Trade, Climate Change and Development Monitor

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OPINION IN LEAD

India's disengagement from trade talks

After more than six years of negotiations, India decided to withdraw from the Regional Comprehensive Economic Partnership (RCEP) in November 2019. Considering apprehension showed by India in the recent years to conclude impending bilateral trade agreements, the withdrawal from this regional trade pact appears to have strengthened the voices that accuse India of embracing protectionism as a solution to the country's trade-related woes.

RCEP—the regional free trade agreement involving 10 member countries of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, China, India, Australia and New Zealand—was expected to be concluded before the end of 2019. The deal was supposed to be the world's largest trade agreement including half of the world's population and 39 percent of the global GDP. However, on 4 November, Indian Prime Minister Narendra Modi announced that India will be pulling out of the deal as the agreement had potential to hurt its nascent manufacturing industry and aggravate Indian farmers' vulnerability.

The RCEP had faced quite a resistance at the home turf—from manufacturing bodies to rural farmers. Swadeshi Jagaran Manch—an affiliate of Mr. Modi's ruling party—had gone on an 11-day strike opposing India's entry into the deal. Since RCEP required member countries to cut tariffs by 90 percent in the next few years, the fear of cheaper Chinese imports flooding the Indian market overshadowed any other potential benefits. Besides the ghost of Chinese goods, Indian farmers, who are already in crisis, were agitated from the prospects of unsustainable competition with cheaper agriculture commodities coming in from Australia and New Zealand. To deal with these dangers, India wanted additional protection against surges in imports by imposing import-tariff quotas on select commodities. Similarly, India wanted to safeguard certain domestic sectors, such as dairy, from the deal. Another demand from India was to be exempted from ratchet obligations (new rules and regulations introduced after the entry into the deal coming into force should not be more restrictive to trade in the covered area than what they are replacing). Likewise, India has proposed to change the base year applied to reduced tariffs to 2019 from previously decided year of 2013. Since other countries did not agree to these conditions, India pulled out.

The statement from RCEP countries says that other members are willing to press ahead with the deal and India is welcome to join them whenever it feels is the appropriate time. However, Japan has announced that it will only work toward a deal that includes India. India—with a 1.4 billion population—is a lucrative market for any country. Hence, many countries are vying to ink a trade and investment deal with India. India appears to be scared of opening up which would allow an unrestrained flow of foreign goods to the detriment of domestic producers. In doing so, however, India is disregarding potential opportunities presented by reciprocal entry into foreign markets.

Such apprehension of the Indian government is not a new development. Indian governments, irrespective of parties heading them, seem to have been wary of trade agreements. For instance, India's negotiations with three key economies have stalled for a long time. India's comprehensive economic partnership agreements, which include both trade and investment issues, with the USA, the EU, Australia and Canada, have almost fizzled out. The bone of contention are issues such as investor-state dispute settlement, allowing market access in sectors such as dairy farming, medicines, etc. The lack of progress or India's disengagement with potential trade partners also implies that the country is taking an easier route of creating barriers than improving exports to improve its trade deficit.

The Indian economy is struggling to reign its current account deficit, which was recorded around 2 percent of the GDP in the first quarter of Fiscal Year 2019/20. Notably, India's bilateral trade deficit with countries it has entered into free trade agreements with has widened after the deals came into effect. This gave Indian policymakers more reasons to fear trade agreements. After India's free trade agreement with ASEAN (which came into force from the beginning of 2010), India's trade deficit with many ASEAN members has increased. Likewise, India's trade deficit with South Korea has more than doubled after the two countries entered into the free trade pact, which came into force from 1 January 2010. India's trade deficit with Japan also did not improve even after the two countries entered into an economic partnership agreement in 2011. The only positive experience of India with regard to free trade agreements is with the South Asian Free Trade Area (SAFTA) agreement.

India's gradual retreat towards protectionism does not bode well for South Asia as a whole. India—the largest economy in South Asia—is a dominant power and has been influential in guiding the direction of regional integration. It is evident from the current paralysis of South Asian Association for Regional Cooperation (SAARC) brought out by India's reservation towards Pakistan. Thus, India's disengagement in trade initiatives may further cripple the regional economic integration of South Asia. Besides SAARC and its initiatives, another regional arrangement—Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which includes five SAARC countries, Thailand and Myanmar—may also suffer. The group had signed a free trade framework agreement in 2004 but nothing concrete has come up since then.

Ongoing economic slowdown faced by India seems to have further watered down India's willingness to participate in trade agreements. However, as trade agreements are being transformed into economic agreements that take into account services trade and investment, along with merchandise trade, the question arises as to whether India can afford to go back to the protectionist position. In addition, analysts point out that India's retreat is rooted in India's lack of confidence in its competitiveness. Instead of addressing rigidities in its policies through structural reforms that would attract foreign direct investment while stoking demand by job creation, India appears to have taken the easier route of setting up barriers. Indeed, the welfare of its citizens ought to be the topmost priority of any country, but protectionist policies may do more harm than good. India should not forget its own experience from economic liberalization, which undeniably accelerated growth and brought prosperity to the hundreds of millions of its people.

REPORT

Aid effectiveness for structural transformation

The latest edition of least developed countries (LDC) report has called attention to the failure of the international community to create an international economic environment conducive to the structural transformation of LDCs.

The *Least Developed Countries Report 2019: The Present and Future of External Development Finance – Old Dependence, New Challenges*, published by United Nations Conference on Trade and Development (UNCTAD), highlights the formidable challenge the LDCs are facing in the form of dependence on external development finance. Dependence on development aid and foreign direct investment to finance fixed investment and, more generally, sustainable development is a crucial feature of the economies of the LDCs. Consequently, such dependence has a determining impact on the ability of these countries to reach their development goals, especially the Sustainable Development Goals and the objectives of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action).

The report calls structural transformation—which is the transfer of resources to the higher productivity sector from low productivity—an enabler of sustainable development. Since financial resources available to LDCs are limited, the report advocates for LDCs and their development partners to sequence their policy and spending focus with an eye on the Sustainable Development Goals most relevant to structural transformation—Goals 7 (affordable and clean energy), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure), 12 (responsible consumption and production) and 17 (partnerships). Rapid progress towards achieving these Goals is an enabler of the realization of the other Goals.

The report points out that the positive growth performance of LDCs since the global financial crisis of 2008/09 has not been sufficient for these countries to accelerate structural transformation or reduce dependence on external resources (i.e. foreign savings) to finance fixed investment and development. Despite a difficult international environment, LDC exports of goods and especially services have seen a significant expansion since the outbreak of the crisis. However, very limited diversification or upgrading of their export baskets and rapid expansion of imports overshadow this positive development for LDCs.

Likewise, aid dependency among LDCs remain comparatively high as 15 of the 20 most aid-dependent countries are LDCs. LDCs have been unable to attract market-based resources commensurate. The report revealed that LDCs have increasingly resorted to debt financing, more than doubling their external debt stock from US$146 billion to US$313 billion between 2007 and 2017. But FDI flow continues to be concentrating only on few economies, mostly on resource-rich countries. It is actually the official development assistance (ODA) disbursement that outstripped all other sources of external financing in

2017. Yet, ODA disbursements to LDCs have increased by only 2 percent annually since the Istanbul Programme of Action of 2011 and remain far from internationally agreed targets. The report also calls attention to increased loan to LDCs. The rise in ODA gross disbursements to LDCs since 2011 is chiefly due to increased ODA loans, whereas grants have remained essentially stagnant, or even declined, for most of the 2010s.

The report proposes what it calls the Aid Effectiveness Agenda 2.0. It involves addressing the unfinished business of the original aid effectiveness agenda, which includes the need for donors to implement previous commitments on the volume of ODA. Likewise, another component is to address the challenges that emerge from ongoing changes in the aid architecture. These include, first of all, collaborating on private sector engagement in development cooperation.

Aid coordination and aid effectiveness have re-emerged as topical issues in development financing, as the number of players has increased tremendously and due to the scant level of implementation of the aid effectiveness agenda. Similarly, the report also calls for aid organizations not to exclude LDC governments in decision-making matters which directly and significantly affect development. The report calls for increased coordination between government and donors to ensure integration of external development assistance with the priorities of recipient countries and also to ensure that any external support adheres to the strategic objectives of national development agendas.

This piece is excerpted from the *Least Developed Countries Report 2019*.

NEWS

Japan won't sign RCEP if India doesn't join

Japan is not considering signing from the Regional Comprehensive Economic Partnership (RCEP) without India, the top Japanese negotiator said ahead of a series of diplomatic exchanges in the coming weeks that include a visit to New Delhi by Japan's Prime Minister Shinzo Abe.

India announced in the beginning of November that it was withdrawing from the RCEP, which is considered a Chinese-backed regional trade pact, citing the deal's potential impact on the livelihoods of its most vulnerable citizens. China said that the 15 remaining countries decided to move forward first and India was welcome to join RCEP whenever it's ready.

Japanese Deputy Minister for Economy, Trade and Industry Hideki Makihara, said in an interview with Bloomberg that they were thinking of negotiations including India.

Mr. Abe has sought to beef up ties with India across a range of fields to balance China's regional dominance. Japanese and Indian foreign and defense ministers hold their first joint meeting in a so-called 'two plus two' format this weekend. Both countries are also part of four-way security talks with Australia and the U.S. called the Quad, a move that Beijing has complained could stoke a new Cold War.

Source: //economictimes.indiatimes.com/, 29.11.2019.

World Bank supports energy access project in Afghanistan

The World Bank has approved a US$52.5 million grant for the Afghanistan Gas Project that will provide sustainable supply of natural gas to independent power producers in Northern Afghanistan.

The Afghanistan Gas Project will provide direct financing and technical assistance for the construction, operation and maintenance of a gas pipeline from Sheberghan to Mazar-e-Sharif and a new natural gas desulfurization amine plant; and establishment of a strong institutional, regulatory, and contract management framework based on the principles of good governance in the gas sector.

Afghanistan’s Ministry of Mines and Petroleum will lead the overall implementation of the project in close coordination with other government agencies, including the Afghanistan Gas Enterprise, and the Afghanistan Oil and Gas Regulatory Authority.

Source: https://www.worldbank.org/, 26.11.2019.

Five factories exit Bhairahawa SEZ

Nearly half a dozen industries, which were preparing to start operations in Nepal’s Bhairahawa Special Economic Zone (SEZ), have decided to move out, realizing that it would be impossible to meet the criteria of exporting at least 60 percent of their total productions.

SEZ was established by the government to facilitate export-oriented industries. But industries are showing reluctance to move into SEZ due to mandatory export requirement and lack of necessary infrastructure.

New Metal Industries Pvt Ltd, Siddhartha Pipe Pvt Ltd, two factories of Siddhartha PET Plast Pvt Ltd and Sugam Nano Herbal Pvt Ltd have already decided to move out of Bhairahawa SEZ.

Promoters of industries, which have decided to move out of SEZ, complained that the government made commitments to facilitate export but failed to live up to them. These industries have paid rent of about a year.

SEZ Bhairahawa has signed agreements with 22 industries so far. Of them, only three have started production.

Some industries operating in Bhairahawa SEZ, meanwhile, have started exporting their productions. Shakti Minerals, for example, have exported NPR 5 million worth of goods after starting production in SEZ.

Two firms – Global Steel Bhada Bartan and LED Light – started commercial production from October 15, while Panchakanya and Jaya Buddha Industries are setting up their plants.

Source: https://myrepublica.nagariknetwork.com/, 21.11.2019.

WTO rejects most of India's claims against US steel duties

World Trade Organization adjudicators on 15 November rejected most of India's claims that the United States (US) was not respecting an earlier WTO ruling related to anti-subsidy duties on Indian steel.

India had complained that the US failed to meet an April 2016 deadline to comply with a WTO decision that faulted it over its imposition of "countervailing" duties on hot-rolled carbon steel products from India. Despite US duties still applying, the WTO panel rejected many of India's complaints, although it did say that the US needed to bring a legislative provision into line with WTO rules.

India brought its original complaint to the WTO in April 2012, after the US Department of Commerce set an import duty of nearly 286 percent on a circular welded carbon-quality steel pipe product from India to offset government subsidies.

In 2014, the WTO found that for a variety of reasons, the US measures breached global trade rules. The two parties agreed that the US would comply with that ruling by 2016, but then disagreed over whether it had done so.

Either side could appeal against the panel's latest findings. If a country does not comply with a WTO ruling, the other party can ask to impose sanctions.

In the extremely complex case, India argued that the market set the price of the steel pipe, but the US said the iron ore used to make it came from a state-run mining firm, the National Mineral Development Corporation, effectively subsidizing Indian exporters.

Source: https://www.aljazeera.com/, 16.11.2019.

Nepal receives climate change project grant from Green Climate Fund

Nepal has secured its first significant funding from the Green Climate Fund (GCF) for a project aimed at helping the country adapt to the adverse impacts of climate change.

The 24th board meeting of the fund in Sangdo, South Korea on 13 november approved the funding proposal of Nepal—one of the most vulnerable countries to the impacts of the climate crisis.

The meeting has given the green signal to awarding a US$39.3million grant to the project titled 'Building Resilient Churia Region in Nepal'.

The Food and Agriculture Organization will implement the approved project, in partnership with the Ministry of Forest and Environment, in the fragile Chure range which has faced massive degradation in the past. The project will last for seven years.

Set up in 2010 under the United Nations Framework Convention on Climate Change (UNFCCC), the GCF was created to support the efforts of developing countries to respond to the challenge of climate change.

Nepal had also received funding from the GCF twice in the past. In 2016, under the GCF's Readiness and Preparatory Support Programme, a programme to enhance country ownership and access to the funds, Nepal had received a grant of US$2.9 million via the United Nations Environment Programme for preparing its National Adaptation Plans, also known as Asia's first GCF-financed project at the time.

Likewise, Nepal received another funding from GCF's Readiness Support that provides up to US$1 million per country per year for strengthening the country's institutional capacities to access the funds.
The current funding has been approved for the project which will be implemented on the ground to help climate-vulnerable communities and ecology to adapt.

Source: https://kathmandupost.com/, 14.11.2019.

China can use Bangladesh's largest seaports

Bangladeshi Prime Minister Sheikh Hasina told lawmakers on 13 November that China could use Bangladesh's two largest seaports.

The statement came weeks after Dhaka signed an agreement allowing Beijing's regional rival, India, access to the same ports.

She issued the statement while announcing that her government had signed a deal with New Delhi known as the Standard Operating Procedure (SOP), which would ease the flow of cargo destined to northeastern Indian states.

"We will welcome it if the southwestern states of China show interest in using the two ports," She replied when a legislator asked if Beijing would also be given access to the ports. By providing India access to the two ports, Bangladesh would be transformed into "a hub of regional trade and connectivity".

“To achieve these goals, an SOP has been signed with India. So, India can use the two ports [Chittagong and Mongla] for its export-import trade,” Bangladeshi Prime Minister said. “I hope, the northeastern states of India would exploit the opportunity.”

Source: https://www.benarnews.org/, 13.11.2019.

PUBLICATION

Trade Insight: Exploring contours of BRI in South Asia

As China's Belt and Road Initiative has made inroads into most of South Asian countries, the latest issue of Trade Insight explores concerns related to several aspects of the initiative. The articles in the issue highlight ways to take maximum advantage from the BRI, explore infrastructure boost received by Bangladesh and Pakistan, analyze Sri Lanka's debt overhang and highlight geopolitical challenges. Click here to access the digital version of this issue.

Policy Brief: Can remittances support development in Nepal?

A study on remittances and non-farm self-employment done by SAWTEE researchers show that receiving remittances prompts women to work less, particularly in non-farm self-employment. Also, higher remittances lead to lower revenues for household (non-farm) businesses due to the reduced labour supply. Click here to read the policy brief.

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