Trade, Climate Change and Development Monitor

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

Volume 17, Issue 2, February 2020

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OPINION IN LEAD

Enhancing exports to Bangladesh

Kakarvitta (Nepal)-Panitanki (India)-Fulbari (India)-Banglabandha (Bangladesh) road corridor that hosts almost all of Nepal-Bangladesh trade is a mere 54 km stretch. Judging by the proximity, the size of Bangladesh's economy, its impressive and persistent economic growth over the past decades and the fact that Nepal and Bangladesh are signatories to more than a few agreements that aspire to bolster trade, one would surmise that this corridor is bustling with truckloads of Nepali goods making their way to Bangladesh. However, the reality defies the common sense. While Nepal's imports from Bangladesh have risen substantially since 2006, its exports to Bangladesh, composed of only a handful of products, have seen a meteoric decline.

Against this background of Nepal's dismal exports to Bangladesh and the burgeoning interest of both the nations' governments to negotiate a trade agreement to stimulate trade between the nations, South Asia Watch on Trade, Economics and Environment (SAWTEE) undertook a study with a view to provide valuable information to the negotiators on how best to bolster Nepal's exports to Bangladesh.

The first step of this assessment was to analyze whether Nepal indeed has products that could be exported in significant amount, without which the trade agreement would merely be symbolic. Our study, which focused on potential agricultural products, identified at least 74 such products that could be exported to Bangladesh. The methodology, to put it simply, entailed finding agricultural products that Nepal has been exporting to the world in a significant amount and ensuring that these products have substantial import demands in Bangladesh. Furthermore, products that have been designated as priority products by the government of Nepal, for instance through Nepal Trade Integration Strategy, and products identified by local exporters and private sector bodies as potential exports to Bangladesh were also included. The agricultural products, thus identified, include animal products (meat, dairy, and honey), vegetables, fruits, tea, coffee, and spices, medicinal plants, animal/vegetable oils/fats, prepared foodstuffs/beverages, animal feed and essential oils.

After assurances that there are products carrying major export potential to Bangladesh, a natural question that has to be answered is: What impedes the exports of these products? To answer this, along with the study of available studies and reports, an in-depth consultations with exporters and relevant private sector associations, primarily in Biratnagar and Jhapa, which are the major industrial centres located near Nepal-Bangladesh trade corridor, were conducted. This assessment has brought out the major barriers that are currently impeding Nepal's exports to Bangladesh.

First, among a handful of barriers, taxes levied on imports at Bangladesh customs is the primary obstacle to Nepal's exports. The high taxes arise from broadly three components: customs duty (or the tariff), other charges and taxes (or the para-tariff) and the need for overvaluation of certain products for customs purposes.

Customs duty on products is usually high in Bangladesh. For example, in 2018, average tariff on agricultural goods was 17.5 percent. Furthermore, an overwhelming 60.5 percent of agricultural goods attracted tariff rates between 15 to 25 percent and 38.6 percent of non-agricultural goods attracted tariff rates between 15 to 25 percent. The potential products identified in our study also demonstrated similar incidence of customs duty as majority of them are found to be slapped with tariff rate of 25 percent.

The taxes, however, do not stop at customs duty. There are para-tariffs, which exponentially increase the taxes on imports. The para-tariffs include five other taxes levied on imports: Supplementary Duty (SD), Value Added Tax (VAT), Advance Income Tax (AIT), Regulatory Duty (RD), and Advance Trade VAT (ATV). RD and ATV are strictly para-tariffs as these are levied solely on imports. Similarly, AIT is also withheld only on imports, to be settled when the importer files for income tax. Also, importantly, even apparently trade-neutral taxes, imposed both on imports and domestic production, such as VAT and SD, act as para-tariffs in many instances, as some domestic productions are largely exempt from these taxes through statutory regulatory orders, a point also highlighted by the World Bank's recent study A Glass Half Full: The Promise of Regional Trade in South Asia.

An example of taxes levied on Nepal's exports to Bangladesh makes the point clearer. While customs duty of 25 percent is applied to black tea, the total tax incidence is much higher at 91.37 percent as a result of other taxes we discussed earlier.

Nepal's competitiveness on certain products is further hurt by the fact that Bhutan enjoys duty-free and charges-free exports for 18 products under the Bangladesh-Bhutan bilateral trade agreements. Several of these products (such as large cardamoms, ginger, vegetables, fruits and juices) are also the products that Nepal could export to Bangladesh. However, the fact that Nepal has to pay hefty taxes but Bhutan doesn't makes it difficult for Nepali products to compete with their Bhutanese counterparts. For instance, this was identified as the sole reason for large cardamoms, one of the biggest exports of Nepal to the world, not making its way to Bangladesh.

Although not strictly a tax on imports, Nepali exporters of certain products end up having to pay more in taxes as they are made to inflate the valuation of their goods at Bangladesh customs in order to meet Bangladesh's reference price. For example, ginger worth US$225 per tonne in Nepal clears Bangladesh customs being valued at US$ 900 per tonne, and chiraito (a medicinal plant) worth US$ 1,250 per tonne in Nepal is valued at Bangladesh customs at US$ 1,600 per tonne.

The aforementioned discussions on taxes on imports have important implications for the trade negotiators. Agreeing to only reduce or eliminate customs duty is not going to have significant impact on promoting Nepal's exports. The agreement has to also eliminate or substantially reduce the para-tariffs so that a level playing field is created. Needless to say, the agreement has to ensure duty-free and charges-free entry for potential exports (for example, large cardamoms) that Bhutan is currently enjoying.

High taxes on imports are not the only issue. The issue of non-tariff measures, which are policy measures, other than customs tariffs that affect the trade of goods, also loom large. For example, Bangladesh has specific product requirements such as radioactivity requirements, fumigation requirements, etc that Nepali exporters have to comply with. Merely complying is not enough, however, since testing and certifications (such as radiation testing, fumigation certifications, and phytosanitary certificates) have to be provided. These certificates add time and cost to exporters and are not always available, and in some cases not accepted by the importing countries. Although currently these measures are only occasionally used against Nepali exporters at Bangladesh customs, the quality and certification issues might emerge in the future as a major barrier when exports start to increase.

Likewise, there is also the payment issue. Nepali exporters are not able to avail the use of advance payment provisions while exporting to Bangladesh as a result of restrictions imposed by Bangladesh. Furthermore, Nepali exporters also complain about habitual delays in L/C payments and reduction in payments by Bangladeshi importers, citing discrepant L/Cs. In other words, payments agreed upon in the L/C are delayed or reduced citing insufficient documents, quality and certification issues, etc.

Another non-tariff measure that affects Nepali exports is port restriction. Goods are not allowed to pass through certain ports or are only allowed through designated port(s). For instance, yarns (except acrylic yarn) from Nepal are not allowed to be exported through the Banglabandha land port, adding costs to exporters to the extent of making export to Bangladesh unviable.

Furthermore, there are logistic issues and procedural obstacles, such as the need to transload (transfer goods from one truck to another) at the customs yard in Bangladesh, sub-optimal warehousing facilities and customs infrastructure, and the need for informal payments, increasing time and cost or both. Difficulties in obtaining visas and time and costs associated in getting one, particularly for exporters located far from Kathmandu, also add to the woes of exporters.

Lastly, an issue that needs emphasizing is the lack of information among Nepali exporters, particularly regarding South Asian Free Trade Area (SAFTA) concessions provided to certain products, which exempts these products from whole or a portion of customs duty. For example, although the normal (MFN) rate of customs duty for large cardamoms is 25 percent, it is only five percent for Nepali products under SAFTA concessions. However, the exporters of large cardamoms seemed mostly unaware of this facility. Furthermore, exporters of qualifying products also did not have the know-how regarding how to get 'certificate of origin' for exporting under SAFTA, a mandatory requirement for availing the concession.

As grave as these issues are, not all of them could be solved by a preferential trade agreement that the two countries are negotiating for. However, a trade agreement that eliminates or substantially reduces the tariffs and para-tariffs levied on meticulously chosen potential Nepali exports and committing to address the major non-tariff barriers will be a major first step in tapping the lucrative Bangladesh market for Nepali products.

This article, written by Mr. Kshitiz Dahal, Research Officer, SAWTEE, was published in the Republica daily. It can be accessed here.

REPORT

Benefits of mobile are reaching further than ever

Although two-third of world's population has mobile connections factors such as affordability, consumer readiness, and availability of locally relevant content and services, along with, infrastructure are holding back the adoption of mobile internet, according to the Mobile Economy Report 2020.

By the end of 2019, 5.2 billion people subscribed to mobile services, accounting for 67 percent of the global population, says the report published by GSM Association (GSMA)—an umbrella organization representing interests of mobile operators worldwide, uniting more than 750 operators with almost 400 companies in the broader mobile ecosystem. The report points out that adding new subscribers is increasingly difficult as markets become saturated and the economics of reaching rural populations become more difficult to justify in a challenging financial climate for mobile operators. Despite this, there will be around 600 million new subscribers by 2025 – mostly in India, China, Pakistan and Nigeria – for a total of 5.8 billion subscribers to mobile services (70 percent of the global population).

Mobile continues to make a significant contribution to the global economy. In 2019, mobile technologies and services generated US$4.1 trillion of economic value added (4.7 percent of GDP) globally. This figure will approach US$5 trillion (4.9 percent of GDP) by 2024 as countries increasingly benefit from the improvements in productivity and efficiency brought about by increased take-up of mobile services. Further ahead, 5G technologies are expected to contribute US$2.2 trillion to the global economy between 2024 and 2034. Key sectors such as manufacturing/utilities (particularly in China) and professional/financial services will benefit the most from the new technology.

The mobile ecosystem also supported 30 million jobs (directly and indirectly) and made a substantial contribution to the funding of the public sector, with US$490 billion raised through general taxation. By 2024, mobile's contribution will grow by US$820 billion (approaching US$5 trillion), accounting for 4.9 percent of GDP, as countries around the world increasingly benefit from the improvements in productivity and efficiency brought about by the increased take-up of mobile services.

Despite increased penetration of mobile connectivity, the barriers related to infrastructure, affordability, consumer readiness, and availability of locally relevant content and services pose a challenge. Lack of skills and a large gender gap are major obstacles to mobile internet adoption in South Asia, Sub-Saharan Africa and the Middle East and North Africa. The report points out that these barriers will slowly be overcome though, and by 2025 an additional 1.2 billion people will start using mobile internet for the first time, which will bring the total number of mobile internet subscribers globally to five billion (over 60 percent of the population). With this growth in connectivity, individuals are increasingly using mobile to access an array of life-enhancing services that contribute to and catalyze the achievement of the UN Sustainable Development Goals (SDGs). In addition, the mobile industry is playing a key role in mitigating the catastrophic impacts of climate change, which threatens sustainable development everywhere. However, much more can be done to leverage the power of mobile and support the delivery of the SDG 2030 targets. This includes helping people realize the full benefits of accessing health information, public services and digital payments, and leveraging new technologies to reduce pollution, improve resilience to climate change and increase energy efficiency.

Measuring digital skills across countries is also a challenge because of a lack of high-quality comparable data. Mobile penetration, which is the main driver of consumer readiness, has increased across all regions, but low levels of mobile phone ownership are limiting mobile internet adoption, especially in South Asia and Sub-Saharan Africa, where mobile penetration rates are 53 percent and 45 percent respectively.

The report also calls attention to the importance of the active participation of governments and regulatory authorities to realize the full potential of mobile technologies. The report calls for the government to work together with the private sector to enable vibrant, competitive markets and to help shape the digital environment citizens want. The government could specifically take steps to facilitate network deployment and expansion and ensure their citizens are protected when they engage with digital technologies.

This piece is excerpted from The Mobile Economy 2020.

NEWS

BIMSTEC seeks integrated regional power management

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is seeking effective ways for integrated power management among regional nations through enhanced cooperation, the participants from the member countries pointed out during an energy conference organized in Dhaka on 25 February.

The BIMSTEC is working on connecting about 3,000 kilometre-long power grid from Myanmar-Thailand to India, Bangladesh prime minister's energy affairs advisor Tawfiq-E-Elahi Chowdhury said opening the event.

The connectivity will also enhance the efficiency of the energy by reducing the electricity cost for the consumers and ensure uninterrupted quality electricity supply for industrial and commercial sectors maintaining stability in the power sector.

Source: https://en.prothomalo.com/, 25.02.2020.

Trump concludes India visit without major agreements

US President Donald Trump concluded a state visit to India on March 25 without major announcements on trade or security.

Mr. Trump departed having cemented his close friendship with Indian Prime Minister Narendra Modi, but he was frank that Mr. Modi puts up a tough trade fight and that their disagreements on tariffs and deficits wouldn't be resolved in the near-term.

And he made no reference when standing alongside Mr. Modi of the contentious situation gripping India over the status of Muslims in the Hindu-majority society. Hours before US President arrived in the Indian capital, violent clashes between supporters and opponents of Modi's Hindu nationalist stance left more than seven people dead.

Mr. Trump said during a later news conference that he had raised the issue of religious freedom with Modi in their private talks.

There were tempered expectations heading into Mr. Trump's visit for major breakthroughs on trade or other matters. Mr. Trump acknowledged before he departed that a trade deal wasn't likely before November's presidential election.

Mr. Trump is eager to reduce the trade deficit with India, and has applied tariffs on steel and aluminium that set off a cascade of retaliatory actions. He eventually stripped the country of preferential trade status, igniting anger among Indian officials.

Mr. Trump and Mr. Modi announced some modest agreements on defence and security, including the purchase of US$3 billion worth of American military helicopters and other equipment for its Navy. The pair also outlined new agreements for energy purchases and a joint mental health initiative.

Source: https://edition.cnn.com/, 25.02.2020.

India sugar shippers target 'golden opportunity' in Indonesia

Indian sugar millers, saddled with record stockpiles, are eager to cash in on the prospect of resuming exports to Indonesia after being absent from the world's top import market for years.

The nation, which vies with Brazil as the top producer, may sell 250,000 tons of raw sugar to Indonesia by the end of the local crushing period in May after a change in quality rules by the Southeast Asian country, according to the median of six estimates in a Bloomberg survey of traders and officials.

Indonesia changed the colour specification for raw sugar imports to allow shipments from India. The government halved the ICUMSA measure to 600. The ICUMSA is the International Commission for Uniform Methods of Sugar Analysis. Most Indian mills make raw sugar with an ICUMSA of as much as 800 and could not ship to Indonesia, which had a level for imported sugar of 1,200.

India is returning to Indonesia after a severe drought cut production in Thailand, normally the main supplier of raw sugar to the country. The new export market may help rein in India's ballooning reserves, which surged to a record of more than 14 million tons on 1 Oct after bumper harvests.

Increasing exports from India may curb the rise in global prices that have surged about 10 percent this year on concern about production in second largest exporter Thailand, hit with its worst drought in 40 years. Sugar exports from the country could drop about 40 percent to 6 million tons, according to one industry estimate.

The US Department of Agriculture estimates that Indonesia, the world's biggest importer of the sweetener, will buy 4.4 million tons of raw sugar in 2019-20.

Source: https://www.thejakartapost.com/, 19.02.2020.

Amazon's Bezos pledges US$10 billion to climate change fight

Amazon Chief Executive Officer Jeff Bezos will commit US$10 billion to fund scientists, activists, nonprofits and other groups fighting to protect the environment and counter the effects of climate change.

Cutting emissions will be challenging for Amazon. The e-commerce company delivers 10 billion items a year, has a massive transportation and data centre footprint, and has faced criticism from within its own workforce.

Mr. Bezos, the world's richest man, is among a growing list of billionaires to dedicate substantial funds to battling the impact of global warming. The Bezos Earth Fund will begin issuing grants this summer as part of the initiative.

Last year, Mr. Bezos pledged to make online retailer Amazon net carbon neutral by 2040— the first major corporation to announce such a goal–and to buy 100,000 electric delivery vehicles from U.S. vehicle design and manufacturing startup Rivian Automotive LLC.

Source: https://www.reuters.com/, 18.02.2020.

WTO gives sombre goods trade outlook

Growth of global trade in goods is likely to remain weak in early 2020, the World Trade Organization (WTO) said, adding that the below-trend performance could become even worse due to the new coronavirus.

The Geneva-based trade body said its goods trade indicator fell to 95.5 from the 96.6 reading reported in November. Readings of less than 100 indicate trade growth below medium-term trends.

The WTO said the new figure did not take into account the most recent developments, such as the outbreak of the new coronavirus, which could dampen trade prospects further.

Global merchandise trade fell by 0.2 percent year-on-year in the third quarter of 2019, the WTO said, with a possible pick-up in the fourth quarter.

However, its new data indicated this recovery would not be sustained, with a decline now looking likely in the Jan-March period of 2020.

The WTO trade outlook indicator is a composite of data on export orders in business surveys, air freight, container shipping, car production and sales and trade in electronic components and agricultural materials, particularly wood.

It is designed to identify turning points and gauge momentum in global trade growth rather than to provide a specific short-term forecast.

Source: https://www.reuters.com/, 17.02.2020.

India allocates budget for the proposed Raxaul-Kathmandu electrical rail blueprint

The Indian government, through its federal budget for fiscal year 2020-2021, has allocated funding to carry out a detailed project report on the proposed Raxaul-Kathmandu electric rail project, Nepal government officials said.

However, the budget amount has not been disclosed, the officials said. Not disclosing the budget amount indicates that there is no clarity on whether India will bear all the expenses to prepare the report.

India concluded a pre-feasibility study (pre-engineering and traffic service) of Raxaul-Kathmandu electric railways and submitted the report to Nepal in mid-May last year. The report suggested four alternatives and it was said at the time that a detailed project report will be prepared by choosing one among the four alternatives.

The report showed that there could be two routes — a long route and a short route. The long route would span 192 km while the short route, 136 km. Nepal selected the route that will start from the dry port of Birgunj and will pass from Jitpur, close to the proposed second international airport at Nijgadh. The last station of the railway is proposed to be Chobhar, Kathmandu.

It is expected that it would take a minimum of a year to prepare a detailed project report. The agreement of Raxaul-Kathmandu railways between Nepal and India, states that the pre-feasibility, including detailed project report needs, to be concluded within a year.

Once the detailed project report gets finalized, it will take five years laying the railway track from the start date, said the Nepali officials.

Source: https://kathmandupost.com/, 17.02.2020

Sri Lanka to sign Double Taxation Avoidance Agreements with six countries

Sri Lanka will sign Double Taxation Avoidance Agreements (DTAAs) with six countries to facilitate and encourage trade and investments, the Government Information Department of Sri Lanka reported.

According to the Inland Revenue Department (IRD) Commissioner General Nadun Guruge, the DTAAs will be signed with Ukraine, the Maldives, Hungary, Cyprus, Austria and the agreement with the UK will be renewed.

The Double Tax Avoidance Agreement (DTAA) is a tax treaty signed between two or more countries to help taxpayers avoid paying double taxes on the same income. A DTAA becomes applicable in cases where an individual is a resident of one nation, but earns income in another.

Sri Lanka signed a DTAA with Turkey in Ankara recently to improve transparency in tax matters and help curb tax evasion. Guruge said such initiatives will help improve the flow of investment, trade activities and boost the tourism sector.

Source: http://www.colombopage.com/, 03.02.2020.

Social media ad payments must be thru banking channel in Nepal

In a move aimed at curbing international payments made through illegal and informal channels, Nepal Rastra Bank has directed all companies and agencies using social media platforms for advertising to use formal banking channels for such transactions.

Amid increasing trend of making and receiving payments of advertisements published on social networking sites such as Facebook, Twitter, Instagram and YouTube through hundi, illegal cards and other illegal means, the central bank has stated that legal action will be taken against companies and agencies which make payments for social media advertisements illegally.

NRB published a notice on 31 January stating that such illegal modes of payments for social media advertisements would promote foreign currency misappropriation and directed all advertisers on social media to make transactions only through banking channels.

The central bank is learnt to have issued the directive primarily to curb payments released from Nepal. A study conducted by the bank found several companies and agencies in Nepal using informal channels to send money meant for payments for social media advertisements to foreign countries where the platforms are headquartered. Some of the multinational companies, especially in the consumer goods sector, were found to have encouraged and actively spearheaded this trend.

Reacting to the development, some advertisers admitted that the NRB's latest move would certainly affect digital marketing.

Source: https://thehimalayantimes.com/, 01.02.2020

EVENT

Removal of border charges should top Nepal-Bangladesh trade talk agenda

South Asia Watch on Trade, Economics and Environment (SAWTEE) and the Ministry of Industry, Commerce and Supplies (MoICS) jointly organized an interaction on Nepal-Bangladesh trade on 29 February in Kathmandu. As the Government of Nepal negotiates a preferential trade agreement (PTA) with Bangladesh, the participants pointed out the need to persuade Bangladesh to remove an array of duties and charges that it levies over and above basic customs duties on products of export interest to Nepal. Traders exporting to Bangladesh called for a provision for visa-on-arrival for Nepalis entering Bangladesh via the land route. They also urged the Nepal government to ensure better transit-transport connectivity between Bangladesh and Nepal, pointing out that the Fulbari-Bangalabandh route, originally meant for Nepal-Bangladesh trade, has become congested as it now has to also serve Bhutan-Bangladesh trade and India-Bangladesh trade, with Bhutanese cargo getting priority in clearance.

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