Trade, Climate Change and Development Monitor

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

Volume 12, Issue 3, March 2015

CONTENTS

OPINION IN LEAD

Banking on China's infrastructure initiatives

In the recently concluded Boao Forum for Asia, the Chinese President announced an ambitious plan to connect Asia, Africa and Europe through massive investments in land, rail and sea infrastructure throughout Central, West and South Asia. The plan, known as the "One Belt One Road" initiative, will revive Bangladesh-China-India-Myanmar economic corridor, and develop trade related infrastructures in Maldives, Nepal, Pakistan and Sri Lanka.

The "One Belt One Road" initiative has been proposed following the establishment of the Asian Infrastructure Investment Bank (AIIB)—a China-led multilateral investment bank. Currently, the Bank has more than 40 founding member states including Bangladesh, India, Nepal, Pakistan, and Sri Lanka. With an authorized capital of US$100 billion, AIIB aims to finance infrastructure projects throughout Asia. This is a welcome opportunity for South Asia, a region that continues to face serious challenges to its development efforts due to the lack of quality infrastructure.

The Global Competitiveness Report and the Doing Business Report consistently rank South Asian countries among the poorest in terms of their infrastructure facilities, and have for long emphasize the need to invest in the development of improved transport networks, and quality infrastructures related trade, health, communications and energy, among others. According to the World Bank estimates, South Asian countries need additional investment between US$1.7 and US$2.5 trillion till 2020 to help reduce poverty in the region.

But considering the economic and financial limitations of South Asian countries, investing trillions of dollars in infrastructure development remains a clear challenge. At present, countries in South Asia invest around 2-4 percent of their gross domestic product (GDP) in infrastructure development, which is in no way adequate to meet the investment required in the sector. Low levels of investment, coupled with tightening budget constraints in lieu of increasing emphasis on fiscal responsibility clearly necessitates the need for external sources of finance in the region. Although, the SAARC Development Fund (SDF) was established in 2005 to finance social, economic and infrastructure projects in SAARC countries, the "infrastructure window" of the US$300 million fund is yet to be functional.

In this context, the AIIB along with the "One Belt One Road" initiative can become a major source of investment for SAARC countries. The two initiatives have the potential to facilitate greater intra-regional trade and connectivity in South Asia by supporting the development of trade and transport related infrastructure in the region. Improvements in trade and transport infrastructure can go a long way in increasing inter- and intra-regional trade, and improving economic growth in South Asia. Meanwhile, there are issues such as the environmental evaluation framework and governance structure of AIIB that must be put in place for effective functioning of the bank. As regards such issues, the participation of European states along with increased cooperation with members of existing multilateral banks such as the International Monetary Fund (IMF) and Asian Development Bank (ADB) can help in increasing the efficiency and transparency of the newly formed AIIB.

But despite the potential of AIIB and the "One Belt One Road" initiative in facilitating greater inter- and intra-regional trade in South Asia, many have raised concern over China's increasing influence on its neighbours. China has gone a long way to assuage this fear by inviting members from across the economic spectrum and providing them with voting rights. In addition, China's history of non-interference policy should also provide further assurance. While China's initiatives might trouble India's geo-political ambitions in South Asia, there is no doubt that the China-led initiatives will facilitate greater intra-regional trade and connectivity in South Asia by supporting infrastructure developing in the region. Thus, South Asian countries should not hesitate to exploit this excellent opportunity to pull in much needed finance to invest in regional infrastructure development and consequently increase trade connectivity with China as well as rest of Asia and Europe. The real challenge for South Asia, however, lies in the efficient utilisation of such resources, which will ultimately also determine the success of AIIB and the connectivity initiative.

ANALYSIS

India driving growth in South Asia

According to the ADB report *Asian Development Outlook 2015*, developing Asia (referring to the 45 members of the ADB) will grow at a steady rate of 6.3 percent in 2015 and 2016. The steady growth is the reflection of domestic reforms and easing inflation in developing Asia region, along with the strengthening recovery in major industrial economies, mainly Japan, the Unites States of America (USA) and the European Union (EU). Meanwhile, owing to the strong economic performance of India, South Asia grew at 6.9 percent in 2014, and is projected to trend higher to 7.2 percent and 7.6 percent in 2015 and 2016 respectively. Likewise, inflation in South Asia declined to 7.1 percent last year, a consequence of strong monetary action in India and the drop in oil prices. It is expected that South Asia will continue to benefit from soft commodity prices, with inflation projected to average 5.1 percent in 2015 and 5.6 percent in 2016.

The analysis of the outlook for the largest South Asian economy reveals the expectation that India could overtake China to become the world's fastest growing economy in the coming years. Having expanded at 7.4 percent in 2014, India is set to increase its growth by 7.8 percent in 2015, and the momentum is expected to build to 8.2 percent growth in the fiscal year (FY) 2016. The anticipated strong performance of India is largely supported by the government's recent radical revisions in its calculations of the GDP figures, and improvements in the fiscal and current-account deficits which are expected to ease the monetary policy and pickup in capital expenditure. Moreover, the government's pro-investment attitudes, and efforts on resolving structural bottleneck have helped improve the business climate and lift domestic and foreign investor's confidence.

Furthermore, both Pakistan and Bangladesh are following implementing extensive economic reforms that include efforts to overcome power shortages along with political challenges. But despite such efforts, Pakistan's economic growth rate this year is expected to be 4.2 percent, the lowest in the South Asia region. The causes for this slowdown can be blamed on energy crises and security issues in Pakistan. The report suggests Pakistan to reform its energy sector, widen taxes and privatize state enterprises. For Bangladesh, the projected GDP growth rate of 6.1 percent in FY2015 will be sustained by efficient exports and a current account surplus in 2014. However, the political blockades and conflict in the beginning of 2015 is expected to restrict growth and result in a small current account deficit. Consequently, the report argues that the eliminating infrastructure bottlenecks and improving the investment climate should be the top priorities for Bangladesh.

Sri Lanka's economy is expected to moderate in 2015 as investors await clarity on the new administration's plans for governance reform and economic policy. The growth is projected to ease to 7.0 percent in 2015 and then build up to 7.3 percent in 2016. Sri Lanka also falls under one of the eight economies in the region posting growth exceeding 7.0 percent in nearly every year of the post-crisis period. Its economy continued to grow strongly in 2014, where the inflation had lowered and the current account deficit had lessened noticeably. The outlook forecasts a continued strong economic performance aided by favourable global conditions.

Meanwhile, Bhutan is projected to grow at 6.8 percent in 2015, mainly due to the increase in the construction of hydropower projects and manufacturing sector, and new monetary and fiscal policy mechanisms to manage excessive demand. It is predicted that the current account deficit will be substantial, reflecting construction imports. But large capital inflows and cautious demand management are expected to sustain a surplus in the overall balance of payments. In Nepal, unfavourable monsoon and lingering political uncertainly is expected to slow the economic expansion to 4.6 percent in FY2015, which is less than the government's revised target of 5.0 percent. The growth is expected to revive in 2016 but is dependent on favourable monsoon and conclusion of ongoing negotiations over the formulation of the new constitution. Notably, the report calls for increased investment in infrastructure to lessen Nepal's dependence on agriculture and remittance.

The outlook for Afghanistan predicts modest recovery supported by large inflows of development assistance and security grants. The new government has pursued to improve governance, reinforce public finances, and strive for regional cooperation to improve security. Additionally, the report projects moderately slower growth for the Maldives, which is forecasted to average 6.3 percent in 2015 and ease to 5.1 percent in 2016. However, the Maldivian government has already planned for higher capital expenditure and promotion of special economic zones for improving the performance of the economy.

While the overall outlook for the South Asia region does look promising, considering India's economic size and influence in South Asia, the ability of the regional economic powerhouse to carry out its development agenda will largely determine the economic future of other South Asian economies. Fortunately, the recent reforms initiatives following Narendra Modi's election last year in India have become a positive indicator for the overall improvement of trade and investment climate in the region. The Indian government has reinforced the importance of South Asian regional integration, and more importantly, made commitments to facilitate intra-regional trade and to increase investment in major trade infrastructure projects in the region. However, the planned initiatives are yet to materialize into concrete action plan, and until that is achieve, the economic outlook of South Asia—a region that is highly dependent on India's economic performance, will hang in the balance.

Based on Asian Development Outlook 2015.

NEWS

Bangladesh clears transport of 25,000-tonne grain to Tripura

Following a pilot initiative where Food Corporation of India (FCI) had transported 10,000 tonne of rice last year from Kakinada port in Andhra Pradesh to Agartala in Tripura using Ashuganj river port in Bangladesh, Bangladesh has once again allowed FCI to transport 25,000 tonne of foodgrain from Kolkata to Tripura using its land and river route. The rice will be transported from the Kolkata port using small vessels having a capacity of 1,000 tonne each as the Ashuganj port is not equipped to handle bigger vessels.

At present, FCI transports grain for Targeted Public Distribution System using trucks to grain deficit North-East states such as Tripura. However, the vehicles carrying foodgrain negotiate tough geographical terrain, the vagaries of nature and frequent road blocks by insurgent groups.

Using Bangladesh's territory is economical for foodgrain transport as a vehicle travels more than 1,650 km to carry grain from Kolkata to Agartala through Guwahati — while the distance is reduced to 350 km via Bangladesh. Besides, the railway is undertaking gauge conversion work between Assam and N-E states such as Tripura, Manipur and Mizoram to improve the transportation network.

To assess feasibility, Bangladeshi trucks carrying foodgrain from the Ashuganj port were for the first time allowed into the FCI warehouse in Agartala so as to prevent a second transhipment at the Akhaura international border (Indo-Bangladesh border). India also made arrangements for proper escort of Bangladeshi trucks up to warehouse and for the return journey, besides providing a transit visa to truck drivers.

During PM Sheikh Hasina's recent visit to Delhi, India and Bangladesh agreed to amend the bilateral protocol on inland water transit and trade to declare Ashuganj in Bangladesh and Silghat in India as ports of call.

Source: www.financialexpress.com, 28.03.2015.

Lanka begins process to get GSP

The EU and Sri Lanka have begun the formal process that may lead to the re-admission of Sri Lanka to the status of Generalized System of Preference Plus (GSP+) under the EU's new GSP regulation.

A joint statement by Sri Lanka and the EU said that the EU-Sri Lanka Working Group on Trade and Economic Cooperation met in Colombo on 24 March 2015. In the meeting, Sri Lanka and the EU discussed issues related to promoting bilateral trade and investment. In particular, they started the process that may lead to the re-admission of Sri Lanka to the status of GSP+ under the European Union's new GSP regulation. They also discussed bilateral matters related to investment facilities, import duties and fishery exports from Sri Lanka to the EU.

Sri Lanka's proposal for possible funding in the areas of trade-related capacity building and development support for Small and Medium Enterprise's (SMEs') trade competitiveness in regional and EU markets under EU's Regional Programming for Asia Multiannual Indicative Programme 2014-2020 is being favourably considered by the European Union.

According to the Department of Commerce of Sri Lanka, bilateral trade between EU and Sri Lanka exceeded the US$5 billion mark in 2014 for the first time to reach US$5.07 billion, increasing by 3.6 percent from 2013.

Source: www.colombogazette.com, 25.03.2015.

India pushes for Comprehensive Economic Partnership with Sri Lanka

Prime Minister Narendra Modi on 13 March assured Sri Lanka that India would address the concerns arising out of the two-way merchandise trade between the neighbours, even as he pitched for having a Comprehensive Economic Partnership Agreement (CEPA).

Highlighting the need to expand the ongoing free trade agreement (FTA) signed in December 1998, Modi said India would take all necessary measures to see ensure Sri Lankan goods enter Indian markets smoothly. "India's trade environment is becoming more open. Sri Lanka should not fall behind others in this competitive world. That is why we should conclude an ambitious Comprehensive Economic Partnership Agreement," Modi said while addressing the Sri Lankan Parliament.

Despite the FTA being in force for 17 years, the trade balance continues to remain in favour of India. As a result, Sri Lanka had been reluctant on signing the CEPA although it was negotiated after 13 rounds of talks, concluded in 2008. An FTA is restricted to goods, while a CEPA encompasses trade in goods, services and investment. The FTA with Sri Lanka has been operational since March 2000. However, Sri Lankan authorities have often complained about its exports facing non-tariff barriers and stringent customs rules while entering India.

Sri Lanka is India's major trading partner in South Asia. Bilateral trade in 2013-14 was US$5.2 billion with Indian exports amounting to nearly US$4 billion and Sri Lankan exports to US$678 million.

Source: www.business-standard.com, 14.03.2015.

SAARC-CCI bid to boost regional economic ties

In line with promises made in the 18th SAARC Summit held in Kathmandu in November 2014, SAARC Chamber of Commerce and Industry (SAARC-CCI) has announced that it is coming up with a number of initiatives to enhance regional trade and investment in the South Asian region. Forming a CEOs' forum, South Asian Investment Caucus, measures to address transit and trade issues in South Asian and sub-regional level, private sector engagement under SAARC Framework Agreement on Energy, and public private discourse on regional issues are among the plans.

The proposed CEOs' Forum will include members nominated by the members states, SAARC-CCI and those nominated by national chambers, including a vice president and executive committee member. The action plan states that the forum would help strengthen the organization and promote economic cooperation and deepen regional integration in South Asia. To address transit and trade issues, the SAARC-CCI has proposed two mega projects, viz., establishing SAARC Shipping Company and SAARC Transport and Logistics Company.

The proposed South Asian Investment Caucus is an endeavour to encourage investors from South Asian companies to invest back in the region instead of their recent trend of investing outside South Asia. The caucus will invite 16 discussants along with 50-60 representatives from potential enterprises from across the region. It will conduct business-to-business (B2B) meetings and will discuss business prospects in identifying potential areas for investment in South Asia. Such discussions will take place in three phases - firstly focusing on Afghanistan, India and Pakistan followed by another phase which will focus on India, Maldives and Sri Lanka. In the third phase, the focus of the discussion will be on Bangladesh, Bhutan, India and Nepal.

Given the SAARC Framework Agreement on Energy signed at the recent SAARC Summit, the SAARC-CCI plans to organise two events by inviting representatives of large scale energy companies and energy practitioners for B2B meetings. The events will be held, with first focusing on Afghanistan, India and Pakistan, and second focusing on Bangladesh, Bhutan, India and Nepal.

Under the plan of public private discourse on regional issues, the SAARC-CCI plans to organise consultative group discussion with public sector representatives from South Asia.

Source: www.ekantipur.com, 09.03.2015.

Strategic Chabahar transit deal soon, will bolster trade ties with India

A trilateral transit deal between Afghanistan, India and Iran will be signed shortly with the strategic Chabahar port project in Iran nearing completion — a giant leap to bypass Pakistan and boost trade ties with landlocked Afghanistan. “The draft agreement is ready, the finer points are being hammered out and we are waiting for a date to sign the tri-nation accord in Tehran. This alternative route will directly connect India with Afghanistan without hindrance. Our trade volume will catapult from current US$700 million to billions of dollars," said Afghanistan ambassador to India, Shaida Mohammad Abdali.

Last year, India announced US$100 million investment in Chabahar, which is just 72 km from Pakistan's Gwadar port and 1000 km closer than Karachi port, which handles Afghanistan's imports. The deal will effectively shut out India's dependence on Pakistan, which disallows overland transit trade to Afghanistan. Abdali, who was in Bhopal on a three-day visit, also announced visa-on-arrival for Indians who want to do business in Afghanistan.

Source: www.timesofindia.indiatimes.com, 28.03.2015.

US submits its post-2020 climate action plan: Focus is now on China and India

The USA, biggest historical polluter of the world, on 31 March submitted its climate action plan — called Intended Nationally Determined Contribution (INDC) — to the United Nations Framework Convention on Climate Change (UNFCCC), committing to cut its greenhouse gas emissions by 26-28 percent below its 2005 levels by the year 2025.

By submitting its INDCs, the US joined Switzerland, EU, Norway and Mexico — the countries that have, so far, committed their post-2020 climate action plan. These INDCs will form the basis of the climate talks in Paris in December when the countries are expected to come out with a global climate deal.

These submissions have now turned the focus on China and India. Though China had indicated its broader plan in November last year when it talked about peaking its greenhouse gas emission around 2030, India had made it clear that the country — which has very low per-capita emission — would not announce its peaking year and rather lay greater emphasis on its adaptation measures and increasing share of renewable energy in the country's total energy mix.
Under the INDCs, all countries are expected to submit their “nationally determined contribution” in terms of their mitigation (emission cut) and adaptation goals well in advance ahead of the Paris climate talks, scheduled for December, where a new climate deal is expected to be signed.

India is also preparing its INDC. Though the country was initially expected to submit its plan in June, officials here do not willing to commit on any time-frame. Even the environment and climate change minister Prakash Javadekar did not prefer to commit on any timeline when he was asked by TOI a few days ago about India's plan. He had said that India was preparing its INDCs and it would submit it “well in time”.

It is expected that all the countries will submit their climate action plans before October 1 so that a final report can be prepared before the beginning of the Paris climate talks in December when the world would, hopefully, arrive at a new global climate deal.

The new climate agreement will come into effect in 2020 and will work for keeping a global temperature rise this century under 2 degrees Celsius.

Source: www.economictimes.indiatimes.com, 01.04.2015.

EDITORS

Dr Bharat P Bhatta
Sudeep Bajracharya

GUEST CONTRIBUTORS

Opinion in lead contributed by Shaleen Khanal, Research Officer, SAWTEE.
Analysis contributed by Situ Pradhan, Programme Officer, SAWTEE.

CONTACT

South Asia Watch on Trade, Economics and Environment (SAWTEE)
P.O. Box: 19366, Tukucha Marg, Kathmandu, Nepal
Tel: 977-1-4424360, 4444438 Fax: 977-1-4444570
Email: enewsletter@sawtee.org
Web: www.sawtee.org

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