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Time to Energise BIMSTEC

It has been more than 30 years since the South Asian Association for Regional Cooperation (SAARC) was formed to promote regional economic cooperation. Each time, the SAARC Summit has ended with relative disappointment, as was the case in Kathmandu in 2015. Like previous summits, it became a hostage to India-Pakistan bilateral issues.

How long can SAARC wait for India and Pakistan to sort out their bilateral issues and push forward for the broader agenda of regional economic cooperation? The situation is not expected to improve unless bilateral talks at the foreign secretary level are resumed and some concrete outcomes are achieved.


Economic Times

In this context, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC – Bangladesh, Bhutan, India, Myanmar, Nepal, Thailand, and Sri Lanka) will be a viable option for India to forge an effective regional group to promote broader economic integration.

BIMSTEC was formed in 1997 and in 2014 its secretariat was established in Dhaka. It has identified 14 priority areas of cooperation and each member country has been given the responsibility of leading at least one of these priority areas. India is leading transport and communication, counter-terrorism and transnational crime, and environment and natural disaster management.

The most important driver should be the BIMSTEC Free Trade Area. While a Framework Agreement has been signed, it has yet to come into force. Member countries should not only conclude their negotiations on trade regarding goods but also quickly expand their scope to services and investments as it has been envisaged in the Framework Agreement.

The question is should India put more political and economic weight into BIMSTEC than SAARC, and the answer is yes. India's positive trade balance with the BIMSTEC group of countries is growing, with Bangladesh and Sri Lanka among its top 25 export destinations.

This intra-regional trade is expected to grow at a faster rate as evident from a report titled "BIMSTEC Transport Infrastructure and Logistic Study" conducted by the Asian Development Bank. In this context, India needs to focus on three key areas. First, India needs to put more political capital into sorting out its bilateral issues with other BIMSTEC countries, particularly with Bangladesh and Sri Lanka. This is an imperative for converting India's "Look East" policy to "Act East."

Second, India should be more proactive in concluding negotiations on goods in the BIMSTEC Free Trade Area and should quickly start negotiations for a comprehensive economic cooperation agreement on goods, services, trade facilitation, investment, competition, public procurement, and other areas of trade-related cooperation. Third, while negotiating a comprehensive economic cooperation agreement, the BIMSTEC group of countries should see how they can have positive spill-over effects on their priority areas of cooperation.

Considering this zone of possible cooperation, India and other BIMSTEC countries should strive to improve physical connectivity through trade facilitation infrastructure and measures as well as institutional connectivity through the convergence of rules, regulations, policies, and procedures for cross-border trade and investment. Together they could facilitate better people-to-people connectivity.

To begin with, the Indian establishment should immediately create a dedicated BIMSTEC division in the Ministry of External Affairs and the Department of Commerce.

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Special Economic Zones: Political Priority, Economic Gamble

www.majyds.files.wordpress.com

> *Free-trade zones are more popular than ever – with politicians, if not economists*

Rwanda has developed a strategic plan for them. Myanmar is embracing them as it opens up. Countries that have long been fans, from China to the UAEs, are doubling down. India's plans in the area are "revolutionary" and could add two per cent to its GDP, says a minister. Special economic zones (SEZs) are all the rage among governments hoping to pep up their trade and investment numbers.

SEZs Create Distortions

Studying history may give eager trade ministers pause. SEZs create distortions within economies. Other costs include required infrastructure investment and forgone tax revenues. The hope is that these are outweighed by the boost to jobs and trade. In reality, many SEZs fail. Performance data are elusive because the effects of zones are hard to disentangle from other economic forces. But anecdotal evidence suggests they fall into three broad categories: a few runaway successes, a larger number that come out marginally positive in cost-benefit assessments, and a long tail of failed zones that either never got going, were poorly run, or where investors gladly took tax breaks without producing substantial employment or export earnings.

The biggest success story is China, whose decision in 1980 to create a zone in Shenzhen transformed the city into an export powerhouse. Dozens of SEZs have since popped up across the country. Other successes include the United Arab Emirates, South Korea and Malaysia. The Philippines has won praise for its "PEZA" zones, which offer a streamlined permit process for foreign investors, says Shang-Jin Wei of the Asian Development Bank.

Most economists agree that SEZs catalysed liberalisation in China, which used them to test reforms that were seen as too hard to unveil nationwide. In the Dominican Republic they helped create a sizeable manufacturing sector in an economy previously reliant on agriculture.

Impact of SEZs on Trade

The overall impact of SEZs on trade is poorly understood. A paper published in 2014 by economists at Paris-Dauphine University found that, for a given level of tariff protection, SEZs increase exports for the countries they are in and for other countries that provide intermediate goods or components. This helps explain why the World Trade Organisation generally tolerates SEZs, even though many breach its subsidy rules. However, the paper also concluded that zones sometimes give countries an excuse to retain protectionist barriers around the rest of the economy.

More prosaic problems pop up, too. Bureaucracy can be excessive, and the bureaucrats underfunded—sometimes at the same time. Too little is often spent on railways, roads and ports to link the zone to the rest of the world. Many African SEZs have struggled for such reasons. One in Senegal flopped because of a combination of excessive bureaucracy, high electricity costs and its distance from a good port.

Developers have withdrawn from 61 of the 139 approved SEZs in the Indian state of Maharashtra because of capricious policymaking, a murky screening process and concern over economic prospects. One survey found that firms sometimes had to deal with 15 different agencies to do business in an Indian zone. Violent protests by locals over land acquisition for zones have also deterred investors.

Moreover, governments sometimes embrace SEZs for the wrong reason: to win praise for reform (and votes) without having to risk full liberalisation. Partial liberalisation can also be a way to preserve some of the rents earned elsewhere by shielding businesses from competition.

Some officials see zones as vehicles for graft. In 2005 some 60 per cent of firms in Indian SEZs reported having to make "irregular" payments to zone authorities. Ukraine's prime minister opposed SEZs because of corruption. SEZs in Nigeria were firmly resisted by the customs agency, which did not want to lose its clout. Another concern is the use of zones to launder money, by inflating export values.

SEZ Concept

The SEZ concept appears to have natural limits, too. What works in manufacturing may not work in other sectors. The Shanghai Free Trade Zone, launched in 2013 and focused on finance, has been disappointing. Economists fret that it is impossible to tinker within the zone with China's capital controls, for instance, without the effects spilling over to the rest of the economy.

Whether or not such freewheeling zones catch on, expect more experiments. South Korea and Thailand are developing eco-industrial parks. Others are considering SEZs for refugee populations. For better or worse, the number of zones could top 5,000 before long.

– *Excerpts from an article that appeared in The Economist on April 04, 2015*

China Executes New Rules

The Chinese government executed new rules that require commercial banks to buy 'secure and controllable' information technology equipment. These new rules have put Beijing on a potential collision course with its largest trading partners, the EU and US, since the real aim they believe is to boost domestic IT suppliers.

These tensions could be diluted during negotiations with the EU and US over bilateral investment treaties.

While the rules could take effect as soon as the counter terrorism legislation is passed, they also apply to an industrial sector in China that is dominated by state-owned groups which can already be counted on to comply with government requests.

(FT, 15.03.15)

Tobin Tax Makes a Lot of Sense

India already has a form of Tobin tax in place – called the Securities Transaction Tax (STT). Introduced in 2004 by former Finance Minister P Chidambaram, it is levied on every transaction of securities listed on the stock exchanges and mutual funds.

According to Budget documents, the STT helped net ₹5,497 crore revenue for the government during 2013-14. The estimate for 2014-15 is ₹5,991 crore. The proposed Tobin tax could be levied on foreign portfolio investors who decide to cash out their investments in Indian bonds before a certain period.

This has dual benefits — the investments stay for a longer and predictable period (thereby insulating the economy from egregious volatility), and earn additional revenue for the government as well. *(BL, 16.02.15)*

EU Nears Deal on Investment Fund

The EU finance ministers agreed the details of a four-year investment plan to help revive the European economy without piling up more debt, and now aim to get the first projects going by the end of 2015.

This will address the main handicap of the EU: lack of investment. However, some EU governments fear their projects will not be chosen or that western countries will be favourited. There are also doubts whether the plan will attract enough private money.

However, Juncker's goal is to have €315bn largely private new investment by providing €21bn in capital and first-loss guarantees from the EU budget and the European Investment Bank.

(Reuters, 10.03.15)

Global Agri Prices to Volatile

Agricultural commodities are likely to remain volatile globally in 2015, with strong buying support on lows to keep prices elevated in the first half. However, global oversupply could pull these down in the second half.

The recent plateau in biofuel demand – driven by slower growth in mandates and the low crude oil price, combined with a reduction in global import demand – will allow worldwide supply of grains and oilseeds to outstrip demand in 2015.

On the supply side, bumper harvests in 2014 have improved world supplies of most grains and oilseeds, resulting in lower and less volatile price levels as compared to previous years.

(BS, 04.12.14)

Developing Nations Lose their Lustre

Emerging markets have lately taken on a more toxic quality as messy politics and staggering economies are prompting some investors to reassess their investment rationale.

Compounding these concerns has been the dollar's upward march and the growing acceptance that the Federal Reserve will soon increase interest rates as the US economy outpaces the rest of the world's. Emerging-market currencies, an accurate barometer of investor mood swings, are now suffering the consequences.

The Turkish lira and the Brazilian real have touched multiyear lows against the dollar while the Russian ruble remains volatile after its 65 per cent plunge. *(NYT, 10.03.15)*

AIIB, a Paradigm Power Shift

The joining of several European countries together with Russia to the China-led Asia Infrastructure Investment Bank (AIIB) has imparted a new sense of realism to China's 'One Belt, One Road' initiative which is now backed by a solid financial institutional network.

In addition, it shows an eastward shift of global power. The US's main concern about the AIIB is regarding transparency issues, standards of governance and environmental and social safeguards. China, however, has said that the AIIB will be complementary to the World Bank and Asian Development Bank.

Analysts point out that the 'One Belt One Road' initiative, backed by a solid financial institutional network, once implemented, is expected to accelerate the shift of geo-economic power away from the US, towards Eurasia. More than 4.4 billion people, or 63 per cent of the global population countries, are expected to benefit from China's game-changing plans.

www.upload.icrosschina.com

(TH, 30.0315 & FT, 26.03.15)

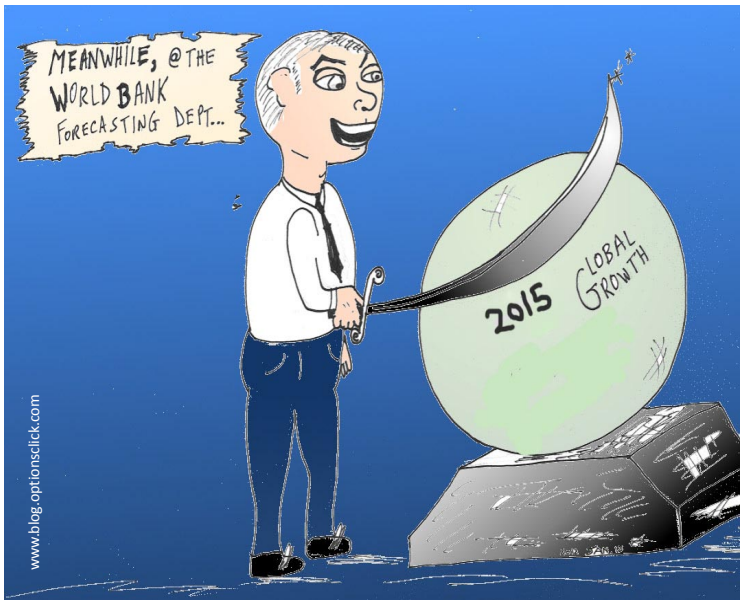
WB Cuts Global Economic Outlook

The World Bank lowered its global growth forecast for 2015 and 2016 due to disappointing economic prospects in the euro zone, Japan and some major emerging economies that offset the benefit of lower oil prices.

The global development lender predicted the global economy would grow three per cent in 2015, below a forecast of 3.4 per cent made in June, according to its twice-yearly Global Economic Prospects report.

World GDP growth will reach 3.3 per cent in 2016, as opposed to a June forecast of 3.5 per cent, before dipping to 3.2 per cent in 2017. The world economy has been more sluggish than expected since the 2007-2009 global financial crisis.

The World Bank said strong growth prospects in the US and Britain separated them from other rich nations, including members of the euro zone and Japan, which continue to face anaemic economies and deflation fears. *(FT, 18.03.15)*



Reforming 'Distorting' Fuel Subsidies

The World Bank has urged emerging economies to use the plunge in oil prices as a chance to reform 'distorting' fuel subsidies, and warned that failure to shore up public finances could make them more vulnerable in a crisis.

In its twice-yearly Global Economic Prospects report, the bank said lower oil prices would boost world output by 0.5 per cent in the medium term, while reducing inflation globally by between 0.4 and 0.9 percentage points in 2015.

The fall in oil prices will create uncertainty for the renewables industry, in particular, electric cars and biofuels and it may be followed by the falls in the cost of gas. In addition, according to the International Energy Agency the recovery of prices will not be smooth, it expects more oil price volatility. *(FT, 13.03.15)*

G20 Not to Devalue Currencies

Group of 20 (G-20) finance chiefs stood by a two-year pledge not to resort to currency devaluations to spur economic expansion, signalling ease with the dollar's recent surge and declines in the euro and the yen.

In fact, the US on the basis that currency manipulation disrupts free and fair trade and harm US job growth, the US governments passed a measure that subjects to US import taxes those foreign products whose governments are found guilty of currency manipulation. This comes at a time when China's renminbi becomes the top five most-used global payment currency. *(FT, 28.02.15)*

China Slowdown Hits Global Growth

China's economy slowed at its sharpest rate in the first two months of 2015 since the global financial crisis, heightening fears that this deceleration will undermine global growth. In fact, weakening Chinese demand has been one of the main cause of falling global commodity prices and weaker emerging markets.

An extended slowdown in the economy could further sharpen the divergence developing between the US, and other important global economies.

The broad slowdown is being led by a serious decline in China's previously overheated real estate sector, where prices and sales have fallen since the start of 2014. This comes at a time where Japan and US increase economic growth. *(FT, 12.03.15)*

China Sees Bright Spots in Economy

The country's leaders unleashed an unprecedented boom by channelling millions of people from the countryside to factories making shoes, toys and electronics for export, and by spending on the roads, power plants and ports that allowed China to become the world's largest trading nation.

China does not need, however, the rapid economic growth of the past, it is not sustainable. President Xi Jinping and other leaders describe the slowdown as a 'new normal' and a 'higher quality' of expansion.

The government seeks now to improve the economy's structure and tackle challenges such as large wealth gaps between regions. *(Reuters, 22.03.15)*

Illicit Financial Flows

Crime and corruption are draining a record US$1tn a year from poor and middle-income nations with the disappearance of dirty money hitting some of the world's poorest regions hardest.

China, Russia, Mexico, India and Malaysia saw the largest outflow of dirty money – the proceeds from shady business, crime and corruption – over the decade and also in 2012.

Sub-Saharan Africa suffered the biggest loss as a share of its economy, with the disappearance of dirty money averaging 5.5 per cent of GDP. Illicit financial flows are the most damaging economic problem plaguing the world's developing and emerging economies. *(Reuters, 16.12.15)*

Australia Cracks on Foreign Investors

Australia is tightening scrutiny of foreign ownership in agriculture and real estate to combat public fears that Chinese investment is forcing up house prices and could potentially undermine the country's food security.

Simon Talbot, Chief Executive of the National Farmers Federation, said while foreign investment was important to Australia's booming agriculture sector, it was critical that the government had a full picture of who owned agricultural assets.

Similar concerns have been expressed about a lack of proper scrutiny of foreign investment in real estate, which has been cited by some as a factor in fast-rising house prices in Sydney and Melbourne. *(FT, 11.02.15)*

Multibillion IMF Dollar Programme

While in Berlin, International Monetary Fund (IMF) Managing Director Christine Lagarde issued a statement to say the IMF Executive Board had approved US$17.5bn (€15.5bn) for Ukraine 'based on a comprehensive economic reform programme supported by the Fund as well as by additional resources from the international community.'

Lagarde said that Ukraine had maintained fiscal discipline in very difficult conditions. 'The Ukrainian authorities continue to demonstrate a strong commitment to reform' the statement continued.

The plan replaces a US$17bn bailout that was extended in 2014 year to help stabilise Ukraine's economy hit by political upheaval and the pro-Moscow separatist uprising in the east of the country.

It added that in order to help cushion the impact of adjustment, especially for the poorest groups, measures are being taken to strengthen and better target the social safety net. *(Reuters, 11.03.15)*

Sukuk for Infrastructure Financing

The G20 group of major nations has included discussion of Islamic bonds as an infrastructure financing tool in its annual agenda, a move that could potentially spur the use of project-based sukuk.

Several Muslim-majority countries now have important economic policy positions at the G20. Turkey holds the group's presidency in 2015, Indonesia co-chairs the G20 investment and infrastructure working group, and Malaysia is a guest representing the ASEAN group of countries.

The G20 has called on regulators to study ways to include sukuk in their monetary policy frameworks and for the International Monetary Fund to include sukuk in an upcoming paper on asset-based financing. *(Reuters, 17.03.15)*

Rapid Growth Needs More Investment

The World Bank released its latest Indonesia Economic Quarterly report entitled 'High Expectations'. The World Bank states that it praises the early reform progress in several key areas such as fuel subsidies as well as more key reforms that are underway.

This raises high expectations about the Indonesian economy in the middle and longer term. However, the government also faces challenges to implement further complex structural reforms amid subdued growth prospects.

The World Bank believes that the only way to trigger speedy economic growth is by doubling government spending in infrastructure. Indonesia is plagued by weak infrastructure thus resulting in high logistics costs and making Indonesian businesses less competitive. *(II, 18.03.15)*

Boosting Private Sector Development

The new king of Saudi Arabia said lower oil prices would not damage the Gulf monarchy's development plans and reiterated a commitment to maintain stability by fighting terrorism.

The King Salman said that Saudi Arabia would seek to diversify its oil-based economy and called for a greater role for the private sector to boost job opportunities.

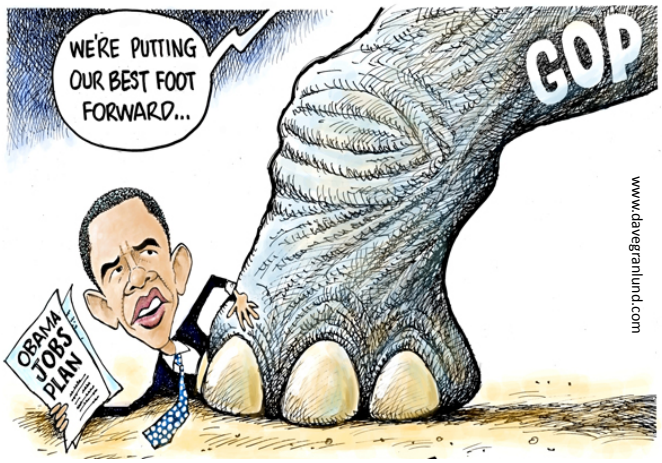
In addition, he said that the aim in the coming years is to encourage and support small and medium enterprises to grow so that these become a strong economic area for a large segment of society and enhance industrial and services roles in the national economy. *(FT, 11.03.15)*

Five Takeaways from US Jobs Report

The US economy added 257,000 jobs in January in another sign of the strength of the nation's recovery. The news caused an already strong dollar to surge.

It also offered an economic fillip for President Barack Obama, who has put generating jobs for a squeezed American middle class at the centre of the agenda for his remaining two years in office. Here are five takeaways from the non-farm payrolls.

First, the US recovery looks very real. Second, the good news means that the Fed is more likely to start raising rates in June. Third, the strong dollar only got stronger and that will prove a drag on exports and slow the recovery. Fourth, wages for workers are finally rising but it remains to see whether it is enough. Fifth, more people are looking for work. *(FT, 06.02.15)*



Mining Pollution 270 Years Ago

Researchers who studied ice core records from the high-altitude Quelccaya ice cap (in Peru) found 'archives' of preindustrial trace elements, which they have traced back to 16 century colonial silver-mining operations in Potosí (now Bolivia).

Around 1540, the Spanish Empire forced Incas to work on extracting silver in Potosí's mountaintop mines, the main source of silver at the time.

The pollution from the mining and smelting activities was carried by the wind 500 miles northwest into Peru where it settled on the Quelccaya ice cap, says a paper published in the *Proceedings of the National Academy of Sciences*. The findings lead to the fact that mining brought pollution 240 years before industrial revolution. *(TH, 12.01.15)*

Cap on Airline & Shipping Emissions

A move to cap emissions from airline and shipping companies has emerged in talks on the global climate change agreement to be signed in Paris at the end of 2015. A proposal in the Paris negotiating text would 'encourage' international air and shipping bodies to develop a levy scheme to help countries adapt to climate change.

The last climate pact, the Kyoto protocol agreed in 1997, required rich countries to reduce their greenhouse gas emissions but did not include pollution from ships or aircraft, partly because it occurs around the world rather than in a single country.

Instead, it was left to each industry's specialist UN agency, the International Civil Aviation Organisation and the International Maritime Organisation, to develop a global plan to address emissions. *(FT, 13.02.15)*

Chinese Passenger Jet Takes Off

China's first domestically produced regional passenger jet model was officially certified for flying after completing a total of 300 ground examinations and over 1,141 hours of test flights.

The Advanced Regional Jet for the 21st Century (ARJ21), is a type of regional airliner designed and manufactured by the Commercial Aircraft Corporation of China (COMAC). There are 78 seats in a dual-class configuration and 90 seats in a full economy class configuration. The jet currently has 278 orders.

The Chinese market is dominated by planes from Boing and Airbus, both of whom have manufacturing facilities in China. COMAC itself has entered into an agreement with Brazilian Bombardier for long-term cooperation to develop commercial aircraft.

(BL, 30.12.14)

Leave Fossil Fuels

According to new research by the UCL Institute for Sustainable Resources and funded by the UK Energy Research Centre, most of the world's fossil fuel reserves need to stay in the ground if dangerous levels of global warming are to be avoided.

Over 80 per cent of coal, 50 per cent of gas and 30 per cent of oil reserves are 'unburnable' and not be used before 2050 if global warming is to stay below the 2°C target.

The overwhelming majority of the huge coal reserves in China, Russia and the US should remain unused along with over 2,60,000 million barrels oil reserves in the Middle East, equivalent to all of the oil reserves held by Saudi Arabia. *(ToI, 09.01.15)*

Pachauri Harassment Claim

The UN's Intergovernmental Panel on Climate Change (IPCC) faces nearly eight months without a permanent head following the sudden departure of Pachauri, who had been due to retire in October when a new chair is to be elected.

The 74-year-old has been accused of harassing a staffer at The Energy and Resources Institute in New Delhi, where he is Director General, with inappropriate emails, text messages, and unwanted advances. In a legal petition, Pachauri claimed his email had been hacked and used to send the objectionable messages, which he denied writing.

The Nobel Prize-winning IPCC moved swiftly to temporarily replace Pachauri with one of its three vice-chairs, Sudan's Ismail El Gizouli, who may end up remaining acting Chairman until October. *(FT, 25.02.15)*

An Ocean of Plastic

A research conducted by Santa Barbara's National Centre for Ecological Analysis and Synthesis (NCEAS) with support from the Washington, DC-based Ocean Conservancy has found that each year an average of eight million tonnes of plastic is moved from land to ocean.

Researchers say the cumulative amount could rise 10-fold in the next decade if waste management practices are not improved across the world. The study found coastal countries generated close to 275 million tonnes of plastic waste in 2010, and that 4.8 to 12.7 million tonnes of that plastic made its way to the oceans.

It also highlighted that the top 20 countries accounted for 83 per cent of the mismanaged plastic waste available to enter the ocean.

According to researchers, while infrastructure is being built in developing nations, 'industrialised countries can take immediate action by reducing waste and curbing the growth of single-use plastic.' *(Livemint, 13.02.15)*

Climate Fund Near-empty

Developed countries have given a paltry 1.03 per cent to the Green Climate Fund (GCF) of the US$10.2bn of pledges they announced publicly amid plenty of hype last year. The lack of real monies against the pledges has created a crisis.

The fund, meant to be a financial bulwark against climate change will fail to be operational if 50 per cent of the funds pledged by developed countries do not materialise by the end of April. The crisis was revealed in a report furnished at the ninth meeting of the GCF board in Seoul.

Only six countries – Panama, Luxembourg, Iceland, Latvia, Poland, Chile and Indonesia – that pledged funds have actually contracted with GCF to deliver these in time for the April deadline. *(BS, 25.03.15)*

Pre-2020 Climate Deal

India has told the UN climate change body that there needs to be equal focus on the pre-2020 period, arguing that without active efforts to tackle climate change between 2015 and 2020, slowing down the rate of global warming will be different.

Environment Minister Prakash Javadekar stated that he may present the world with a choice ahead of a December global climate meeting: one set of commitments India can fund itself to reign in emissions, and a second more ambitious set if it gets money pledged by developed economies along with technologies.

Countries that agreed to targets under the Kyoto Protocol have collectively cut their emissions by over 20 per cent well in excess of the planned five per cent preliminary analysis shows.

(ET, 31.03.15 & Livemint, 27.03.15)

US$8bn to Cool the Globe

Pushed by the US, global negotiators are again discussing a phase-out of the chemicals used in refrigerators, cars and air-conditioners worldwide. That's creating a lucrative, if ironic, opportunity for the companies that pioneered HFCs, including Honeywell International Inc., which now sees an US$8bn-a-year market for their replacement.

As patents on HFCs have expired, competition has increased and profit margins for the materials have fallen. The new options are more efficient, so customers will save on energy bills, not to mention the climate benefits.

Worries over cost have boosted interest in what proponents call "natural refrigerants," non-synthetic options that include propane, ammonia and even high-pressure CO_2.

(Livemint, 20.03.15)

US Move Rejected

A US move to make changes in the United Nations Framework Convention on Climate Change has been rejected by developing nations, including India which has argued in favour of its 'forceful implementation'.

The US proposed to re-define the basic categories of the Convention at the ongoing six-day talks of the Ad Hoc Working Group on the Durban Platform for Enhanced Action which is tasked with drafting a negotiating text for the next climate change meet in June 2015.

The last option offered by the US was that countries would graduate from one category to the next as the countries' circumstances change based on the contribution of a country to global emissions as a percentage and per capita income. *(ET, 12.02.15)*

Multilateral Co-operation – Push on

The next 12 months are likely to be make-or-break for efforts to achieve an ambitious Transpacific trade deal — the TPP (or Trans-Pacific Partnership). Progress towards a Transatlantic deal, known as TTIP, is less well advanced.

But the coming year will give a good sense of whether politicians in Europe and North America are serious about doing a deal. For European politicians in particular who are searching for ways to restore economic optimism, progress on a trade deal would be immensely helpful.

Efforts to strike an international agreement on climate change will reach a climax at a summit in Paris in December 2015. *(FT, 03.01.15)*

Farm Sector at Risk

A study by the United Nations' Food and Agriculture Organisation (FAO) shows that globally, nearly a quarter of the damage suffered because of natural disasters is borne by the agriculture sector in developing countries.

The study analysed 78 natural disasters between 2003 and 2013 — spread across 48 developing countries — to find that 22 per cent of all damage inflicted by natural hazards such as drought, floods, storms or tsunamis occur in the agriculture sector.

Asia was the most affected region, with losses estimated at US$28bn, followed by Africa at US$26bn, the UN body said in the study titled The Impact of Natural Hazards and Disasters on Agriculture and Food and Nutrition Security: A Call for Action to Build Resilient Livelihoods. *(Livemint, 18.03.15)*

Water and Boko Haram

*T N Ninan**

Water scarcity is often a factor in conflicts, but is India ready to cope with limited water resources?

Most of us in India are only dimly aware of what has been going on in conflict-ridden zones in the world, and even less aware of the underlying reasons for conflict. It took Soli Özel, a Turkish professor from Istanbul who was speaking at a conference organised in Delhi by the Ananta Centre, to point to water as an important underlying issue that gave birth to Boko Haram, the violent Islamist group in Nigeria that has resorted to kidnappings and mass killings.

Specifically, Lake Chad used to be the size of Israel. Over the last two or three decades, 95 per cent of the lake has dried up, depriving communities around its periphery of their traditional sources of income from fishing and farming. Refugees from poverty-stricken northeastern Nigeria, which borders the lake, began streaming away from the area years ago, in search of work and a livelihood. That is the area where Boko Haram was born, replacing a more moderate version of Islam that had prevailed till then.

Prof Ozel referred also to the role played by successive droughts in Syria, which has been torn by conflict since March 2011. As it happens, the country suffered four droughts in a five-year period to 2010, and various scholars have pointed to the connection between water scarcity and political/military strife. Peter H Gleick, in a paper for the American Meteorological Society (Water, Drought, Climate Change, and Conflict in Syria), refers to 'challenges associated with climate variability and change and the availability and use of freshwater' in a list of the causes underlying the Syrian conflict.

Water Scarcity

It goes without saying that water scarcity is by no means the only reason for the strife of recent years in Nigeria, Syria and elsewhere, but it has been an important contributory factor that is usually ignored. The question is what is happening here at home? The unexpected damage done to the standing rabi crop by unseasonal March rain has already caused a crisis in millions of farming families.

Cloudbursts and floods have ravaged the economies of Uttarakhand and Jammu & Kashmir in recent years. Inter-state water disputes have become ever more intractable – between the states of north-western India, including Delhi; Karnataka and Tamil Nadu; Tamil Nadu and Kerala; Telangana and Andhra Pradesh; and so on.

Think also India-Pakistan and the Indus waters. That the conflicts have a sharper edge in the peninsular part of the country reflects the fact that water resources in the southern states have been more fully used than in the north, while demand for water continues to grow.

But, equally, Punjab faces a groundwater crisis that will become more evident over time. For the country as a whole, per capita water availability has dropped to a third of what it was at Independence – because the population has trebled and we have done little to augment water resources. From being water-abundant, the country is now classified as water-stressed. By the time the population peaks and stabilises in a couple of decades, India will be water-scarce – like Morocco is today. Are we ready for what that might mean?

Way Forward

Most of the water goes into farming, but India has unsustainable cropping patterns that do not reflect limited water availability. There is no (eco)logical reason why water-hungry sugarcane should be one of the principal crops in Maharashtra, or why paddy should be grown in Haryana.

India has become the largest exporter of rice in the world, and sees sugar exports as a solution to the domestic glut. But exporting rice and sugar is like exporting water. If we are to cope with the coming water crisis – an existential challenge if ever there was one – Indian agriculture will have to change. While the Green Revolution was born out of improving the supply of assured irrigation water, in the future crop technology will have to focus on how to grow more with less water.

* *Chairman and Chief Editor, Business Standard; Excerpts from an article appeared in Business Standard on April 03, 2015*

Free Trade, Freer Migration Could Help Tackle Poverty

Bjorn Lomborg*

Extreme poverty – by current reckoning, living on less than US$1.25 a day – is a continuing problem for far too many people today. In India, such poverty still afflicts 390 million people, according to the World Bank

It is also arguably one of the most important challenges to address because more prosperous people can afford more to eat, get better access to education and healthcare and generally live better lives. So it's good to see that excellent progress has been made in poverty reduction in recent years. The proportion of people in developing countries living in poverty more than halved between 1990 and 2010. With India's national standard, the number of poor has dropped from 425 million people in 1994 to 271 million in 2012.

Making Poverty History

Globally, according to the World Bank, just over one billion people continue to live in poverty, although that's down from 1.9 billion in 1990. The big question now is whether this rapid improvement can be maintained so that we can truly make poverty history.

This is the question which Professor John Gibson of the University of Waikato sets out to answer in a paper commissioned by the Copenhagen Consensus Centre. He is one of more than 60 expert economists looking at a range of ambitious targets covering 18 broad themes and estimating the costs and benefits of various options.

At the turn of the century, the Millennium Development Goals (MDGs) were agreed and great progress has been made in a range of important areas, including poverty reduction. Now, 193 national governments are working at the UN to agree to a new set of global targets for the next 15 years.

Focus on Free Trade

The obvious solution is probably not to address poverty head-on but focus on another policy that could help dramatically: free trade. The costs of successfully completing the Doha Round of World Trade Organisation talks would generate more than 2,000 times their value in benefits for developing countries and lift 160 million out of poverty. For India, this would mean US$450 more per person in 2030. However, this policy has also turned out to be very hard to implement, and Doha is languishing.

Gibson points out that already for the MDGs in 2000, a number of alternative targets were assessed and rejected in favour of a simple one: halving the rate of absolute poverty. He argues that this kind of target is still the most sensible one.

Tackling Poverty

However, any target can sound deceptively simple but measuring progress – or even setting a reliable baseline – can be fraught with difficulty. Collecting reliable statistical data is almost impossible in countries with little survey infrastructure, the very places where poverty is still a big problem. And, if we can't measure it, we do not know if resources are being used properly. The best which can be done is to take figures where they are available and draw whatever broader lessons we can. This is possible for Vietnam, which has made astonishing progress in recent years.

In 1993, 64 per cent of the population was below the poverty line; by 2010, this had fallen to just five per cent. The benefits are wide-ranging. Not only are people earning more and have better access to good nutrition but more prosperous people are typically better educated, live longer and can make a bigger contribution to the wider economy. We can estimate the lowest cost for taking people out of poverty as the sum of money needed to plug their poverty gap. It turns out that each dollar transferred pays back US$6-9 in overall benefits, both measured in increased longevity, better education and higher incomes.

This, however, assumes that money can be perfectly targeted but this is an impossible task. Some of the money will be misused and some lost, so the true payback may be reduced by half, to perhaps US$4-6 for each one spent.

Poverty is a complex issue but experience shows that plenty can be done. Free trade, for one, can boost the growth of developing economies and provide more jobs. Freer migration could also be a great way to raise individual incomes. Investing in smart programmes can help millions of people out of poverty.

* *Director, Copenhagen Consensus Centre; Excerpts from an article appeared in the Economic Times on February 06, 2015*

Reduction in Farm Subsidies Opposed

At a meeting of trade officials from select countries at the WTO, India criticised demands for reducing its minimum agricultural support advanced by US and some other powerful countries.

The meeting, part of the Doha agricultural negotiations, witnessed a renewal of old feuds as developing countries rebuked the trade distorting domestic support in developed countries, while the latter demanded that China and India should reduce their *de minimis* – minimal amount of domestic support – below the present 10 per cent limit.

India and China are not required to reduce their *de minimis* in the Doha Round as per a 2008 agreement. But the US is now demanding that China and India undertake appropriate commitments. It has argued that their rising subsidies are distorting global farm markets. *(Livemint, 11.03.15)*

US Challenges Chinese Export Subsidies

The US has decided to challenge the Chinese export subsidies and has requested for formal talks with China at the WTO. The US has alleged that the impugned subsidies, which are tied to export performance of businesses located in 'demonstration bases' in China are repugnant to WTO provisions.

The US challenge will come in the background of an ongoing slowdown in China. Chinese exports had earlier fallen by 3.3 per cent in January 2015 reflecting the cooling of China's economic growth which is pre-dominantly driven by the external sector.

Services such as Information technology, product design and worker training for industries that aim their products for export markets will be subsidised. The industries that will benefit include textiles, apparel and footwear, advanced metals, specialty chemical, medical products and agriculture. *(FT & BS, 12.02.15)*

Fall in US Trade Deficit

US trade deficit fell to an 11-month low in November as declining crude oil prices curbed the import bill, eclipsing a drop in exports that could be related to a labour dispute at West coast ports causing delays in the movement of goods.

When adjusted to inflation, the deficit fell to US$47.8bn from US$50.1bn in October. The value of petroleum imports was the lowest since August 2009, pushing the petroleum deficit to its lowest level in nearly 11 years.

It remains to be seen whether this fall in deficit should be interpreted to mean that trade will no longer be a drag on fourth quarter gross domestic product. *(Livemint, 08.01.15)*

Maritime Silk Road Initiative

China allocates US$40bn to build major infrastructure projects for the Maritime Silk Road and Economic Belt. The fund is by far the largest amount China has ever proposed to finance any multilateral project and is aimed to enhance its regional and global strategic influence.

The 'Belt and Road' projects involve a maze of roads and ports connecting Asia, Europe and Africa. A series of infrastructure facilities are envisaged that will improve the connectivity in the Eurasian region

China recently took a firm step to extend the Economic Belt to South Asia by working out a blue print of connecting Nepal with the Eurasian Transport Corridor. A Nepalese embassy official in China said that the two countries have agreed to revive the Old Silk Road. *(DNA, 06.02.15 & TH, 03.01.15)*

World Economic Forum

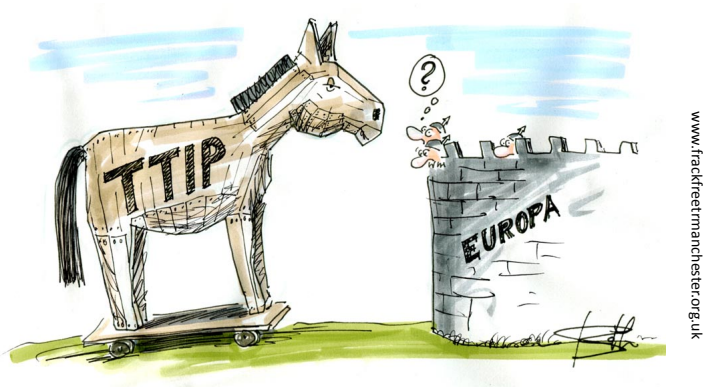
Billionaires who gathered at the annual meeting of the World Economic Forum unanimously agree that they do not see the US Federal Reserve raising rates till the end of 2015.

They expressed their concern on global terrorism, Russia's stance on Ukraine and oil prices. Kenneth Tuchman, the founder of TeleTech Holdings Inc, Adi Godrej and Rahul Bajaj were among other people who were polled by Bloomberg news when they predicted that Fed would not raise rates until the fourth quarter at the earliest.

Most of the billionaires that were surveyed gave precedence to military conflicts over economic problems when asked about the biggest risk facing the world today. *(Livemint, 22.01.15)*

Public Unease Over TTIP Deal

The Trans-Atlantic Trade and Investment Partnership (TTIP) touted as a 21st century trade agreement has run into rough weather with the public on either sides of the Atlantic expressing their unease with its clauses – the Investor State Dispute Settlement (ISDS) clause crucial amongst them.



There has been heavy pressure to drop the ISDS clause which would institute foreign tribunals and undermine the jurisdiction of domestic courts. The hostility is particularly acute in Germany where foreign investors have sued the German government for a hefty compensation for pursuing legitimate policy choices.

To make matters worse, the negotiations have been shrouded in secrecy. Although the European Union released a set of confidential papers recently, activists see this initiative as a 'paper tiger'. *(FT, 29.01.15 & Livemint, 08.01.15)*

India-ASEAN to Double Trade

Inaugurating an India-ASEAN meeting, Indian foreign minister Sushma Swaraj exhorted both the side to aim for a trade target of $200 billion by 2022. She added: "We will have to significantly augment the utilization level of the agreement on trade in goods and further liberalise the tariff lines. I am glad that the process has started to revive the ASEAN-India trade negotiations committee to kick start these discussions."

With the launch of Make in India campaign to boost India's manufacturing base ASEAN companies could look for investments in a large number of sectors such as smart cities, roads, ports, railways, power and urban infrastructure.

She described India's North East as a land-bridge to the ASEAN and added that India was looking at expanding air connectivity between the region and South East Asia. *(Livemint, 12.03.15)*

SAARC to Harmonise Standards

The SAARC countries are finalising mutually acceptable standards in products in five sectors with significant trade interest for member countries. The identified sectors include food and agricultural products, textile and leather, building materials, chemicals and chemical products and electrical and electronic products.

Countries are also developing a Mutual Recognition Agreement (MRA) on quality assessment, whereby they would be able to utilise each other's certification bodies so that most of the certification takes place in the country of origin of the product without depending on the certification of the destination country.

Divergence in standards has been a thorny issue stifling market access and regional integration in South Asia.

(Livemint, 12.03.15)

India's Trade Deficit with China

The service sector will be India's trump card to contain the burgeoning trade deficit with China which looms at US$36.2bn. The Ministry of Commerce and Industry has planned to focus on five services – namely IT, pharmaceuticals, textiles, agricultural products, and tourism and sought to form a joint working group at the Ministerial level with Beijing to discuss the growth of these services in the country.

While the Chinese exports traditionally focused on labour intensive products and is now moving towards high technology products, there is a gap in the country's exports from the service sector. This is the gap that India is seeking to fill. *(IE, 15.03.15)*

India-Israel to Resume FTA Talks

In an indication of deepening trade ties between India and Israel, the two countries will restart talks for a Free Trade Agreement (FTA). The FTA has remained elusive despite over four years of negotiations.

Both countries are confident that their annual trade volume will double once the FTA is signed. Since 2010, India and Israel are negotiating FTA covering trade in goods and services and the last talks were held in November 2013.

Meanwhile, the Australian Minister of Trade and Investment reiterated his country's commitment to successfully conclude a FTA with India by the end of 2015. He believed that there is space for significant co-operation between the two countries in energy, dairy, agriculture. *(ToI, 02.02.15 & BL, 13.01.15)*

A Deal Worth Getting Right

The most vehement argument against mega regional agreements such as the Trans-Pacific Partnership is that they will benefit corporate interests and the wealthy at the expense of middle class living standards.

There is ample research that suggests globalisation has increased inequality in the US by allowing more earning opportunities for those at the top and exposing ordinary workers to more competition. However, it is essential to distinguish between the effect of trade and trade agreements.

Agreements such as the TPP have the potential to tilt the gains from trade towards the American middle class. Properly negotiated trade agreements bring down foreign barriers and promote exports to a much greater extent than they reduce American barriers and benefit imports.

(FT, 09.03.15)

New Cyber Security Regulations

New Chinese cyber security rules for the banking industry raise fears of digital protectionism and favouritism for Chinese companies. US President Barack Obama has acknowledged complaints raised by tech companies and warned that these rules will have to be withdrawn if China wishes to do business with US.

The perceived pushback against US tech companies is partly the result of concerns triggered by the revelations of whistle blower Edward Snowden about US cyber snooping around the world.

US companies, however, claim that the rules appear targeted more at keeping US businesses out of competitive markets than protecting citizens from privacy concerns. *(FT, 06.03.15)*

China's Steel Export Surges

As domestic demand for steel cools, China has started to flood the global market with its steel exports, spurring steel producers around the globe to seek government protection from falling prices.

From the EU to Korea and India, China's excess metal supply is upending trade patterns and heating up turf battles among local steelmakers. American steel producers are contemplating to launch at least one anti-dumping complaint with the International Trade Commission.

In India, where imports of some lower-priced Chinese steel products have surged by close to 200 per cent year-on-year between April 2014 and January 2015, some steelmakers are seeking trade measures including higher duties. *(WSJ, 15.03.15)*

India to Keep US Chicken Legs Out

Even as India prepares to challenge the WTO ruling against India's ban in chicken leg import from the US it is also gearing up for a second line of defence to protect its domestic poultry industry against competition from cheap chicken leg imports from the US.

The Commerce Ministry has asked poultry breeders to work out fresh risk assessments that would better withstand scientific scrutiny. India had earlier restricted chicken leg imports from US citing health concerns arising from low pathogenic strains of bird flu.

Although this was rejected by the WTO as scientifically invalid many countries do not allow import of chicken from the US on various health grounds which has passed the WTO scrutiny. This has convinced the Commerce Ministry that it stands a better chance at retaining the import ban if it can issue fresh orders based on a more valid health concern.

(BL, 19.01.15)

Dispute on Indonesian Steel Duties

Taiwan has complained at the World Trade Organisation (WTO) about Indonesia's plan to impose 'safeguard' duties on flat-rolled products of iron and non-alloy steel, the WTO said.

Safeguard duties are emergency tariffs that a country can impose temporarily to shield a specific sector from a sudden and damaging surge in imports. There are strict conditions for their use, which Taiwan accuses Indonesia of ignoring.

Under WTO rules, Indonesia has 60 days to satisfy Taiwan by negotiating or clarifying its rules. After that period, Taiwan could ask the WTO to adjudicate on its complaint. *(Reuters, 13.02.15)*

Doha Talks are Critically Important

Speaking at the sixth Global Commodities Forum, the Secretary General of UN Conference on Trade and Development (UNCTAD), Mukhisa Kituyi observed that the successful completion of the Doha Round talks is of critical importance to agriculture dependent countries like India.

The dynamics of multilateral trade rules making has slowed down and that slowness has been reinforced by the growing popularity of plurilateral negotiations whether Trans-Atlantic or Trans Pacific.

The stalled talks received a major boost late last year following a landmark agreement on food subsidies between India and the US, after India had blocked the trade facilitation agreement (TFA) at the WTO in July.

(BS, 13.04.15)

Negotiations on Draft Bilateral Pact

India has started negotiations over a new draft bilateral investment treaty; the final version of which will replace existing investment protection agreements with 83 countries.

The government has kept tax disputes out of the draft to avoid arbitration. A proposal in the draft states if India deems a dispute to be tax-related, multinational companies cannot invoke the treaty in international arbitration.

The treaty draft also proposes to make it difficult for foreign companies to seek arbitration. Tribunals will not have the jurisdiction to re-examine any legal issue settled by an Indian judicial authority. They also cannot question India's determination of whether a measure was taken for the public purpose or in compliance with its law.

(BS, 11.04.15)

Scrapping CVD Exemptions to Boost 'Make in India'

To revive manufacturing – the prime focus of the 'Make in India' campaign – the Economic Survey has proposed elimination of exemptions in countervailing duties (CVD) and special additional duties on imports to provide a level playing field to domestic industry, which pays high local taxes.


The Economic Times

Removal of this 'negative protection' to Indian industry, which adds up to a whopping ₹40,000 crore every year, is better than resorting to protectionist measures such as higher import tariffs and local content requirements, the survey for 2014-15 said.

While a final solution to the anomaly will be enacting a well-designed goods and services tax, preferably with one internationally competitive rate and with narrowly defined exemptions, the Economic Survey proposed CVD as an interim solution. *(BL, 27.02.15)*

Gates' Bold Bet for the Future

Bill and Melinda Gates in their annual letter said that the lives of people in poor countries will improve faster in the next 15 years than any other time in history, outlining their 'big bets' for the future.

The breakthroughs will be driven by innovation in technology, ranging from new vaccines to hardier crops and cheaper phones and tablets. According to Bill & Melinda Gates Foundation's India head, India's success in tackling polio, infant mortality rate and other diseases are indicators of progress.

He also said that the annual letter helps focus attention on what needs to get done for policymakers and corporates who want to put their money in meaningful projects. *(BL, 23.01.15)*

ADB to Boost Lending capacity

The Asian Development Bank (ADB) is set to raise the amount that it can lend annually for infrastructure and other projects to US$18bn through an accounting change that will allow it to borrow against a total of US$53bn in equity, almost triple the current amount.

ADB will merge the Asian Development Fund (US$34bn) which provides grants and concessional loans to the poorest countries with its so-called Ordinary Capital Resources (US$18bn) from which it makes quasi commercial loans to better off countries.

ADB President said lending to poor countries could potentially rise by 70 per cent to US$11bn and that he hoped to raise spending on projects on power, transportation, disaster prevention and climate change mitigation.

(FT, 09.03.15)

China's Road to Growth in Africa

China is accelerating 300 infrastructure projects valued at US$1tn as policymakers seek to shore up growth that is in danger of slipping below seven per cent. It illustrates concern that China's planned shift to a domestic consumption driven economy is yet to produce enough growth momentum.

China is also making efforts to draw Africa into the Maritime Silk Route (MSR) by pushing for greater connectivity between Nairobi and Mombasa in Kenya which will eventually be linked with capital cities and ports of other African countries.

In turn, these port connections will serve commercial ships coming from Asia through the Chinese province of Yunnan, laden with food and industrial products, and return with raw materials from Africa.

(TH, 21.01.15 & FT, 06.01.15)

Growing Gap between Rich and Poor

The Organisation for Economic Cooperation and Development (OECD) said in a new report that most of its 34 member countries had seen a growing widening in the inequality gap and the gap between rich and poor is at its highest level since 30 years.

In three quarters of OECD countries household incomes of top 10 per cent grew faster than those of the poorest 10 per cent resulting in widening income inequality; the richest 10 per cent of the population in the OECD area earn 9.5 times the income of the poorest 10 per cent.

The gap between the rich and poor varies widely across OECD member states and is often narrower in many Continental European nations and the Nordic countries.

The report also finds no evidence that redistributive policies, such as taxes and social benefits, harm economic growth, provided these policies are well-designed, targeted and implemented. *(FE, 09.12.14)*

India Key to Tackle Global Hunger

A report by International Food Policy Research Institute (IFPRI) said that five fast growing economic powerhouses – Brazil, China, India, Indonesia and Mexico are home to half of the world's hungry (363 million) and hold the key to reducing global malnutrition.

Under a perception survey of more than 1,000 respondents across 55 countries, only 13 per cent believed that hunger will be eliminated. Among the 5 countries India fares the worst in child and overall undernourishment – 47.9 per cent of children are stunted in India.

Rising inequality, urbanisation, changing diets and poor targeting in social safety nets may be countered by investment in nutrition, focus on gender, improving rural infrastructure and improving drinking water and sanitation conditions, the report said.

(Livemint, 19.03.15)

Gender Pay Gap to Persist

On the occasion of Women's day, ILO said a gender pay gap persists, both for women with and without children. Women earn in average 77 per cent of what men earn, with the absolute gap widening for higher earning women.

It noted that without targeted action, at the current rate, pay equity between men and women will not be achieved before 2086. Currently, about 50 per cent of all women are working, compared to 77 per cent of men.

Today women own and manage over 30 per cent of all businesses but tend to be concentrated in small enterprises.

(FT, 08.03.15)

China Marches Ahead in Patent Filings

India filed 1,394 patent applications in 2014, while China continues to race to the top by filing 25,539 application for patents under WIPO's Patent Cooperation Treaty which enables inventors to seek protection for their discoveries in various countries.

India registered an increase of 5.6 per cent while China notched up a rise of 18.7 per cent. The figures released by WIPO for patent filings in 2014 suggest the US (61,492) and Japan (42,459) occupy the top two positions followed by China, Germany and South Korea for patent filings.

The figures released for 2014 do not suggest any perceptible growth in IP activity in India and no Indian firm is among the top 50 corporations with high patent applications. *(Livemint, 20.03.15)*

Struggle for African Internet Users

Google and Facebook are in a scramble to win over new African internet users and are offering freebies like 'zero rated' access to their sites and services. By 2025, internet penetration will reach 50 per cent (from 16 per cent in 2013) and there are expected to be 360 million smartphones on the continent, roughly double the number in US currently.

While the companies project this as providing free access to internet to a billion people in the developing world, critics say this is a tactic for greater advertising revenue generation.

There are also concerns that regulators in Africa lack the capacity to enforce net neutrality, meaning some services may be given faster access than others.

(Livemint, 25.03.15)

No Consensus on GM Crops

In China, approval for GM crops is slow as both public opinion as well as the officialdom is not in favour of it, especially as food safety is an emotional issue due to the 2008 scandal of contamination of baby milk with melamine which resulted in the death of six.

The European Parliament voted to let member states make their own decisions on whether to ban the growing of GM foods, which some experts point, violates the principle of a single market.

Research by AMA and Euro Commission over 20 years shows that there is no scientific evidence associating GMOs with higher risk to human health or environment, but European consumers feel otherwise.

(FT, 29.01.15)

Threats to Cybersecurity

A hacking ring has stolen up to US$1bn from more than 100 banks in 30 countries since 2013, according to Russian Security Company Kaspersky lab. The hackers limited their theft to US$10mn in a single transaction, part of the reason why the fraud wasn't detected earlier.

In other news, Google has given fellow tech companies Apple and Microsoft an ultimatum to fix their software vulnerabilities which its team found while looking for security flaws in its software.

The deadline is of 90 days and Google says it is in interest of the security of the ecosystem whereas rival companies feel it puts online security at risk by revealing gaps before they can be fixed.

(DNA & ToI, 16.02.15)

Farmers Challenge *Basmati* GI Tag

Pakistan *Basmati* growers have sought a review of a ruling allowing the Agriculture and Processed Food Products Export Development Authority (APEDA) to get GI for *Basmati* rice at the Intellectual Property Appellate Board. APEDA has also challenged the registration of Basmati under the Trade Marks Registry at Pakistan's Intellectual Property Organisation.

The Association expressed concern that if its objections are not heard, interests of traditional growers in Pakistan's Punjab province will be affected.

The Indian authority could exploit its registration of *Basmati* here to stop Pakistani growers from using the name in international markets, it argued. *(BL, 06.01.15)*

Saudi Arabia Biggest Arms Importer

Saudi Arabia has passed India to become the world's biggest arms importer in 2014, its spending rose 54 per cent to US$6.5bn while India imported $5.8bn according to HIS, a leading analyst of global arms trade.

India was followed by China, the UAE, Taiwan, Australia, South Korea, Indonesia and Turkey. Negotiators are nearing a deal to curb Iran's ambitions and lift sanctions against the country, which would create new economic opportunities and threaten Saudi Arabia's ties with the US.

The biggest beneficiary of the growing Middle Eastern market was the US, with UA$8.4bn of arms shipments to the region last year.

(IE, 08.03.15)

Blame Feeble Productivity Growth for Stagnant Living Standards

Martin Wolf*

IFS figures show the weakness of the recovery in household incomes


Financial Times

The striking feature of the IFS analysis is the weakness of recovery. Real median incomes are estimated to have fallen by 4 per cent between 2009-10 and 2011-12. This is not exceptional: they fell by 7.3 per cent between 1973 and 1977 and 5.7 per cent between 1980 and 1982.

But real median incomes are forecast to rise only 1.8 per cent in the three years after 2011-12, against 13.2 per cent and 9.2 per cent in the three years after the troughs of the 1970s and early 1980s. The recovery in living standards has been very weak this time. This, not the severity of the post crisis decline, largely explains the stagnation.

It is important to understand what the numbers used by the IFS mean. They show household incomes after tax and benefits. But they exclude publicly provided services, such as health and education. This is an important qualification, since the latter also affect standards of living, properly measured.

Overall Picture of Slow Recovery

The overall picture of a dismally slow recovery is quite clear. The fact that consumption per head of non-durable goods was 3.8 per cent lower in the third quarter of 2014 than in the first quarter of 2008 underlines this reality. At the same point after the recession of the early 1980s, such consumption was 14.4 per cent higher.

Also important is the distributional impact of both the crisis itself and its aftermath. After one takes account of changes in real earnings, in taxes and benefits, and the prices of food and energy, the impact appears to have been quite similar across the income distribution. This is not true for the age distribution, however. Those of working age, particularly young adults aged 22-30, were worse hit? while those over 60 did relatively well. This is partly because the government protected the elderly? and partly because this group is less dependent on wages and salaries, which were directly hit by the crisis.

It is noteworthy, given this, that the median real standard of living in fact rose in the first two years after 2007-08 and then fell by just 4 per cent between 2009-10 and 2011-12, even though the peak-to-trough fall in quarterly real GDP per head was 7 per cent. The most important cushion, initially, of living standards was increased government borrowing. This was unquestionably the right policy.

At a time of severe crisis, the government was correct to let its balance sheet take the strain. But once a government starts to close its deficit, as the coalition chose to do after 2010, measured standards of living are likely to lag behind GDP per head, though the extent to which this will turn out to be the case depends on precisely how (and also how far) it closes the deficit. Choices here are still to be made.

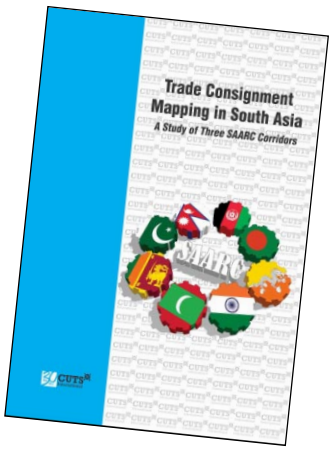
Cause of Slow Recovery

The main cause of the slow recovery in standards of living, then, has been the feeble recovery in GDP per head. Given the robust employment performance, this weakness is, in turn, directly related to the feeble productivity performance. In the third quarter of 2014, output per filled job in the UK economy was still 1 per cent lower than in the first quarter of 2008. Output per hour was actually 1.8 per cent lower. An important question is how far the reaction of a flexible labour market to policy induced weakness in demand explains this dramatically poor productivity outcome.

What happens to living standards in the next parliament will then partly depend on how fiscal tightening is imposed and also how far it goes. But it will depend above all on whether a strong and sustained rise in productivity is in the offing. If it is, both fiscal fears and concerns about stagnant living standards will melt away. If it is not, the difficulties of today will become permanent. Without productivity growth, the desire for higher real incomes will turn into a zero-sum game. Politics will become nasty. This is the biggest issue. All else is secondary.

* *Chief Economics Commentator, Financial Times, London; Excerpts from an article appeared in the Financial Times, on March 06, 2015*

Trade Consignment Mapping in South Asia
A Study of Three SAARC Corridors



This study is an exploratory research to identify issues related to Trade Facilitation/NTBs prevalent among three major SAARC Corridors between India-Pakistan, Nepal-India-Bangladesh and India-Nepal. Based on the empirical and qualitative analysis, this study suggests varied sets of recommendations to remove/harmonise regulatory, procedural and infrastructural barriers among the select corridors in South Asia.

www.cuts-citee.org/TCMSA/pdf/Report-Trade_Consignment_Mapping_in_South_Asia-A_Study_of_Three_SAARC_Corridors.pdf

ReguLetter

The January-March 2015 issue of ReguLetter encapsulates 'The Debate Around Net Neutrality' in its cover story which states that the release of the consultation paper on regulation of Over the Top services by the Telecom Regulatory Authority of India coincides with the US Federal Communications Commission's recent adoption of Open Internet rules. Commentators view this development as just another chapter in the raging net neutrality debate, one that is both apt and inevitable as the internet becomes increasingly important in our lives.

A special feature by Amine Mansour states that in the literature dealing with competition law and policy in developing countries, there appears to be a consensus according to which competition law cannot contribute to development unless it wins its battle against what is called the concentration of economic and political power.

Another article by Don Reisinger opines that US Federal Trade Commission investigators issued a sharp rebuke of some of Google's search and advertising practices in a 160-page document handed to their bosses in 2012.

This newsletter can be accessed at: www.cuts-ccier.org/reguletter.htm

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