Trade, Climate Change and Development Monitor

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

Volume 16, Issue 01, January 2019

CONTENTS

OPINION IN LEAD

Negotiating Nepal-India trade treaty

The ongoing negotiations to revise the Nepal-India Trade Treaty are an opportunity to tackle the ever-widening bilateral trade deficit that Nepal is facing with its neighbour and expand its exports.

Nepal's trade deficit is not a new phenomenon as in last three decades Nepal has bought more goods from other countries than it has sold to them. In the last fiscal year, the trade deficit figure stood at NPR 1.16 trillion—equivalent to 39 per cent of the Gross Domestic Product. Nepal's imports from India exceeded its exports to the country by NPR 763 billion—making up more than 65 per cent of the total trade deficit. In the first half of the current fiscal year, Nepal's deficit with India has crossed NPR 438 billion, which is 29 per cent more in comparison to the same period last year.

As Nepali and Indian officials negotiate a revision to the Nepal-India Trade Treaty, reducing trade deficit is at the top of Nepal's agenda.

The skewed trading relations exist despite duty-free access being provided to almost all of the products originating from Nepal. Many non-tariff measures have effectively become non-tariff barriers that have instilled a sense of unpredictability in the bilateral trade.

One of the provisions that restricts Nepal's utilization of duty-free market access offered by the trade treaty is the stringent rules of origin provision. As per the treaty, products originating in Nepal need to have a 30 per cent value addition and a change in tariff classification (CTC) at the HS 4-digit level. It implies any Nepali product that uses foreign component as inputs need to have undergone substantial transformation to be eligible for preferential tariff rates offered by India. Given the limited productive capacity in Nepal, it would be prudent to reduce the value addition rate to 20 per cent. Moreover, fulfilment of either one of the two criteria—value addition rate or CTC—should suffice. Relaxation of rules of origin would be of immense help for Nepal to integrate into regional and Indian value chains.

Although the treaty provides Nepal's manufactured products non-reciprocal duty-free access to India, there are a number of primary agricultural products for which there is reciprocal duty-free access. This has led to heavily subsidized Indian primary agricultural products flooding Nepali markets and hurting the livelihoods of Nepali farmers. Under the Agreement on South Asian Free Trade Area (SAFTA), India provides non-reciprocal duty-free market access to least developed member states. There is a case for removing the provision for reciprocal market access for products such as agriculture, horticulture, floriculture and forest produce; rice, pulses, flour, atta, bran and husk; livestock, poultry bird and fish; bees, bee wax and honey, milk, homemade products of milk and eggs.

India's extension of preferential market access to products originating in other least developed countries in general and least developed member states of SAFTA in particular has led to preference erosion for Nepal. There is hardly any preferential treatment of Nepali goods left in the bilateral trade treaty that is not already available to least developed countries under SAFTA. Hence tackling non-tariff measures is extremely important.

Procedural irritants related to testing and certification that obstruct Nepali exports, especially agricultural, need to be addressed by the treaty. There exists a provision that says countries "will facilitate cross-border flow of trade through simplification, standardization and harmonization of customs, transport and other trade related procedures". Clarifying that procedures also include inspection, import licensing, certification and registration which could push the governments towards harmonizing these procedures for a better flow of goods.

In order to promote the participation of small enterprises in cross-border trade, the existing treaty has exempted exports to India from such small units in Nepal from excise duty in India. Since excise has been replaced by Goods and Services Tax (GST), such exemption has to be accorded to the application of GST as well. Similarly, the quota restrictions on vegetable fats, acrylic yarn, copper and zinc oxide not only violates multilateral trade rules but also do not make any sense in the present context when tariffs in India for the rest of the world have come down significantly.

The revision of the treaty should allow India to re-export selected commodities originating from third countries—even without any manufacturing activity—to Nepal based on mutual agreement. Allowing such third country commodities re-export to Nepal in cases such as coals, essential medical equipment, vehicle spare parts would reduce the cost of inputs in Nepal without harming India.

There is also a need to revise a provision in the current treaty that requires Nepal to extend to India any preferential treatment it accords to any product originating in any other country so that Nepal can effectively and freely enter into trade agreements with other trade partners.

Simplifying Nepal-India Trade Treaty can lead to improved competitiveness of Nepali products. The voluminous imports from India mean that Nepal is the ninth largest export market of India with 2.1 per cent of total exports of India being Nepal-bound. Thus, Nepal's position in negotiation with India is not as weak as it is perceived. Moreover, the push should be made towards implementing existing provisions—for example, a provision for India to support Nepal to increase the latter's trade capacity (including that related to standards, testing and certification) already exists but not much has been done in this regard, partly due to its non-binding nature. The provision must be made binding and the process of harmonization of standards and/or mutual recognition of standards and certification could be initiated on a list of priority products.

This article is based on a presentation made by Dr. Posh Raj Pandey, Chairman, SAWTEE on 4 February 2019 in an interaction programme jointly organized by Ministry of Industry, Commerce and Supplies, Government of Nepal with SAWTEE.

REPORT

Robust South Asia

Although moderating activity and heightened risks are clouding global economic prospects, South Asia's growth prospects are stable in the short- and medium-term, according to latest report by the World Bank.

The World Bank has estimated that the region will accelerate to 7.1 per cent in 2019 from 6.9 in the previous year, in its recently released edition of its biannual *Global Economic Prospects*. Over the medium term also South Asia is expected to gain average 7.1 per cent growth due to robust domestic demand which will continue to underpin growth.

At the same time, the report calls attention to exacerbated vulnerabilities due to fiscal slippages and rising inflation, and the possibility of delays in needed structural reforms to address weaknesses in the balance sheets of banks and non-financial corporates in South Asia. It has identified further deterioration in current accounts and a faster-than-expected tightening of global financing conditions as key external risks for South Asian economies.

Among countries in South Asia, the report forecasts India's gross domestic product (GDP) to grow by 7.3 per cent in FY2018/19 and 7.5 per cent thereafter. The publication attributes benefits of recent policy reforms that has begun to materialize and credit rebounds for investment growth in India while strong domestic demand is envisioned to widen the current account deficit to 2.6 per cent of GDP next year.

In the rest of the region, economic activity is expected to average 5.6 per cent over the forecast horizon. Pakistan is expected to face financing needs due to large current account and fiscal deficits combined with low international reserves, thus, GDP growth is projected to decelerate to 3.7 per cent in FY2018/19.

Economic activities are projected to rebound at an average of 4.6 per cent over the medium term with support from stabilizing macroeconomic conditions.

In Bangladesh, robust economic activity is expected to be sustained with GDP growth forecast at seven per cent in FY2018/19 and is expected to decelerate only slightly over the forecast horizon. Activity will be supported by strong private consumption and investment on the back of infrastructure projects, as per the report.

In Sri Lanka, last year's recovery from adverse weather conditions is expected to continue in 2019, with four per cent GDP growth. Activity will be supported by robust domestic demand as consumption rebounds following natural disasters, and investment is boosted by infrastructure projects. Nepal's strong post-earthquake momentum is expected to moderate with GDP growth expected to decelerate to 5.9 per cent in FY2018/19. Yet, activity will be underpinned by strong infrastructure investment and consumption.

In Bhutan and the Maldives, activity will remain reliant on construction and tourism. Bhutan's growth is projected to accelerate to 7.6 percent 2018/19, supported by ongoing infrastructure projects and rising tourism. In the Maldives, growth is expected to moderate to 6.3 percent in 2019 as construction activity returns to long-term averages, and capital investment projects gradually slow down. Afghanistan's economy is expected to remain subdued, expanding 2.7 percent in 2019, as a result of security challenges ahead of elections, declining business confidence, and worsening drought conditions.

Regarding global outlook, the report paints rather grim picture given the elevated trade tensions, and some large emerging market and developing economies experiencing substantial financial market pressures. As the emerging economies have lost momentum, downside risks have become more acute.

In the longer run, the report points the need to foster more robust potential growth by boosting human capital, removing barriers to investment, and promoting trade integration remains. Similarly, designing a policy framework aimed at reducing regulatory and tax burdens, expanding access to finance, improving education and other public services, and strengthening public revenue frameworks are important. Another key focus, it outlines, is the need to improve debt management and developing domestic financial systems.

This piece is excerpted from the World Bank's Global Economic Prospects report.

NEWS

Nepal's integrated check post hindered by bad road

Nepal's only integrated check post in Birgunj, Parsa district is not functioning at full capacity even one and a half years after it started operations due to delays in widening the road that links it to the dry port.

The expansion of the 700-metre-long road begun in March 2018, but the project stalled as it is yet to acquire the necessary land. According to Mr. Keval Chaudhary, an official of the Pathlaiya commercial highway which is executing the project, 176 landowners have received compensation totalling NPR 617.77 million for their land. Still, around one and a half dozen landowners are yet to be contacted. The contractor—a joint venture of Pappu and Lumbini Construction—are not ready to move the project forward until all the necessary land has been acquired.

Built with the Indian government's financial assistance, the integrated check post was inaugurated jointly by Prime Minister Mr. KP Sharma Oli and his Indian counterpart Mr. Narendra Modi by pressing a button in New Delhi in April last year. Since the inauguration, the check post has been used mainly to bring in petroleum products from India. Goods such as blades, crude oil, pepper and industrial raw materials also pass through there.

Many importers are not keen on using this cross-border point because of its poor road access. Last year, a truck carrying pepper fell off the road because of its narrow width.

Source: http://kathmandupost.ekantipur.com/news/2019-01-24/integrated-check-post-hindered-by-bad-road.html, 24.01.2019.

India-Bangladesh to finalize new waterway

Indian and Bangladeshi officials will be finalizing various aspects of a proposed waterway between the two countries, according to Tripura Chief Minister Mr. Biplab Kumar Deb.

"Union Shipping Ministry officials have informed that senior authorities from both the countries, including from the Inland Waterways Authority of India (IWAI), will visit Tripura on 28-29 January. The officials would finalize different issues of the proposed waterway between the two countries involving Tripura," Mr. Deb told Indo-Asian News Service (IANS).

He said that construction works to develop the 35 km waterway between Tripura's Gomati river and Meghna river in Bangladesh is slated to begin next month.

A four-member IWAI team visited Tripura's Sonamura in December 2018 to select the site for a terminal building (jetty).

The famous Akhaura canal, built by the erstwhile kings of the princely Tripura, was earlier used to ferry goods to-and-from Bangladesh by boats and small vessels. "After the partition of India, the transportation through the Akhaura canal was stopped," according to veteran writer Mr. Salil Debbarma.

The Indian Oil Corporation in 2016 had ferried diesel and cooking gas to Tripura from Assam via Bangladesh. The Food Corporation of India (FCI) had transported 23,000 tonnes of rice in three phases since 2014 from Kolkata to Tripura via Bangladesh using Dhaka's Ashuganj River Port, which is about 50 km from Tripura.

In 2012, Bangladesh had allowed state-owned Oil and Natural Gas Corporation to ferry heavy machinery, turbines and over-dimensional cargoes through Ashuganj port for the 726 MW Palatana Mega Power Project in southern Tripura.

Source: https://www.business-standard.com/article/news-ians/india-bangladesh-to-finalise-new-waterway-tripura-cm-119012400492_1.html, 24.01.2019.

Nepal, India air route talks keep going round in circles

Nepal and India made little progress at the highly-anticipated air route talks held in Mumbai, India. Nepal has been pressing the southern neighbour to grant air entry points through the L626 Mahendranagar route and Nepalgunj to facilitate aircraft movement to the two upcoming international airports in Bhairahawa and Pokhara.

According to Indian daily *The Hindu*, India’s Ministry of Civil Aviation has agreed in principle to grant air entry points through the L626 route in Mahendranagar. It said that pilgrims headed to Kailash Manasarovar from New Delhi would now be able to fly directly to one of the key entry points at Nepalgunj, and avoid the 11-hour drive from Kathmandu.

Director General of the Civil Aviation Authority of Nepal Mr. Sanjiv Gautam, who met Indian civil aviation officials on the sidelines of Global Aviation Summit in Mumbai, confirmed the development. “But until we receive confirmation in writing, we cannot say anything.”

However, this route is not workable for the international airport in Bhairahawa as it only permits entry to low-level flights (below 24,000 feet). During various discussions over the past years, India has reportedly ‘denied’ granting an entry point through Mahendranagar due to heavy traffic in Indian airspace.

Another development in Mumbai is the two sides agreeing on the Bravo 345 route (currently Kathmandu-Bhairahawa-Lucknow) passing through the airspace over Bhairahawa. According to Mr. Gautam, Indian authorities said that they were in the final stage of making the route bi-directional. The Indian side has sent the new specified route proposal to the International Civil Aviation Organisation (ICAO), but that too will not work for Gautam Buddha International Airport in Bhairahawa which is expected to be completed this year, he said.

If the entry points through Nepalgunj and Mahendranagar are not granted, international flights to Bhairahawa from the west or New Delhi will have to make a 300-km detour to Simara to enter Nepali airspace. Pokhara-bound flights from the west will have to make a 185-km detour if the new cross-border air routes are not opened.

Cross-border airspace issues have been pending for the last five years. Nepal formally asked India to open the new cross-border air routes during Indian Prime Minister Narendra Modi's visit to Kathmandu in 2014. The issue of new air routes was also on the agenda during the Indian premier's visit to Nepal last May.

Source: http://kathmandupost.ekantipur.com/news/2019-01-22/nepal-india-air-route-talks-keep-going-round-in-circles.html, 22.01.2019.

Sri Lanka targets USD 1bn from seafood exports by 2022

Sri Lanka's seafood industry is eyeing USD350 million in exports this year in line with a three-year target of achieving USD1 billion in seafood export revenue by 2022.

Seafood Exporters' Association of Sri Lanka (SEASL) President Mr. Dilan Fernando revealed that seafood exports were estimated to have exceeded USD300 million in 2018, a growth of 24 per cent compared to 2017. Sri Lanka's crab exports stood at USD25 million in 2018, and Mr. Fernando expects that export revenue would reach USD30 million by the end of this year.

Speaking at the occasion, the founder of the sustainable fisheries consultancy, Pelagikos Limited, and the coordinator of FIPs, Mr. Steve Creech, pointed out that due to the rating upgrade, Sri Lanka will be able to access premium markets while getting premium prices for its blue crab exports.

According to Mr. Fernando, the final export destination for Sri Lanka's 90-99 per cent of sea crab is United States, while Singapore remains as a major export market for lagoon crab. He expects that with new rankings, Sri Lankan exporters will be able to get premium prices, and with the exporters paying more to fishermen, more fishermen will resort to crab farming.

However, Mr. Fernando emphasised that the industry would focus more on shrimp farming to reach the USD1 billion export target in three years. He pointed out that India by largely focusing on shrimps, was able to boost its seafood exports sevenfold within six to seven years to reach USD7 billion export income from just USD 900 million.

Japan remains as the main export destination for Sri Lankan shrimp. However, Fernando said that once the new supplies of shrimp come in, it's more likely that the United States and the European Union would become the top two markets for Sri Lankan shrimps.

Source: http://www.dailymirror.lk/article/Sri-Lanka-targets-US-bn-from-seafood-exports-by--161243.html, 18.01.2019.

Bhutan can now export cardamom to India

India has lifted the ban in cardamom import from Bhutan, Bhutanese Economic Affairs Minister Mr. Loknath Sharma announced at the national assembly on 11 January.

He said that about two days ago the exit gates had allowed export of cardamom from Bhutan to India. From Jitey in Samtse about 1,550kg of cardamom and about 8,000kg from Hathisar in Gelephu were exported since the halt lifted, he said.

Export of cardamom had been affected since the Indian Goods and Services Tax (GST) was implemented on 1 July, 2017.

The halt was due to the failure to include the four exit points (Jaigoan in Phuentsholing, Chamurchi in Samtse, Hathisar/Dathgirir in Gelephu, and Darranga in Samdrupjongkhar) from Bhutan to India as points of entry for import of plants and plant materials.

As a temporary measure, the ministry started buyback scheme. Cardamoms were bought from the farmers at Nu 550, which is inclusive of the profit and farmer’s expenditure.

Tashichhoeling MP Ms. Dil Maya Rai said that the government’s notification to buyback the cardamom issued on 10 December was not implemented.

Agriculture Minister Mr. Yeshey Penjor said that the government bought 17 metric tonnes (MT) of cardamom through the buyback scheme before the exit points opened recently. He added that after talking with about 2,020 cardamom growers, the government decided to buyback another 282MT of cardamom. “However, after the gates opened for the export, the people who registered to sell 282MT of cardamom chose to sell their products to India and backed off. It was the people’s choice.”

Source: http://www.kuenselonline.com/bhutanese-can-now-export-cardamom-to-india/, 12.01.2019.

Bangladesh lifts ban on Nepali yarn import via land port

Bangladesh has decided to lift the ban on import of yarn from Nepal via the Banglabandha land port after nearly 17 years.

The National Board of Revenue of Bangladesh on 28 December, decided to lift the ban on import of acrylic yarn from Nepal through the Banglabandha land port. The move conditionally allows Nepal to export only acrylic yarn through the port with the ban initially being withdrawn for only one year.

Nepal has long been demanding Bangladesh to open the gateway for exporters of Nepali yarn.

In 2002, Bangladesh imposed the restriction on yarn import through the land port seeking to safeguard the local cotton yarn industry from foreign products. The country instead opened up its Benapole land port and Chittagong sea port for yarn import. However, Nepali traders had been reluctant to use the Benapole port, which connects Petrapole of India, stating that they faced a lot of hassles while using the gateway that passes through the Indian land customs. Likewise, trading through Chittagong makes them accrue heavy costs, according to the traders.

Mr. Navaraj Dhakal, spokesperson of the Ministry of Industry, Commerce and Supplies, said Nepal had been putting forward the issue as one of the main agendas in majority of the bilateral talks with Bangladesh. “However, the ministry has yet to receive an official letter from Bangladesh regarding the matter,” Mr. Dhakal said.

Nepal exports polyester and viscose blend yarn worth over NPR 8 billion annually. Although Bangladesh has lifted the ban, the country however, continues to maintain stern measures before accepting the goods from Nepal.

Source: http://kathmandupost.ekantipur.com/news/2019-01-10/bangladesh-lifts-ban-on-nepali-yarn-import-via-land-port.html, 10.01.2019.

Tea export from India to Pakistan on the rise

Exports of tea to neighbouring Pakistan continued to show an increase than most destinations during January to November 2018, at 14.56 million kgs as compared to 12.60 million kgs in the same period in 2017.

The tea exports to Pakistan during the first 10 months of 2018 rose 22 per cent to 13.07 million kg as compared to 10.65 million kg in the corresponding period of 2017, according to Tea Board on India data.

The biggest importing bloc of Indian tea, CIS nations, showed a decline at 54.87 million kgs during the first 11 months period of 2018 as against 58.41 million kgs in the corresponding period of 2017.

Value of exports to CIS also showed a decline at INR 891 crore from INR 959 crore in the previous period, the Tea Board data said. Exports to other important nations UK, UAE and Egypt also declined marginally during January to November 2018.

Total exports during the 10-month period of 2018 increased marginally to 225.76 million kgs valued at INR 4624 crore as compared to corresponding data of 226 million kgs and INR 4478 crore respectively.

Unit price per kilogram also increased slightly to INR 204.83 kilogram during the period as against INR 198.12 per kilogram during the previous term.

Source://economictimes.indiatimes.com/articleshow/67453132.cms, 09.01.2019.

Apparel shipment from Bangladesh to Europe quicker now

Bangladesh's garment shipment to Europe has expedited with the introduction of transhipment facility from Kolkata's Netaji International Airport on a pilot basis, exporters said.

Last week, the first-ever bonded cargo from Bangladesh flew out of Kolkata airport. The cargo, weighing 4.1 tonnes, was carried by Bangladeshi trucks to the Benapole land port, where it was loaded on to Indian trucks. The Indian trucks carried the goods to the Kolkata airport.

“This is like opening up a new window for us,” said Mr. Siddiqur Rahman, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

The development comes as part of a renewed bilateral trade framework between the two neighbouring nations following government-led panel discussions between the two sides in New Delhi at the end of October.

The programme will be run on a pilot basis for six months to gain experience to come up with regulation to check cargo diversion. The first cross-border and land-to-air transhipment from Bangladesh was run by Expo Freight.

“Primarily, we are sending three cargo flights a week. Our target is to introduce six flights per week,” said Ms. Maria Rahman, head of key accounts management team of Expo Freight.

The logistics provider has already sent seven flights of cargo after the launch of new operations from the Kolkata airport.

About the charge, Ms. Maria said if it costs BDT 5 for carrying a kilogram of goods by an airline to Europe from Bangladesh, the Dhaka-Kolkata-Europe route will cost BDT 3.5 a kilogram. It takes three to five days to reach the final destinations in Europe from Dhaka, she added.

Emirates and Qatar Airways are currently carrying garment items from the Kolkata airport to Europe. "Primarily our targeted markets are Europe. But we have plans to send apparel cargos to the US if our routes become commercially viable," she added.

Source: https://www.thedailystar.net/business/economy/news/apparel-shipment-europe-quicker-now-1683898, 7.01.2019.

EDITORS
Asish Subedi
Dikshya Singh

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