Trade, Climate Change and Development Monitor

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

Volume 15, Issue 03, August 2018

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OPINION IN LEAD

Strong dollar weighs heavy on South Asia

Strong dollar coinciding with surging oil prices made summer of 2018 particularly difficult for most of the South Asian economies. Values of these nations' currencies have plunged to new lows against the greenback. The two biggest economies in the region, Pakistan and India, were the biggest losers. Compared to a year ago, Pakistani rupee suffered the biggest loss as it had depreciated by about 19 per cent in July but recovered a little by the end of August. Similarly, Indian rupee was the second biggest loser which started to shave the value against dollar in late July. By the end of August, value of Indian rupee had slid by 14 per cent against the United States dollars.

Fixed peg with Indian rupee meant Nepali rupee and Bhutanese Ngultrum also went on the ride to south accompanying their Indian counterparts. Sri Lankan rupee had also declined by about 6.5 per cent but its major slide occurred in May and since then seemed to have stabilized. Afghan afghani also suffered a slide of about eight per cent in the last one year. Bangladeshi taka was down by nearly three per cent while Maldivian rufiyaa shed only 0.25 per cent of its value since dollar began its assent.

All of the South Asian countries follow either managed float or flexible exchange rate regime. Thus, strengthening US dollar had unenviable impact on these currencies. After undergoing couple of unimpressive years, dollar began to surge since the beginning of 2018. The rally is attributed to historic tax cuts and deregulation policies brought by the current US administration. Further, economic fundamentals also supported the rise of dollar as the US saw 4.2 per cent growth in the latest quarter while unemployment rate is skimming below four per cent for the first time since December 2000.

The US Federal Reserve's decision to increase interest rate for the first time since the financial crisis of 2008 also helped soaring dollar value against other currencies. Reports of trouble brewing in the two major emerging market economies have already been reported in Turkey and Argentina—whose currencies depreciated by more than 40 per cent—raising contagion fears to other emerging economies, notably India. In addition, ongoing signs of full-blown trade war between the US and China also gave rise to fear of currency war. All these cumulated into developing countries' currencies taking a hit.

Strong dollar means South Asian countries that already suffer from record trade deficit will have to shell out more of their domestic currency to be able to purchase same amount of goods. This predicament is further complicated by the soaring oil prices. All of South Asia is the net importer of petroleum products, which is also the largest import commodity for these countries. In last one-year only crude oil price has jumped by more than 40 per cent per barrel. Oil, also being an important input, its rising price may snowball into increased overall prices of goods and services. This is not a good sign for the current account deficit, which have been a major problem faced by South Asian countries. The countries also own sizable dollar-denominated debt and strengthening dollar means servicing these debts will put extra pressure on their capital accounts. Sri Lanka and Pakistan both under fiscal pressure due to the debt may find this particularly difficult.

Weakening currencies may not always be bad news for the countries. Although imports become expensive, exports become cheaper for the foreign countries. South Asian countries should focus on exporting their niche products to markets abroad. However, cheaper currency may not always translate into increased exports, especially when the export commodities require import of raw materials. To take advantage of weakened currency, it is essential that countries take steps to overcome some of their perennial supply-side constraints to enhance their export competitiveness.

REPORT

“Belt and Road projects reduce inequality”

“Chinese development projects accelerate economic growth, and by building connective infrastructure that helps local residents and businesses reach more distant markets, these investments could spread economic activity to rural, remote and disadvantaged areas”, according to a working paper produced by AidData at the College of William & Mary, United States of America (USA).

The Belt and Road Initiative (BRI) was announced by China in 2013 as a project to build trade routes to link it with multiple countries in Asia, Africa and Europe. This meant financing infrastructure projects in over 65 countries. As of 6 September 2018, China has signed 123 cooperation documents with 105 countries in Asia, Africa, Europe, Latin America and the South Pacific region and 26 documents with 29 international organizations. The latest memorandums of understanding (MOUs) were signed with 37 African countries and the African Union (AU), according to the BRI official portal.

Connectivity is central to BRI and China’s commitment to financing connective infrastructure is unambiguous. The study is premised on BRI’s commitment to connective infrastructure has far-reaching distributional consequences in low-income and middle-income countries that are not yet fully understood or appreciated. Connectivity projects help increase mobility of people, goods and capital. The study dwells on the question of whether Chinese government-financed connective infrastructure might help developing countries escape inefficient spatial equilibria—that is, transition away from the status quo of excessive concentration of economic activity in a small number of cities or regions.

It analyses Chinese government financed projects in 138 countries between 2000 and 2014 to examine their effects on the spatial distribution of economic activity in the host countries. Estimates of the overall and sector-specific effects of these projects on spatial inequality within and across subnational jurisdictions are done by using the dispersion of night-time light intensity. The analysis is conducted at three levels: the second-order administrative region level, first-order administrative region level and country level.

The study also compares distributional effects of development projects financed by China with those of the World Bank, a financier of large-scale infrastructure projects that is—at least rhetorically—committed to the idea that the benefits of economic growth ought to be shared broadly across society.

The results of this study strongly suggest that Chinese-financed connectivity infrastructure reduces spatial inequalities and accelerates the diffusion of economic activity across geographic space. The results are strongest for transportation infrastructure projects financed by China, but also hold true for Chinese-financed development projects in general.

According to the study, Chinese development projects in general, and Chinese transportation projects in particular, reduce economic inequality within and between regions. These results suggest that Chinese investments in “connective infrastructure” produce positive economic spillovers that flatten the spatial distribution of economic activity.

The study also tests whether Chinese transportation infrastructure projects are more effective in reducing regional inequality when they are undertaken alongside projects in complementary sectors, such as health or education. It, however, fails to find robust evidence in favour of co-location benefits. Moreover, it could not confirm that World Bank-financed projects affect the spatial distribution of economic activity in any systematic manner.

The study further states that, to the extent that China is helping developing countries escape inefficient spatial equilibria in which most economic activity concentrates in a small number of urban centres and gravitates away from rural towns and villages, this is an outcome that ought to be celebrated. However, it cautions against taking Chinese infrastructure finance as a development panacea. It points to evidences of China’s “aid on demand” approach being vulnerable to domestic political manipulation. Government leaders in recipient countries have been known to steer Chinese aid to their home and ethnic regions.

The study further adds that Chinese development projects, including infrastructure projects, produce a number of negative externalities as well. They include local corruption, environmental degradation and lower levels of trade union participation. The biggest concern of all is that the Chinese financing may saddle recipient governments—and their taxpayers—with unsustainable debt burdens. The study, therefore, concludes that Chinese connective financing may help narrow spatial inequalities, but leaves out its overall impact as a more complex question that needs answering.

(*Adapted from a Working Paper "Connective Financing: Chinese Infrastructure Projects and the Diffusion of Economic Activity in Developing Countries" published by AidData at the College of William & Mary, USA*)

NEWS

Fourth BIMSTEC Summit concludes with Kathmandu Declaration

The Fourth Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) summit concluded on 31 August with the member states approving an 18-point Kathmandu Declaration.

In the two-day summit held in Kathmandu on 30-13 August, the heads of state and government of the seven-member states reaffirmed strong commitment to making BIMSTEC a dynamic, effective and result-oriented regional organization for promoting a peaceful, prosperous and sustainable Bay of Bengal region through meaningful cooperation and deeper integration.

Acknowledging that enhanced inter-linkages and inter-dependence within the economies and societies in the BIMSTEC member states provide greater opportunity to advance regional cooperation, the summit underlined the importance of multidimensional connectivity for economic integration and shared prosperity. The declaration has acknowledged the importance of trade and investment as one of the major contributing factors for fostering economic and social development in the region.

Likewise, the member states have expressed commitment to work together to end poverty from the region by 2030 in line with the United Nations Sustainable Development Goals. The countries have also pledged to stand collectively against terrorism and terrorist financing.

Earlier that day, BIMSTEC Foreign Ministers signed the MOU on the establishment of BIMSTEC Grid Interconnection in the presence of their heads of state or government.

Source: http://kathmandupost.ekantipur.com/, 31.08.2018.

Transhipment facility from Vizag Port begins

Transhipment facility for Nepal-bound cargo containers has begun from Vishakhapatnam (Vizag) Port from 28 August, with the inauguration of a direct container train service between Vizag Port and Birgunj for transit cargo.

With 61 containers on board and shipped under a completely revolutionary customs procedure, traders were jubilant as they will no longer have to file a customs declaration in India, or hire a customs house agent (CHA) or run after transporters and Container Corporation (CONCOR)—subsidiary of Indian Railways that is authorised to ferry Nepal-bound cargo.

Mr. Ravi Shanker Sainju, joint secretary at the Ministry of Industry, Commerce and Supplies (MoICS), said that this is being carried out as a pilot project and could be replicated for other routes as well.

The Commissioner of Customs at Vizag Port in the first week of this month had issued a notification stating that the facility will be provided to Nepal-bound cargo containers using electronic cargo tracking system.

Nepal is also considering to make a request to ferry the containers stranded at Vizag using this modality. There are over 1,500 containers that have piled up at the port for their letters of credit (L/C) have expired in some cases and also due to delay in document verification by the Nepali Embassy in New Delhi.

Source: https://thehimalayantimes.com/, 29.08.2018.

CPD's Debapriya appointed to UN body on LDCs

The United Nations (UN) has appointed Center for Policy Dialogue's (CPD) Distinguished Fellow Dr. Debapriya Bhattacharya in its committee on least developed countries (LDCs).

Following the appointment, Dr. Bhattacharya will serve as a member of 24-member strong Committee for Development Policy (CDP) for a three-year term from 2019-2021.

Established in 1965, CDP is an independent body under the UN which advises on development cooperation policies in support of LDCs. Every three years, CDP reviews the list of LDCs for inclusion in and graduation from the group.

Dr. Bhattacharya is a globally recognized expert on LDC issues. He has also served as the Ambassador and permanent representative of Bangladesh to the UN and other International Organizations in Geneva.

Source: https://www.thedailystar.net/, 26.08.2018.

Study urges steps for improved regional connectivity

A study conducted by the Bhutan Media and Communication Institute (BMCI) has recommended an urgent need for improving coordination and cooperation among different ministries and departments and between governments in the Bay of Bengal region constituting Myanmar, Nepal, Bhutan, India and Bangladesh for better regional connectivity and trade.

The study also showed that regional pact such as the BBIN or BBIN+M (Myanmar) would have a direct impact on people as the stakeholders involve farmers, truckers, brokers, support service providers along the highways, policy makers, check points (customs, immigration, agriculture and food regulatory authority), manual workers and clearing agencies among others.

As such the livelihood of certain stakeholders like truckers, labourers and support service providers in border towns are directly dependent on the volume of trade. "If one side is affected by political problems then trade on the other side is also affected adversely," the study stated. The study further adds that the condition of road infrastructure, facilities at the Land Custom Stations, skills, Internet connectivity and use of technology not only determines the trade flow but also the quality of people's lives along the regional corridor.

According to initial finding of the study, corrupt practices, political and security issues, shortage of manual labourers in Bhutan, absence of power back up, animal and plant quarantine facilities at Jaigaon and transshipment along the Thimphu-Phuentsholing-Jaigaon-Changrabandha-Burimari-Dhaka corridor is leading to procedural delays and increase in the trading cost.

BMCI conducted this study in Bhutan as a part of a larger study in the sub-region constituting Myanmar, Nepal, Bhutan, India and Bangladesh. This study mapped the perceptions of select stakeholders in

Bhutan on the current state of trading through the journey of three products imported and exported to and from India, Bangladesh and Nepal.

Source: http://www.kuenselonline.com, 07.08.2018.

Indian govt urged to restrict oil imports from neighbours

India's cooking-oil traders' body has urged New Delhi to restrict imports of refined edible oils from its immediate neighbourhood as increasing zero-duty sea shipments from Bangladesh and Sri Lanka could hurt local millers and oilseed farmers.

The Solvent Extractors Association (SEA) has pointed out that refined palm oil imports from the country of origin attract 59.4 per cent import duty, while refined soybean oil draws 49.5 per cent levies. However, under the South Asian Free Trade Area (SAFTA) arrangement, such oils can be imported from SAFTA members such as Bangladesh and Sri Lanka at nil duty, subject to a 30 per cent value-addition norm.

Imported oils under SAFTA are available at a discount to direct imports from originating exporters Malaysia, Indonesia and Argentina, causing domestic prices to drop. Lower prices in the Indian markets would also hurt farmers who together meet about a third of the annual consumption demand.

Earlier, smaller quantities of such oils were being imported from SAFTA members such as Bangladesh through the land route. But last week, SEA claimed that importers from Haldia brought in 10,000 tonnes of refined soybean oil, which would be distributed not only in eastern India but also to other states.

SEA was told the finance and commerce ministries about the shift in SAFTA import patterns. Such shipments by the sea gathered pace from June when the government revised upward the import duty on crude and refined oils.

Source: http://economictimes.indiatimes.com/, 01.08.2018.

ACTIVITIES

Launch of the SAWTEE Centre for Sustainable Development

The launch ceremony of the SAWTEE Centre for Sustainable Development (SAWTEE-CSD), which aims to promote sustainable and inclusive development in Nepal, was held in Kathmandu on 6 August 2018. A distinguished panel that included Hon. Mr. Pradeep Kumar Gyawali (Minister for Foreign Affairs) and Dr. Prakash Sharan Mahat (former Foreign Minister) launched the Centre amid participants that included policymakers, researchers, diplomats, and development partners.

SAWTEE-CSD, an independent, non-partisan research and advocacy institution, aspires to support accelerated, inclusive and sustainable development and structural transformation in Nepal, considering the convergence between the national development goals and the global development framework—the Sustainable Development Goals (SDGs). The Centre will be led by Mr. Gyan Chandra Acharya, former Under-Secretary-General of the United Nations and former Foreign Secretary of Nepal.

CGE modelling training for South Asian researchers completed

South Asia Watch on Trade, Economics and Environment (SAWTEE), together with the South Asian Network on Economic Modeling (SANEM), Dhaka, organized the eleventh edition of the South Asian Training Programme on CGE Modelling in Pokhara, Nepal from 9-13 August 2018. The programme was organized in collaboration with the Centre for WTO Studies (CWS), New Delhi and the Ministry of Industry, Commerce and Supplies (MoICS), Government of Nepal.

The training programme familiarized participants with the use of Computational General Equilibrium (CGE) modelling as a tool for policy analysis and research. The five-day event included sessions on the construction of Social Accounting Matrices (SAM), calculation of SAM multipliers, and using GAMS software to run CGE models.

The training was conducted by the Executive Director of SANEM, Dr. Selim Raihan, also Professor of Economics at the University of Dhaka. Thirty-five policymakers and young researchers from six South Asian countries, namely Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka, participated in the event.

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

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