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OPINION IN LEAD

South Asia's challenge to fend off economic contagion

With the coronavirus epidemic quickly evolving into a never-seen-before-scale of pandemic, South Asia's economic activities have come to a standstill as governments impose a full or partial lockdown in their attempts to contain the contagion. Since the number of infections is on the rise, the lockdown may still be prolonged, further hitting the economy. Hence, the question now is to what extent South Asian countries' governments are capable to rev up their public policy apparatus to mitigate the economic fallout.

As of the end of March, a total of 3,847 cases of COVID-19 were confirmed in the region while the death toll stood at 72. Bhutan, Maldives and Nepal have yet to report any death. Considering 1.9 billion population in South Asia, the rate of infection and deaths might appear miniscule. However, risk of fatalities in case of coronavirus contagion in South Asia is high as healthcare facilities in the region is woefully inadequate. Thus, social distancing and lockdown appears to be the most prudent measures to fight the threat of deadly pandemic. The lockdown means restriction on movements, schools, restaurants, shops and other businesses except for services deemed essential. Bangladesh, Nepal, India, Sri Lanka and Pakistan have suspended international air travel and closed borders, allowing only cargo movement. Even in the places where lockdown is not yet imposed, such as Bhutan and Afghanistan, restaurants, hotels, schools are shut and congregations of more than 50 people are not allowed.

In January, when China was battling the viral outbreak, the economies in South Asia struggled with supply chain disruptions as industrial inputs started running out with China temporarily shutting down its factories. As the virus spread through Europe in February and people started to cancel their planned vacations, tourism-dependent economies of Maldives, Sri Lanka and Bhutan started to feel the pinch. According to Maldives' Minister of Foreign Affairs, Mr. Abdullah Shahid, the archipelago could suffer up to 35 percent drop in tourism revenue due to coronavirus. Sri Lankan tourism, which was recovering from the 2019 Easter attack in Colombo, saw tourist revenue falling 18 percent in the first two months of 2020. Nepal, which had declared 2020 as the Visit Nepal Year, had to suspend the promotional activities, eventually, cancelling the year-long event. The country even had to suspend the Mount Everest summit climbing permits for the 2020 spring season—denting tourism revenue substantially.

The economic shock of the lockdown could lead to businesses being shut down and job losses as companies look to cut down costs. This will further dent the consumer demand which has already contracted. India, the world's fifth largest economy, has imposed a three-week lockdown starting 25 March, compelling 1.2 billion population to stay home. The growth outlook of India has been downgraded by all the rating agencies. Moody's has slashed the growth outlook from 5.3 percent to 2.5 percent owing to possible liquidity constraints in the banking and non-banking sectors that will put a spanner in the recovery of other sectors too. The sudden announcement of lockdown turned out to become a humanitarian crisis as the exodus of migrant workers started a journey towards their hometowns on foot. The prospects and speed of recovery will greatly depend on the informal sector, which constitutes 45 percent of the national output and employs 95 percent of the population.

Besides the impact of lockdown within their own countries, the lockdown imposed in the major export markets in the US and Europe have started to show impact on the South Asian countries. Bangladesh, which is the second largest apparel exporter in the world today, has already laid off or furloughed about one million of garment workers as the country's readymade garment industry saw orders worth US$2.8 cancelled by the end of March. Similarly, Sri Lanka, whose 15 percent of population is engaged in apparel manufacturing, is also looking at the order cancellations worth US$1.5 billion. Indian exporters are expecting to see a financial hit worth US$1 billion due to cancelled orders and closed border, according to the Federation of Indian Export Organization. The waning exports will further hit the downstream supply chain, affecting the company's bottom lines, which will create a domino effect reinforcing contraction in consumer demand.

Another major factor to affect the consumer demand in South Asia is slowdown in remittance. South Asian countries are a major labour supplier to the world and remittance income make up a substantial source of foreign exchange. According to the World Bank's Migration and Remittance Brief, South Asia received US$137 billion in remittance receipts in 2019, the figure is close to the combined GDP figure of Afghanistan, Nepal and Sri Lanka. As the economic activities in the destination countries –mostly in the Western Asia—have suffered with shops and restaurants closed and suspended construction activities, migrants are likely to lose jobs and return home. Likewise, these countries are facing historically low oil prices, dimming their economic outlook for the coming months. Already two million Afghan workers in coronavirus-affected Iran have lost their jobs and are returning. At the level of households, this will mean losing income, which could further hit consumer demand. On the macroeconomic level, reverse migration means the countries will lose out on a major source of foreign exchange and spike in unemployment numbers nationally.

Given the limited social protections for citizens offered by the governments in South Asia, the potential economic crisis could spiral into a humanitarian crisis, pushing low-income population further into poverty. Hence, governments have started to announce relief measures to the affected workers and the industries, using both fiscal and monetary instruments. The most common measures adopted include providing food and essentials to the low-income households, increasing public health expenditure, deferral on payment of personal and corporate taxes, temporary custom duty exemption on import of healthcare-related items, among others. Similarly, the banking regulators in these countries have instructed the banks to allow the affected borrowers to defer interest payment for some months and provide the sector-specific refinancing facilities, subsidized loans, among others. Monetary authorities have also unleashed instruments to release liquidity in the financial system and cut the policy rates. Since this pandemic has affected exports, remittance and tourism revenues, South Asia is facing a probable foreign exchange crisis. Strong US dollar has further weakened the positions of the currencies in South Asia. India has introduced a foreign exchange swap to provide liquidity to the foreign exchange market, Nepal and Sri Lanka have imposed a temporary ban on imports of selected luxury goods, and Maldives will use a foreign currency swap facility amounting to US$150 million under the currency swap agreement signed with India.

The measures required to support the economy would require governments spending billions which could exhaust their coffers. Moreover, countries like Maldives, Pakistan and Sri Lanka already are straining due to their external debts and this additional financing could destroy their fiscal stability. Although international financial corporations have pledged funds to support the affected countries, it is difficult to tell whether their support will be sufficient to weather the economic storm. Following the South Asian Association for Regional Cooperation (SAARC) video conference of the heads of states on 15 March, the members decided to create a COVID-19 Emergency Fund. So far, the member countries, except for Pakistan, have announced their support amount. However, the collected sum of US$20.6 million looks paltry considering the need, this is a major gesture towards reinvigorating the regional platform that was in coma for the last six years. Moreover, it provides assurance to all the parties involved that the SAARC countries are willing to take a united front to face the disaster.

The measures announced by the governments so far are immediate relief efforts targeted at the most vulnerable people and businesses. These measures may be inadequate as the impact of the containment efforts on the economy starts to unfold. Realizing this, governments have created task forces to plan future steps to be taken to prop the economy. A longer term course of action will require preparing sector-specific policy measures as a one-size-fits-all approach will not be able to address the differentiated impact on the different sectors and sections of the economy.

Hopefully, this pandemic has made governments in South Asia realize the need to strengthen their public healthcare infrastructure and labour welfare policies. Further, another important lesson learnt by the government has to be the need to diversify their export product portfolio—products as well as markets. Similarly, supply chain disruptions also make a case for diversifying supply chains to avoid being dependent on a single market to meet their needs.

REPORT

Legal barriers for women's economic participation

All over the world, discriminatory laws continue to threaten women's economic security, career growth, and work–life balance, however a recent report by the World Bank shows that important progress was made in closing the gender gap, as women increasingly entered the workforce and started businesses.

Women, Business and the Law 2020 finds that over time, reforms increasing women's equality of opportunity contribute to more successful economies, higher female labour force participation, and better development outcomes. Based on a review of reforms since 2017, this year's report updates the index presented in its 2019 study. In 2019, the average global score is 75.2, up from 73.9 as measured in 2017. Eight economies—Belgium, Canada, Denmark, France, Iceland, Latvia, Luxembourg, and Sweden—

score 100, meaning that women are on an equal legal standing with men across all eight indicators (table 1.2). Of the 40 economies with scores higher than 90, 27 are Organisation for Economic Co-operation and Development (OECD) high-income economies and nine are in Europe and Central Asia. The remaining four are in Latin America and the Caribbean, East Asia and the Pacific, and Sub-Saharan Africa. No economy in the Middle East and North Africa or South Asia scores higher than 90.

Nepal was one of the countries that achieved improvement in the index by introducing a new labour law that makes women's entry into the labour market easier by prohibiting discrimination in employment. It also improved women's employment opportunities and pay by allowing women to work at night and prohibiting discrimination in remuneration for work of equal value. In addition, Nepal introduced 15 days of paid paternity leave, making it easier for women to share child care responsibilities with their partners. New regulations introducing a mandatory old-age pension scheme for private sector workers also established the same retirement age for women and men and therefore directly protect women's financial security in old age.

Three other South Asian economies—India, Pakistan, and Sri Lanka—have enacted reforms as well. The Indian state of Maharashtra eliminated restrictions on women's ability to work in jobs deemed dangerous. Pakistan and Sri Lanka both increased the period of paid maternity leave to exceed 14 weeks.

In the Middle East and North Africa, women have only half the legal rights of men; worldwide, it is just 75 percent. Although many economies have acted to reduce barriers to women's economic participation over the last 50 years, the progress made cannot be equated with success.

The report finds that over time, reforms increasing women's equality of opportunity contribute to more successful economies, higher female labour force participation, and better development outcomes. Over the last two years, 40 economies from all regions and income groups have made women's economic empowerment a priority by executing 62 reforms facilitating women's entry into the workforce. Such reforms allow governments to cultivate a business environment that benefits women entrepreneurs and employees, enhancing economic productivity and accelerating development.

Analysis shows that where the law ensures greater equality of economic opportunity between women and men, female labour force participation is higher. This result holds after taking into account important factors—including income levels, fertility rates, and female education—and when using different statistical methods. Several studies also demonstrate that where women and men are given equality of opportunity, positive development outcomes ensue. Research shows that having fewer discriminatory laws and policies in place results in larger investments in health and education (both for women themselves and for the next generation) and lower rates of sexually transmitted diseases.

Since its inception in 2009, the Work, Business and Law series has measured laws and regulations that restrict women's economic inclusion. This year, the project explores the relationship between women's empowerment and economic outcomes. Eight indicators constructed around women's interactions with the law as they begin, progress through, and end their careers are used to align different areas of the law with the economic decisions women make at various stages of their lives. The indicator assess factor affecting women's mobility, workplace, pay, marriage, parenthood, entrepreneurship, assets and pension.

The barriers to employment and entrepreneurship at every stage of life limit equality of opportunity, creating a business environment that does not adequately support working women. This report emphasizes the work still to be done by making a contribution to research and policy discussions about the state of women's economic opportunities.

This piece is excerpted from Women, Business and the Law 2020 report.

NEWS

Nepal bans imports of high-end cars, expensive food items

The government has barred import of luxury vehicles and a number of expensive food items to avoid possible fall in foreign currency reserve of the country as economic activities come to a halt due to COVID-19 outbreak.

The cabinet meeting held on 29 March decided to impose a restriction on import of cars priced higher than NPR 5.5 million, dry fruits like dates, clove, green cardamom, peas and alcoholic beverage. Similarly, the government has lowered gold import quota to 10 kg a day.

The data of Department of Customs shows that Nepal spent over NPR 50 billion for import of these goods in FY2018/19.

The government might have taken the step as a cautious move to check possible depletion of foreign currency reserve. Although foreign currency earnings from remittance and tourism had fairly remained stable in the first eight months of the current fiscal year compared to the same period of the previous fiscal year, earnings from these two sectors are likely to plunge heavily in the ninth month and onward due to the impact of COVID-19 outbreak.

The statistics of the central bank shows that the country had foreign currency reserve worth NPR 1.09 trillion as of mid-February this year. The amount was adequate to finance import of goods and services for 8.5 months.

Source: https://myrepublica.nagariknetwork.com/, 31.03.2020.

Bangladesh in lockdown affects trade

Bangladesh's key seaport, Chittagong, is facing heavy congestion in its yard as a government-decreed national holiday restricts the flow of goods.

The government has declared a 10-day general holiday between 26 March and 4 April, barred people from going outside from home and halted all types of commercial activities except emergency services.

Chittagong is continuing operations amid the virtual lockdown in an attempt to avoid vessel congestion and the creation of a shortage of essential goods in the domestic market.

However, Bangladesh Customs is releasing only essential commodities, such as food grains, pharmaceuticals and coronavirus prevention-related materials from the port yard, as only a limited number of its officials are still working.

As a result, the port has massive congestion in its yard: today, some 40,469 teu of containers remain in the area, against its total capacity of some 49,000 teu.

The government has also doubled rail cargo capacity on the Chittagong-Dhaka-Chittagong route to ensure a smooth supply of essential goods from the port. Usually, three to four cargo trains operate on the route daily, this has now gone up to six to eight.

Exporters, however, are facing increasing numbers of cancelled orders. Since Friday, most of the 4,000 apparel factories, except those which still have orders, have been closed to avoid the spread of coronavirus among the four million garment workers, the majority of which are female.

The government has also blocked shore passes for all vessel crews from abroad. Crew-changing has also been suspended for an indefinite period. If any crew needs to go home for an emergency, they must first undergo a 14 day-isolation period.

Early last week, the government suspended issuing 'no objection' certificates for vessels coming in for dismantling, also until 7 April. Five such vessels were sent to deep sea isolation for two weeks.

Source: https://theloadstar.com/, 30.03.2020.

Oil price collapses to lowest level for 18 years

The price of oil has sunk to levels not seen since 2002 as demand for crude collapses amid the coronavirus pandemic.

Brent crude fell to US$22.58 a barrel at one point on 30 March, its lowest level since November 2002.

Meanwhile the price of US West Texas Intermediate (WTI) fell below US$20 a barrel and close to an 18-year low.

Oil prices have fallen by more than half during the past month as companies cut back or close production.

In addition to the drop in demand, a price war broke out earlier this month between Saudi Arabia and Russia.

This began when Saudi Arabia failed to convince Russia to back production cuts that had been agreed with the other members of the Organization of the Petroleum Exporting Countries (Opec) group.

The decision came as refineries around the world are processing less crude oil. Demand for transport has been hammered by grounded airlines and fewer cars on the roads as countries bring in tougher measures to fight the coronavirus outbreak.

Source: https://www.bbc.com/, 30.03.2020.

US signs into law largest bailout in US history

US President Donald Trump has signed the largest-ever US financial stimulus package, worth US$2tn, as the country grapples with the coronavirus pandemic.

The House of Representatives passed the cross-party bill two days after the Senate debated its provisions as the number of Americans filing for unemployment surged to a record high of 3.3 million people.

The US has more confirmed cases of coronavirus than any other country, with more than 143,500 positive tests.

The new law enables direct payments to individuals and companies whose livelihoods and businesses have been affected by the pandemic. It seeks to deliver US$1,200 to every American earning less than US$75,000 per year and US$500 per child. It also gives money directly to state governments, and bolsters the unemployment benefits programme.

Under the law, jobless benefits will be extended to those not normally covered, such as freelancers and workers in the gig economy.

The bill also offers loans and tax breaks to companies that face going out of business, as one in every four Americans is ordered to remain at home and only go outside for essential needs.

Officials across the US have closed restaurants, bars, cinemas, hotels and gyms in an effort to slow the spread of the virus.

Car firms have halted production and air travel has fallen dramatically. According to economists, a fifth of the US workforce is on some form of lockdown.

Source: https://bbc.com/, 30.03.2020.

EU and 15 WTO members establish contingency appeal arrangement for trade disputes

The EU and 15 other members of the World Trade Organization (WTO) have decided on an arrangement that will allow them to bring appeals and solve trade disputes among them despite the current paralysis of the WTO Appellate Body.

This is a stop-gap measure to reflect the temporary paralysis of the WTO's appeal function for trade disputes. WTO will continue our efforts to restore the appeal function of the WTO dispute settlement system as a matter of priority.

The Multiparty Interim Appeal Arbitration Arrangement mirrors the usual WTO appeal rules and can be used between any members of the Organization willing to join, as long as the WTO Appellate Body is not fully functional.

The agreement underscores the importance that the participating WTO members – Australia; Brazil; Canada; China; Chile; Colombia; Costa Rica; the European Union; Guatemala; Hong Kong, China; Mexico; New Zealand; Norway; Singapore; Switzerland; and Uruguay – attach to a functioning two-step dispute settlement system at the WTO. Such a system guarantees that trade disputes can be resolved through an impartial and independent adjudication, which is essential for the multilateral trading system based on rules.

The Multiparty Interim Appeal Arbitration Arrangement is expected to be officially notified to the WTO in the coming weeks, once the respective WTO Members complete their internal procedures, after which it will become operational.

Source: https://ec.europa.eu/, 27.03.2020.

Sri Lanka halts imports of cars, electronics, perfumes, after soft-peg pressure

Sri Lanka has halted the imports of cars, perfumes, tyres, footwear, air conditioners, refrigerators, mobile phones, televisions and washing machines, as the rupee soft-peg with the US dollar came under pressure in forex markets.

Banks have been asked by the central bank not to help customers to import any of the controlled items, which the central bank called ‘non-essential’ either through letters of credit (LCs), documents against acceptance or payment.

The rupee has come under pressure in recent days, and trading in the spot market has been low amid global volatility and liquidity injections from the central bank.

The central bank also cut rates and injected around LKR 50 billion though a reserve ratio cut 17 March, imitating floating rate central banks in the West, despite having a soft-pegged exchange rate.

On March 17 another LKR 40 billion was injected though an outright Treasuries purchase. Earlier central bank profit transfer worth LKR 24 billion was made through a liquidity injection.

The trade and exchange controls will be in place for three months. The controls have been placed using a provision of Sri Lanka’s Banking Act.

Banks have also been asked not to give more than US$5,000 in foreign currency to those leaving the country.

Prices of Sri Lanka’s sovereign dollar bonds have also plunged to over 30 percent below par for some maturities.

Source: https://economynext.com/, 20.03.2020.

China to modify environmental supervision of firms to boost post-coronavirus recovery

China will modify the environmental supervision of companies to help the resumption of production disrupted by the coronavirus epidemic, giving firms more time to rectify environmental problems, but stressed it was not relaxing standards.

China’s economic growth is expected to have halved in the first quarter to the weakest since 1990 as the epidemic and strict containment measures crippled factory production, hobbled supply chains and led to a sharp slump in demand.

The environmental inspectors will not punish firms who make a small mistake but are able to correct it in time and not cause any environmental damage. The deadline for firms to meet environmental standards will also be extended at discretion.

But the changes to supervision did not mean relaxing environmental rules or supervision. The environmental ministry will use the coronavirus outbreak as a chance to improve the supervision efficiency, by adopting more high-tech means and reducing on-site checks.

China has said it will exempt some firms from on-site environmental checks if they are involved in the production of materials used in the fight against the coronavirus epidemic or have low emission levels.

It has simplified environmental assessments on some medium- and small-sized firms in the service industry, including restaurant, entertainment and hotel. It has also simplified assessments for some big projects in infrastructure, manufacture, transportation and animal husbandry, which involve intensive labour and have been hit hard by the virus.

Source: https://www.reuters.com/, 09.30.2020.

Coronavirus outbreak could shave off Nepal’s economy by US$36.78 million

The novel coronavirus (COVID-19) outbreak will hit almost every sector of the Nepali economy, shaving up to 0.13 percent off the gross domestic product and rendering up to 15,880 people jobless, as per an analysis by the Asian Development Bank.

The Manila-based multilateral lender has explored a range of scenarios on the economic impact of COVID-19 as the outbreak is still evolving, making it difficult to make rational predictions.

If the outbreak’s impact is minimum on Nepali economy, the country’s GDP will shrink by 0.04 percent or US$12.12 million, considering the size of Nepal’s economy as of 2018 at US$29 billion. Similarly, Nepal’s GDP will shrink by 0.06 percent or US$18.35 million if the impact of the outbreak is moderate, as per ADB. However, ADB has stated that the COVID-19, in the worst case, could shave off up to 0.13 percent or US$36.78 million from the country’s economy.

However, the magnitude of the economic impact will depend on how the outbreak evolves, which remains highly uncertain. The COVID-19 outbreak affect’s Asian economies through numerous channels, including sharp declines in domestic demand, lower tourism and business travel, trade and production linkages, supply disruptions, and health effects, as per ADB.

ADB has stated that the COVID-19 will affect an array of sectors, including hotels and restaurants, manufacturing, construction, transport, trade and business, among others, in Nepal and the Asian region.

Source: https://thehimalayantimes.com/, 07.03.2020.

Nepal-Bangladesh commerce secretary-level meeting

The fifth Nepal-Bangladesh commerce secretary-level meeting took place in Dhaka on 3-4 March.

An eight-member team led by Baikuntha Aryal, secretary at the Ministry of Industry, Commerce and Supplies (MoICS), is participating in the two-day meeting. The meeting focused on bilateral trade and investment, direct bus service, cargo movement, direct flights, possible waterways connecting the two nations and easing different customs barriers.

Among others, Nepal has tabled a proposal to study the feasibility of operating direct bus service between the two countries from Kathmandu to Dhaka. Similarly, connecting the two countries through inland waterways is the other major agenda that Nepal has raised in the meeting. “Discussions are being held to study the feasibility of enhancing connectivity between the two countries through road, air and waterways. Enhanced connectivity between the two nations will promote and ease bilateral trade and investment.

Similarly, preliminary discussions regarding the bilateral investment promotion and protection agreement also took place at the meeting.

Nepal has been negotiating the preferential trade agreement (PTA) with Bangladesh urging the country to remove an array of duties and charges that it levies over and above basic customs duties on products of export.

The government has also proposed Bangladesh to review the list of Nepali exportable goods for duty free access to Bangladesh. Though Bangladesh has granted duty free access for 108 Nepali products in its market, the list does not include Nepal's major exportable items.

Bangladesh is one of the major trade partners of Nepal.

Source: https://thehimalayantimes.com/, 04.03.2020.

EVENT

Awareness workshop on gender dimensions of trade facilitation

SAWTEE, in association with Manushi-Nepal, organized a half-day workshop to generate awareness among women entrepreneurs regarding participating in international trade on 6 March 2020 in Kathmandu. FCA Arun Raut, General Secretary, Association of Chartered Accountants of Nepal, provided insights into managing accounts, calculating taxes and becoming credit-worthy; and Mr. Rajan Sharma, former President, Nepal Freight Forwarders Association, shared information on export procedures, how to look for markets abroad, maintaining quality and other requirements to become export-ready.

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