

● TRADE ●
insight

COVID-19

LDCs and South Asia



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Uncertain economic future

THE COVID-19 pandemic has left the global economy in tatters. Since the first sighting of the disease in China's Hubei province, in December 2019, the disease has spread to 216 countries and territories. Measures adopted to contain the spread of the coronavirus have forced factories and shop floors to shut down, and arrested movement of people. Especially from March to May, a huge number of people across the globe were locked in their homes due to 'shelter-at-place' instructions and strict curfew-like lockdowns imposed by some countries. The resultant supply- and demand-shocks have led to job losses, and the uncertainty regarding the remission of the viral spread has hit consumer sentiments, further deteriorating the prospects of a quick recovery.

As of the end of June, the total number of people infected by COVID-19 crossed 10 million, while fatalities have been more than half a million. Worse, many countries, including China, which had brought the infections under control, are staring into the second wave of infections. Economic forecast agencies have predicted a bleak economic scenario for 2020. The International Monetary Fund (IMF) that had forecasted the global economy to contract by 3 percent in April has downgraded the estimate to -4.9 percent in June. The economic contraction will particularly affect low-income households, wiping out progress made over two decades in reducing extreme poverty in the world, according to the IMF.

The world's least-developed countries (LDCs) and developing countries in South Asia, among others, are going to be severely affected by the economic contraction. Besides the domestic economic woes brought by the pandemic, external shocks have dried up tourism revenue, hurt their major exports such as garments, and stemmed remittance income, pushing millions in these countries into financial vulnerability.

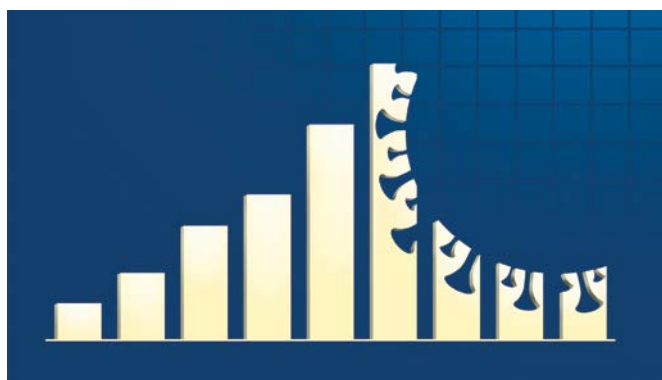
Considering, *inter alia*, high poverty rates and unequal societies, arrested manufacturing growth, overdependence on agriculture and informal works, and insufficient social protection, LDCs and South Asian countries are particularly vulnerable to the economic fallout of the pandemic. As estimated by the United Nations University World Institute for Development Economics Research, the COVID-19 pandemic will push 16 million people in South Asia into extreme poverty. Moreover, a global economic slowdown is highly likely to force international migrant workers to return to their home countries, thus drying up vital foreign exchange resources in many LDCs and South Asian countries.

To respond to the possible economic fallout, countries have announced strings of relief measures and economic stimulus packages targeted at sustaining households in need and providing short-term relief to affected businesses. However, considering the tight fiscal positions of LDCs and South Asian countries and the looming uncertainty, there are questions regarding the efficacy of these measures, and also the extent to which these measures will help accelerate recovery. The articles in this issue of *Trade Insight* provide insights into the current situation and responsive mitigation mechanisms adopted by different LDCs and countries in South Asia. As the cover article argues, there are also ways by which LDCs can turn the present crisis into an opportunity.

Finally, as a note of caution, given the progression in the pandemic spread, economic forecasts and resulting responses, data and information presented in the articles may have changed by the time this issue has been published. We hope our readers will nevertheless appreciate that the core arguments remain intact. ■

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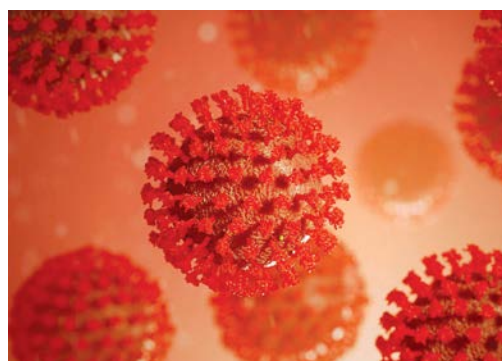


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EU's GSP+ to Sri Lanka to continue till 2023

THE European Union's (EU) Generalised Scheme of Preferences plus tax concessions to Sri Lanka will continue till 2023, Sri Lanka's minister of industry, export, investment promotion, tourism and aviation said after meeting Thorsten Bargfrede, head of political, trade and communications at the Delegation of the EU to Sri Lanka and the Maldives.

Sixty percent of Sri Lanka's garment exports go to EU member countries. The garments industry represents about 43 percent of the country's exports and earns around US\$5 billion to the country annually, the minister said. (www.fibre2fashion.com/, 22.01.2020) ■

India's e-commerce market set to surpass US\$91bn in 2023

THE overall transaction value of the Indian e-commerce market is projected to grow from INR3.4 trillion (US\$49 billion) in 2019 to INR6.3 trillion (US\$91 billion) in 2023.

The data and analytics company GlobalData's latest report *India Cards & Payments: Opportunities and Risks to 2023* states that the growth in the e-commerce market has been supported by rising Internet penetration rates, benefits such as discounts, faster delivery options offered by e-retailers and the rising consumer preference for online shopping.

With Indians being increasingly price-sensitive, the growth of

e-commerce can be attributed to the benefits offered by online retailers such as discounts, cash-back and loyalty points on purchases. Annual online sale festivals such as 'Flipkart Big Billion Days' and 'Amazon Great Indian Sale' too have resulted in the exponential growth of e-commerce sales.

Retailers are also extending their product lines to further penetrate into the market. In May 2019, Flipkart launched online grocery store 'Supermart', extending its presence from fast-moving consumer goods to groceries. (www.bmmagazine.co.uk/, 23.01.2020) ■

Locusts invade COVID-ridden South Asia

MASSIVE swarms of locusts have invaded Pakistan and India just when these South Asian countries are battling the complications of the COVID-19 pandemic.

The locust invasion has the potential to devastate vast, almost unimaginable, acres of agricultural crops. The locusts have already destroyed more than 123,000 acres of crops in India. Pakistan has declared a national emergency.

The mass destruction of fruit and vegetable crops in the region will further diminish access to food for the masses who desperately need to be fed. The crop destruction will further increase the economic stress.

The Indian states of Madhya Pradesh, Uttar Pradesh, Gujarat,



Wikimedia Commons

Rajasthan and Maharashtra face the potential of being the hardest-hit in this first wave of locusts. These states provide nearly 40 percent of India's agricultural production, equivalent to approximately 80 million tons.

Portions of Pakistan's cotton crop have already been consumed. This

will affect the country's dominant textile industry with wage earners losing jobs, disrupting the supply chain from farm to market, and inflated pricing of finished goods as a result of short supply. (<https://missionsbox.org/>, 15.06.2020) ■

China's uneven economic recovery continued in April



CHINA'S industrial economy bounced back strongly in April after the first quarterly contraction in history, but retail and investment remained weak, as demand concerns persisted.

Across the board, monthly data was improved from March, with industrial production, retail sales, fixed asset investment, all kicking on. However, with weak demand at home and abroad, China's efforts to get the economy back to full speed are likely to remain slow, analysts have said.

Industrial production, a measure of output in China's manufacturing, mining and utilities sectors, grew by 3.9 percent from a year earlier, following a 1.1 percent contraction in March. This was much better than the median result of a Bloomberg poll of analysts, which predicted 1.5 percent growth.

Retail sales, a gauge of consumer spending in the world's most populous nation, fell by 7.5 percent compared to April 2019. This was much improved on March's 15.8 percent drop, which helped drive a 19 percent

collapse in spending in the first quarter. It was worse than analysts' forecasts of a 6 percent drop.

Investment in the manufacturing sector fell by 18.8 percent over the first four months of the year, with infrastructure investment down 11.8 percent and property down 3.3 percent.

The surveyed jobless rate was 6 percent in April, up from 5.9 percent in March but better than the all-time high of 6.2 percent in February. However, while this is an indicator of the unemployment rate in a certain segment of the economy, it is not viewed as an accurate depiction of the overall employment situation.

And while industrial production has bounced back reasonably strongly, producer prices have fallen to a four-year low, suggesting manufacturers are unable to charge what they would like for the products they make.

Most businesses have reopened, according to various trackers, but capacity issues persist. (www.scmp.com/, 15.05.2020) ■

Pakistan begins Afghan transit trade via Gwadar port

PAKISTAN on 29 May operationalized the Gwadar port for Afghan transit trade, with the first-ever cargo ship berthing at the seaport to mark the beginning of a new era of trade via sea route from Gwadar to Afghanistan.

In a series of tweets, Adviser to Pakistan's Prime Minister on Commerce and Investment Abdul Razak Dawood shared that a ship carrying 16,000 metric tonnes of urea and fertilizer for Afghanistan has arrived in Gwadar.

According to ministry officials, imported urea that arrived at Gwadar would be bagged at the port and later would be sent to Afghanistan in trucks under the Afghanistan-Pakistan Transit Trade Agreement-2010 (APTTA).

Apart from fertilizers, Afghanistan would also be granted permission for the transit trade of sugar and wheat from Gwadar, whereas only those trucks carrying fully sealed consignments would be allowed to go to the neighbouring country.

Earlier, Pakistani government had granted a special permission to resume the handling of Afghan cargo at Gwadar port under the APTTA to help early clearance and quicker transportation of sugar, wheat, and fertilizer to Afghanistan. (profit.pakistantoday.com.pk/, 29.05.2020) ■

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

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

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

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

The agreement underscores the importance that the participating WTO members—Australia, Brazil, Canada, China, Chile, Colombia,



Costa Rica, the EU, Guatemala, Hong Kong, Mexico, New Zealand, Norway, Singapore, Switzerland, and Uruguay—attach to a functioning two-step dispute settlement system at the WTO. Such a system guarantees that trade disputes can be resolved through an impartial and independent adjudication, which is essential for

the multilateral trading system based on rules.

The Multiparty Interim Appeal Arbitration Arrangement is expected to be officially notified to the WTO in the coming weeks, once the respective WTO Members complete their internal procedures, after which it will become operational. (ec.europa.eu/, 27.03.2020) ■

Global economy will take US\$12tn hit from coronavirus, says IMF

THE International Monetary Fund (IMF) has said the global economy will take a US\$12 trillion hit from the COVID-19 pandemic after slashing its already gloomy growth projections for the UK and other developed countries in 2020.

The IMF said it would take two years for world output to return to end-2019 levels and warned that governments should be cautious about removing financial support to their fragile economies.

In an update to forecasts published in April, the IMF said

it now expected the global economy to contract by 4.9 percent this year, compared with a 3 percent drop expected in the spring of 2020.

The IMF said the coronavirus pandemic had been more negative for activity in the first half of 2020 than expected, and recovery was also projected to be slower. The revised *World Economic Outlook* said the lockdown had dealt a “catastrophic hit” to the global labour market, adding that rising share prices were out of kilter with the deepest recession of the postwar era.

It said the forecasts were subject to an even greater than usual amount of uncertainty and were based on some key assumptions about the fallout from the pandemic: physical distancing persisting into the second half of 2020, long-term scarring from the larger than anticipated damage caused by the lockdown and a hit to productivity as surviving businesses ramped up workplace safety and hygiene practices. (www.theguardian.com/, 24.06.2020) ■

China provides tariff exemption for exports from Bangladesh

CHINA has provided a trade boost to Bangladesh by announcing tariff exemption for 97 percent of Bangladeshi products effective from 1 July.

The decision has come one month after Bangladeshi Prime Minister Sheikh Hasina and Chinese President Xi Jinping held a discussion to upgrade their bilateral relations during the COVID-19 pandemic.

The Ministry of Foreign Affairs of Bangladesh announced on 19 June that 97 percent of items would be exempted from Chinese tariffs. Thus, a total of 8,256 Bangladeshi products will come under the 97 percent of

products that would be exempted from tariff.

Currently, 3,095 Bangladeshi products enjoy duty-free access to Chinese market under the Asia-Pacific Trade Agreement (APTA). With the new announcement, 97 percent of Bangladeshi products will join this zero-tariff club that raised the number of Bangladeshi products with zero duty access to Chinese market to 8,256.

China's tariff exemption is expected to help Bangladesh cushion the economic impact of the COVID-19 pandemic. (<https://economictimes.indiatimes.com/>, 20.06.2020) ■

WTO sees “ugly” trade plunge, likely worse than financial crisis

THE World Trade Organization forecast that goods trade would shrink more steeply this year than in the global financial crisis a decade ago before rebounding in 2021 as the COVID-19 pandemic recedes if countries worked together.

The WTO said global trade would fall this year by between 13 percent and 32 percent, giving a wide range because so much about the economic impact of the health crisis was uncertain.

“These numbers are ugly – there is no getting around that,” WTO Director-General Roberto Azevedo said in a statement.

Keeping markets open and predictable, he said, would be critical to spurring renewed investment. Countries working together would see a faster recovery than if each country acted alone.

The Geneva-based WTO said that for 2021 it was forecasting a rebound in global goods trade of between 21 percent and 24 percent, depending largely on the duration of the coronavirus outbreak and the effectiveness of policy responses.

The WTO also confirmed that 2019 had ended on a sombre note, with a 0.1 percent decline in goods trade, weighed down by trade tensions, notably between the US and China, and an economic slowdown.

In October, the WTO forecast trade growth would grow 2.7 percent in 2020 after expanding 1.2 percent in 2019. (www.reuters.com/, 08.04.2020) ■

Record global CO2 concentrations despite COVID-19 crisis

DESPITE reports of localized air quality improvements as the world has locked down to combat the coronavirus pandemic, the most recent data from the United States National Oceanic and Atmospheric Association (NOAA) shows global carbon dioxide (CO2) levels rising sharply.

In April 2020 the average concentration of CO2 in the atmosphere was 416.21 parts per million (ppm), the highest since measurements began in Hawaii in 1958.

The United Nations Environment Programme's (UNEP) World Environment Situation Room shows a sharp increase in CO2 concentrations of more than 100 ppm since March 1958.

These results may come as a surprise to those who optimistically assume that COVID-19 will reduce total global emissions.

While it is true that vehicular movement, air traffic, as well as industrial activity has reduced sharply in most parts of the world since January 2020, this is not the case with our electricity supply: 64 percent of the global electricity energy mix comes from fossil fuels (coal: 38 percent, gas: 23 percent, oil: 3 percent), according to the World Energy Outlook 2019. Heating systems have been functioning as before COVID-19. (<https://www.unenvironment.org/>, 11.05.2020) ■

Investment prospects turn bleak

FOREIGN direct investment (FDI) to developing economies in Asia is projected to decline by up to 45 percent in 2020, according to United Nations Conference on Trade and Development's (UNCTAD) *World Investment Report 2020*.

Global FDI flows are forecast to decrease by up to 40 percent in 2020, from their 2019 value of US\$1.54 trillion. This would bring FDI below US\$1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10 percent in 2021 and to initiate a recovery in 2022. A rebound in 2022, with FDI reverting to the pre-pandemic underlying trend, is possible, but only at the upper bound of expectations.

FDI flows to South Asia, in 2019, increased by 10 percent to US\$57 billion. The rise was driven largely by a 20 percent increase in investment in India, the largest South Asian FDI recipient, to US\$51 billion. Most of the investments in India went to information and communication technology (ICT) and construction industries. Flows to Bangladesh fell by 56 percent to about US\$2 billion, reflecting an adjustment from a record-high level in 2018. In Pakistan, FDI recovered, growing 28 percent to US\$2 billion after a 30 percent fall in 2018.

The outlook for the rest of the year is bleak as lockdown measures and factory stoppages impacted supply chains and factories' production in Asia. Falling corporate earnings, a slump in global and regional demand and economic slowdown have led

multinational enterprises to postpone investment plans.

The COVID-19 pandemic underscored the vulnerability of supply chains and the significance of the role of China and other Asian economies as global production hubs.

This year's *World Investment Report* describes three key technology trends of the new industrial revolution (NIR) that will shape international production: robotics-enabled automation, enhanced supply chain digitalization and additive manufacturing. However, the pace and extent of new technological adoption will partly depend on the policy environment for trade and investment, which is trending towards more

Recovery will depend on policymakers safeguarding a trade and investment policy environment.

interventionism, rising protectionism and a shift to regional and bilateral frameworks. They will also depend on sustainability concerns, including differences between countries and regions on emission targets and environmental, social and governance standards, market-driven changes in products and processes, and supply chain resilience measures.

The effects on international production from the technology, policy and sustainability trends are multi-faceted, and will play out differently across industries and regions,

landing in four possible trajectories: reshoring, diversification, regionalization and replication.

The transformation of international production in the post-pandemic era will bring both challenges and opportunities for policymakers. The main challenges in the new era of international production are likely to involve increased divestment, relocations, investment diversion and a shrinking pool of efficiency-seeking investment, implying tougher competition for FDI. Changes in the locational determinants of investment will negatively affect developing countries' ability to attract multi-national enterprise operations. In contrast, new opportunities are likely to arise due to investors looking to diversify supply bases to enhance production resilience.

Shorter value chains leading to distributed manufacturing of final goods and digital platforms can enable new applications and services as well as improve bottom-up access to global value chains. Longer term, supply chain resilience is crucial for economic growth and job creation, and for the development prospects of low-income and vulnerable countries.

Recovery will depend on policymakers safeguarding a trade and investment policy environment favouring a gradual adjustment of international production networks. Governments will face the challenge of dealing with adverse developments but at the same time have plenty of opportunities to capitalize on emerging avenues. ■

This is excerpted from the World Investment Report 2020.

COVID-19 pandemic and impact on LDCs

AMONG the COVID-19 pandemic's far-reaching consequences for the global economy, the least-developed countries (LDCs) face the most daunting challenges. The pandemic threatens to derail hard-won development gains in LDCs, according to the latest publication of the World Trade Organization.

A lack of resources to support an economic rebound is compounded by LDCs' dependence on a limited range of products exported to a few markets, some of which have been those worst affected by the COVID-19 outbreak. The ongoing pandemic may affect the near-term prospects for some countries to graduate from LDC status. Angola and Vanuatu, which are scheduled to graduate soon, and LDCs such as Bangladesh, which are on the path to graduation in the next few years, have been experiencing unavoidable declines in economic growth and export earnings.

The year 2020 started against the backdrop of a subdued trade performance in 2019. The value of LDC exports of goods and services declined by 1.6 percent in 2019, a greater decline than that of world exports (1.2 percent). Consequently, the share of LDCs in world exports also registered a marginal decline, falling to 0.91 percent in 2019. The LDC share in world goods exports was estimated to be 0.99 percent in 2019, while their share in world services exports amounted to 0.68 percent. In sum, LDCs entered the pandemic period as marginal participants in world trade, and the drastic decline in global trade is likely to have a disproportionate impact on all LDC exporters. Merchandise exports of LDCs are concentrated in a few markets,

which makes them even more vulnerable to COVID-19-related decline in demand in these markets. The top destination markets for LDCs include those that are among the worst affected by the outbreak (i.e. China, France, Germany, India, Italy, Spain, the UK and the US).

The COVID-19 pandemic is also likely to hit severely those LDCs dependent on travel services. The travel sector accounted for close to half (48.3 percent) of total LDC commercial services exports in 2019, compared to only 24 percent for world services exports. Travel exports account for a predominant share of services exports for several

The expected downturn in trade in 2020 could be more severe for LDCs than at the global level.

LDCs: Nepal (93 percent), Tanzania (93 percent), Haiti (91 percent), Angola (87 percent), Cambodia (82 percent), Lao People's Democratic Republic (81 percent), Vanuatu (81 percent), Zambia (81 percent) and Timor-Leste (80 percent).

Remittances from workers living abroad have been a major source of foreign exchange earnings in LDCs, and have, in the past, financed a considerable portion of their imports, as most of the LDCs experience negative trade balance. Average remittances accounted for 7 percent of GDP in 2019 in LDCs. In April 2020, the World Bank estimated that global remittances are likely to decline

by about 20 percent in 2020, the sharpest decline in recent history. Remittances represent an important source of foreign exchange earnings for South Asian LDCs such as Bangladesh and Nepal, to which countries migrant workers are reportedly being repatriated due to crisis conditions in host countries.

Manufacturing LDC exporters (e.g. of textiles and clothing products) are likely to experience a significant fall in export revenues in 2020. For instance, according to the export promotion agency of the Government of Bangladesh, the country's exports registered an 83 percent decline in April 2020 compared to April 2019. Reportedly, Bangladesh and Cambodia have received order cancellations worth several billion US dollars. Moreover, some retailers in export destinations have started to file for bankruptcy protection, causing significant worries to suppliers in LDCs, as existing contracts risk being cancelled. Agriculture and horticulture exports from LDCs are also being significantly affected. For instance, Ethiopia, the second-largest flower exporter in Africa, has lost 80 percent of the mainly European demand.

Since the start of the pandemic, at least two-thirds of LDCs have put in place a variety of lockdown measures. Some LDCs have announced stimulus packages, which have covered export-oriented sectors. They have also strengthened healthcare systems and ensured social relief packages and liquidity support to small and medium-sized enterprises. ■

This piece is based on the WTO's information note published on 8 June 2020.

Mitigating Economic Vulnerability of COVID-19 on least-developed countries

To emerge from the COVID-19 crisis, LDCs need to focus on policy innovation, understand the virtue of partnership, and not leave recovery to sheer chances.

Ratnakar Adhikari

The least-developed countries (LDCs), which are characterized by low levels of income and human capital as well as high level of economic vulnerability, face significant economic fallout due to the COVID-19 pandemic. Barring three South Asian LDCs (Afghanistan, Bangladesh and Nepal), which collectively account for more than 70 percent of infections, LDCs in general are not severely affected by the pandemic. But, the economic fallout emanating from a lack of institutional preparedness to handle the crisis coupled with imposition of lockdowns in these countries have been significant.

Measures undertaken to fight the pandemic have created an unprecedented fiscal squeeze due to increased spending on public health and reduced revenue collections. The challenges are further compounded by demand shock, supply chain disruptions and reduced volume of trade and investment, which are likely to derail the progress made by several LDCs and the international community towards meeting several Sustainable Development Goals (SDGs).



Estimates of the rise in poverty in developing countries due to COVID-19 range from 420 million to one billion depending on the expected duration of the pandemic, the extent of economic contraction, and more importantly the amount of disposable income available for people living in the margin of poverty.¹ Thus, the target of eradicating poverty by 2030 (SDG 1) looks impossible, with ramifications for other SDG indicators. However, there are some silver linings, particularly for LDCs that are either moving fast or using the crisis to undertake strategic reforms that are not possible during normal times and which could create lasting positive impact. Lessons from these LDCs are clear: with appropriate policies, support measures and coordinated efforts, LDCs may be able to weather the crisis.

Critical areas

Health and social impacts of the pandemic are inextricably linked to economic impact. This article focuses on the economic impact of the pandemic on the LDCs and possible opportunities in the areas of trade, investment and development assistance for recovery and reform.

Trade

LDCs had witnessed reduction in their exports of goods and services by 1.6 percent in 2019, which was higher than the overall decline in global exports of 1.2 percent. According to the World Trade Organization (WTO), global merchandise trade is expected to shrink by 13-32 percent in 2020 due to COVID-19.² This will have an outsized impact on LDCs, rendering the achievement of SDG Target 17.11 of doubling the share of LDC exports by 2020, which was already off-track, impossible.³ Although the June estimates of the WTO point towards a relatively optimistic outcome, the worst hit would be the LDCs reliant on the export of manufactured products, like garments, and on the exports of fuels and minerals.

Clothing is a thriving export sector in many LDCs, which has mainly been impacted by a shortage of raw

materials from China due to supply chain disruptions. For example, due to the reduced availability of textiles from China, Cambodia's garment factories, which procure 60 percent of raw materials from China, risk idling 160,000 workers in the worst-case scenario.⁴ Supply shock is also manifested by mandated factory closures due to various levels of lockdown measures introduced by the governments.⁵

LDCs are equally affected by demand shocks as can be seen from declining orders or even cancellation of ready-to-ship orders by Western clothing brands, some of which have shuttered their outlets in the wake of the COVID-19 crisis.⁶ For example, according to the Bangladesh Garment Manufacturers and Exporters Association, Bangladesh has seen its garment orders worth US\$3.18 billion

COVID-19 crisis seems to have provided incentives to LDCs to take steps towards paperless trade.

cancelled or suspended due to the closure of Western retail outlets.⁷ This has affected 1,150 factories and 2.28 million workers in Bangladesh. Even after a full reopening of some of these markets, given the possibility of a 'U' or 'W' shaped economic recovery rather than a 'V' shaped economic recovery, LDC exporters may continue to struggle.

Services exports from the LDCs have become another casualty with the travel and tourism sector being the worst affected. According to the United Nations World Tourism Organization (UNWTO), loss of tourism exports revenue due to COVID-19 is likely to be up to US\$1.2 trillion affecting up to 120 million jobs globally.⁸ A large number of LDCs are dependent on the travel and tourism sector for income and employment. For example, the sector contributes up to 48 percent

to Vanuatu's GDP.⁹ Forty-five out of the 48 diagnostic trade integration studies (DTIS) of LDCs, supported by the Enhanced Integrated Framework (EIF), had prioritized tourism trade.¹⁰ Thus, a prolonged downturn in this sector could have a significant impact on LDCs' export revenues, foreign exchange reserves and GDP.

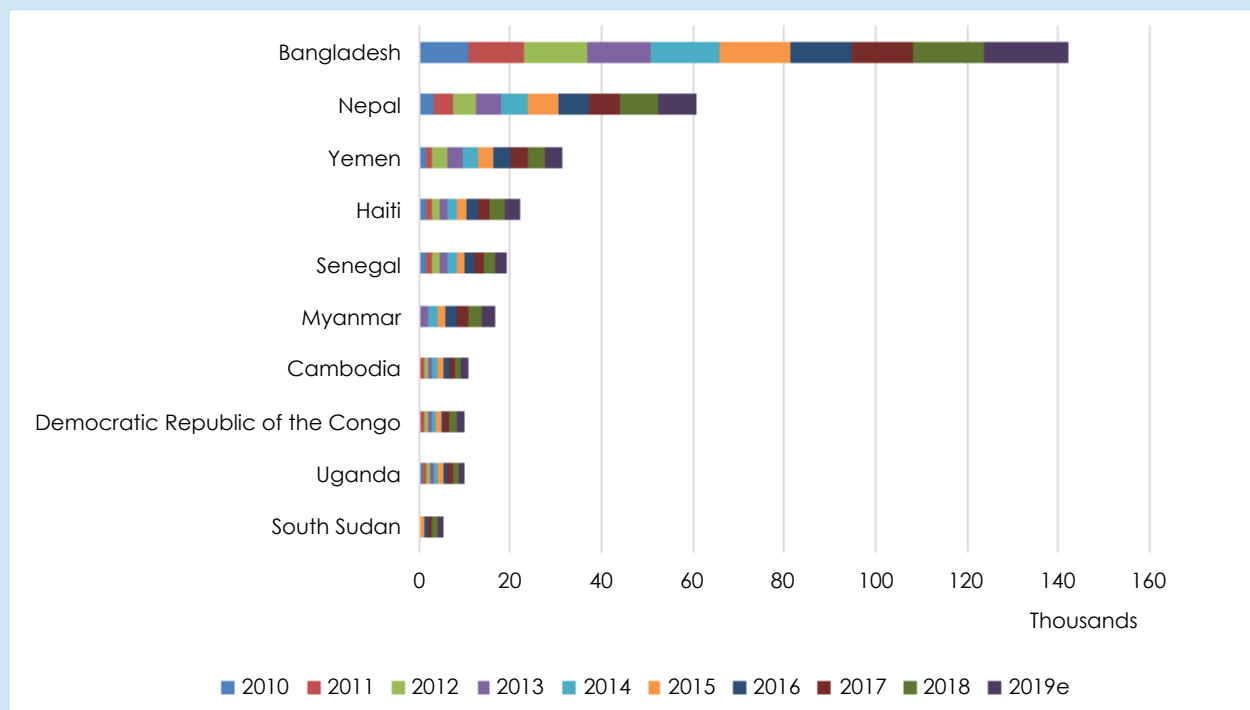
Another area of services trade in which LDCs are being affected is in the delivery of services through the movement of natural persons. LDCs' huge reliance on remittances can be gleaned from the recent World Bank data (Figure 1, Page 12).¹¹ These receipts are not only important for covering LDCs' import requirements, but they have also contributed to significant poverty reduction and human capital development in these LDCs.

Due to COVID-19, global remittances flow is likely to reduce by 19.9 percent, from US\$714 billion in 2019 to US\$572 in 2020, and low- and middle-income countries (which includes LDCs) are likely to see a reduction of 19.7 percent. There is already evidence to suggest that migrant workers are vulnerable to job losses during times of economic crises.¹² As demand for labour in the manufacturing sector as well as construction and hospitality services decline in host countries, relatively unskilled and semi-skilled foreign workers are the first ones to be laid off. Similarly, due to travel restrictions imposed by the host as well as home countries for foreigners, remittance receipts in the LDCs are likely to decline.¹³ The hardest hit regions will be Sub-Saharan Africa (23.1 percent), followed by South Asia (22.1 percent). Remittance receipts for Bangladesh are estimated to fall by 22 percent, and Nepal by 14 percent in 2020.¹⁴

Thus, LDCs are severely impacted in the realm of goods and services trade due to COVID-19. However, some LDCs are turning the crisis into an opportunity for reform that could outlive the pandemic. A couple of initiatives taken by LDCs in promoting trade by advancing e-commerce and trade facilitation agenda are worth highlighting here.

Figure 1

LDCs with highest cumulative remittance receipts (in billion US\$)



WTO. 2020. *The COVID-19 Pandemic and Trade-related Developments in LDCs*. (Based on The Global Knowledge Partnership on Migration and Development (KNOMAD), <https://www.knomad.org/data/remittances>)

E-commerce transactions have posted growth in the COVID-19 era due to heightened awareness on the importance of touchless/contactless modes of transaction. Even prior to the COVID-19 pandemic, many LDCs had prioritized e-commerce as a means of directly connecting their firms to global and regional markets and making them competitive. In this endeavour, their development partners, including the EIF and United Nations Conference on Trade and Development (UNCTAD), helped them undertake rapid e-trade readiness assessments.

Senegal, which was supported by the EIF to prepare its e-commerce strategy as a follow-up to the above-mentioned assessment, developed an e-commerce platform that provides easy access to websites of small and medium-sized enterprises (SMEs) that sell essential goods. Recent data show that 50 SMEs, which supply products such as foodstuffs, fresh products and household equip-

ment and provide services such as e-health, delivery and e-payment, have already been registered.¹⁵

Cambodia, where the EIF provided multiple types of support on e-commerce, including the development of an e-commerce strategy, has gone a step further. EIF Partners, namely the United Nations Development Programme (UNDP) and the Australian Department of Foreign Affairs and Trade (DFAT), joined hands to accelerate the deployment of e-commerce solutions to help Cambodia contain the impact of COVID-19.

This innovative project seeks to diversify the services provided by existing online marketplaces to facilitate business continuity for essential sectors and enable effective local retailer/consumer logistics. Two aspects of the projects are particularly noteworthy: first, partnering with existing marketplaces that have proven expertise and experience in aggregating sellers and buyers; and second, employing

hospitality sector staff, who have lost their jobs, in the customer service departments of companies involved in e-commerce businesses.¹⁶

At a micro-level, an example of a company named Thulo.com in Nepal is worth highlighting here. Despite the challenges faced during the lockdown period, the company managed to ensure healthy growth in the grocery segment of its business by deploying some strategic approaches.

First, it was able to build trust among its customers by swiftly adopting online payment systems for touchless transactions, which otherwise depended mostly on cash-on-delivery mode of payment. Additionally, it equipped its delivery crew with personal protective equipment so as to avoid the risk of virus transmission, if any, at the time of delivery. Second, it joined hands with other e-commerce companies to share experience in resolving their problems and collectively obtained necessary support from the

Ministry of Industry, Commerce and Supplies when they encountered problems in goods delivery. Third, due to the problem of sourcing in adequate quantities of goods due to the lockdown, it managed to swiftly deliver substitute products to customers and refund the difference, if any.¹⁷

Regarding trade facilitation, limited trade facilitation measures, including burdensome customs formalities, have been a major constraint for the LDCs. If we consider the ratification of the WTO's Trade Facilitation Agreement as a proxy for the willingness and capacity of a WTO Member to undertake trade facilitation reforms, LDCs, accounting for 65 percent of pending ratifications, lag far behind other countries.¹⁸

However, the COVID-19 crisis seems to have provided incentives to LDCs to introduce some quick win measures to facilitate trade as well as take steps towards paperless trade.¹⁹ For example, Nepal has put in place a system for the release of customs consignment for essential goods within two hours of documents submission at the customs point. Moreover, it has decided to accept copies of required documents and to provide for the possibility of attaching documents online, thus removing the requirement to present original documents during the lockdown period.²⁰

Investment

Private investments, both domestic and foreign, have been vital sources of LDCs' financing in their effort to build productive capacity and achieve structural transformation. Data on domestic private investment are not readily available. Regarding foreign investment, the *World Investment Report 2020*, recently released by UNCTAD, shows that the global flow of foreign direct investment (FDI) is going to reduce by up to 40 percent in 2020 from its 2019 value of US\$1.54 trillion. It is projected to decrease by a further 5-10 percent in 2021 before possibly initiating a recovery in 2022.²¹

It is equally concerning to note that due to a serious hit in the profit margin of the top multinational

enterprises by up to 40 percent, there will be a decline in reinvested earnings, which account for more than 50 percent of FDI. This will surely impact LDCs, where major FDIs have been in fuels, minerals, light manufacturing and tourism sectors, all of which are experiencing demand and supply shocks (Figure 2).²²

Despite such a bleak prospect, the international community should work closely with the private sector to contribute to SDG Target 17.5, which envisages the adoption and implementation of investment promotion regimes for the LDCs so that the much-needed flow of FDI to the LDCs can be maintained. This is even more important for LDCs on the threshold of graduation.

At the same time, LDCs can use the crisis as an opportunity to attract and retain both domestic and foreign investment. This article focuses on two such strategies.

First, Given the supply chain disruptions caused by COVID-19, along with pre-pandemic trends such as rising labour costs in China and growing uncertainty about market access due

to trade tensions, business enterprises globally are looking for opportunities to diversify component production and assembly. This trend is already visible in the case of countries such as India and Vietnam.

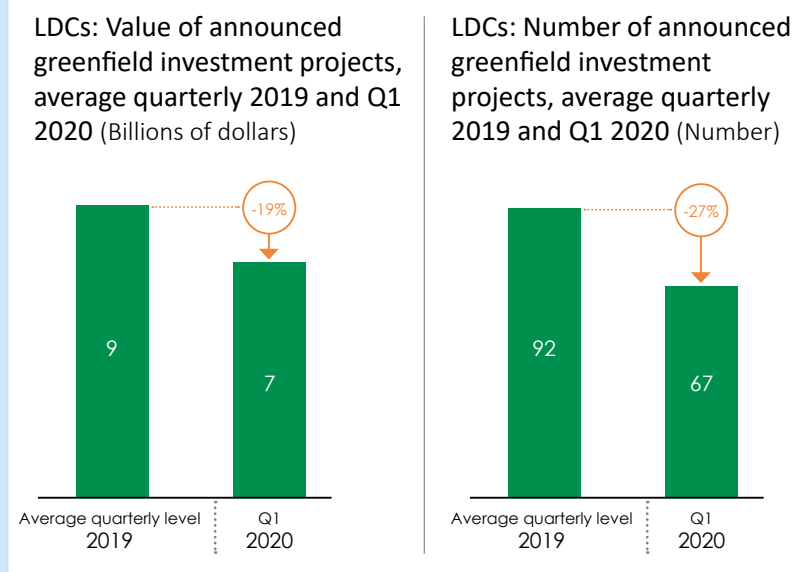
LDCs should also tap into this opportunity. LDCs, in particular, offer two advantages: first, they have an abundance of low-wage labour, and second, they get duty-free and quota-free market access in major markets. However, LDCs also face several constraints, including a lack of skilled human resources, deficient infrastructure and limited availability of logistics services providers.

Nevertheless, these problems are not insurmountable. Since many LDCs are already witnessing an influx of skilled or semi-skilled workers returning from developed and emerging countries, the problem of skills gaps might be alleviated at least partially. Sound policies and collaboration with the private sector would be paramount in this case.

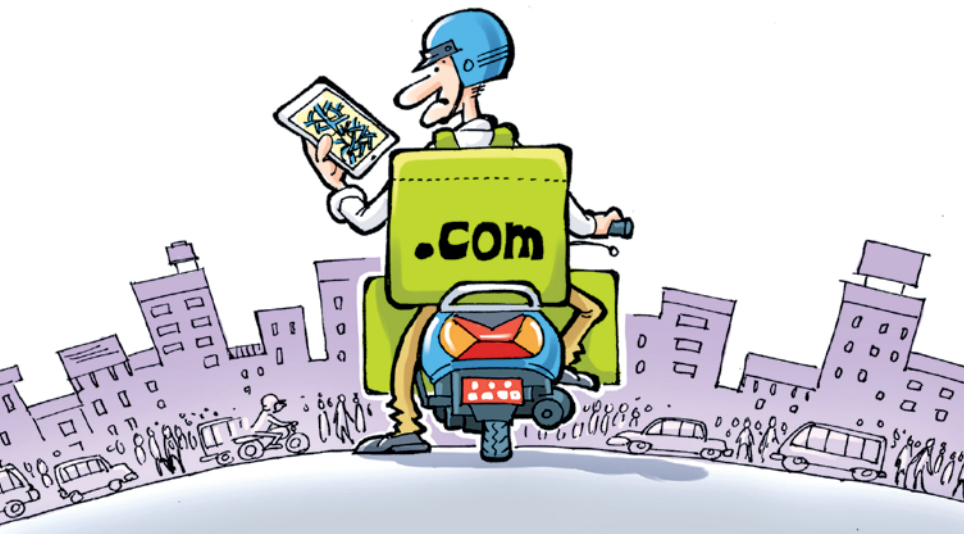
Similarly, although infrastructure and logistics services cannot be improved overnight, LDCs having

Figure 2

Greenfield investment projects



Source: UNCTAD. Note 21.



helped European countries recover swiftly, Nobel laureates Abhijit Banerjee and Esther Duflo propose a 'COVID-19 Marshall Plan' for poor countries. They also remind developed countries the lessons of the 2008 financial crisis and suggest not to call for a return to fiscal 'discipline' too early.²⁹

In order to address COVID-19-related health, economic and social shocks faced by more than 100 poor countries, including LDCs, debt relief measures announced by international financial institutions in the recent past have been immensely helpful. For example, G20 economies have allowed the world's poorest countries to suspend repayment of official bilateral credit from 1 May until the end of 2020.³⁰ Moreover, the World Bank Group alone has committed to deploy up to US\$160 billion over the next 15 months, of which US\$50 billion will be either in the form of grants or highly concessional loans from the International Development Association, the part of the World Bank that helps the poorest countries.³¹

However, a partial debt relief is clearly not enough as some LDCs continue to struggle to finance their regular expenditure, let alone development expenditure. Moreover, due to joblessness, growing inequality and frustration, particularly among the youth, there is a real danger of resurgence of conflict in fragile LDCs. Therefore, at the very least, those developed countries that are yet to meet the globally agreed target of contributing 0.7 percent of GNI to the international development endeavour, should increase their contribution.

Aid for trade (Aft), which is a sub-set of development assistance, has been a critical support for the LDCs to achieve sustained trade growth and undertake the necessary institutional reform to attract investment, among others. It is too early to ascertain how Aft flows will change since data on this indicator is lagged by up to 18 months. If development assistance resources are diverted predominantly to address the health-related implications, this source of inflow could shrink. Despite these challenges,

special economic zones (SEZs)/industrial parks, where these problems are taken care of to a large extent, can attract FDI in building up their capacity to serve the global production network. Examples include LDCs such as Bangladesh, Cambodia, Ethiopia, Myanmar, Nepal and Senegal.

Therefore, LDCs putting in place active policies to attract and retain investment during the COVID-19 crisis are likely to benefit in the long run. For example, Myanmar, one of the first LDCs to adopt a COVID-19 Economic Recovery Plan, which, among others, includes an active investment promotion and facilitation policy, is likely to have a head start in this area.²³

Second, there is enormous potential for LDCs to tap into the Sustainable Foreign Direct Investment (SFDI) opportunity. SFDI is a form of FDI that is commercially viable but at the same time makes a maximum contribution to the economic, social and environmental development of host countries.

Achieving the SDGs has been reported to potentially open at least 60 fast-growing market opportunities.²⁴ Together, these would generate business revenues and savings worth more than US\$12 trillion by 2030. However, actions taken so far in this area have been grossly insufficient.

As countries move towards green recovery post-pandemic, there could be opportunities for countries in attracting FDI in green, climate-resilient, future-proof and sustainable

businesses. A recent study suggests that in the case of low- and middle-income countries (which include LDCs), sustainable agriculture, ecosystem regeneration and accelerating clean energy installations could present areas for potential recovery in which FDI can be attracted.²⁵

One such example is the circular economy that replaces the end-of-life concept with restoration, use of renewable energy, elimination of the use of toxic chemicals and wastes reduction.²⁶ The supply-chain disruption due to the pandemic is likely to compel governments and the private sector alike to embrace circular economy in designing post-COVID-19 recovery by utilizing available resources more optimally.²⁷ Leveraging private investment, including FDI, that contributes to promoting circular economy would be a smart move on the part of LDC governments.

Development assistance

Given the magnitude of the current crisis and shrinking sources of financing, LDCs, left to their own devices, will not be able to fend off the crisis. High cost of borrowing and relatively high debt-to-GDP ratio²⁸ means that LDCs do not even have the fiscal space to borrow more to finance their health expenditure and protect their vulnerable people by putting in place necessary safety net measures.

Comparing the current crisis to World War II, when Marshall Plan

recognizing the significance of AfT in helping LDCs to contribute sustainably for the economic empowerment of micro-, small- and medium-sized enterprises, women and youth, AfT allocation to LDCs should be increased in line with SDG Target 8.a.

Conclusion

A lack of preparedness on the part of LDCs to handle multiple crises emerging from the COVID-19 pandemic has once again exposed the vulnerability of LDCs on health, social and economic fronts. However, these crises have also offered some opportunities. Governments, development partners and private sector actors in a number of LDCs have been quick to respond and adapt, while others are sitting on the fence. In order to build back better, LDCs need to make use of proven approaches followed in various settings by adapting them to their own socio-economic contexts. They also need to focus on policy innovation, understand the virtue of partnership, and more importantly not leave recovery to sheer chances. Equally important is the need for a shared global vision for mitigation and recovery, and strengthening of international cooperation in a number of economic areas. ■

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COVID-19 hits Afghan economy

COVID-19 pandemic has revealed the vulnerability of the Afghan private sector and risks associated with overreliance on precarious transit route.

Shoaib A. Rahim

Afghanistan adopted market economy in its Constitution in 2004, after the fall of the Taliban regime. Trade was designated as an engine for economic growth. A private sector-driven, open economy was playing the key role of creating jobs and improving living standards. But the arrival of the COVID-19 pandemic and subsequent circumstances have affected the robustness that the private sector and trade had achieved after almost two decades of development interventions. This is worrisome for an economy that is landlocked, embroiled in conflict and fragile.

The Ministry of Health in Afghanistan confirmed the first case of COVID-19 in the country on 24 February after which awareness campaigns started to inform people about social distancing and other precautionary measures.¹ However, the cases continued to increase and spread all over the country. In the fourth week of March, lockdown was imposed in Kabul and other provinces for three weeks, which later was stretched to two more months. However, strict implementation of the lockdown was a challenge.

Hence, the number of confirmed cases and deaths continued to surge. As of mid-June, the public sector and limited business sectors have been allowed to operate following Standard Operating Procedures.

Afghan economy

Agriculture sector has remained a major contributor in the Afghan economy with around one third of GDP and 45 percent of total employment generated by the sector.² The micro, small and medium enterprises in different sectors, including food processing, handicraft and carpet weaving, light manufacturing, construction and services sectors, meet some part of domestic demand and provide employment to a significantly large portion of the population.

Further, a sizable investment is visible in areas including telecommunication, banking, pharmaceuticals, steel industries and mining. Due to limited domestic production, imports have remained around US\$7 billion while exports are below US\$1 billion.³ The large import figure includes key inputs and raw materials for domes-

tic production. Major export items include fresh and dried fruits, carpets, coal, and high value medicinal herbs and spices. Tax revenue from the private sector and customs revenue from trade enables the Afghan government to cover around 50 percent of its national budget. Before the COVID-19 pandemic, the country was experiencing an unemployment rate of around 40 percent, with more than 54 percent people living below the poverty line⁴ and an economic growth rate of 2.9 percent projected to reach 3.3 percent in 2020.

Timing of pandemic

The timing of an event that has implications for the economy plays an important role in understanding its impacts. As such, an analysis from a seasonality perspective can be helpful to unpack the impacts of COVID-19 in Afghanistan.

In Afghanistan, 20 March coincides with New Year's Day of the Afghan calendar, which is known as *Nao Roz* and marks the beginning of the spring season. After a long winter in cold regional capitals and Kabul, econom-

ic activities resume and accelerate as days get longer and warmer. Key agricultural outputs, particularly fruits and vegetables, start reaching the markets, new businesses are launched, and construction work resumes. The number of social gatherings and events increase, which means more business for coffee shops, restaurants, hotels and related businesses. As a result, economic activities peak. This is the reason why unemployment rates are much lower in spring and summer compared to winter.⁵

Furthermore, during the holy month of *Ramadhan*, which started from 24 April this year, food priorities change and consumption rises as people crave better food. This is peak time for food-processing small and medium-sized enterprises (SMEs) to supply their stock of jam, jelly, marmalade, pickle and juice after months of production. Similarly, demand for poultry, livestock and dairy products increases. The *Eid-ul-Fitr* festival, which fell on 24 May, marks the end of *Ramadhan*. For this festival people spend on new clothing, home decoration, electronic equipment and other items of need. Traditionally, dried fruits and bakery items are served to visiting guests, increasing consumption of domestically produced items and thus raising farmers' incomes and contributing to the rural economy. The season also sees increased demand for imported goods, which generates profit for traders and customs revenue for the government.

The arrival of the pandemic and subsequent lockdown in the country during *Ramadhan* and *Eid-ul-Fitr* hit businesses very hard. Food processing, poultry, and dairy businesses were unable to cash in on this once-a-year peak season. Similarly, tailors, home decoration and other service providers also could not make much sales. Hotels and restaurants, which, in tandem with wholesale and retail trade, provide jobs to around 11 percent of the employed population, remained closed. Also, the labour-intensive construction sector, which is a major driver of the economy with 10 percent of the employed population

engaged in it, could not return to its seasonal trend.

As a result, economic growth, which was forecasted at 3.3 percent for the current year, has been revised to -3.8 percent, with implications for other macro-economic indicators.⁶ According to the National Union of Afghanistan Workers and Employees, more than two million jobs have been lost due to the pandemic. Similarly, the Ministry of Economy has stated that the current situation would increase unemployment and poverty rates by 40 percent and 70 percent, respectively. While a detailed data collection and analysis would be required to get a more precise picture of direness of the economic repercussions of the pandemic, these figures fall in line with the World Bank's estimates of June 2020, which projects that around 70 million more people would be pushed into extreme poverty, with fragile and conflict-affected countries and the global south being the epicenter.

Trade disruptions

There is no doubt that the lockdown and its consequences for the economy were devastating. However, Afghanistan's economic woes were exacerbated when Pakistan—Afghanistan's major transit route—closed its borders in the first week of March, leaving around 8,000 Afghanistan-bound

containers stranded at Karachi port and elsewhere in the country. This disrupted the supply chain and made several necessary items unavailable in the country such as input materials for manufacturing, animal feed and medicines for livestock and poultry, pharmaceutical products, and fruits and vegetables. Livestock and poultry sectors were affected by feed and medicine shortages to the extent that meat and poultry products were almost unavailable in major cities. The shortages caused prices of basic food items to spike across the country. This worked as a dual-bladed sword for the public as they lost income on one hand, and had to bear the brunt of price hikes on the other. The situation got worse during the holy month of *Ramadhan* as supply-side shortages amplified the seasonal high inflation.

To ease the supply disruption, Afghan authorities requested their Pakistani counterparts for support. In response, the Pakistani Prime Minister expressed his commitment in mid-March that his government would facilitate the Afghan transit activities. However, this announcement, and statements that followed from different Pakistani authorities, contradicted their actions. Security checks were unnecessarily increased, the number of trucks allowed to cross over Afghanistan daily was reduced by more than 80 percent, daily working hours and



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weekly number of days of customs officials at border crossing points were reduced, and Afghanistan's exports were suspended while Pakistan's exports remained open.⁷

Recent developments reveal that restrictions on the limits of Afghanistan-bound transit containers have been lifted and Afghanistan's exports to Pakistan were set to resume from 22 June 2020. However, the demurrage and detention charges, which, on average, is US\$150 per day per container, have continued to accumulate on the containers. For example, there is an additional cost of US\$15,000 for a container that is stranded at Karachi port since the first week of March. This applies to thousands of stranded containers. The loss in terms of damage to the quality of non-food items and expiry of medicines and perishable products add to the problems. Even if the transit trade is normalized now, damage to the Afghan economy has already been done.

On the contrary, other countries have made efforts to extend support and help to Afghanistan during the same period between March and June. India, China, Turkey and the United Arab Emirates (UAE) extended the much-needed medical support. India, additionally, delivered thousands of tons of wheat to help the country in tackling the food crisis while Kazakhstan continued its supply of flour. Similarly, efforts were made to ensure regional integration and economic cooperation during these difficult times. The Kyrgyzstan-Tajikistan-Afghanistan-Iran (KTAI) corridor started its pilot operation under the Transports Internationaux Routiers or International Road Transports (TIR) Carnets.⁸ The corridor offers the shortest possible route between Iran and Kyrgyzstan via Afghanistan. The first intermodal transport was completed from India to Afghanistan via Chabahar using TIR.⁹ It took seven days to complete the journey, which is around 11 days via Bandar-e-Abbas. Similarly, Afghanistan continued to benefit from uninterrupted services of Bandar-e-Abbas port of Iran to ensure supply of goods.

Way forward

Afghanistan is in the middle of an economic crisis emanating from the COVID-19 pandemic without any certainty about the peak and flattening of the curve. The pandemic has revealed the vulnerability of the private sector and risks associated with overreliance on precarious transit route. A country, where foreign aid covers 50 percent of its budget, does not have as many measures as other countries to overcome the crisis. Therefore, the government would require external funding support to implement various policy measures to address the economic crisis.

It will take time until all economic activities resume. It is important to build the institutional capacity of key entities to enable them to tackle the crisis and play a vital role in fixing the economy post-COVID-19. Also, corruption is a major challenge in Afghanistan, which would corrode any policy interventions. The government must ensure transparency and accountability as well as prevent the misuse of funds to achieve desired results and build credibility among donors and the public.

Some of the major interventions that the Afghan government needs to undertake to address the crisis emanated by the COVID-19 pandemic could include:

- Revising the national budget to align development budget with recovery efforts to fight the crisis.
- Extending relief to the private sector in the form of deferral or waiver of rents of government properties, utility bills and taxes to the most affected, growth-driving and labor-intensive sectors.
- Providing cash transfers or food supplies to vulnerable families in both urban and rural areas.
- Beefing up pending private sector reforms, which would not only create a more enabling private sector but also help in the release of International Monetary Fund's extended credit facility.
- Engaging more actively with regional partners to, among other things, diversify trade routes and

ensure reliable, time- and cost-efficient and secure trade routes.

- Taking serious actions to curb corruption at the customs and reduce leakages of revenue.
- Ensuring access to finance through donor-funded deposit insurance and credit guarantee initiatives.
- Ensuring government purchases of agriculture produce, particularly fresh fruits, at standardized rates, say for army or national police, to reduce losses to farmers due to disrupted supply chains. ■

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Dealing with COVID-19

Enhanced support measures are necessary to ensure that the poor and vulnerable people do not succumb to hunger.

Fahmida Khatun

The world is passing through a major catastrophe since 8 December 2019, when the first known case of pneumonia with an unknown etiology was found in Wuhan City, Hubei Province, China. Later identified and named COVID-19, the world is now severely affected by this novel coronavirus. Despite the efforts by governments worldwide for taming the outbreak, its spread is still uncontrolled and unprecedented.

COVID-19 has not been confined to only being a health hazard but has had a major economic impact. Measures aimed at containing the infection has severely affected almost all economic activities such as domestic production and supply chains. The global economy is integrated through trade, remittances, investment and foreign aid. So, the COVID-19 pandemic has given rise to economic challenges coupled with uncertainties and unpredictability both at global and national levels. Countries have already started and will continue to feel the heat of economic slowdown in different ways. Disruption in the supply chain, lower production of agriculture and industrial goods, and closure of aviation, tourism, restaurants and hotel businesses are having knock on effects on the job market. Businesses continue to lay off workers, slash salaries and payments and are

freezing recruitments. It is almost clear now that the consequences of this pandemic will be prolonged for several more months in the absence of vaccine and its availability to all. Hence, it has been predicted that COVID-19 will lead to the hardest and longest global recessions encountered so far.

COVID-19 in Bangladesh

The first case of COVID-19 in Bangladesh was identified on 8 March 2020. Although the number of cases in Bangladesh was low compared to other countries initially, it started to rise fast along with the increase in the number of tests. The Bangladeshi government, in an attempt to check the spread of the virus, announced a general holiday from 26 March 2020 for almost two months. This period of holiday, which was essentially a lockdown, led to a halt of all economic activities. Consequently, many businesses have lost incomes and individuals have lost livelihoods. There is no sign as to when economic activities can start again in full swing. Therefore, Bangladesh is caught up in a dilemma. Should the country continue to be under shut down to be safe from the health risk or should it open to save people from poverty and hunger?

There is no choice between lives and livelihoods. First and foremost, people have to be protected from the

virus to live a life. At the same time, they have to be provided with food and income to stay alive. Developed countries may afford a longer period of lockdown because their governments are capable of providing extended support to the people. However, in countries with limited resources such as Bangladesh, extended lockdowns may endanger the lives of the economically vulnerable people, many of whom have aptly expressed, "If the virus doesn't kill us, hunger will".

Economic and social impact

Early signals indicate that the economic loss due to COVID-19 is already massive in Bangladesh. The Centre for Policy Dialogue (CPD) estimated that Bangladesh's growth of gross domestic product (GDP) would be 2.5 percent in FY2020¹ against the government's projection of 5.2 percent.² The International Monetary Fund (IMF) too, in April 2020, had estimated Bangladesh's GDP growth to be 2 percent in 2020.³ Similarly, the World Bank, in its June 2020 estimation, has revised Bangladesh's growth downward to 1.6 percent in FY2020.⁴ Among other things, reduced economic growth will severely impact poverty and inequality. As per CPD's estimation, there has been an increase in national (upper) poverty rate from 24.3 percent in 2016 to 35 percent in 2020, and an increase

in the income Gini coefficient from 0.48 in 2016 to 0.52 in 2020.

Lockdown measures enforced to contain the spread of COVID-19 have dried up income sources of daily wage earners. In many sectors even the monthly salaried workers are struggling to receive payments. As about 85 percent of the total employment in Bangladesh is in the informal sector, a large number of people have lost their incomes due to the lockdown. Moreover, they do not have any savings. They include agricultural workers, construction workers, rickshaw- and van-pullers, three-wheeler and taxi drivers, other transport workers, small shopkeepers, street vendors, barbers, workers in beauty parlours, garbage pickers, domestic helps, brick kiln workers, workers in small workshops, roadside eatery workers, hotel and restaurant workers, drivers working for individuals, loaders of goods, wood cutters, delivery workers of e-commerce, and so on. There are also others such as beggars, street children, disabled people, poor women abandoned by their husbands, widows and people from the transgender community who are in a dire state.

Measures taken

There are a few conventional economic measures that governments undertake during economic downturns. They are aimed at boosting demand

and increasing spending to create vibrancy in the economy. Accordingly, governments worldwide have crafted similar policy responses to tackle the economic fallout caused by the lockdown due to COVID-19.

Most policy responses by countries have been through fiscal and monetary measures. Fiscal measures include stimulus packages such as direct financial support for the affected sectors, expansion of social safety nets and cash transfers to the low-income groups, exemption of various taxes and fees, budget allocation for immediate health preparedness and food distribution at a lower price for the poor. Monetary policy responses primarily include increasing liquidity in the financial system. This means that central banks will buy treasury bonds and bills from commercial banks so that banks in turn can provide loans to customers. The other method of monetary policy response is to reduce policy rates such as repo rates and cash reserve ratio. Many countries have reduced these rates drastically.

The government of Bangladesh has announced a number of stimulus and relief packages in order to revive the domestic economy and to mitigate the adverse effects of COVID-19 on different economic sectors and people. Until mid-June, the total package accounted for about 4 percent of Bangladesh's GDP. About 80 percent of the

economic support is liquidity support for cottage, micro, small, medium and large industries, exporters and farmers that will be channeled through the banking system. The government will mainly provide interest subsidy on bank loans. Such support is deemed to help both local and export-oriented sectors that are facing challenges due to COVID-19.

To address the basic needs of people living below the poverty line, the government has widened the coverage of existing social safety net programmes. These include distribution of wheat free-of-cost to low-income households, and providing allowances to senior citizens, and widows, deserted and destitute women. Furthermore, the government has committed providing cash assistance equivalent to BDT 2,500 (equivalent to US\$ 29) for a month to five million households.

Sourcing resources

Needless to say, the amount allocated for addressing the impact of COVID-19 is not adequate given the extent of the economic loss. Moreover, COVID-19 is still evolving and no one is sure when this will end and how much damage it will cause ultimately. Therefore, to revive the economy, a large amount of resources will be necessary. With a revenue income of only 11.9 percent of GDP⁵ and limited scope of borrowing from the bank, Bangladesh will have to explore international sources for funds.

Several international organizations have announced their support in view of COVID-19. Bangladesh has also received commitments from a number of organizations. For example, the IMF will provide a support package of about US\$730 million, the Asian Development Bank has announced a support of over US\$ 600 million, and the World Bank has committed to provide US\$100 million to Bangladesh. There may be opportunities for more support in the coming days. Still this will be only a small part of what is needed. This emphasizes the need for prudent macroeconomic management and efficiency in public expenditure and revenue mobilization. The gov-





ernment has to prioritize its spending. It needs to identify activities which are immediately needed, and which can wait for some time. This will have to be done pragmatically so that expenditure reduction does not affect employment and income of people.

A large investment is also needed for the healthcare sector. With increasing number of cases, the country is struggling to conduct more tests and provide treatment. The perennial neglect on public healthcare has become more evident now than ever before. With an allocation less than 1 percent of GDP, the healthcare sector is not able to attend the needs of patients in normal times. Dealing with COVID-19 is well beyond the capacity of the healthcare sector in current circumstances.

Regional cooperation

COVID-19 has revived the realization that collaboration among South Asian countries is necessary. Undoubtedly, there is limited ability among South Asian countries to help each other through financial support. However, they can learn from each other in addressing the challenges of the pandemic by sharing good practices. The SAARC Emergency Fund for COVID-19, initiated by some of the South Asian leaders, is a welcome gesture. This fund can be used for the most

affected countries within the region and for medical research. Beyond the pandemic, public-private-partnership in healthcare services within the region also has a strong potential.

However, regional cooperation has remained mostly unsuccessful in South Asia due to geo-political undercurrents. Despite the potential for mutual benefit, leaders of South Asian countries have not moved the regional integration agenda forward. Even since the outbreak of COVID-19 in the region, no concrete steps have been taken towards cooperation except for the token fund. In fact, there is no reason to hope that COVID-19 will bring about any change in the thought process of South Asian leaders.

Conclusion

It is evident that lockdowns imposed by almost all the South Asian countries have not helped much in addressing the challenges created by the COVID-19 pandemic. The number of infected cases has been rising sharply in the region. As economies, including Bangladesh, await to open up they have been experiencing huge losses in every sector. In this context, a reasonable way to face the pandemic is to continue with the lockdown in affected areas to limit the spread of the virus, open areas in a limited manner and with stringent measures

where there have been recoveries and the spread of virus is under control, and open areas where there are no cases with due precaution and strict measures. Parallel to this, there has to be enhanced support measures to the poor and vulnerable people to ensure that they do not succumb to hunger, and a strengthened healthcare system to take due care of the patients. Indeed, this strategy is applicable to all countries, including the South Asian countries, since they are on the same footing in terms of dealing with the COVID-19 challenges. ■

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Notes

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An opportunity to boost agriculture in South Asia

Bhutan could provide some lessons to other countries in South Asia on revamping agriculture to fight COVID-19's economic impacts.

Om Bhandari

South Asian farmers, who feed over a quarter of the world, are one of the world's poorest groups. Over half of the South Asian population is engaged in agriculture and the region claims to be a net food exporter. Yet the region suffers from food shortages, and ironically, many of those who produce the food suffer from hunger. This article makes an attempt to identify and address the underlying reasons for this predicament. Emerging lessons from Bhutan in the context of the COVID-19 pandemic could help enhance greater regional cooperation in the area of agriculture.

COVID-19 impacts on Bhutan

Tourism and allied sectors have been major employers in Bhutan. Considering the slump in tourism due to the COVID-19 pandemic, reviving these sectors to their past glory will take considerable time. The Tourism Council of Bhutan (TCB) estimates that, if all goes well, there will be a 30

percent revival of tourism in 2021 and 50 percent in 2022.¹ There is looming food and job insecurity, particularly in the medium term, and depending on how long the pandemic and lockdown persists, this could get direr in the long term. Therefore, quickly engaging people in productive activities is necessary to maintain social harmony. Agriculture may be one such activity.

The COVID-19 pandemic has forced Bhutan to reflect and reorient its agricultural strategies. For instance, the Bhutanese government has launched an initiative to promote agriculture in urban and peri-urban areas to enhance food production and provide gainful employment to the ones recently left jobless by the COVID-19 pandemic.² Bhutan could provide some lessons to other countries in South Asia.

Agriculture and food security

Food has conventionally been supply-driven in South Asia. The region's

farmers are at the mercy of middlemen and buyers. This has discouraged people from taking up agriculture as a profession. Before the pandemic, 649 million people in the region were moderately or severely food insecure and 271 million were severely food-insecure.³ Similarly, 36 percent of the children were stunted and 16 percent were acutely malnourished. The fallout of COVID-19 and the containment measures will see the situation in South Asia worsen. Hence, South Asian countries must act quickly and collectively, and use this situation to improve regulation and revamp the disrupted agriculture supply chains. They must create the conditions to make the agriculture sector more attractive, especially to the young labour force, while implementing other reforms such as fast-tracked investments in technology and logistics.

South Asian countries can consider the suggestions discussed below, also based on emerging lessons from Bhutan.

tan, to boost agriculture during these difficult times and beyond.

Ensure clarity on land availability for agricultural activities, including in urban areas, and the crops to grow Bhutan's recently launched COVID-19 support programme through farming is designed differently for three groups:⁴ subsistence farmers, farmer groups and cooperatives, and commercial farmers. Each category will receive different forms and levels of support, such as in terms of land allocation, and provision of vegetable seeds and cultivation manual. Also, since over 25 percent of agricultural land in Bhutan is fallow, the government's policy is to encourage farmers to utilize the uncultivated land for vegetable farming.⁵ The government will help identify and allocate state-owned land if interested groups do not have access to private land for cultivation.

Revamping agriculture to engage the displaced workers, returnee migrants and the unemployed provides an opportunity to transform agriculture into a modern, smart and professionally-managed enterprise that would appeal better to the youth. Bhutan's urban agriculture initiative is a good start where drying facilities, greenhouses and market sheds are being developed alongside warehouses⁶, albeit at small scales.

Improve logistics and disseminate market information widely

During the lockdowns almost all South Asian countries experienced shortages despite adequate food supplies owing to poor logistics. This makes a case for locating collection centers, with improved capabilities, closer to smallholder farmers. There is also a need to provide market information, especially to smallholder farmers. The government can handhold smallholder farmers to negotiate with buyers and input providers. Providing legal services to farmers and/or farmers' organizations in framing formal contracts between buyers and farmers will be of great help. Contracts for surplus produce could be facilitated

with e-retailers across borders keen on sourcing produce at pre-fixed quantities and prices. When done at scale, a good portion of the margin appropriated by middlemen can flow back to the farmers. Even during lockdown, keeping markets open with physical distancing measures, as done in Bhutan, is important. Moreover, while focusing on the domestic market, international trade should not be ignored.

Digitize processes and value chains and use technology to reduce trade barriers

Leveraging digital tools in agriculture provides on-demand value to the farming community, both locally and from a distance. Promoting platforms that allow simple farm machinery rental and portals to provide information on price and available labour could be a start. As the use progresses,

South Asia must act collectively to improve regulation and revamp the disrupted agriculture supply chain.

technology can enable remote visualization to keep track of plantations, checking of pest infections and diseases, organization of trainings as needed, preventing losses, enlarging crop insurance, proper utilization of space and ensuring quality. For instance, Mountain Hazelnuts—an agricultural company in Bhutan—makes good use of technology to access expertise located on the other side of the globe.⁷ Farmers' literacy of digital tools will be paramount here, which can be strengthened through regular visits of field monitors.

Budget agriculture intelligently

Agriculture, as a sector, is more than just food. It is about stemming rural to urban migration, creating jobs, reducing trade deficits, diversifying income

sources, ensuring better health, driving rural development, preserving the environment and promoting cultural heritage. Strangely, in most South Asian countries, the sector receives the lowest or a decreasing share of public budget while concurrently aiming for food self-sufficiency. This may perhaps be because of agriculture's disproportionately lower per person contribution to GDP. The focus of governments in agriculture investment has often been on the construction of agriculture infrastructure such as irrigation canals and farm roads. These public goods are necessary but not sufficient. Agriculture is largely site- and crop-specific. Developing value chains through improving transport and logistics, financing, branding, packaging and certification for specific products with comparative advantages need to be prioritized. Identifying and promoting public-private-partnership (PPP) projects in agriculture are often missing in national budgets. Realizing these shortcomings, Bhutan is quickly reprioritizing and resequencing its current five-year plan.⁸ It is discussing, for example, crop-specific buy-back guarantees.

De-risk private investments

Agriculture will be more attractive when production, agri-processing and other elements of the value chain are integrated. Incentives and subsidies provided to the value chain actors must be unequivocally clear to investors. A targeted effort to proactively entice investments is necessary, especially in agriculture. South Asian agencies are often unaware of the range of financing tools they have access to. Many of these tools⁹, such as blended finance, political risk insurance, local currency from international financiers, etc. remain underutilized or underdeveloped owing to unawareness of their availability to investors and government agencies.

Motivate financial institutions and stock exchanges to participate actively in agribusiness

South Asian financial institutions have dismally low exposure to the agricul-

ture sector because the sector contributes substantially to their non-performing loans. As governments help de-risk the sector, financial institutions can respond appropriately. Many South Asian countries do not have a developed warehouse receipt system of extending finance, for example. A warehouse reduces pressure on the farmer to sell when prices are low and when adequate supply in the market exists. A recent development in Bhutan called the Online Farmer's Market System (OFMS)¹⁰ synergizes the Bhutan Market Commodities Initiative of the stock exchange. It aims at mapping production, spotting markets and linking parties by disseminating market information to domestic and international buyers. Established domestic aggregators reach international buyers. Financial institutions and other financiers are being encouraged by the central bank to intensify the priority sector lending programme that focuses on agriculture and small businesses. Some institutions, with assistance from development partners, are providing interest-free or reduced interest loans. Bhutan is ramping up the use of individual credit history and moveable collateral by making these systems robust and training financial institutions to better serve the micro, small and medium enterprises (SMEs). The stock exchange is providing platforms for crowd-funding of projects. "Angel investment" type of matchmaking is organized regularly by the central bank and the business chamber.

Develop regulatory capacity

The COVID-19 pandemic has made us aware of the importance of protecting ourselves from pathogens and maintaining hygiene. Similar awareness regarding the food we eat is necessary. Food regulatory authorities in South Asia need a capability boost to enable them to provide more ex-ante support in the food value chain rather than serve as ex-post controllers. For example, for exports, exporters must meet the required standards such as those outlined by the Codex Alimentarius and the sanitary and phytosan-

itary standards. In order to meet such requirements, regulatory bodies need to be strengthened and everyone involved in the supply chain need to be trained adequately. Regulatory bodies must step up in their roles and proactively voice reforms to the government and facilitate investments the sector desperately needs. They need to distinguish the services they render to different market segments and look for opportunities to become as fiscally independent from the government as possible. Research and testing capacity for these agencies ought to be a top priority.

Educate

This is the time when governments can help direct growers towards the right mix of food items, forestry and livestock products both from a commercial and a nutritional point of view. This is happening to some extent

Food regulatory authorities in South Asia need to provide more ex-ante support in the food value chain.

in Bhutan. The Japan International Cooperation Agency, for example, is helping a district grow sweet potatoes for the first time.¹¹ Similarly, online training to regulators on food hygiene and protecting food workers is being imparted. Other general training, such as on negotiations, to SMEs, will also be helpful.

Conclusion

Reframing agriculture policies in response to the COVID-19 pandemic to make it more profitable through necessary support can provide solutions for unemployment. Bhutan is seeing signs of laid-off workers interested in farming, not only currently but even after the situation improves. The spin-off of this would mean urban decongestion as out-migration from

rural areas can be stemmed by making agriculture a worthwhile profession. All the struggles of keeping up with increasing demands for adequate supply of resources such as water and infrastructure will be substantially eased. South Asia must seize this opportunity. Losing it will be a great mistake. ■

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Fractured global
value chains post COVID-19

Can India gain its missed glory?

India should make the best use of this time as an opportunity to attract investment from multi-national enterprises looking to diversify their production facilities away from China.

Rajesh Chadha

The global economy is facing an unprecedented crisis of COVID-19, which might impact the world in terms of deteriorating human health, worse than the Spanish Flu pandemic of 1918 (till 1920) and the Great Depression of 1929 (till 1939). There is no way yet to compute the peak and duration of health and economic downturns. As the International Monetary Fund's (IMF) World Economic Outlook (WEO) April 2020, puts it, "Depending on the duration, global business confidence could be severely affected, leading to weaker investment and growth than projected in the baseline. Related to the uncertainty around COVID-19, an extended risk-off episode in financial markets and tightening of financial conditions could cause deeper and longer-lasting downturns in a number of countries."

In January 2020, the WEO Update had projected the 2020 world economy to grow at 3.3 percent, advanced economies at 1.6 percent, emerging

markets and developing economies at 4.4 percent, India at 5.8 percent and China at 6 percent. It did not have any mention of the novel coronavirus. COVID-19 has seriously impacted these growth numbers. The corresponding numbers, as per IMF WEO (April 2020) are projected at -3 percent (world), -6.1 percent (advanced economies), -1 percent (emerging markets and developing economies), 1.9 percent (India) and 1.2 percent (China). The world trade volume, which, in January 2020, was expected to expand by 2.9 percent, is now estimated to experience a decline of 11 percent. The drastic downward revision within one quarter must be a record slippage in the history of the IMF.¹

The Indian economy has already been facing serious deceleration in economic growth, quarter after quarter, since the first quarter of 2018-19 when it posted a growth of 8 percent in GDP at market prices. The decline has been sharp with expected growth

in second quarter of 2019-20 estimated at 4.5 percent.² The aftermath of COVID-19 might put India's growth rate for 2020-21 anywhere below 2 percent, or even lower. These are guess-estimates and would very much depend on the peak, length and the likely returning waves of COVID-19 after its first phase gets flattened. However, it is just not feasible to put economic cost to the human lives lost.

India must consider various options to invigorate the domestic economy in the coming months/years. One of the options lies in strengthening its manufacturing sector through greater participation in the fractured global value chains (GVCs). Such participation is expected to boost jobs and income. China is currently the most important hub of GVCs for many multinational enterprises (MNEs). While the SARS coronavirus had impacted GVCs in 2003, the impact of COVID-19 in 2020 is going to be much worse. India has great awaited potential for



attracting investment from multi-national enterprises (MNEs) which may now be looking for diversifying/shifting their production facilities away from China. It should make the best use of this opportunity, which has evaded it during the last two decades.

Disequilibrium of global value chains

China gained the maximum advantage from the process of production fragmentation since the early 1990s and attracted investments into manufacturing via the global value chains. Of course, while China facilitated the assembly for many MNEs, these MNEs as well as their home countries benefited from having their production platforms located in China. The US has been one of the top beneficiaries.

Wuhan in Hubei province of China was the epicentre of the novel coronavirus outbreak. By February 2020, the virus had spread to 18 additional provinces. Over 90 percent of all active businesses in China are located in these provinces. More than 51,000

companies across the world, including 163 Fortune 1000 companies, have one or more direct or Tier-1 suppliers in the impacted region. The number of companies having one or more Tier-2 suppliers in the impacted region exceeds five million, including 938 Fortune 1000 companies.³

The big MNEs relying on 'just in time' deliveries through GVCs have faced serious supply chain risks. The after-effects of the SARS outbreak in 2003 were much less severe. China's share in world GDP, which was 4 percent in 2003, has quadrupled to 16 percent now. Its exports of textiles and apparel account for 40 percent of the world exports. China now is a major importer of metals and minerals. Its share in world mining imports has risen to 20 percent compared with 7 percent in 2003.⁴

A survey of 628 US companies, including 52 percent manufacturing and 48 percent non-manufacturing units, conducted by the Institute of Supply Management, reveals that the companies are seriously impact-

ed due to the spread of COVID-19. Nearly three-fourths of the companies have reported disruptions in their supply chains. Close to 57 percent responses reported longer lead times for components sourced from Tier-1 sources in China. About 60 percent of the companies, which normally travel to China for business, do not intend to travel over the next six months.⁵

There is intense discussion around the world about diversifying GVCs with many of the MNEs considering shifting parts of their production platforms away from China. The US is contemplating creation of an Economic Prosperity Network through an alliance with trusted partners. The likely alliance countries include Australia, India, Japan, New Zealand, South Korea and Vietnam. The effort would be to move global value chains production away from China into friendlier countries.⁶

Japan has announced a US\$2.2 billion stimulus package to help its companies for shifting out their production bases away from China into

other countries.⁷ This would enable Japanese firms to move away from the risk of unexpected failures in dealing with China.

While many MNEs and countries might wish to diversify their production platforms away from China, it is easier said than can be done. Post COVID-19, many of the companies shall be starved of cash and may not be able to move away from China to invest in other countries in an abrupt short-term manner.

Can India gain its missed glory?

The Global Value Chain Development Report 2019 published by the World Bank, jointly with WTO, IDE-JETRO, OECD and UIBE discusses technological innovation, supply chain trade, and workers in a globalized world. It states that the share of GVCs in global trade has declined since the financial crisis of 2008. Many of the developing countries have been able to integrate into the global economy with gains in jobs and income. While GVCs have moved up the technological sophistication, consumer demand has also grown, thus leaving scope for developing countries to participate in low-skilled labour-intensive tasks that need human dexterity. However, the new technologies are posing a challenge, the impact of which is not yet known. Automation and digital technologies might disrupt the current GVC arrangements and widen disparities across countries. However, these provide SMEs with opportunities to play a more active role. Trade openness continues to remain a facilitating route as compared to import-substituting efforts to raise the share of domestic value-added.⁸

Much of the extant literature has identified India as one of the major potential countries which could have participated actively in GVCs but could not. Indian industry, as well as the government, have been quite keen to play a major role. It is unfortunate though that while labour-intensive manufacturing could have created many more jobs, the share of manufacturing in GDP has remained sticky

at about 17 percent for more than two decades.

The US-China trade war tensions in 2019 led to some of the firms shifting production out of China. A Nomura study reported relocation of 56 firms, during April-August 2019, shifting production away from China. Twenty six of these firms went to Vietnam, eleven to Taiwan and eight to Thailand. Only three companies came to India and two went to Indonesia.⁹

The World Bank's flagship World Development Report (WDR) 2020 is titled *Trading for Development in the Age of Global Value Chains*. It was released in mid-November 2019, the eve of COVID-19 crisis. It carried a clear message, "GVCs can continue to boost growth, create better jobs, and reduce poverty provided that developing countries undertake deeper reforms and industrial countries pursue open, predictable policies."¹⁰

India must integrate 'Assemble in India for the world' into 'Make in India' programme.

The share of GVC trade in world trade had increased from about 37 percent in 1970 to a little over 41 percent in 1990, a gain of about 4 percentage points in 20 years. The next 18 years witnessed an impressive rise of 12 percentage points and the share of GVC trade in world trade touched the peak of 52 percent in 2008, i.e. in the year of the global financial crisis. It has been declining thereafter. The growth in trade has been sluggish with a slowing down of expansion of GVCs. India could have played a major role but it could not due to its own lacklustre domestic reforms. A lot more needs to be done on logistics and infrastructure fronts.

Some of the poor countries, including Bangladesh, China and Vietnam, could take advantage of establishing manufacturing/assembly platforms

of MNEs and could benefit from increased productivity and incomes resulting in steep declines in poverty. Much of the growth in GVCs came from trade-led comparative advantage originating from labour-intensive manufacturing/assembly.

The WDR 2020 highlights two major factors that can potentially threaten the GVCs growth model, viz. labour-saving technologies, including automation and 3-D printing, and trade conflict between the large countries, the US and China in particular. Little did the world know that COVID-19 would take the intensity of trade and foreign policy conflict between the US and China to an unprecedented threat level. Given that many other countries have also been affected seriously, all eyes are now on how the evolving global trade and foreign policy order would evolve with regards to their respective relationships with China. The realities would emerge as the world starts coming out of the COVID-19 fatalities. Incidentally, India's Economic Survey 2019-20 also has a chapter on exports of network products (NP) through global value chains.¹¹

Post-liberalization, India's share in global merchandise trade increased three times, from 0.6 percent in 1991 to 1.7 percent in 2018. China's share at 12.8 percent in 2018 is 7.5 times that of India. It is time that India must participate in GVCs through a sharp focus on labour-intensive 'network products' for which the production processes of MNEs are globally fragmented. These products include equipment for IT hardware, electricals, electronics and telecommunications, and road vehicles.

India must integrate 'Assemble in India for the world' into 'Make in India' programme. The Survey estimates creation of 40 million well-paid jobs by 2025 and 80 million by 2030. However, the post-COVID estimates are likely to be at variance with these numbers.

India has the potential to integrate with global trade through exports of traditional buyer-driven networks of labour-intensive goods, including toys, footwear, textiles, garments,



etc.¹² Examples include Walmart, Adidas, Nike, etc. India also has great potential to assemble and export 'network products' through final assembly.¹³ These are producer-driven GVC networks controlled by leading MNEs such as LG, Samsung, Apple, etc. These products have fragmented production across many different countries. Each country specializes in one or more fragments of the process with final sophisticated parts and components produced in capital and skill-intensive countries and final assembly done in developing low skilled labour-intensive countries like China and Vietnam. MNEs, headquartered in developed countries including Japan, South Korea, the US and EU own the intellectual property and specialize in capital-intensive stages of fragments. NPs may be divided into two main categories, viz. parts and components and assembled end products.

The Economic Survey predicts the NP exports to grow from US\$5.6 trillion in 2018 to US\$6.9 trillion in 2020, US\$24.8 trillion in 2025 and US\$49.1 trillion in 2030. The share of India's NP exports in world NP exports is expected to rise from about 1.2 percent in 2020, to 3.6 percent in 2025 and up to 6.1 percent in 2030. However, these numbers have gone through a drastic revision post-COVID-19.

What is the way forward for enabling new opportunities to succeed in GVC integration? It is time to under-

take deeper domestic policy reforms, particularly the factor market reforms, land, labour and capital. Focused attention must be given to the ease of doing business, efficient logistics and infrastructure. India must also get future-ready for greater participation in technology and capital-intensive sectors of GVCs through upgradation of requisite skills, and research and development on patents and designs. Looking only at labour-intensive sectors would be a rather short to medium-term effort. The longer-run success lies in paying attention to trade in sophisticated network products. One of the most important enablers is international cooperation and keeping the trade open. ■

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Economy

in the time of COVID-19

While national efforts are crucial to address the impacts of the COVID-19 pandemic, the role of neighbourhood cooperation should also be emphasized.

Paras Kharel

Nepal's economy was slowing down even before COVID-19 struck. Gross domestic product (GDP) had grown at an average rate of 7.3 percent in the three-year period 2016-17 to 2018-19, largely on the back of a reconstruction boom following the 2015 earthquake. A slackening of demand, partly due to reconstruction activities petering out, a dismal rate of capital expenditure execution by the government, a fall in agricultural production due to adverse weather, and a reduction in remittance inflows—all these indicated that growth would come down in the fiscal year 2019-20 (ending mid-July 2020), notwithstanding the ambitious target of 8.5 percent set by the government. In October 2019, three months into the fiscal year 2019-20, the World Bank and the Asian Development Bank had projected GDP growth at around 6.5 percent.

Return migration spectre

Even abstracting from the economic slowdown in Nepal that preceded the global pandemic, there was always a nagging concern about the vulnerability of an economy kept afloat by

workers' remittances from abroad. About a quarter of households receive remittances from at least three million Nepali citizens working abroad, and such remittances amounted to 26.2 percent of GDP in 2018-19. The size of the labour force in Nepal was about eight million in 2017-18, with another 2.6 million people in the potential labour force category. About 500,000 people enter the labour force each year, and in the last three years (2016-17 to 2018-19), on average 334,956 people have annually received permits to work abroad (in countries other than India). Remittances from abroad have contributed to rising living standards, including poverty reduction.

Enter the pandemic, and the spectre of an adverse shock that would force a significant number of Nepali people working abroad to return home and largely foreclose the option of foreign employment to many job seekers, playing havoc with everything from macroeconomic stability to consumption at the household level, is set to become a reality. The major employment destinations for Nepali migrants are Malaysia and Western Asia, besides

India. Nepali citizens working in India are already returning home by the tens of thousands. At least 400,000 Nepalis are projected to return home from countries other than India on account of the pandemic, as per a quick survey by the government's Foreign Employment Promotion Board. The World Bank projects remittance inflows to Nepal to fall by at least 14 percent in the calendar year 2020.

Providing jobs to returnee migrants is a challenge confronting a country that, as per the Third Nepal Labour Force Survey, already has an unemployment rate of 11.4 percent (about one million people) and has 39.3 percent of its labour force underutilized (about 4.2 million). Informal employment is pervasive, with some 84.6 percent of the total employed people in informal employment (Table 1, Page 30). These have borne the brunt of the lockdown and other coronavirus containment measures introduced since mid-March.

Bleak outlook

Those working in hotels, restaurants and other sectors related to the

Table 1
Formal and informal employment (in '000)

	Formal	Informal	Total
Agriculture, forestry and fishing	47	1,476	1,523
Mining and quarrying	2	57	59
Manufacturing	134	938	1,072
Electricity, gas, steam and air conditioning supply	14	20	34
Water supply	9	33	42
Construction	24	954	978
Wholesale and retail trade; repair of motor vehicle- and motorcycles	278	962	1,240
Transportation and storage	70	252	322
Accommodation and food service activities	66	305	371
Information and communication	21	39	60
Financial and insurance activities	43	75	118
Real estate activities	2	15	17
Professional, scientific and technical activities	16	28	44
Administrative and support service activities	24	40	64
Public administration and defence; compulsory social security	83	50	133
Education	148	410	558
Human health and social work activities	64	107	171
Arts, entertainment and recreation	11	23	34
Other service activities	32	124	156
Private households	-	73	73
Activities of extraterritorial organizations and bodies	5	12	18
Total	1,093	5,994	7,086

Note: Employment includes only work performed for pay or profit. Production for own final use is excluded. About 60.3 percent of the economically active population is involved in agriculture, forestry and fishing (Economic Survey, 2020), if subsistence-level activities in this sector are also included.

Source: CBS. 2019. Report on the Nepal Labour Force Survey 2017/18. Kathmandu: Central Bureau of Statistics, Government of Nepal.

tourism industry are likely to be the hardest hit in the days ahead because the industry will be among the last to recover as some mobility restrictions and social distancing measures will be in place for a while. At the enterprise level, the containment measures have battered micro, small and medium-sized enterprises (those where less than 100 people are engaged), which, as per the Nepal Economic Census 2018, account for 99.8 percent of economic establishments and 84.7 percent of the persons engaged in such establishments. Establishments where less than 10 people are engaged employ about two thirds of the people engaged thereof. The severity of the

lockdown has been such that even agricultural supply chains, although deemed to be part of essential goods and services, were brutally disrupted, with vegetables rotting in the fields and farmers being forced to cull chickens and throw away milk. About 31.2 percent of the population is estimated to live on between US\$1.9 and US\$3.2 a day. These people are at a high risk of being pushed into extreme poverty, as per the World Bank.

Nepal's Central Bureau of Statistics projects GDP growth for 2019-20 to fall to 2.3 percent, compared to 7 percent in the previous fiscal year (Table 2, Page 31). Four sectors that are major sources of non-agricultural

employment will see a contraction in value added: hotels and restaurants by 16.3 percent; transport, storage and communications by 2.45 percent; manufacturing by 2.27 percent; and construction by 0.31 percent. Agricultural value added growth is expected to slow down to 2.48 percent, compared to 5.05 percent the previous year. These projections are very likely to be underestimates given that they are based on the assumption that the lockdown would be significantly relaxed from mid-May, which did not happen. The impact would have been greater still if Nepal were deeply connected to global value chains and (gross) goods exports were much higher than the 3.2 percent of GDP observed in 2018-19.

The recovery in 2020-21 is expected to be tepid, even if the disease is contained in Nepal by mid-July.

Agriculture and public works in focus

An adverse external economic climate makes for dim prospects for foreign employment (and the resultant remittance inflows), international tourism, and merchandise exports. Agriculture and public works are the two key potential sources of job creation to contain unemployment in these trying times.

The government, as per its recently unveiled budget for 2020-21, aims to create some 736,000 jobs through, *inter alia*, the expansion of public works programme at the local level, provision of agriculture credit, forestry-based programme, youth self-employment programme, micro entrepreneurship, technical and vocational education and training, skill training with industry involvement, concessional credit, and seed capital for innovation. An arrangement has been made for a refinance fund worth NPR 150 billion, to provide credit to COVID-19-hit enterprises at a concessional interest rate of no more than 5 percent. Of this amount, NPR 50 billion has been set aside specifically for small and cottage enterprises and the tourism industry. Reductions in income taxes for enterprises have also been announced.

As external demand conditions for agriculture and food products could be less inclement than those for other goods, these should be accorded priority through an export lens, in line with an overall emphasis on agriculture. The new budget also points to this direction. When providing incentives to the food-processing industry, domestic value addition and employment creation must be taken into account to avoid encouraging businesses that rely heavily on imported agricultural raw materials and export them with minimal processing by arbitraging on tariff differentials.

A calibrated relaxation of the lockdown to allow economic activities to resume, while stepping up testing and contact tracing, is a must to avoid an economic disaster.

Neighbourhood cooperation

While national efforts are crucial to address the impacts of the COVID-19 pandemic, the role of neighbourhood cooperation should also be emphasized. This article concludes by flagging some areas for cooperation at the bilateral and regional level in Nepal's neighbourhood, from Nepal's perspectives, based on the experiences during the health crisis

and the resulting impact on economic activities.

- Access to a vaccine for COVID-19, once it is developed, will be crucial to restoring normalcy. China—an observer at the South Asian Association for Regional Cooperation (SAARC)—and India are among the few countries attempting to develop such a vaccine. Making the vaccine, once developed, immediately available to South Asian nations as a public good will be in the true spirit of regional cooperation.
- SAARC countries should agree not to restrict exports of medical goods and basic food stuffs to one another

Table 2

Growth rates by sectors (in percent)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Agriculture and forestry	4.49	4.58	1.07	4.54	1.00	0.01	5.14	2.72	5.05	2.48
Fishing	5.88	7.53	2.71	4.90	7.09	11.76	8.02	7.42	5.60	7.17
Mining and quarrying	2.01	5.03	1.98	11.85	2.34	-2.79	13.74	8.88	8.91	-0.69
Manufacturing	4.05	3.63	3.72	6.28	0.37	-8.00	9.70	9.17	6.82	-2.27
Electricity gas and water	4.43	8.30	0.28	3.27	0.78	-7.59	20.47	9.64	9.15	28.75
Construction	4.79	0.22	2.45	9.08	2.85	-4.36	12.43	10.02	8.05	-0.31
Wholesale and retail trade	1.41	3.50	7.25	10.89	2.42	-2.16	11.89	12.54	11.06	2.11
Hotels and restaurants	6.20	7.38	5.50	6.77	3.33	-9.68	7.33	9.77	7.33	-16.30
Transport, storage and communications	5.21	8.10	7.65	5.24	6.23	2.02	6.47	4.65	5.90	-2.45
Financial intermediation	3.30	3.47	-0.91	3.70	2.91	8.55	9.09	6.38	6.18	5.15
Real estate, renting and business activities	2.25	2.97	5.19	3.64	0.77	3.72	5.67	5.24	6.12	3.25
Public administration and defence	3.85	3.67	5.53	5.04	8.84	2.52	9.06	5.07	5.54	6.91
Education	3.01	5.58	5.92	4.81	5.09	7.33	7.39	5.02	5.11	4.88
Health and social work	5.02	6.43	4.48	4.50	11.37	3.25	7.34	6.33	6.75	7.07
Other community, social and personal service activities	7.11	6.36	4.79	4.77	12.52	5.55	5.58	5.54	5.73	4.70
Agriculture, forestry and fishing	4.51	4.63	1.10	4.55	1.10	0.23	5.20	2.82	5.06	2.59
Non-agriculture	3.64	4.53	5.01	6.41	3.89	0.38	9.00	7.74	7.37	2.27
Total GVA including FISIM	3.94	4.57	3.64	5.77	2.95	0.33	7.74	6.15	6.65	2.37
Gross Domestic Product (GDP)	3.42	4.78	4.13	5.99	3.32	0.59	8.22	6.70	6.99	2.28

Source: CBS. 2020. National Accounts Statistics 2019/20. Kathmandu: Central Bureau of Statistics, Government of Nepal.



Pixabay

during times of crisis such as the pandemic.

- SAARC should review the modalities for the operationalization of the SAARC Food Bank so that the reserves prove practically helpful during crises in future accompanied by food scarcity.
- A mechanism at the SAARC level for sharing information and experiences during viral outbreaks would help member states to better respond to such crisis.
- The crisis has raised the question of how to build a public distribution system and introduce a cash transfer system in Nepal that can cushion the impact of the loss of livelihoods (whether due to such a pandemic or other internal/external factors) on especially the poor and the most vulnerable. Experiences of other South Asian countries would be valuable lessons for Nepal.
- Introducing and implementing appropriate protocols, in cooperation with bilateral and regional partners, smoother cross-border cargo movement should be possible,

whether during the remainder of the current pandemic or in future such pandemics. This is doubly important for a landlocked country like Nepal. For several weeks when both Nepal and India were under lockdown, the government of West Bengal did not allow the movement of cargo vehicles, including those carrying food stuffs and other essential items such as petroleum products, bound for Nepal via the Kakarbhitta/Panitanki customs point. Similarly, Nepal's cargoes imported from third countries could not be released from Indian sea ports and transported to the Nepal-India border for months.

- Given that the disease is in the course of being under control in China, more so than in other hard-hit countries, the government, together with the private sector, should explore the option of importing critical supplies from China by air and land, including stuffs previously imported from elsewhere, if the lockdown in India continues and intensifies and/or other import sources are in a

similar state. This is also an opportunity to operationalize the transit agreement with China, which entered into force early this year, to conduct Nepal's overseas trade through China.

- During the pandemic, India temporarily waived the requirement for submission of some physical documents for customs purposes. The scope for facilitating trade through electronic means should be further explored. Through bilateral and regional cooperation, adopting the use of digital technology in customs clearance, movement of transit cargo and other areas of trade facilitation on a permanent basis can help reduce trade costs for landlocked Nepal.
- Nepal and India host hundreds of thousands of each other's nationals as workers. Learning from this pandemic, with an eye to such situations in the future, the two countries should work out a plan to enable the return of each other's citizens to their homes in a safe and swift manner. ■

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Issues associated with COVID-19

Driving regional response to COVID-19 can act as a stepping-stone towards promoting regional alliances on health, climate change, disaster risk reduction, etc.

Mobeen Ali Khan and Vaqar Ahmed

The first case of COVID-19 surfaced on 26 February 2020 in Pakistan. Since then the reported number of cases has increased rapidly despite social distancing measures put in place by the federal and provincial governments.¹ Pakistan's Preparedness and Response Plan (PPRP) outlines measures required to strengthen Pakistan's capacity and reduce gaps in emergency, prevention, preparedness, response and relief and build health systems. Until now US\$4 billion has been pledged by foreign partners to support PPRP.

The International Monetary Fund (IMF) predicts that Pakistan's economy will experience a contraction of 1.5 percent in the fiscal year 2020² with the recovery expected to be gradual (Table, Page 34). The lockdown, with moderate restrictions in Pakistan, has affected 15.5 million jobs.³ A survey by the Small and Medium Enterprises Development Authority (SMEDA) stated that 95 percent enterprises experienced a reduction in operations and 23 percent reported a 100 percent

loss in export orders while 89 percent enterprises reported facing severe cash flow issues. These developments are bound to have an impact on poverty and inequality.⁴

Against this backdrop, as we approach the decade of action, the investment gap required to finance the Sustainable Development Goals (SDGs) has increased due to COVID-19. Thus, the availability of timely financing, coupled with prudent institutional measures, has become even more relevant in the context of developing countries such as Pakistan.⁵

Pakistan's response

Pakistan's response to COVID-19 has been four-pronged. First, the health and social safety net programme (*Ehsaas*) was expanded. Second, support was made available for micro, small and medium enterprises (MSMEs). Third, there was a country-wide effort to improve health systems. Fourth, to revive jobs for the poorest of the poor, the construction sector was allowed to open and operate.

The Ministry of National Health Services, Regulations and Coordination, and the National Disaster Management Authority (NDMA) are helping provincial health departments in expanding surveillance to capture and monitor disease outbreak trends. The *Ehsaas* programme plans to disburse around US\$900 million to 12 million households⁶ through unconditional cash transfers. A labour portal has been launched under this programme to identify people who became unemployed after the COVID-19 pandemic but are not listed in any existing socio-economic databases of *Ehsaas*. It is estimated that there are around four million people in this group and PKR 75 billion has been allocated to provide them relief.

The central bank will be providing subsidized loans to SMEs, including collateral-free lending to micro businesses. To cover the risks of commercial banks, a credit risk-sharing facility is available, with the government bearing up to 40 percent of the first loss to banks. This facility currently

Table

Macroeconomic framework of Pakistan

Indicators	2019-20	2019-20	2020-21
	Pre-COVID	Projections	
Real GDP growth (percent)	2.4	-1.5	2.0
Fixed investment (as percent of GDP)	13.2	12.9	11.4
Public investment (as percent of GDP)	3.3	2.3	2.7
Inflation (CPI, Period Average, Growth percent)	11.8	11.3	8.0
Government revenue (percent of GDP)	16.0	14.3	15.8
Government expenditure (percent of GDP)	23.2	23.5	22.3
Budget deficit (percent of GDP)	7.2	9.2	6.5
Primary deficit (percent of GDP)	0.8	2.9	0.4
General government debt (percent of GDP)	80.4	85.4	83.3
Exports fob (US\$ billion)	25.5	23.7	24.8
Imports fob (US\$ billion)	48.3	44.4	45.8
Remittances (US\$ billion)	22.6	20.8	20.5
Current Account Deficit (percent of GDP)	2.2	1.7	2.4
Gross reserves (US\$ billion)	12.6	12.0	15.0
Gross reserves (Months of Imports)	2.5	2.7	3.3

Source: Finance Division, State Bank of Pakistan & IMF Country Report No. 20/114.

has a limit of PKR 40 billion, which will be expanded over time. Additional central bank measures include lowering the interest rates to 8 percent and increasing the regulatory limit on extension of credit to SMEs.

A fiscal stimulus for the construction sector has also been announced. Investors wishing to contribute to this sector will have tax privileges. It is expected that this measure will also give a boost to 40 allied industries besides spurring employment for daily-wage and ad hoc workers.

As trade disruptions and uncertain outlook of remittances threatened the balance of payments stability, Pakistan had to request multilateral partners for immediate help. Gross reserves of the central bank have now improved on the back of Rapid Finance Instrument facility of US\$1.386 billion provided by the IMF. The World Bank and the Asian Development Bank have also repurposed their assistance to fight COVID-19. In addition to this, Pakistan has formally sought debt relief of US\$1.87 billion from 11 bilateral creditors and obtained a moratorium on

over US\$12 billion of debt repayment obligations from G20 countries until December 2020.

Challenges

Currently there are three major challenges facing Pakistan in responding to COVID-19. These include the decision to relax the lockdown and ensure that social distancing is practised, supporting public health care systems as the number of patients increase, and addressing instances of exclusion in social safety nets.

Local administrations have been found weak at places, in turn, leading to poor compliance with procedures formulated for lockdowns. The country lacked information management systems at the local level, which could inform the federal government regarding any food or medical supplies shortages. This information reached after a lag, thus making public unrest at places imminent.

The weak health care infrastructure at the local level and shortages in personal protective equipment (PPE) has affected the morale of doctors and

staff. It has taken time to scale up PPE availability; however, supply chain distribution still remains a challenge in some regions. In the coming federal and provincial budgets, increased fiscal space will need to be created to augment health sector capacities.

Addressing exclusion will require improvements to statistical bodies and their databases, which will have to be a medium-term agenda. The survey tools available with the Pakistan Bureau of Statistics (PBS) or provincial bureaus need upgradation from the lens of improving targeting of the marginalized. The National Socio-economic Registry at *Ehsaas* was also not updated for around a decade. Such data gaps make it difficult to identify people without civil registration documents. Similarly, current data collected on migrant, informal and disabled workers are not comprehensive.

Safer trading practices now introduced at logistics and port networks in the country are bound to slow down commercial and transit traffic across Pakistan. This has also impacted cargo traffic bound for Afghanistan. This calls for an urgent regional dialogue on how to keep the trade flows moving swiftly and what additional investments may be required to upgrade trade-related infrastructure facilities.

In the absence of COVID-19 vaccine, there are uncertainties regarding the timeline of this crisis. It is, therefore, important for developing countries such as Pakistan to plan ahead keeping in mind that in the coming days there will be constraints to traditional aid flows. The advanced economies will be overstretched with their own response to the pandemic and need to utilize their resources prudently at home.

Way forward

Discovering ways to enhance domestic resource mobilization and finance immediate and future COVID-related needs will help Pakistan fight the crisis better. However, this is not easy during times of low economic growth domestically and abroad. Moreover, as suggested by the Sustainable Development Policy Institute, there is a need

to lower the direct and indirect tax burden on micro and small enterprises.⁷ Nevertheless, with innovative use of technology and data, potential taxpayers or those not fulfilling complete tax liability may be brought into the tax net.

To increase resource mobilization, the government will have to resort to non-tax source of revenue. Reliance should be on those sources that would lead to least economy-wide distortions and do not lead to expansion of public debt beyond sustainable levels. A more liberal tariff regime will be required to encourage industries to repurpose and respond to COVID-related needs. In this regard, tariffs, para-tariffs and non-tariff measures imposed on medical supplies, health products such as PPEs, pharmaceuticals and related sectors may be revisited.

In the coming days, kickstarting economic growth will be a priority. For this, attracting local and foreign investment will be essential. Both federal and provincial governments need to come together and revisit the regulatory burden on businesses. A regulatory impact assessment is much desired to help sustainability of micro and small enterprises, social enterprises, and women-led businesses. Rationalization of regulatory costs could help reduce the overall cost of doing business in Pakistan. This is a major demand of Chinese enterprises willing to invest in Pakistan during the second phase of the China Pakistan Economic Corridor.⁸

To help improve efficiency of public spending, it is important to digitalize social safety net programmes. Currently, over 100 social safety net programmes exist across the country, often targeting the same areas and beneficiaries. Digitalization will also guide non-government organizations (NGOs) to help identify communities that may not have received public sector support or where the quality of support may be sub-optimal.

Within the services sector there are encouraging prospects for firms able to pivot and provide online services or engage in any other value chain

within the overall digital economy. For them, slow implementation of the e-commerce policy during the past year has resulted in several missed opportunities. It is necessary to expedite measures in this policy, revisit stifling foreign exchange rules and online payment mechanisms.

Successful implementation of the stimulus package will require sustained financing (at least until livelihoods and vulnerable businesses are out of danger), distribution channels that ensure speedy receipt of unconditional or conditional support, and monitoring. Perhaps the last aspect, i.e. monitoring, has been the weakest until now. Proper attention of monitoring and evaluation of interventions by the central bank, *Ehsaas*, health ministry and departments at the federal and provincial levels is desired to improve the delivery of stimulus.

Slow implementation of the e-commerce policy during the past year has resulted in several missed opportunities.

Finally, the COVID-19 pandemic also presents a case for normalizing trade with India and look into deeper regional cooperation across member countries of the South Asian Association for Regional Cooperation (SAARC).⁹ The SAARC COVID-19 Emergency Fund can be effectively used as a building block to revive regional cooperation. Equally important is to empower the leadership at the SAARC Secretariat and capacitate them towards driving the process of regional response to COVID-19. This can act as a stepping-stone towards promoting regional alliances on health, climate change, disaster risk reduction, etc.¹⁰ The relevant institutions also need to rekindle cooperation in science and technology spheres.

The SAARC heads of state summit has not taken place since 2014. Even

if politically this is not feasible at this stage, we propose that a virtual heads of state summit may be convened to at least break the ice and keep countries in the region engaged. ■

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Notes

¹ As of 18 May, 2020 there were 42,125 cases of which 29,300 were active. There are 215 medical facilities with 2,942 isolation beds and 57 functional labs with a testing capacity of 16,414 tests per day catering for a population of more than 220 million people.

² <https://www.imf.org/en/Countries/PAK>

³ ul Haque, N. and D-e-Nayab. 2020. *PIDE COVID-19 E-book*. Islamabad: Pakistan Institute of Development Economics. <https://www.pide.org.pk/pdf/PIDE-COVID19-EBook.pdf>

⁴ Vaqar Ahmed & Cathal O' Donoghue, 2010. "Case Study: Global economic crisis and poverty in Pakistan". *International Journal of Microsimulation, International Microsimulation Association* vol. 3(1):127-129.

⁵ Khan, A., A. Javed, S. Batool, F. Hussain, H. Mahmood, and V. Ahmed. 2016. *The role of youth in sustainable development: Perspectives from South Asia*. Islamabad: Sustainable Development Policy Institute. <http://hdl.handle.net/11540/9293>.

⁶ Nishar, S. 2020. "COVID-19: Using cash payments to protect the poor in Pakistan". *World Economic Forum Agenda* 05 May. <https://www.weforum.org/agenda/2020/05/using-cash-payments-protect-poor-pakistan/>

⁷ There is room to make overall fiscal policy more progressive. For example, see: Ahmed, Vaqar; Talpur, Mustafa. 2016. *Corporate Tax Reforms in Pakistan*. Sustainable Development Policy Institute. <http://hdl.handle.net/11540/9306>.

⁸ For details see: Naqvi, Wasif; Hayat, Daheem; Javed, Maaz; Ahmed, Vaqar. 2019. *A Review of Export Promotion and Exemption Schemes*. Sustainable Development Policy Institute. <http://hdl.handle.net/11540/11523>.

⁹ For normalizing trade with India in services, we offer some suggestions here: Rabia Manzoor, S.K.Toru, V. Ahmed. 2017. *Health Services Trade between India and Pakistan*. *The Pakistan Journal of Social Issues*. Volume VIII.

¹⁰ Arshad, Y., and V. Ahmed, Vaqar. 2018 "Corridors for Competition or Cooperation? Perspectives from Southern Asia". *Criterion Quarterly*. Vol. 13, No. 3.



A first look at the Impact of COVID-19

The magnitude of the stimulus and policy package to stabilize the economy is likely to be less in Sri Lanka given the lack of fiscal space and debt overhang.

Ganeshan Wignaraja and Angela Hüttemann

Sri Lanka has faced many external shocks—such as the oil price shocks of the 1970s, the 2004 Tsunami and the 2008-2009 global financial crisis—over which it had little control. The COVID-19 global pandemic is being labelled as the worst external shock hitting the Sri Lankan economy in its four decades of outward-looking economic policies. Against this backdrop, this article takes a first look at the impact of the COVID-19 pandemic on Sri Lanka during the three-month period (March–May 2020). It charts emerging health, economic and social impact of the pandemic on Sri Lanka, explores initial national and regional policy responses and concludes with some policy implications.

Mapping economic and social impacts

As on 25 May 2020, 1,182 COVID-19 positive cases have been confirmed in Sri Lanka, with 477 reported recoveries and 10 deaths.¹ Cumulative cases have increased gradually since the

first reported COVID-19 positive case on 11 March 2020, with an average of 16 new infections reported daily. Positive cases per million population stand at approximately 55, compared to South Asia's average of 465, whilst the mortality rate accounts for 0.85 percent (compared to 1.25 percent regionally).² Sri Lanka's strong relative positioning in South Asia can be attributed to factors such as relatively high nutrition levels of the population, a universal health care system that extends free healthcare to all citizens and comprehensive lock down measures (e.g. strict social distancing measures, travel bans, and the imposition of a two-month island-wide curfew from 20 March). It is also a small country with a centralized administrative system.

Economic impact

The Central Bank of Sri Lanka (CBSL), international financial agencies and rating agencies (e.g. Fitch) have downgraded Sri Lanka's growth outlook in

the wake of the COVID-19 outbreak (Table, Page 37). Individual forecasts for 2020, however, vary from positive to negative projections reflecting diverse estimates of domestic and global risks. A simple average of poll projection from these forecasters suggests that Sri Lanka's growth is estimated to be 0.7 percent in 2020, which is much lower than 2019's growth rate of 2.3 percent. Furthermore, Sri Lanka's public debt to GDP ratio in 2020 is likely to increase following a COVID-19-related increase in fiscal spending and a fall in revenue. Inflation is expected to remain within the central bank's envisaged 4-6 percent corridor based on an inflation targeting framework.

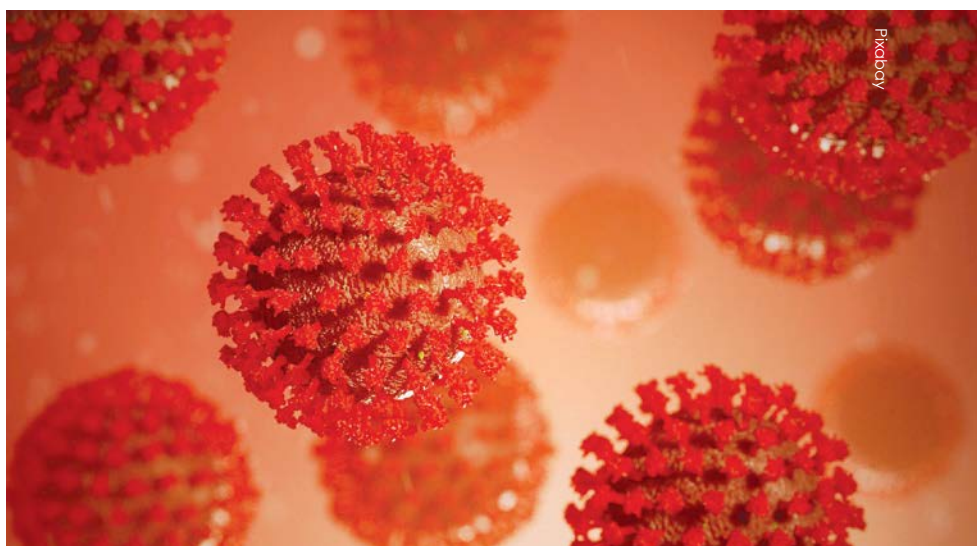
In the short- to medium-term, COVID-19 is impacting Sri Lanka, via two main transmission channels: i) fall in production and trade, and ii) weakening of the country's financial position, limiting fiscal stimulus measures. In the longer-term, subdued investor and business confidence may delay the country's path to recovery.

Fall in production, trade and business sentiment

On the *demand-side*, lock down of economies internationally and the associated decline in consumption weigh on Sri Lanka's exports, while Sri Lanka's interconnectedness with global supply chains and COVID-19-related supply chain disruptions negatively impact manufacturing on the *supply-side*. Sri Lanka recorded a 17 percent drop in exports in March 2020 against dwindling demand for key exports such as garments, agri-food and tourism.³

The garment sector, one of the country's growth engines over the past decades, provides approximately 9.5 percent of total employment and generates US\$5.3 billion export revenue (26 percent of total exports).⁴ The sector expects a US\$1.5 billion loss in export earnings between April and June 2020, and a 50 percent decline in demand over the next 1.5 years.⁵ In an attempt to remedy the projected fall in revenues, major firms are shifting production towards protective and medical gear.

Sri Lanka's tourism sector has faced a significant year-on-year drop in tourist arrivals in March (-71 percent) and April (-100 percent) with the closing of borders and suspension of air travel since 18 March.⁶ The sector contributes around 13 percent to GDP, and accounts for more than 4.8 percent of total employment.⁷ A prolonged closure of borders will severely impact the industry, which had recently started to recover from the impact of April 2019 Easter Sunday attacks.



Lingering uncertainty about future economic developments, both locally and globally, is likely to weigh on Sri Lanka's economic recovery. Sri Lanka's Purchasing Managers' Indices (PMI) for manufacturing and services, which estimate the direction of economic trends and inform business and investment decisions, declined to 24.2 and 29.8, respectively, in April 2020.⁸ Levels below 50 indicate an anticipated economic contraction. The country's major stock market index, CSEALL, has declined 22 percent year-to-date⁹, reflecting investors' heightened risk sentiment. In a flight to safer-haven assets, foreign investors were net sellers of US\$29 million worth of stocks during the first quarter of the year.¹⁰ Lower investor confidence and reduced portfolio investments deprive

local companies of important access to capital.

Weakening of fiscal position

Sri Lanka has had twin deficits for decades. In 2019, it had an estimated 6.8 percent fiscal deficit and a 2.2 percent current account deficit.¹¹ An overall debt-to-GDP ratio of 87 percent¹² limits the fiscal space to tackle the pandemic and may increase Sri Lanka's dependency on external financing. A series of COVID-19-related developments may put additional pressure on the country's fiscal position and pose financial risks. As of 26 May 2020 the Sri Lankan Rupee has depreciated 2.6 percent year-to-date against the US dollar, increasing the real value of dollar-denominated debt repayments (totalling US\$4.8 billion in 2020, which

Table

Preliminary estimates of Sri Lanka's key economic variables for 2020

	2019	2020 CBSL	ADB 2020	Fitch 2020	IMF 2020
Real GDP growth (percent)	2.3	1.5	2.2	-0.4	-0.5
Inflation rate (annual percent change)	4.3	4.5	5.0	5.2	4.7
Debt to GDP ratio	86.8	92.4	N/A	94.0	N/A
Budget deficit (percent of GDP)	-6.8	-7.9	N/A	-9.3	-9.4
Current account balance (percent of GDP)	-2.2	-3.1	-2.8	N/A	-3.6

Sources: Asian Development Bank's Asian Development Outlook (April 2020); Central Bank of Sri Lanka's Recent Economic Developments: Highlights of 2019 and Prospects for 2020 (April 2020); Fitch Ratings (March 2020); and International Monetary Fund's World Economic Outlook (April 2020).

is 5.4 percent of GDP).¹³ Following a rising risk sentiment, Sri Lanka's capital market has seen a large decline in foreign-owned debt stock, lowering fiscal space and putting additional pressure on the exchange rate.

A loss in government revenue following a decline in production and consumer demand further restricts fiscal stimulus measures. Remittances, which account for approximately 8 percent of GDP¹⁴, are expected to decline as around 70 percent of it are earned in West Asia (51 percent) and Europe (19 percent)¹⁵, both of which have been severely impacted by COVID-19. Thus, foreign exchange reserves could decline in the medium term. Furthermore, Sri Lanka has an interim government with parliamentary elections scheduled for mid-2020, which further limits the government's ability to provide extensive fiscal support.

Social impact

COVID-19 poses heightened risks for Sri Lanka's poor, particularly children, the elderly and persons with disability. Many formal and informal businesses are cutting jobs, affecting livelihoods. The United Nations' Children Fund estimates that average household incomes in Sri Lanka could decline between 12 percent and 27 percent over a six-month period, depending on the severity and length of the pandemic.¹⁶ This in turn strains the purchasing power of vulnerable groups and may pose a threat to food security for the affected.

Sri Lanka's annual (headline) inflation was subdued in March, benefitting from a global reduction in oil prices and easing of food supply conditions. Sri Lanka's bountiful 2019/20 paddy harvest is likely to sustain demand till September 2020.¹⁷ However, a prolonged period of COVID-19 and the associated fall in agricultural production may pose risks to food security for vulnerable groups.

National and regional policy responses

Sri Lanka acted quickly to implement an initial domestic policy package to stabilize the economy. This included

fiscal, monetary, financial and trade policy measures to cushion the negative impact of the pandemic, while increasing resilience of the country's health care system and improving overall policy coordination.

Fiscal stimulus

Sri Lanka is attempting to accelerate the implementation of certain capital investment projects (e.g. expressways and airport modernization) and provide emergency relief (totalling around 0.2 percent of GDP) to around 5.7 million vulnerable households in the form of monthly payments (LKR 5,000, approximately US\$26), food allowances and concessional loans.¹⁸ Furthermore, deadlines for tax payments were extended until the end of April and price ceilings on essential food and medical items were put in

Policy attention should now turn to a comprehensive programme to revive the economy.

place.¹⁹ However, reflecting Sri Lanka's restricted fiscal space, the size of the stimulus measures is limited compared to its neighbours such as India and Bangladesh, where fiscal stimulus amounts to approximately 10 percent and 4 percent of GDP, respectively.²⁰

Monetary stimulus

In order to lift liquidity constraints and alleviate exchange rate pressures, the Central Bank of Sri Lanka lowered policy rates by 100 basis points across three rate cuts²¹ since the beginning of March. It also introduced a six-month debt repayment moratorium on bank loans for small and medium enterprises and vulnerable groups, including three-wheeler drivers.²² Similarly, a 'Special Deposit Account' was set up with attractive interest rates for foreign currency deposits from Sri Lankans and foreigners while state-

owned financial institutions (e.g. Bank of Ceylon and Sri Lanka Insurance Corporation) are supporting the money market interest rate by purchasing treasury bonds and bills.²³

Trade policy measures

Import of all non-essential items was prohibited to stabilize foreign exchange reserves and tax exemptions were granted for imported masks and disinfectants.

Healthcare measures

The military and health authorities are operating 41 quarantine centres across the country and the state has donated 0.6 percent of GDP to a newly introduced COVID-Healthcare and Social Security Fund, inviting local and foreign tax-free donations to the fund.

Policy coordination

To speed up implementation of the policy package and improve coordination, a powerful Presidential Task Force on Economic Revival and Poverty Eradication was established on 22 April consisting of permanent secretaries of key economic ministries, heads of economic promotion agencies, other specialized state institutions and the military.

In addition to the above policies, Sri Lanka has emphasized bilateral and regional cooperation efforts in South Asia. For instance, in late April, Sri Lanka was set to obtain US\$400 million from the Reserve Bank of India (RBI) under the SAARC currency swap arrangement to boost its foreign reserves and ensure financial stability. At the time of writing, discussions with the RBI were also underway on a further currency swap worth US\$1 billion. Furthermore, in mid-March, Sri Lanka supported India's leadership to establish a SAARC COVID-19 Emergency Fund to mitigate the risks associated with the pandemic. It donated US\$5 million to the fund, which has received total voluntary contributions of about US\$22 million from all South Asian countries.²⁴ This signals an important step towards reinvigorating regional cooperation in South Asia, which was at a stand-

still in recent years. However, the size of the fund is limited in relation to regional needs and its operational details remain unclear.

Conclusion

Sri Lanka has earned praise from the World Health Organization and development partners for efficiently managing the public health emergency related to COVID-19.

Nonetheless, coming through the trade and finance channels, the economic fallout from the pandemic is likely to be significant. Sri Lanka's growth in 2020 is likely to be less than that in 2019 and may be at best tepid in 2021 in the face of mounting domestic and global risks. Furthermore, while a domestic policy package to stabilize the economy is being rapidly implemented in Sri Lanka, the magnitude of the stimulus and related measures is likely to be less than those of regional peers given the lack of fiscal space and debt overhang.

In the latter half of 2020, once parliamentary elections are over, and the pandemic is under control, policy attention should turn to a comprehensive programme to revive the economy. Key policy priorities, as identified in a recent report by an eminent persons group of academics and business, are to i) improve food security and provide enhanced social protection; ii) continue with macroeconomic stabilization efforts and more effectively manage external debt through a new IMF programme and emergency assistance from other international financial institutions and bilateral donors; iii) undertake economic reforms, including streamlining red tape and promoting digitisation of all public services; and iv) improve the coordination of economic policies.²⁶ These measures, along with efforts to improve regional cooperation, should be kept in place for the medium term to help Sri Lanka on the road to economic recovery. ■

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Negotiating the climate

What's next after COVID-19

The synergies created to address the impacts of the COVID-19 pandemic should be used simultaneously to address the climate crisis.

Imran Saqib Khalid

The world is in the midst of a pandemic. COVID-19 has wreaked havoc across the world. It is also a sign of things to come if the global community does not act on time to address the climate crisis. One of the regions to be most affected by the impacts of global warming is South Asia. Home to nearly two billion people, the effects of climate change are already being felt across the region in the form of changing monsoons, extreme flooding, heat waves and droughts. This is the case despite collectively having the smallest carbon footprint besides sub-Saharan Africa. Perhaps this common threat is the reason why the countries across South Asia, in spite of their geo-political differences, have often coalesced during climate negotiations as part of Like-Minded Group of Developing Countries (LMDC). Yet, climate change remains a global crisis and as such warrants a global and collective response that has thus far been missing.

The 2015 Paris Climate Agreement was hailed as a game changer in the fight against global warming. However, it was soon realized that the global commitments made under the

Agreement, in terms of the amount of emissions that each country will reduce, were not sufficient to tame global temperature rise to well below 2°C above preindustrial levels as agreed. Furthermore, resurgence of the fossil fuel lobby, decision by the US to withdraw from the Agreement and a lack of commitment by developed countries for climate financing mean that the world today is in an increasingly precarious state.

Grim facts

The current global temperature rise, on average, is around 1°C above pre-industrial level. A special report of the Intergovernmental Panel on Climate Change (IPCC), *Impacts of Global Warming of 1.5°C*, cautions that commitments under the Paris Agreement will not limit global warming to 1.5°C even if supplemented by greater ambition after 2030.¹ Hence, the report has called for enhanced ambitions and increment in the scale of emissions reduction immediately.

Similarly, a landmark report published by the International Centre for Integrated Mountain Development (ICIMOD) has warned that if temper-

ature rise is not limited to 1.5°C, 36 percent of the glaciers along the Hindu Kush Himalayan (HKH) range will be depleted by 2100.² A business-as-usual approach with little to no reduction in emissions will virtually see the elimination of two-thirds of the glaciers. According to Phillipus Wester, a senior researcher at ICIMOD who led the study, "in the best of possible worlds, if we get really ambitious, even then we will lose one-third of the glaciers and be in trouble."³

As they stand, the global commitments in the shape of Nationally Determined Contributions (NDCs) will result in 38 percent more emissions than required to meet the 1.5°C target by 2030.⁴ This puts the world at large and South Asia in particular in a very precarious position. Given the HKH region's importance as the 'water towers' of South Asia, the report is a grave warning to the people across the region. The resulting impacts of vanishing glaciers in terms of changes in riverine flows will affect food security, energy sustainability and livelihoods of the people of South Asia, which is one of the most heavily and densely populated regions in the world.

Climate negotiations

Given the urgency to act soon but the lack of progress to that end, key stakeholders from around the world assembled in Madrid in December 2019 for the 25th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP25). The meeting, which was also called the ‘ambitions COP’, was initially scheduled to be held in Santiago, but the venue was later changed to Madrid owing to prolonged protests in Santiago. The ‘ambitions COP’ was so called because the Chilean government had focused on collecting commitments from countries and raising their ambitions related to the NDCs.

The aim of COP25 was to ratchet up the ambition on climate change. The participating countries, representing 195 nations, were supposed to demonstrate their will to improve the NDCs and formulate long-term strategies in the upcoming COP26 to be held in Glasgow. Moreover, the nearly 27,000 delegates had met in Madrid to finalize the so-called ‘Paris Rule Book’, an operational manual or guidebook to take forward the Paris Climate Agreement. However, COP25 ended without any tangible result as the countries put off major decisions for COP26. The countries concluded the conference with the agreement that they would strengthen their commitments to lower emissions in COP26. There are several reasons for the uninspiring result.

Discord in ambition

Parties to the Paris Agreement have committed to submitting and thereafter updating their NDCs by 2020. They are supposed to regularly monitor their progress in meeting the goals of the climate agreement and submit renewed and improved NDCs. However, only about 80 small and developing nations have stated their intention to enhance their NDCs by 2020. These commitments represented only 10.5 percent of the global emissions. The largest emitters were conspicuously absent in making their commitments.

The tension between developing and developed countries contributed

to the failure of COP25. While developed countries viewed ‘ambition’ as primarily a means to reduce emissions after 2020, others such as India and its partners in the LMDCs argued for a broad-based interpretation of ‘ambition’ such that it encompasses climate finance as well as capacity enhancement for climate adaptation in developing countries.⁵ The LMDCs wanted developed countries to shoulder more financial responsibility to meet the cost of mitigation and adaptation in the LMDCs. They argued that this was a reasonable demand given that the developed countries are to be blamed for the precarious situation the world is in today.

Ignoring loss and damage

The discourse around loss and damage started nearly three decades ago when small island states highlighted their concern about the impacts of

The tension between developing and developed countries contributed to the failure of COP25.

rising sea levels. It helped amplify the concern that impacts of climate change are irreversible and beyond our adaptation limits. This was mainstreamed and institutionalized as part of what is known as the Warsaw International Mechanism on Loss and Damage (WIM), adopted in 2013.

While the UNFCCC does not have an official definition of ‘loss and damage,’ this term is understood to include losses from floods, heat waves, hurricanes and other climate-induced events. Developing countries have called for improved visibility of loss and damage in financial mechanisms and capacity building efforts of developed countries. At COP25, there were suggestions to use the Green Climate Fund (GCF) to address these concerns. However, this idea was shot down as

the GCF is already short of the US\$100 billion target set at Paris. Moreover, the GCF has been primarily set up to cater to adaptation needs. Using it for loss and damage will curtail its utility for climate change adaptation, especially for countries most affected by climate change. Ultimately, around the end of COP25, developed countries agreed to scale up financing to help developing countries mitigate loss and damage arising from climate change impact. It was also agreed that an expert group will be formed to look into ways of enhancing action and support to that end. However, these measures are much weaker than what developing countries had wanted to see, necessitating continued discussions on the issue.

Differences over Article 6

COP25 could not decide also on the much contentious issue of Article 6. Article 6 of the Paris Agreement, commonly known as the ‘markets article’, was the focus of COP25 as it involved carbon markets and issues pertaining to international cooperation. It forms the basis of legal frameworks to allow the use of market-based mitigation strategies and offers stakeholders the chance to cooperate with each other in implementing their NDCs.

Negotiations on Article 6 were focused on agreeing on an effective accounting mechanism, which would prevent double counting—an issue that was one of the most contentious in the Clean Development Mechanism under the Kyoto Protocol.

The negotiators failed to reach an agreement on the matter, primarily due to the hesitancy of a few countries. Their objection was because this would discredit the carbon credit they have collected from the previous Kyoto Protocol system. This issue will now be taken up at the next intercessional meeting and once again at the next COP.

Non-uniform timeframes

NDCs define a country’s ambitions and plans to meet the Paris Agreement’s mitigation, adaptation and finance-related goals. Timeframes set

by individual countries to implement the NDCs are not uniform. While some countries have set the deadline to implement them as 2025 and some as 2030, others have used a combination of both for different commitments with their NDCs. A common timeframe will help allow uniform reporting and implementation of the NDCs, thus resulting in improved understanding of the metrics and the global progress in relation to meeting the commitments under the Paris Agreement. After having been discussed in Katowice in 2018 and in Madrid in 2019, the issue still remains unresolved, and will be taken up during subsequent meetings.

COP25 in Madrid ended with a declaration to come together in Glasgow (COP26) to resolve the outstanding issues. However, the intricacies of climate negotiations aside, it has become increasingly clear that the dissonance between the largest emitters and those who are the most affected by the climate crisis is growing. The Green Climate Fund is well short of the US\$100 billion benchmark. Moreover, besides withdrawing from the Paris Agreement, the US has played an increasingly divisive role in the negotiations. The result has been an overwhelming criticism of the negotiations process.⁶

Road ahead for South Asia

Countries across South Asia are significantly at risk from the impacts of climate change. It is therefore very important that the region comes together to collectively deal with the problem. The South Asian Association for Regional Cooperation (SAARC) could prove to be a useful avenue in this regard. The organization had virtually become moribund over the past many years (the last high-level SAARC meet happening in 2014) until it was woken from its slumber due to the global onset of the coronavirus epidemic. An emergency online meeting, held on 15 March 2020, highlighted the importance of an interactive regional forum that can be utilized in developing collaborative responses to global crises.

The climate crisis is similar to the COVID-19 pandemic in that it

too threatens to envelop the whole world with grave consequences. It is here that forums like SAARC can facilitate a coherent and effective response to climate change. Such a response would include mechanisms that facilitate the exchange of data between local and regional research institutions. It would also entail cooperation on mainstreaming of renewable energy initiatives. Moreover, enhanced coordination with respect to disaster response across the region can be very effective. In this context, SAARC can set up a fund to mitigate climate-induced emergencies. Another area where a regional forum such as SAARC can be instrumental is in bringing together research institutes and academia that is already working on responding to climatic threats. This will ensure that country-level

The risk of a global recession will have serious repercussions for an already stressed climate scenario.

best practices in terms of mitigation and adaptation can be mainstreamed at the regional level. The synergies developed through the cooperative mechanism can lead to improved coordination in the lead-up to international climate meetings, where a united stand among the countries in South Asia can serve their collective interests.

The next iteration of the climate negotiation, COP26, planned to be held in Glasgow, UK, in November 2020, has been postponed due to the COVID-19 pandemic. The intercessional meetings to be held in Berlin in June have similarly been postponed. The question now is whether the world faced with the perils of a global disease will pay attention to the climate crisis. There is a risk of a global recession taking hold in the current circumstances. This will no

doubt have serious repercussions for an already stressed climate scenario. Without a commitment from industrialized nations to limit their emissions and provide financial support to developing countries, the future looks bleak for the ambitions of the Paris Agreement. Initiatives such as 'Fridays for the Future' and 'Extinction Rebellion' have been at the forefront of a growing climate movement. And young campaigners led by activists such as Greta Thunberg continue to be vocal even during the pandemic. While this alone is not enough, it does keep the issue front and centre at a time when the world is facing numerous challenges. The synergies created to address the impacts of the COVID-19 pandemic should be used simultaneously to address the climate crisis. ■

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Notes

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Climate change and Sri Lanka's blue economy

Considering the overall importance of coastal and marine areas in Sri Lanka, implementing policies to establish sustainable blue economy is of utmost importance.

Athula Senaratne

Oceans play an important role in maintaining global climate systems. Simultaneously, they provide numerous ecosystem services to protect global biodiversity. Unfortunately, oceans and their ecosystem services are being threatened by human activities. The recently published *Special Report on the Ocean and Cryosphere in a Changing Climate (SROCC)* by the United Nations Intergovernmental Panel on Climate Change (IPCC) provides a comprehensive assessment of the impact of global warming on the planet's oceans and frozen regions. The SROCC provides overwhelming evidence on how the impacts of global warming on oceans and frozen regions will cause significant repercussions to ocean-based economic activities that are now widely known as the 'blue economy'.

The report highlights that oceans are rapidly getting warmer since more than 90 percent of the excess heat generated due to global warming is absorbed by oceans. Even if the world community manages to limit the rise in global temperature under 2°C, it is likely that oceans will still continue to get warmer in coming years. It is estimated that by 2100 oceans will be 2-4 times warmer than what they were 50 years ago.

Not only the excess heat generated by global warming, but a significant share of human-induced carbon

dioxide is also absorbed by oceans, making them more acidic. Whereas warmer and acidic oceans have their own impacts on the blue economy, the threat of rising sea levels due to melting glaciers and ice sheets is going to aggravate them further. Moreover, these changes are likely to result in more severe and frequent incidents of extreme events in the future.

Sri Lanka's blue economy potential

Blue economy refers to creating a healthy ocean ecosystem as a way to ensuring the sustainability of ocean-based economies. Naturally, island nations have the highest potential for becoming sustainable blue economies due to closer association of their economies with ocean resources. On the other hand, island nations are also destined to suffer more due to impacts of global warming on oceans. Sri Lanka's potential to become a sustainable blue economy depends on a number of factors. Among them, the most important are Sri Lanka's unique geographical position in a central location of the Indian Ocean, closeness to major sea lanes, endowment of significant coastal and marine resources, high diversity of coastal and marine ecosystems, and the country being an attractive tourist destination.

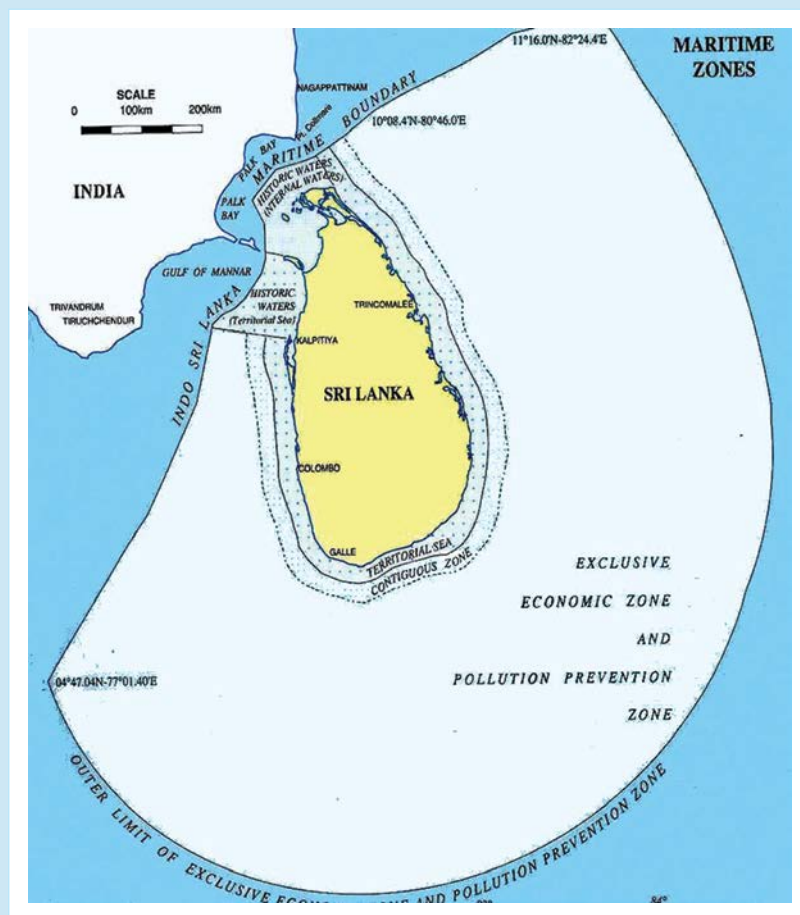
Sri Lanka's central location in the Indian Ocean, just a few kilometers off

the southern tip of India, and its proximity to busy international sea routes connecting the east and the west, create the possibility of it becoming a maritime hub in the region. The country's endowment of marine resources is comprised of Exclusive Economic Zone (EEZ), Contiguous Zone, Territorial Sea and Historical Waters (Figure, page 44).¹

Forty percent of Sri Lanka's population is concentrated in its 1,700 km long coastline. The coastal zone is rich in numerous types of ecosystems such as mangroves, salt marshes, dunes, coral reefs, seagrass beds, and estuaries. The coastal and marine resources provide the support base for the country's blue economy, which is mainly comprised of fisheries, tourism, and ports and shipping services. Over 800,000 people, living in 183,000 households, are dependent on fishing activities that are mainly based in coastal, off-shore and deep-sea areas.² Similarly, in 2018, the tourism sector is estimated to have employed around 169,000 people directly and 219,000 people indirectly.³ In addition to these blue economy sectors, which are directly based on marine and coastal resources, the country's infrastructure facilities, special zones for manufacturing industries, urban utilities, and key power generation facilities are also concentrated in the coastal zone or surrounding areas. According to one

Figure

Marine resources endowment of Sri Lanka



Source: Survey Department of Sri Lanka. Note 1.

estimate, Sri Lanka's coastal region generates around 44 percent of the country's GDP.⁴

Impacts of climate change on the blue economy

The SROCC highlights various risks posed by climate change on the blue economy. One of the risks, and a major one, is declining productivity of oceans because of the disruption and damage to marine life caused by warming and acidification. The report highlights that fish populations are declining, especially in tropical areas. It warns that the global fish catch can drop to 25 percent due to decline in the total mass of marine animals by 2100. This can result in a 10 percent fall in the revenue potential of the

fishing industry by 2050 in fishing countries around the world. Likewise, oceans have come under threat due to human activities such as illegal-unreported-unregulated (IUU) fishing activities, marine and coastal pollution and overexploitation and destruction of marine and coastal habitats. It has been estimated that the extent of overfishing might be 30 percent more than the sustainable limit.

Sri Lanka might not be immune to these impacts. Although local scientific evidences are yet to emerge, policy makers need to be mindful of the adverse impacts of warming and acidification of oceans, such as significant losses to coastal and marine fisheries, as predicted by international studies. Impacts of climate change, such as

ocean warming, ocean acidification, sea level rise and rising incidents of extreme events, appear to be the greatest challenge that Sri Lanka's blue economy will face in the long run.

Sri Lanka's fish production is based on three sources—coastal fisheries, offshore/deep sea fisheries and inland fisheries. The highest share of fish production comes from coastal fisheries, which is more than 50 percent on average. This is followed by offshore/deep sea fisheries (around 30–35 percent). This implies that the country's fishing sector is overwhelmingly dependent on marine sources. However, recent periods have witnessed rising incidence of extreme weather events that disturbed marine fishing operations with significant damages to life and fishing assets.

Tourism is another vulnerable sector in Sri Lanka. The tourism sector, by its nature, is sensitive to disasters and adverse weather conditions, thereby rendering it vulnerable to the impacts of climate change. Sri Lanka is a unique tourist destination with multiple attractions that are highly dependent on marine and coastal resources, which increases the possibility of getting severely impacted by climate change. For instance, coral reefs, a major tourist attraction, will be severely affected by marine heatwaves and acidification. This will have a major impact on Sri Lanka's economy overall because, prior to the terrorist attacks of April 2019 in Sri Lanka, tourism was the country's third highest source of foreign exchange earnings after remittances and readymade garment exports. It will also severely affect Sri Lanka's population dependent on the tourism sector for its livelihood.

Moreover, sea level rise and associated increases in extreme weather events such as flooding and storms will likely reduce the utility of coastal tourism facilities, disrupt fishing activities and adversely affect shipping and port services. Thus, the threats arising from climate change are expected to risk the sustainability and economic viability of the blue economy.

Besides the direct hit on the economy, climate change impacts could

disrupt livelihoods through increased risks of disasters. Although Sri Lanka's coastal zone is rich in numerous types of ecosystems, they occur in low-lying coastal areas in most parts. The devastating Indian Ocean tsunami of 2004 exposed the vulnerability of the country's low-lying coastal areas to sea level rise. Major impacts of sea level rise, in the long run, are increased coastal erosion, inundation of low-lying areas and intrusion of salt water into freshwater bodies, and soil salinization. Several erosion-prone areas have been identified in the coastal belt around the country.

Observed and projected threats related to climate change are being further aggravated by human actions that compromise the sustainability of coastal and marine environments. Among the major human actions that undermine the country's blue economy are sand mining, destruction of coral reefs, poorly designed coastal protection structures and removal of coastal vegetation. These have accelerated coastal erosion, marine and coastal pollution and rapid degradation of coastal habitats. Both land-based and ocean-based pollutants are responsible for the pollution of coastal and marine environments. Land-based pollutants include garbage and wastewater/sewerage from coastal townships and tourism facilities, pollutants from nearshore industrial facilities, and chemical pollutants from prawn farming and coastal agriculture, among others. Major causes that increase the load of pollutants are rapid urbanization, poor waste management, growing industrial activities, spread of tourism facilities, uncontrolled aquaculture operations and a growing number of underserved settlements in the coastal belt.

The same set of drivers can be identified as being responsible for the degradation of coastal habitats too. Major sources of marine-based pollutants are oil/chemical spills from shipping and accidents, non-degradable litter from vessels, dry docking and servicing of vessels, and ballast water discharges. Sea routes around the country are getting ever busier

with growing marine traffic connected to global trade. Furthermore, Sri Lanka is strengthening its efforts on oil exploration in offshore regions in the Mannar basin. These developments will invariably aggravate problems such as oil spills and increase in other marine pollutants, thereby disturbing marine ecosystems and organisms further.

Increasing the climate resilience of the blue economy

Considering the overall importance of coastal and marine areas in Sri Lanka, implementing policies to sustain the blue economy is of utmost importance. The country has been aspiring to become a maritime hub in the region, taking advantage of its unique geographical position and closeness to major sea routes. Sri Lanka is yet to come up with a viable strategy for developing a sustainable blue economy that can realize the country's potential.

The scientific evidence made available by SROCC and other international studies indicates that impacts of climate change can be the foremost challenge that threatens Sri Lanka's ambitions to develop a sustainable blue economy in the long run. Observed and projected threats identified by these studies stress the necessity of taking appropriate and timely adaptive measures to increase the climate resilience of the blue economy in Sri Lanka. Carefully planned adaptation measures are necessary for overcoming the challenges posed by climate change on the blue economy.

The Government of Sri Lanka introduced the blue economy initiative under the 'Sri Lanka NEXT' programme in 2016 and has kept the idea alive since then. It has prepared the National Adaptation Plan for Climate Change Impacts: 2016-2025⁵ and submitted the Nationally Determined Contributions for both mitigation and adaptation to the United Nations Framework Convention on Climate Change in 2016. Both policy documents contain adaptive actions aimed at coastal and marine sectors, which are complementary to each other. Despite these preparations,

however, a strong coordinated effort to benefit from the opportunities of blue economy and overcoming the challenges posed by climate change is yet to emerge.

Sri Lanka plans to initiate a research to assess the impacts of sea level rise on coastal habitats over short-, medium- and long-term horizons. The research is expected to identify appropriate protection measures in relation to climate change. Similarly, establishing mechanisms to continuously monitor shoreline changes, and preparing maps and databases of low-lying areas vulnerable to inundation could be effective in designing mitigation and adaptation plans. To this end, encouraging participatory management of sensitive coastal habitats by involving coastal communities could be highly effective. Such participatory programmes are also essential for the conservation and rehabilitation of sensitive coastal habitats such as mangrove, salt marshes, sea grass beds and coral reefs. Since maritime area conservation involves many countries, establishing regional collaborations in research and monitoring will promote technology transfer and multidisciplinary research in these areas. These plans, if implemented earnestly, can help Sri Lanka derive maximum benefits from a sustainable coastal and marine economy. ■

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Notes

- 1 Survey Department of Sri Lanka. 2007. The National Atlas of Sri Lanka. Colombo, Sri Lanka
- 2 https://www.fisheriesdept.gov.lk/web/images/pdf/Fisheries_Statistics_2018.pdf
- 3 Sri Lanka Tourism Development Authority. 2018. Tourism Growth Trends 1970-2018. Colombo, Sri Lanka
- 4 Defined as the collection of all Divisional Secretariat (DS) areas that have a coastal boundary
- 5 Ministry of Mahaweli Development and Environment. 2016. National Adaptation Plan for Climate Change Impacts in Sri Lanka 2016-2025. Colombo, Sri Lanka.

Governance of intellectual property over plant varieties

Time has come for Asia to revisit its unique approach

In devising their plant variety protection laws, Asian countries need to gather insights from the experiences of local plant breeders, farmers and relevant stakeholders.

Kamalesh Adhikari

The creation of legal regimes to protect intellectual property rights (IPRs) over plant varieties¹ is not a recent phenomenon. National intellectual property laws to protect plant varieties originated decades ago in North America and Europe. The first of these laws took the form of a specialized plant patent regime, which the US introduced in the form of the *Plant Patent Act* in 1930.

A few decades later, laws to protect plant varieties as intellectual property appeared in the form of national plant breeders' rights (PBR) regimes, initially in Europe and later in other regions. A major motivation for European and other developed countries to embrace PBR laws was the advent of the 1961 Convention of the International Union for the Protection of New Varieties of Plants (the UPOV Convention).

Mainly after the mid-1990s, an increasing number of developing and least-developed countries in Asia also began to draft or implement national legislation to grant intellectual property to plant varieties, albeit in ways that

are distinct from developed countries' framing of PBR laws. The uniqueness of the Asian intellectual property laws is that they move beyond the logic of the conventional UPOV-based PBR model. In so doing, these legal instruments do not limit their scope to the protection of plant breeders' novel, distinct, uniform and stable varieties. Instead, these national laws also recognize exclusive rights that farmers may obtain in relation to other different categories of plant varieties. A few examples include varieties that have been cultivated traditionally and developed by farmers in their fields, or that are landraces or wild relatives of crop varieties about which farmers possess common knowledge (India); local domestic plant varieties that exist in a particular geographic area of the country (Thailand); and traditional varieties that have been bred or discovered and developed by farmers (Malaysia).

In the context of the evolution of unique intellectual property laws for plant varieties in Asia, this article discusses a set of emerging challenges

and developments that countries in this region are facing. In so doing, the article focuses on the findings derived from the case studies of two types of Asian countries: i) countries that have already introduced intellectual property laws for plant varieties such as Cambodia, India, Indonesia, Laos, Malaysia, Pakistan, the Philippines, and Thailand; and ii) countries that are in the process of drafting or debating such laws such as Myanmar, Nepal, Sri Lanka and Timor-Leste.

Challenges and developments in Asia

Although Asian countries are at different levels of development, they face a number of common challenges in their attempt to implement a national law to protect plant varieties. A key common challenge is to identify ways to make their intellectual property regime work for sustained and inclusive agricultural development. For example, how can they frame their intellectual property regimes to ensure that:

- there is greater involvement of public-private seed entities in the



breeding and development of plant varieties that would improve yields and provide better resilience to pests, diseases and climate change?

- these new regimes would contribute to the conservation, sustainable use, breeding, development and commercialization of indigenous plant varieties?
- they are supportive of the rights of local and indigenous farmers who rely on customary forms of seed use, exchange and circulation for food security and livelihood enhancement?

Another major common challenge that Asian countries face relates to the need to use intellectual property as a tool to protect domestic interests and, at the same time, address a range of obligations under relevant international treaties. The international treaties that require these countries to address diverse obligations for the governance of plant varieties include the 1995 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the 1991 UPOV Convention, the 1992

Convention on Biological Diversity (CBD), the 2010 Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization (Nagoya Protocol) and the 2001 International Treaty on Plant Genetic Resources for Food and Agriculture (the Plant Treaty).

Because these international treaties have a major influence on the governance of breeding, development and circulation of plant varieties, debates about the ways to protect plant varieties as intellectual property have evolved substantially in several Asian countries over the past two decades or so. The initial focus of these debates centred on the legal obligation that the TRIPS Agreement created for countries to protect plant varieties by patent, a *sui generis* system, or a combination of both. One of the major outcomes of these debates was to suggest Asian countries to conceptualize a *sui generis* law that is distinct from UPOV-compatible PBR laws.

It is evident that since the 1990s, the inherent logic behind the propo-

sition to develop unique plant variety protection regimes in Asia is based on the concern that UPOV-compatible PBR frameworks only reward the innovators of new plant varieties. More specifically, the concern is that UPOV-based PBR schemes do not take into consideration important endeavours of other international agreements such as the CBD and the Nagoya Protocol in relation to protecting the rights of local and indigenous farming communities, for instance, by requiring users (plant breeders) to obtain prior informed consent, and to share the benefits accrued from the access, use and commercialization of local and indigenous plant varieties. Another concern is also that UPOV-compliant PBR schemes undermine the provisions of the Plant Treaty, for instance, by restricting farmers' ability to continue their customary practices of saving, using, exchanging and selling seeds or other propagating materials of plant varieties.

Although the initial focus of the debates about intellectual property for plant varieties centred on the obliga-

tions under TRIPS and other international agreements, recent debates in Asia have advanced to also consider a number of pertinent, additional questions and concerns. These include:

- What could be the implications for these countries' *sui generis* laws, agricultural sectors, and customary farming practices if they join UPOV due to bilateral, regional, and trans-regional trade agreements?
- What challenges have Asian countries experienced when they have drafted and implemented *sui generis* plant variety protection laws?
- Have these countries perceived any benefits from the implementation of their *sui generis* plant variety protection laws?
- How might other national laws, such as seed laws or policies, complement or complicate the implementation of *sui generis* plant variety protection laws in these countries?

Based on an analysis of development and implementation trends of plant variety protection laws in select Asian countries, below I discuss some important developments and challenges that these countries may need to consider if they intend to make their unique approach of protecting plant varieties serve the interests of both plant breeders and farmers.

UPOV membership

In Asia, a growing number of countries such as Cambodia, Laos, Myanmar, Malaysia and Thailand are under pressure to join UPOV. It is important for these countries to realize that they must find innovative ways to support farmers' customary seed systems.

In so doing, one option is to fend off the pressure to join UPOV. Although there could be certain challenges to fend off such pressure, these countries may benefit to learn from the successful example of Nepal's 'No to UPOV' campaign.

Because the 'No to UPOV' campaign mobilized a number of domestic actors during Nepal's negotiations for accession to the World Trade Organization, the country was able to secure

sufficient policy space to develop its *sui generis* legislation on plant variety protection. In addition to learning from the experiences of Nepal, Asian countries also need to evaluate the factors that have impelled them towards UPOV membership. Of these, a set of hard and soft factors are particularly important for these countries to assess. Hard factors are often embodied in formal legal obligations that various bilateral, regional and trans-regional free trade agreements contain, for example, by requiring developing and least-developed countries to agree to implement UPOV-compatible PBR laws. Soft factors constitute the pressure that the UPOV Secretariat, various UPOV-supportive seed industry groups and developed-country governments exert on lawmakers and seed agencies in Asia, for example, through bilateral negotiations, foreign

Corporate seed system and farmers' seed systems co-exist in many Asian countries with *sui generis* system.

aid, workshops, trainings, and assurance that there would be increased investment for plant breeding.

Co-existence of corporate and farmers' seed systems

Asian countries such as Indonesia, Malaysia and the Philippines have implemented *sui generis* laws to recognize intellectual property rights over new plant varieties. An analysis of the trends of the protection of new plant varieties in these countries suggests that over the past two decades or so, they have witnessed remarkable growth in the registration and use of intellectual property-protected plant varieties. As a result, in these countries, both public and private seed entities are participating in the commercialization of new plant varieties under the corporate seed system.

However, so far, the corporate seed system that is managed by public and private seed entities in these countries has not been able to drive out farmers' seed systems, which rely more on the customary farming practices of saving, using, exchanging and selling of plant varieties than on the purchase of seeds supplied by the corporate sector. In other words, the corporate seed system and farmers' seed systems continue to co-exist in these countries. One of the key reasons why farmers' seed systems are still dominant in these countries is that their *sui generis* laws are supportive of the needs of local farmers, and thus, contain provisions to allow them to continue customary farming practices. But because Indonesia, Malaysia and the Philippines are likely to join the UPOV Convention in the near future, it is uncertain how UPOV-oriented future reforms to their national *sui generis* laws could impact farmers' seed systems.

Protection of local, domestic plant varieties

Thailand is one of the few countries in Asia that has developed its *sui generis* law to protect new plant varieties, as well as varieties that belong to the categories of 'local domestic,' 'general domestic' and 'wild' plant varieties. Despite this, so far, not a single local variety has been registered for protection under the 1999 Plant Variety Protection Act of Thailand. Whether this is due to the unwillingness of Thai farmers to register their local domestic varieties, or because the criteria for registration of farmers' varieties are stringent, is an issue that Thai lawmakers and other domestic stakeholders need to examine. In this process, it may be useful for Thailand to learn from the experiences of India, which has registered more than 1,500 farmers' plant varieties under the 2001 Protection of Plant Varieties and Farmers' Rights Act. India has been able to do so through various measures. These include the availability of financial and administrative support for farmers and the relaxation of the scientific criteria for the registration of farmers' varieties. For instance, in

India, compared to other varieties that can be protected under the plant variety protection law, up to double the number of off-types/mixtures is permitted for farmers' varieties to meet the threshold of uniformity. In addition, once farmers' varieties have met the uniformity criterion, there is no need for these varieties to pass any stability test.

Seed law vs. plant variety protection law

While seed laws aim to regulate the production, reproduction, distribution, sale, export and import of seeds that meet quality standards, plant variety protection laws focus on granting PBR over newly bred or developed plant varieties, including seeds and other propagating material. In India and Pakistan, seed and plant variety protection laws are operational with their own mandates and institutional structures. Despite this, concerns have been expressed recently that their seed and plant variety protection laws contradict each other. For example, in India, there are concerns that the seed law is stringent for farmers to register and sell the seed of farmer-improved plant varieties and to realize the rights that are protected under the Indian plant variety protection law. In Pakistan as well, there are concerns that the seed law needs to be amended to enable farmers to actively participate in seed business, for example, through the development of a set of relaxed criteria for the registration, sale and commercialization of farmers' plant varieties.

These concerns suggest that the tensions between the seed and PBR laws, which are two different, yet inter-related regimes, must be resolved by India and Pakistan, and where relevant, by other countries in Asia. In this regard, the initiative taken by Timor-Leste is relevant. Before developing a separate seed law or a plant variety protection law, the Timorese government and other national stakeholders conceptualized the model for plant variety protection as well as production and sale of seeds in the country's National Seed

Policy. Accordingly, the National Seed Policy contains provisions for the conservation and sustainable use of plant genetic resources; the protection of breeders' and farmers' plant varieties as intellectual property; and the production, reproduction, sale and commercialization of quality seeds. Although this policy is yet to be implemented, it aims to address a range of concerns associated with the possible contradictions between the seed and plant variety protection laws.

Conceptualization of farmers' varieties as intellectual property

Plant variety protection laws of India, Thailand and Malaysia are often discussed as the model *sui generis* laws that other countries can adapt based on their local needs. This is mainly because they have developed their laws to protect farmers' (or local) varieties

Plant variety protection laws of India, Thailand and Malaysia are considered as model *sui generis* laws.

as intellectual property. Based on the learnings from these countries, other countries such as Sri Lanka and Nepal are in the process of developing a law to protect both breeders' and farmers' varieties as intellectual property.

However, several concerns that have emerged from the implementation of plant variety protection laws in India, Thailand and Malaysia and a review of the Sri Lankan Draft Bill on the Protection of Plant Varieties (Breeder's Rights) and the Nepali Draft Bill on Plant Variety Protection and Farmers' Rights suggest that there are a number of questions and concerns associated with the conceptualization of farmers' varieties as intellectual property. These questions and concerns range from whether farmers have the ability to leverage the necessary resources to develop

and protect farmers' varieties as intellectual property, to the implications that participatory plant breeding programmes between farmers and non-farmer entities may have for obtaining intellectual property rights for locally bred varieties. Of equal importance are other questions and concerns, such as: Should farmers' varieties be subject to any protection period as in the case of PBR-protected varieties, or should these varieties be in the public domain? What kinds of exclusive rights do farmers need to commercialize their varieties? What are the access and benefit sharing obligations of the owners of farmers' varieties in cases where they use other farmers' local varieties as source germplasm? Should the rights of consumer-farmers to receive compensation and to access protected varieties through compulsory licensing apply to farmers' varieties?

Conclusion

In the light of various developments and complex challenges associated with the governance of intellectual property over plant varieties, time has come for Asian countries to revisit their unique approach of protecting breeders' and farmers' plant varieties. In so doing, probably a better approach would be to learn from the experiences of each other and gather further insights from the experiences of local plant breeders, farmers and other relevant stakeholders. ■

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Notes

- ¹ These entail a set of exclusive rights that intellectual property owners exercise to prevent others from producing, reproducing and selling the seed of new and distinct plant varieties.

Economic policy cooperation in SAARC: A primer on SAARCFINANCE

New economic reality brought forth by the impacts of COVID-19 pandemic calls for more active regional economic cooperation to deal with region-wise economic disruptions.

Kshitiz Dahal

The South Asian Association for Regional Cooperation (SAARC), established in 1985, aspires to improve the welfare of eight South Asian countries through regional cooperation. It aims to accelerate economic growth, social progress and cultural development in the region. In the initial years of its establishment, core economic issues took a backseat as SAARC mostly focused on non-economic areas such as women and child affairs, health, tourism, etc.¹ It was only after the operationalization of the SAARC Preferential Trading Arrangement (SAPTA) in 1995 that economic cooperation came to the forefront. The 10th SAARC Summit, held in Colombo in July 1998, supported greater regional economic cooperation and led to an accelerated interest in core economic issues such as trade, investment and finance.² The path towards greater economic cooperation required new institutions, one of which was SAARCFINANCE, a regional network of central bank governors and finance secretaries, which aspires to achieve economic reforms in the region through dialogues and experiences sharing on economic policies among the member states.

Institutional structure

SAARCFINANCE was established on 9 September 1998 as a regional

network of central bank governors and finance secretaries after the 10th SAARC Summit, which had agreed, in principle, to establish a “Network of Central Bank Governors and Finance Secretaries (SAARCFINANCE)”.³ It was formally recognized by the 11th SAARC Summit, held in Kathmandu in January 2002. Same year, the twenty-second session of SAARC Council of Ministers approved the terms of reference of SAARCFINANCE, making it a permanent body, which would report to the SAARC Council of Ministers.⁴

The Chair of SAARCFINANCE rotates along with the Chair of the SAARC. Activities of SAARCFINANCE are coordinated through ‘cells’ established by each member state central bank. The cell of the central bank in the country chairing SAARCFINANCE functions as the secretariat. It also acts as the central coordinator.⁵ Currently, Nepal’s central bank is performing this role.

SAARCFINANCE meetings, which are the core activities of this network and are participated by member states’ central bank governors, finance secretaries and other nominated government officials, are supposed to be held at least twice a year—on the sidelines of the annual and spring meetings of the International Monetary Fund (IMF) and the World Bank.

Objectives of SAARCFINANCE

The broad objective of SAARCFINANCE is greater regional economic cooperation for collective economic reforms through the sharing of experiences on economic and financial policies.

Specifically, SAARCFINANCE strives to:

- promote cooperation among central banks and finance ministries in SAARC member countries through staff visits and regular exchange of information;
- consider and propose harmonization of banking legislations and practices within the region;
- work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation;
- forge closer cooperation on macro-economic policies of SAARC member states and to share experiences and ideas;
- study global financial developments and their impact on the region, including discussions relating to emerging issues in the financial architecture, IMF and World Bank and other international lending agencies;
- monitor reforms of the international financial and monetary system and to evolve a consensus among

SAARC countries in respect of the reforms;

- evolve, whenever feasible, joint strategies, plan and common approaches in international fora for mutual benefit, particularly in the context of liberalization of financial services;
- undertake training of staff of the ministries of finance, central banks and other financial institutions of the SAARC member countries in subjects relating to economics and finance;
- explore networking of training institutions within the SAARC region, specializing in various aspects of monetary policy, exchange rate reforms, bank supervision and capital market issues;
- promote research on economic and financial issues for the mutual benefit of SAARC member countries;
- consider any other matter on the direction/request of SAARC finance ministers, Council of Ministers or other SAARC bodies.⁶

Activities

So far, SAARCFINANCE activities have mainly been in the areas of sharing of experiences on policy reforms through the organization of different meetings and conferences and publication of newsletters. Thirty-seven SAARCFINANCE meetings have been conducted since its establishment (the last one being held in October 2018 in Bali), which have covered various economic and financial issues of interest to SAARC. Similarly, there have been 14 governors' symposium, an annual event organized by SAARCFINANCE that hosts discussions on a special theme of interest to the region. Furthermore, the 13th meeting of SAARCFINANCE introduced the provision of every member (except Bhutan and the Maldives) organizing seminars at least once a year. Also, there have been several half-yearly editions of SAARCFINANCE e-newsletters, up to June 2018, which disseminate information regarding SAARCFINANCE activities.

There have been some notable outcomes as a result of SAARCFI-

NANCE. For instance, the SAARC Payments Initiative, a regional forum to strengthen national payment and settlements systems of member states and to establish a regional payment system to facilitate trade and investment in the region, was launched on 28 March 2008, after the idea emerged at the SAARCFINANCE conference in July 2007 and after the proposal was approved by the SAARCFINANCE meeting in October 2007.⁷

Likewise, another important achievement of SAARCFINANCE is the establishment of the SAARC Swap Arrangement Facility. SAARCFINANCE meeting in September 2011 had unanimously approved the memorandum on SWAP arrangement, which was approved by the 5th SAARC Finance Ministers Meeting in January 2012.⁸ Consequently, the SAARC Swap Arrangement Facility worth US\$2 billion offered by the Reserve Bank of India came into operation in 2012. This provides a backstop line of funding (in US dollars, Euro, or Indian rupee) for SAARC member states in the case of a balance of payment or other liquidity crisis.⁹ Under this arrangement, the Sri Lankan government recently sought currency swap worth US\$1.5 billion in two tranches from the Indian central bank to deal with the foreign currency shortage in the wake of the COVID-19 pandemic.¹⁰

Recent SAARCFINANCE meetings have focused on developing a SAARCFINANCE database, reducing the cost of cross-border remittances, and cooperation in banking regulation and supervision.¹¹

Need for revitalizing SAARCFINANCE

It appears that SAARCFINANCE meetings have not taken place since the last meeting held in October 2018. Even the publication of SAARCFINANCE e-newsletters seems to have stopped since June 2018. Moreover, SAARCFINANCE activities, due to the deadlock in the SAARC process, remain mostly subdued since 2014.¹² The decline in SAARCFINANCE activities could not have come at a

worse time since the new economic reality brought forth by the impacts of COVID-19 pandemic calls for more active regional economic cooperation to deal with region-wise economic disruptions. Hence, SAARCFINANCE needs to revitalize itself. It needs to engage actively in the sharing of national economic policies designed to address the current crisis, and forge a path towards greater regional economic cooperation. There is a need to develop a common approach and strategy for what analysts are referring to as the new global order in the post-COVID-19 world. ■

Notes

¹ Dasgupta, Amit, and Nephil M. Maskay. 2003. "Financial Policy Cooperation in SAARC: A First Step towards Greater Monetary Integration in South Asia". *South Asia Economic Journal* 11(1): 133-143.

² *ibid.*

³ For instance SAARCFINANCE e-newsletters or SAARCFINANCE's website at <https://saarcfinance.org/SaarcBriefHistory.html>.

⁴ SAARCFINANCE Terms of Reference. http://www.sbp.org.pk/ecopd/saarc_terms.pdf.

⁵ SAARCFINANCE e-newsletters <https://www.saarcfinance.org/enewsletter.html>

⁶ *ibid.*

⁷ See SAARC Payments Initiative's website at <https://www.saarcpaymentsinitiative.org/>

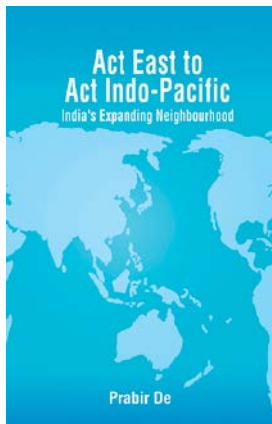
⁸ SAARCFINANCE e-newsletter, June 2012. <https://www.saarcfinance.org/June2012.pdf>

⁹ The Hindu. 2012. "RBI to set up \$2 billion swap facility for SAARC nations". *The Hindu* 16 May. <https://www.thehindu.com/business/Economy/rbi-to-set-up-2-billion-swap-facility-for-saarc-nations/article3425845.ece>

¹⁰ Roche, E. 2020. "Sri Lanka requests India for currency swap arrangement of up to \$1.1 billion". *Mint* 23 May. <https://www.livemint.com/news/india/sri-lanka-requests-india-for-currency-swap-arrangement-of-up-to-1-1-billion-11590252888557.html>

¹¹ See the list of SAARCFINANCE activities archived at Nepal's SAARCFINANCE cell: https://archive.nrb.org.np/saf/p_sf_pastact.php.

¹² Raihan, S. 2020. "Case for a united South Asian response to COVID-19". *The Daily Star*, 9 April.



India looks East for prosperity

Title: Act East to Act Indo-Pacific: India's Expanding Neighbourhood

Author: Prabir De

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Arvind Kumar

In the last two decades, India has emerged as a significant economic power and security provider in the Indo-Pacific region. As India's capabilities to shape its external environment increase, how India makes external policy choices assume importance, not just for India but also for other stakeholders in the Indo-Pacific region. There is a growing body of scholarly literature focused on the various aspects of India's Look/Act East policy. India adopted the 'Look East' policy in 1991, which it transformed to an 'Act East' policy in 2014. These are important milestones in the journey of the modern Indo-Pacific region. It is in this context that Prabir De's latest book, *Act East to Act Indo-Pacific: India's Expanding Neighbourhood*, is a valuable addition.

The book consists of 41 chapters divided into 10 thematic sections, namely, Bangladesh, Bhutan, India and Nepal (BBIN) Initiative; Bay of Bengal Initiative for Multi-Sectoral Technical & Economic Cooperation (BIMSTEC); South Asian Association for Regional Cooperation (SAARC); Association of Southeast Asian Nations (ASEAN); Mekong Ganga Cooperation (MGC); Act East-North East, Bangladesh, China, India & Myanmar Economic Corridor (BCIM); Belt & Road Initiative (BRI); and Act Far East and Indo-Pacific. The book is an economist's insight and field experience-based analysis that offers guidelines for international cooperation. Its main strength is that the 10 thematic sections are not stand alone

but are interlinked, which enables the reader to get an insight into the evolution of India's strategic and economic engagement with Southeast and East Asia and beyond. The common thread of economic cooperation and integration runs through all sections.

The Indo-Pacific is a subject of intense debate, contestation and speculation. It has been referred to as "the vast and single geostrategic arc and geo-economic span from the eastern Pacific Ocean to the western Indian Ocean along the eastern coast of Africa". The idea of Indo-Pacific is not about excluding or downplaying Asia or any particular Asian country. In fact, this is a definition of a maritime region with Asia at its heart.

In his address to the 11th Delhi Dialogue, India's Foreign Minister S Jaishankar pointed out that India's view of the Indo-Pacific includes the Western Indian Ocean as well as neighbours in the Gulf, the island countries of the Arabian Sea and partners in Africa. India's approach to this concept recognizes that both geographical extremities of the Indo-Pacific and everything in between should ideally have their own indigenously evolved approach to the Indo-Pacific. In this context, it is pertinent to recall Prime Minister Modi's intervention at the 14th East Asia Summit in Bangkok, where he called for establishing a free, open and cooperative platform to respond to a range of maritime challenges and needs.

With its convening authority, multi-sectoral agenda of work and strate-

gic presence in the subregion, India is uniquely placed to assist in strengthening regional economic cooperation in the region and beyond, with a larger goal of uniting vast economic space straddling the Indian Ocean and the Pacific for sustainable development. As the persistent slowdown becomes the new normal for advanced economies and as the centre of gravity of the world economy shifts eastwards, the Indo-Pacific becomes critical for sustaining global growth.

Arguing along these lines, the book provides detailed analytical accounts on various facets of policy issues related to Southeast and East Asia. The book offers insights into various stages of development and emerging challenges in India's quest towards strengthening the Indo-Pacific. Most importantly, various chapters provide lessons and actionable policy inputs to reinforce the idea of closer regional development and integration in the Indo-Pacific space. The author must be commended for this timely and valuable scholarly contribution. The book is very helpful in understanding the economic and strategic dynamics and potential of this vast economic space. It also provides insights into ways of addressing emerging challenges effectively and efficiently. The book is an invaluable companion for policymakers, academia, students of international relations, diplomats and general readers interested in the topic. ■

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Leveraging remittances for economic transformation



A research undertaken by South Asia Watch on Trade, Economics and Environment (SAWTEE) on the relation between remittances and self-employment calls for strong policy measures to create conditions that make non-farm self-employment a vocation of enthusiastic entrepreneurs rather than the occupation of reluctant ones.

The research findings, which showed that higher remittances have reduced labour hours in Nepal, were presented at an interaction programme 'Leveraging remittances for economic transformation' organized on 17 January in Kathmandu. The re-

search found that a doubling of remittances led an individual to supply, on average, 2.7 fewer hours to non-farm self-employment per week. Similarly, as pointed out by Dr. Paras Kharel, Research Director, SAWTEE, who led the research, "A doubling of remittances led an individual to supply an average of nearly 1.6 fewer hours per week to agricultural self-employment and nearly 2.4 fewer hours to salaried employment".

The findings showed that higher remittance amounts were strongly linked to left-behind women working fewer hours.

The empirical analysis, which builds on a nationally representative household survey in Nepal conducted in 2010-11, indicates that this may have happened because those operating non-farm enterprises, mostly micro- or small-scale, were 'reluctant entrepreneurs' who were engaged in the vocation out of desperation. Hence, there is a need to look into policy measures to incentivize such entrepreneurs.

The research was carried out with financial and technical support received from the Partnership for Economic Policy. ■

Re-defining governance model

EXPERTS have pointed out a need to re-define the governance model of Pakistan for sustainable economic growth through a comprehensive dialogue amongst all stakeholders, including the elite, the civil society, political parties, academia and other stakeholders. This was discussed during a lecture on 'Economy and national security: Political economy choices for reform' organized by the Sustainable Development Policy Institute (SDPI) on 10 March.

Professor Adeel Malik, a Globe Fellow in Economies of Muslim Societies at the Department of International Development of Oxford University, said that the popular discourse on the economy in Pakistan lacks an associative debate on political economy. He further said that major challenges for such a political economy on choices for reforms include re-allocating power that promotes the greater interests of industry and creating a sustainable political

coalition that favours open access to the economy.

Most of the participants of the event viewed that almost every sector of the national economy is captured by the elite, who enjoy even greater control over domestic power politics and economic policies. They said that the rent-seeking economic governance model, which serves the vested interests of a few has become unsustainable for national growth. ■

Digitalization of economy & bridging the digital divide a must

CUTS International and CUTS Institute for Regulation and Competition (CIRC) released their flagship biennial report on *Competition and Regulation in India 2019* on 5 February.

Speaking at the event 'Digital Economy: Hitting the reset button on competition and regulatory governance', Injeti Srinivas, Secretary, Ministry of Corporate Affairs, confirmed that the Indian government will provide a window of three weeks for public consultation on the proposed Competition (Amendment) Bill 2019. He also pressed the need for digitalization of the economy and bridging the digital divide to achieve India's target of becoming a US\$5 trillion economy by 2024-25.

Ashok Kumar Gupta, Chairperson, Competition Commission of India, stressed the need for evidence-based research driving policy making in India.

Pradeep Mehta, Secretary General, CUTS International, noted competition and regulatory regimes as tools to guide fair markets to function efficiently and promote economic growth. Similarly, Payal Malik, Adviser (Economics), Competition Commission of India, highlighted the importance of competition in fostering innovation.

The event witnessed participation of representatives from civil society organizations, industry players, academicians, bureaucrats, policy influencers, media etc. ■

Report on cultural and creative industries in Sri Lanka

THE Institute of Policy Studies of Sri Lanka (IPS) and the British Council of Sri Lanka launched a report on cultural and creative industries in Sri Lanka on 2 May, via a webinar. It is a first attempt to create a framework and develop an understanding of the current situation and challenges facing Sri Lanka's cultural and creative industries at a time when the creative sector is growing in global significance.

The research leading to the report identified the current size and locations of creative and cultural industries in Sri Lanka and specific challenges, while providing policy recommendations to promote the sector's development. It found that 2.9 percent of the workforce in Sri Lanka is involved in the creative industry, of which 36 percent are women. The report also noted that creative and cultural industries generate future-proof livelihoods, as they are agile and often low-cost.

This report provides recommendations to address some specific challenges as well as for the overall growth of the sector.

The webinar saw the participation of several UK's and Sri Lanka's creative industry sector specialists, industry professionals and other stakeholders. ■

Awareness workshop on gender dimensions of trade facilitation

SAWTEE, in association with Manushi-Nepal, organized a half-day workshop on 6 March in Kathmandu to generate awareness among Nepali women entrepreneurs regarding participating in international trade. Mr. Arun Raut, General Secretary, Association of Chartered Accountants of Nepal, provided



insights into managing accounts, calculating taxes and becoming credit-worthy. Mr. Rajan Sharma, former President, Nepal Freight Forwarders Association, shared information on export procedures, search for markets abroad, and other requirements to become export-ready. ■



South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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