absorb the excess manpower, even in countries like Nepal that is heavily dependent in remittance income. Policy orientation for redirecting the returnee workers at productive employment may be well thought in time. The current slowdown shall force the governments dependent on remittance income to restructure their economy.

ANALYSIS

Can South Asia ‘make in India’?

How is South Asia likely to be affected by Indian Prime Minister Narendra Modi’s “Make in India” campaign? The question is intriguing, but attempting to foretell the results of any ‘politically loaded’ economic policy is walking a dangerous road. Nonetheless, one can hazard some speculation based on conventional arguments.

At the outset, it is necessary to understand that this is a “make in India” campaign and not a “make in South Asia” one. When nationalistic fervour is solicited to build the domestic economy, there is little that the surroundings can do but keep a wary watch. Had the policy required regional resources, the neighbourhood would have surely sat up in all attentiveness, but this is not the case. Modi’s pitch suggests utilising the unemployed domestic resources with help from international capital and technology, both factors not in surplus in the whole of South Asian region.

It is not that external linkages to domestic value chains have not been envisaged by the policy formulators. There is much media reportage on the intended targets of "Make in India", most notably the realms of hi-tech defence sector and modern technology in general. But this narrow focus for the policy may not be adequate to bring about widespread changes as it would limit investments not only regarding foreign investment in general but investment from South Asia in particular. In any case, foreign investment is said to be an existing problem area in India, the regulations reportedly being too restrictive for outsiders to deal with even after adopting openness. However, with judicious use of its procurement needs, the nation could still invite foreign companies to make their products in India, or use its huge market leverage to invite tech producers and service providers to its soil.

Given the occasional public exhortations of Indian officialdom on the externalities of the “Make in India” policy, it is certain that South Asians will be the least of its beneficiaries. What is clear is that even if India does decide to pursue such regional linkages, it will need to put in a lot of effort even for miniscule gains in developing those South Asian linkages.

What if all the processes involved in manufacturing a product or providing services could be broken down to see if other countries have a comparative advantage in these process bits? Some positive changes to South Asians could accrue if they have a comparative advantage in some of the processes in the value chain.

Such arguments are based on mere wishful thinking. South Asia suffers from brick-and-mortar issues of trade and manufacturing—customs officials stopping goods at their whims, transport connectivity very poor or non-existent, haphazard and double taxation, cumbersome procedures, just to name a few of the problems—that go against the spirit of trade. The all-important question still is: would India benefit by sourcing out processes along such value chains to its South Asian neighbours? Even if it did, intra-South Asian trade itself is embarrassingly low to even talk about subtle comparative advantages in value chain processes.

Looking at it from the perspective of other South Asians, if all value chains are focused on manufacturing in India, then the value chain economics must be forcefully bent to suit this goal, rather than allowing economics dictate which parts of the value chains these countries best fit in. Why would any country bend its rules to make anything in India, rather than make it themselves, especially when the economics, or even politics, does not warrant that?

The problem with South Asia’s individual country comparative advantages is that there may be little they can contribute to “Make in India” in the present regional context. How would Bangladeshi garments, Sri Lankan tea or Nepalese noodles contribute to Indian manufacturing? And, setting up shop there at the cost of their own unemployment or under-employment of resources? This is a hard one, indeed.

India’s existing “Act East” policy could come in handy to some extent here, especially regarding external value chain linkages. In consumer electronics, India could rely on its own software strengths to produce items that could use hardware from other manufacturers like China. While the Indians may enjoy some spillovers from East Asian successes through deliberate policy designs, the same cannot be said about South Asia as a whole until the South Asians gear up to do the same through some kind of intra-regional set-up e.g. “Make in South Asia” arrangement. There is not much about the Indian policy indicating similar integrations among regional manufacturers and service providers. Remember, South Asia still suffers from poor trading infrastructure and overly focused national and bilateral concerns. In a region where bilateralism and the national primacy undermine all regional efforts, there is little to garner from regional contributions, especially to help a national campaign of one particular country.

“Make in India” deals almost wholly with India’s domestic value chains except in cases where externalities benefit Indian manufacturing. Even for such externalities India will have to work very hard to be able to come to terms with the conditions that make those externalities commit themselves to help out India. At the moment investors and unemployed resources elsewhere appear to be promised a place in the Indian value chain by the “making in India” policy. How far the policy will go in bearing the fruits that the Indians seek is still too early to tell. As regards the South Asian neighbours, they could be mere bystanders hoping that some of those trickle-down effects will make their own picture look brighter someday.

NEWS

Afghanistan becomes 164th WTO member

Afghanistan has become the World Trade Organization (WTO) member following its Parliament's ratification of its Protocol of Accession. According to WTO rules, Afghanistan became the 164th member of the Organization on 29 July, 30 days after its instrument of acceptance was deposited at the WTO.

Afghanistan's ambassador, Dr. Suraya Dalil, deposited the instrument of acceptance of the country's Protocol of Accession with the WTO Director-General Roberto Azevêdo. The country's accession Protocol was ratified by Afghanistan's parliament on 18 June.

Afghanistan applied for WTO membership in 2004, with members of the accession working party concluding the negotiations on 11 November 2015.

WTO members officially approved Afghanistan's accession during a special ceremony at the Nairobi Ministerial Conference on 17 December 2015. Afghanistan's First Deputy Chief Executive Mohammad Khan Rahmani co-signed the Protocol of Accession with DG Azevêdo.

Afghanistan is the 36th government and the ninth least-developed country (LDC) to join the WTO following accession negotiations since the WTO was established in 1995. Liberia, also an LDC, became the 163rd WTO member on 14 July. LDCs represent a fifth of the WTO membership.

Source: https://www.wto.org/, 29.07.2016.

Indo-Bangla border trade gets a boost

India's Prime Minister Narendra Modi and his Bangladeshi counterpart Sheikh Hasina have jointly inaugurated the Petrapole Integrated Check Post (ICP) through a video conference, giving a boost to border trade. Petrapole-Benapole is an important border crossing between India and Bangladesh, with over 50 per cent of bilateral trade passing through it.

The Indian Ministry of External Affairs said in a statement that trade worth over US$2.2 billion takes place through Petrapole—more than that of all other Indian land ports and land customs stations put together. Around 1.5 million people and 150,000 trucks cross the point every year. With the commissioning of the ICP, the capacity is expected to double. It will also result in reduced transaction time and cost for traders. Petrapole ICP is the biggest land port in South Asia.

Furthermore, on 31 July, Bangladeshi railways minister Mazibul Hoque, along with his Indian counterpart Suresh Prabhu, also laid foundation stone of a project to construct railway link between Akhaura (Bangladesh) – Agartala (India).

Bangladeshi Railways Secretary Md. Feroz Salah Uddin pointed out that a big portion of the project cost would be financed by Indian grant and the rest by Bangladesh government. According to the Bangladesh Railway, the new rail link's total route length is 15 km out of which 10 km is in Bangladesh and 5 km is in India. The estimated project cost is about US$61 million out of which project aid is about US$54 million and the Bangladeshi government will provide about US$7.2 million.

Bangladesh and India had signed a Memorandum of Understanding for construction of Akhaura-Agartala railway link under Indian grant in February 2013.

Source: http://timesofindia.indiatimes.com, 22.07.2016 and http://newagebd.net, 31.07.2016.

Establishment of SAARC industrial park gathers momentum

The initiative taken by the SAARC Chamber of Commerce and Industry (SCCI) to establish a SAARC industrial park in each member nation has been gaining momentum as some of the member states have designated areas for the proposed SAARC industrial park.

The governments of Bangladesh, Pakistan and India have already decided to provide land for the industrial parks. Pakistan has provided 250 acres of land in Faisalabad city. Bangladesh government has announced that it will establish the park in Chittagong and the Indian government has pledged to establish SAARC garment industrial park in Gujarat, according to Suraj Vaidya, President of SCCI.

The concept of industrial parks was floated by Vaidya after assuming office as SCCI president. “Industrial parks will begin a new era of intra-regional trade investment relation among SAARC member nations to establish a deeper economic cooperation from the current status of least-integrated region,” Vaidya stated. He further added that “SAARC member nations need to promote regional trade and investment by slashing the tariff, para-tariff and non-tariff barriers to trade and also provide double-taxation avoidance scheme and other incentives to lure investment.”

Poor connectivity in South Asia is major reason hindering deeper economic integration. SCCI has been lobbying to materialise proposed Railway Agreement and Motor Vehicle Agreement among SAARC members during 19th SAARC summit, which is going to be held in Pakistan by year-end.

Similarly, SCCI has finalised 20 private sector projects from each member nation and will soon be seeking investment from SAARC and beyond the region as well. The SCCI is going to organise investors’ meet in the United States, Dubai, the Philippines and Singapore in the near future.

Source: https://thehimalayantimes.com, 22.07.2016.

Global Enterprise Registration distinguishes Bhutan and Cameroon as top reformers

Bhutan's eRegulations information portal and Cameroon's MyBusiness.cm single window received a Global Enterprise Registration (GER.co) award from the United Nations Conference on Trade and Development (UNCTAD) Secretary-General Mukhisa Kituyi and Ambassador Kurt Tong of the Department of State of the United States of America during the opening reception of the 2016 World Investment Forum in Nairobi.

Launched in October 2014, GER.co is an initiative of UNCTAD, the Kauffman Foundation Global Entrepreneurship Research Network and the United States Department of State. It envisions a world where governments make it easy and attractive for entrepreneurs to register their businesses and comply with laws and regulations. Its mission is to simplify administrative processes on a global scale, starting with business registration.

"Transparent and simple procedures are key to investment facilitation. We encourage all countries to put their business processes online by 2019 and list them on GER.co.", said the Director of the Division on Investment and Enterprise James Zhan.

eRegulations Bhutan describes the business creation process step-by-step, for both domestic and foreign investors. Thanks to this new service, Bhutan gets the top rating for information portals on GER.co. It lists official sites that either allow entrepreneurs and investors to register their business online (single window) or to show the process (information portal). So far, only 29 countries have a single window, and 130 countries have information portals

Source: http://unctad.org, 21.07.2016.

Nepal slides back into food deficit

Nepal slid back to being a food deficit nation due to a sharp drop in cereal production triggered by multiple environmental and political stresses. According to the statistics of the Ministry of Agricultural Development, the country has a food deficit of 71,387 tonnes in the fiscal year ending mid-July 2016. Previous year's edible grain output totalled 5.27 million tonnes against the requirement of 5.34 million tonnes.

The country produced 652,000 tonnes less food grain as severe droughts, floods, earthquakes and Tarai unrest induced shortages of fertilizer and diesel took their toll on both summer and winter harvests. Wheat output plunged 12.1 per cent to a six-year low of 1.73 million tonnes and paddy output, the country's major cereal crop, fell 10.2 per cent to 4.29 million tonnes.

"The food deficit has already sent the import bill soaring," said Dinesh Bhattarai, chief statistician at the ministry. "Nepal's food imports have not been factored into the deficit." He said that a good monsoon this year has raised hopes for a fine summer harvest this year.

The Trade and Export Promotion Centre said the country's cereal import bill jumped nine per cent to US$3.5 billion in the first 11 months of the last fiscal year.

During the last 10 years, Nepal recorded a food surplus for six years and a deficit for four years. The country saw the highest food deficit of 485,000 tonnes in 1994-95, according to the ministry. The highest food surplus of 943,161 tonnes was observed in 2011-12 when the country produced a bumper harvest.

Source: http://kathmandupost.ekantipur.com, 20.07.2016.

Darjeeling growers seek halt to Nepal tea imports

The Darjeeling tea industry wants the government to amend the Indo-Nepal Free Trade Agreement to block the import of orthodox teas. Imports of 'deceptively similar-looking' teas from neighbouring Nepal are threatening Darjeeling's tea industry and growers have urged the Centre to take steps to stop low-cost imports.

The commodity imported under the Indo-Nepal Free Trade Agreement is sold in the domestic market affecting both demand and the price of Darjeeling tea, which is reeling under the impact of climate change and high labour costs.

“These teas were low-priced as tea is cultivated mostly in the unorganised sector and wages are 50 per cent lower,” Chairman of the Darjeeling Tea Association (DTA) Sheo Shankar Bagaria said. The industry has demanded upcoming revision of Indo-Nepal Free Trade Agreement that is due for renewal on 2017 to block imports of orthodox teas to save domestic industry. Imports from Nepal stood at 10.5 million kgs in 2013-14, accounting for half of total imports.

Almost all the 87 tea estates in Darjeeling reported losses during the last fiscal year, Bagaria said. Tea and tourism act as the backbone of the economy in this region and the estates employ 60,000 workers on a permanent basis and 40,000 seasonally. Declining crop is another source of concern for the industry. From 14 million kg in 1991, output fell to 8.7 million kg in 2015. Pressure from overseas buyers has forced the tea-garden owners to shun the use of chemicals and adopt organic farming. But the absence of chemical plant boosters and the ageing tea-bushes—some almost 100 years old—also result in a lower crop.

However, it is climate change, which is affecting the fortunes of the Darjeeling tea industry the most. Unpredictable weather has affected production for the last five years, Kalyan Basu DTA Secretary General said. This year, production of the first-flush teas, cropped between February and April and among the priciest, was affected due to drought-like conditions. This was followed by unprecedented rains, which affected the April-June crop. The second flush teas too are much sought-after by importers. Climate change is also affecting the quality of tea and although the brew still retains its unique muscatel flavour, prices have been low in the export and domestic market.

Source: http://www.thehindu.com, 15.07.2016.

Sri Lanka, Singapore start work on free trade pact

Sri Lanka and Singapore have started work on a free-trade agreement (FTA) agreeing to deepen collaboration on multiple fronts, from urban planning to the training of public officials. A number of agreements were signed by officials from both governments during Sri Lankan Prime Minister Ranil Wickremesinghe’s official visit to Singapore.

Singaporean Prime Minister Lee Hsien Loong said in his toast during lunch: "When we complete the FTA, it will be a boost for companies and investors from both sides. "I am optimistic that with strong political backing, our negotiations will be concluded quickly." Wickremesinghe added: "There is tremendous scope for us to work together in a win-win situation, because the next centre of growth is going to be the Indian Ocean region."

Trade agency, International Enterprise (IE) Singapore, signed an agreement that will see it collaborating with Sri Lanka on catalysing growth and connectivity in the country's planned Megapolis, which aims to merge capital Colombo with major cities in its Western Province to form a single economic zone.

Last year, Singapore's exports to Sri Lanka totalled US$1.9 billion, while imports from Sri Lanka to Singapore reached US$146 million. The main imports from Sri Lanka include petroleum oils, precious and semi-precious stones, and tea. Singapore imported US$4.9 million worth of live crabs from Sri Lanka, up from US$4.3 million in 2014 in the same period.

Source: http://www.straitstimes.com, 19.07.2016.

Bangladesh once again left out of GSP

Bangladesh has once again been left out of the American list of beneficiary countries for trade privileges from the United States (US) on grounds of poor labour rights. The list of beneficiaries for the Generalised System of Preferences (GSP) scheme was updated last month by the United States Trade Representative (USTR), the chief trade negotiation body for the US government. Ecuador, Fiji, Georgia, Indonesia, Iraq, Niger, the Philippines, Thailand, Ukraine and Uzbekistan have also been excluded this time, mostly for poor labour rights.

Bangladesh was first suspended from the GSP scheme in April 2013, shortly after the Rana Plaza collapse, on grounds of shortcomings in workplace safety and poor labour rights in the garment sector. The Obama administration then provided Bangladesh a 16-point action plan to win back the trade benefits. The country has already handed in its progress report on the action plan, which fell short of the USTR's expectations. More needs to be done to regain the trade benefits, it said.

When contacted, Commerce Minister Mr. Tofail Ahmed declined to comment on the issue.

Before the suspension of GSP, Bangladesh used to export nearly US$36 million worth of products a year under the scheme. Bangladesh's annual shipments to the US, its single largest export destinations, amount to nearly US$6 billion, with apparel items accounting for 95 per cent of the receipts. In the first five months of this year, Bangladesh's exports to US stood at US$2.54 billion and imports US$345.5 million.

GSP is a 40-year-old trade preference programme under which the US provides duty-free treatment to approximately 5,000 products from 122 beneficiary countries and territories.

Source: http://www.thedailystar.net, 11.07.2016.

India, Bhutan to renew pact on trade, commerce and transit

India and Bhutan have decided to renew the existing ten-year agreement on trade, commerce and transit which is set to expire in July 2016. However, till the time a new agreement is put in place, the two countries have decided to extend it by a year. The existing Agreement on Trade, Commerce and Transit between India and Bhutan was signed on 29 July 2006 for a period of ten years.

"Both sides agreed that, in the interim, to prevent disruption of trade, the existing agreement may be extended for a period of one year or till the date of coming into force of the new agreement, whichever is earlier," Indian commerce ministry said in a release after discussions with a Bhutanese delegation.

India's exports to Bhutan were US$441.5 million in 2015-16 while imports were US$279.6 million. The major items of exports from Bhutan to India are electricity, base metals, minerals, chemicals, cement and wood products while the major exports from India are petroleum products, mineral products, machinery, automobiles, vegetable, nuts, spices, processed food and animal products.

Source: http://economictimes.indiatimes.com, 06.07.2016.

Pakistan raises cotton subsidies issue at WTO

Pakistan has raised the issue of cotton subsidies by big cotton growing countries, particularly the United States (US) and India, at the World Trade Organization (WTO).

“Problems of farmers in Pakistan and other developing countries cannot be resolved as long as our poor farmers are made to compete with heavily subsidised cotton from major players, we call for a swift and speedy action which allows our cotton growers along with our textile industry to fairly compete in the world market,” Pakistan’s Ambassador to the global trade body Dr. Tauqir Shah said while addressing the special session on cotton at WTO in Geneva.

“Cotton is the lifeline of Pakistan’s economy; we are fourth largest producer after China, India and the US, and have third largest spinning capacity in Asia after China and India. Cotton and its value added products contribute approximately 57 per cent of Pakistan’s annual export earnings. Cotton provides livelihood to 1.5 million farming families and jobs to 40 per cent of countries industrial labour force, and considerable number of them being women,” he said.

Pakistan’s average farm size is 2.6 hectors, and 96 per cent of its farms are less than 10 hectares. After struggling for many years with adverse terms of trade and declining cotton prices, the life of cotton farmers has been further complicated by climate change and extreme weather conditions, floods, heavy rains and droughts in some areas, he said, adding that this has resulted in 34 per cent reduction in cotton production. “A direct effect is the negative growth in agriculture and we missed our GDP growth target by 0.5 per cent due to cotton crises.”

Dr. Tauqir Shah argued that domestic subsidies in cotton production in major cotton producing countries is a critical issue, resulting in an uneven level playing field for cotton producers worldwide.

The International Cotton Advisory Committee (ICAC) data shows that globally total subsidies to the cotton sector are estimated at a record US$10.4 billion in 2014-15, up from a record of US$6.5 billion in 2013-14. Furthermore, 76 per cent of world production is under assistance. Pakistani farmers growing without such subsidised assistance are facing income losses.

“We are forced to import three million bales of cotton; it is a manifestation of unfair market conditions that a country like Pakistan has to resort to imports. Our farmers can no longer compete with surplus supply of heavily subsidised cotton from big producers," he said.
Source: https://www.thenews.com.pk, 04.07.2016.

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