India-Pakistan friction threatens regional trade at Saarc summit

REUTERS, *Kathmandu*

HOSTILITIES between rivals India and Pakistan yesterday threatened to scupper efforts by South Asian leaders to boost trade among almost a quarter of the world's people, throwing into doubt any prospect of a regional customs union.

India and Pakistan have fought three wars, and just last month exchanges of fire across the border in disputed Kashmir killed 20 people. The bickering spilled into a two-day regional summit in Kathmandu, and their leaders refused to meet.

Indian and Nepali officials said Pakistan declined to sign three multilateral pacts with the eight members of the South Asian Association for Regional Cooperation (Saarc).

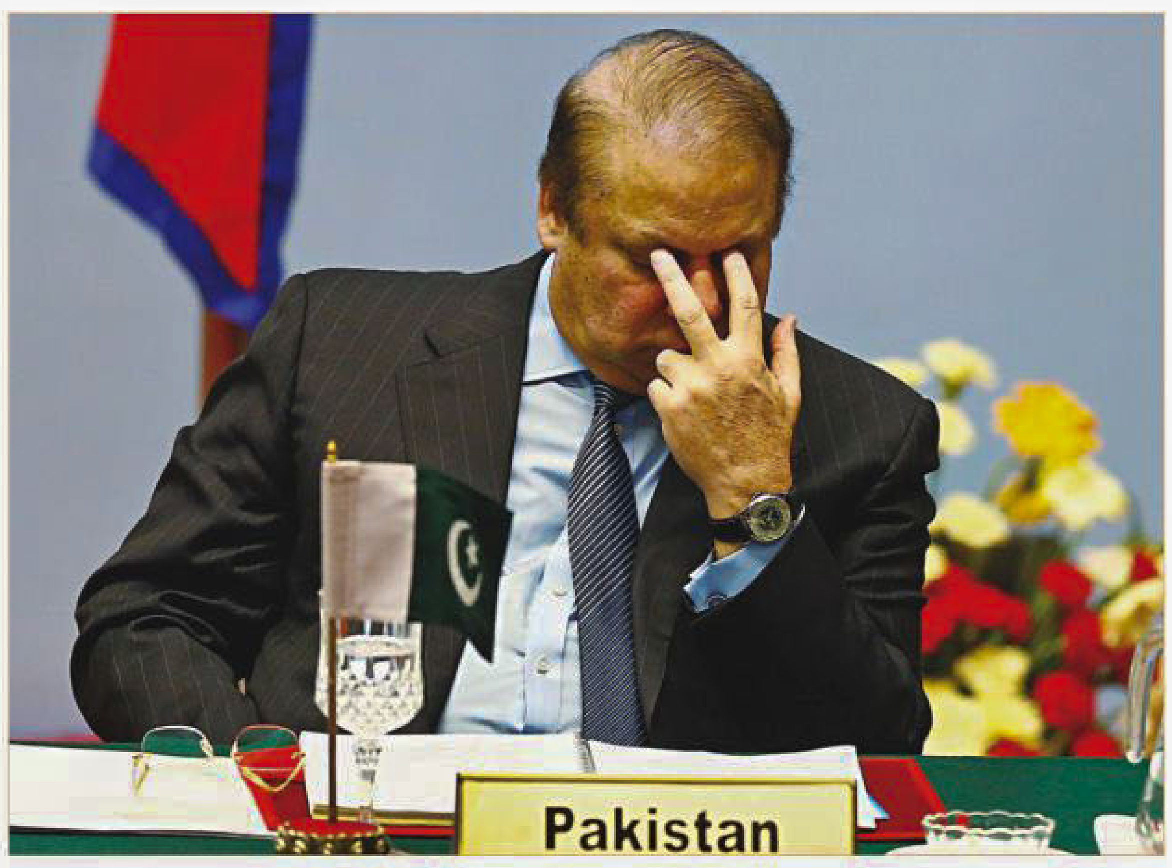
The agreements aim to boost road trade and electricity sharing, including across Pakistan's heavily militarised border with India.

In an apparent reference to Pakistan, India's foreign ministry spokesman said one country had cited incomplete "internal processes" for not signing the pacts, but stopped short of naming it.

Pakistani officials did not respond to telephone calls seeking comment.

Such a refusal threatens efforts by Indian Prime Minister Narendra Modi to make South Asia a viable economic counterweight to China and limit Beijing's role in the region.

Regional integration would happen "through Saarc or outside it," Modi warned the summit, if the grouping failed to agree on the pacts.



REUTERS

Pakistani Prime Minister Nawaz Sharif reacts as he attends the opening session of 18th South Asian Association for Regional Cooperation summit in Kathmandu yesterday.

Nepal's former foreign secretary, Madhu Raman Acharya, echoed the sentiment, urging the grouping to step up "sub-regional cooperation".

Almost all the leaders at the summit expressed dismay at Sabre's sparse achievements since it was founded 29 years ago aiming to become a European-style union.

Despite a free trade pact since 2006, trade among South Asian nations makes up five percent of their total trade. They share few transport and power links.

China, free of the baggage that makes much of the region wary of India, has built ports and sold weapons across South Asia, where its new Asian Investment Infrastructure Bank has attracted interest, including from India. Through Pakistan, China suggested it play a larger role in the regional grouping, but India rebuffed the proposal.

Modi held two-way talks with every leader except Pakistan's Prime Minister Nawaz Sharif, since neither was ready to make the first move to defuse tension between the nuclear-armed states.

Modi relaxed visa rules, spotlighted new energy ties with Bangladesh and Nepal and promised to cut India's trade surplus with neighbours, but said progress in ties was too slow.

"Is it because we are stuck behind the walls of our differences and hesitant to move out of the shadows of the past?" Modi asked.

A well-functioning free trade area to give a boost to South Asia

SANJAY KATHURIA *and* SOHAIB SHAHID

THERE is great excitement for the 18th South Asian Association for Regional Cooperation (Saarc) summit being held in Kathmandu. A big question is whether there will be faster progress towards greater regional trade, which could boost economic growth and spread prosperity across South Asia.

South Asian leaders have long advocated for an economic union in South Asia. An essential condition for such a union is the South Asian Free Trade Area (Safta). Though Safta came into effect in 2006 to promote mutual trade and economic cooperation, considerable work remains before South Asia's 1.67 billion consumers can enjoy the benefits of free trade. Under Safta, all countries are allowed to maintain so-called "sensitive lists", encompassing hundreds of products, where usual FTA tariff concessions do not apply. These lists are a major barrier to free trade and there are no determinate plans to eliminate them.

Who would benefit from more open trade? Consumers will likely enjoy greater choice, better quality, and lower prices with goods from neighboring countries. This could lower the cost of living for many: think of cheaper consumer goods from Bangladesh flowing to poor families in India's less accessible North East, reducing their monthly expenditures. In fact, a recent study shows that intra-regional tariff reduction would lead to an approximate gain of $2 billion a year for South Asian consumers.

Exporters also benefit, both through market access to 1.67 billion potential consumers as well as the opportunity to source better materials and parts for their products. Both these factors are important as shown in a recent study on India-Bangladesh trade. Studies show that mutual liberalisation of trade would increase Bangladesh's exports 182 percent to India compared to 134 percent if India offered one-sided concessions. By the same logic, a fully functioning Safta would make exporters in each country more competitive.

MUTUAL TRADE LIBERALISATION CAN LEAD TO:

- Better quality and low priced products
- $2 billion gains for consumers each year from intra-regional tariff reduction
- Access to larger markets
- More competitive exporters in each country
- Access to better inputs and technology

Mutual trade liberalisation creates opportunities even for small producers who do not export. Positive effects include increased productivity of domestic firms as a result of competitive pressure and access to better inputs and technology. Moreover, trade liberalisation can also encourage more foreign direct investment (FDI), which can improve small producers' access to technology and skills.

On the other hand, less competitive companies that do not take action to become more competitive are likely to suffer from trade liberalisation. Companies can incur such losses rather quickly, compared to the gains that are more spread-out and likely to be dispersed over time. Steps by governments to anticipate and address this impact, such as through targeted safety net and retraining programmes, will be critical to gain widespread support for trade reforms. Examples include Mexico's Procampo programme, established in 1993-94, to compensate farmers fearing declining prices from the onset of the North American Free Trade Agreement (Nafta) in 1994.

Mexico has demonstrated how a smaller country can benefit from regional trade and has emerged as the big winner from Nafta. Mexico's exports are now $1 billion a day, more than 10 times their 1994 level. US imports from Mexico rose by 500 percent over 1993-2012, more than twice as fast as imports from the rest of the world. US exports to Mexico also rose faster than to other countries, many of these being products needed by Mexico's manufacturing industries. Moreover, since Nafta, Mexico has seen a surge in FDI from the US, and has seen a major expansion of its auto industry, among others.

There are clear implications for South Asia. A fully functional Safta would be good for all countries in the region. The smaller countries in the region can in fact gain more from unhindered trade. There are clear gains for consumers and exporters, and even for those producers serving the domestic market.

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WTO postpones trade deal by a day after last-minute objection

REUTERS, *Geneva*

The World Trade Organization postponed adoption of the first global trade reform in its 19-year history on Wednesday, delaying by a day after a last-minute objection from Argentina, diplomats said.

"It's not a big drama," WTO chief spokesman Keith Rockwell told reporters.

Diplomats said they expected the meeting to go ahead on Thursday and the reform package to be adopted. But, after repeated pitfalls, nobody could rule out the deal tripping up.

The WTO has lurched from one disappointment to another over the past decade as it tries to find a balanced trade deal that all its members, now numbering 160, could support.

It cut back its ambitions to ensure unanimous backing for a small package of trade reforms at a meeting in Bali last December, but a new government in India refused to let the reforms go ahead.

That left the Bali deal in limbo, including its centrepiece, a global streamlining of customs processes that supporters say will add $1 trillion and 21 million jobs to the world economy.

Four months of stalemate ensued until a U.S. negotiating breakthrough assuaged India's concerns about the amount of attention being paid to its demand to be allowed to break the usual WTO rules by stockpiling crops at above-market prices.

Juncker unveils giant 315b euro plan to 'kickstart' Europe

AFP, *Strasbourg, France*

EUROPEAN Commission chief Jean-Claude Juncker unveiled a huge 315-billion euro investment plan Wednesday to "kickstart" the stalling economy, saying it would show the world that Europe is back in business.

The eagerly awaited plan, the keystone of Juncker's five-year mandate, involves the EU setting up a 21 billion euro ($26 billion) fund with the aim of drawing in 15 times that amount in private investment.

Juncker hopes the proposal will boost desperately needed jobs and growth amid concerns that Europe's failure to recover from the financial crisis is dragging the world economy down with it.

"Europe needs a kickstart and today the commission is providing the jump cable," Juncker told the European Parliament in Strasbourg, France.

"We need to send a message to Europe and to the rest of the world: Europe is back in business."

The former Luxembourg prime minister said he had a vision of children in the Greek city of Thessaloniki going to a school filled with computers, and French drivers charging their electric cars by the side of a motorway.

His announcement comes a day after Pope Francis said in an address to the same parliament that Europe had become an "elderly and haggard" grandmother, and urged it to reclaim global leadership.

The new European Fund for Strategic Investment must be approved by leaders of the 28-nation EU -- which together represents the world's largest economy with a population of more than 500 million people -- at a summit in December.

Juncker took office as head of the European Commission -- the EU's executive branch -- on November 1 and immediately vowed to unveil the plan by Christmas so that it could be up and running as soon as possible.

"I promised to present an ambitious investment package by Christmas. Today Christmas has come early," he told parliament.

There have been criticisms that the fund contains no new money and only re-engineers existing funds,

AFP

EU Commission chief Jean-Claude Juncker (C) speaks to unveil an eagerly awaited 315-billion-euro investment plan to "kickstart" the economy, at the European Parliament in Strasbourg, eastern France, yesterday.

and of the calculation that the seed money will attract 15 times the eventual result.

But Juncker rejected them.

"I often hear what we need is so called fresh money but what I believe we need is a fresh start and fresh investment," Juncker said, speaking in a mix of English and German. "The money we are putting forward today comes on top of what already exists."

He said the plan would not break the EU's strict budgetary rules, adding however that "money will not fall from the sky, we don't have a money-printing machine."

The run-up to the announcement has been dominated by a controversy over tax breaks offered by Luxembourg to major international firms when Juncker was premier.

Juncker faces a confidence vote in the European Parliament on Thursday after eurosceptic lawmakers filed a motion against him, but he is almost certain to survive.

- 'Drop in the ocean' -

Reaction to the investment plan in parliament was mixed.

Manfred Weber of Juncker's own centre-right European People's Party said the plan was "convincing" but called for EU states to make necessary reforms to their own economies.

Gianni Pittella, leader of the Socialists and Democrats, was more cautious, saying that 21 billion euros was merely a "good starting point" and that there was "still much to do."

Dimitrios Papadimoulis of the Greens meanwhile said Juncker's plan was not enough.

"It's a drop in the ocean. Your famous package is just business as usual, a Europe dominated by Germany and austerity," he said.

Overall responsiblity for the three-year plan will fall to the European Investment Bank (EIB), a little-known EU institution based in Luxembourg that is often criticised for its lack of ambition.

Juncker's plan addresses the key problem for the European economy, namely a drastic lack of investment, which remains way off pre-crisis levels, in stark contrast to the United States.

A list of projects is currently being drawn up by EU and EIB officials, with the input of member states.

Officials hope the fund can be operational by mid 2015.

Once up and running, a team of financial experts at the new fund will help decide projects, mostly based on their level of advancement and the likelihood to draw in private investors.

Bangladesh to pursue regional connectivity: Muhith

STAR BUSINESS REPORT

BANGLADESH wants to go ahead with sub-regional connectivity even if it does not come to fruition in the ongoing Saarc summit in Nepal.

The issue is now resting on the response of the new Indian government, Finance Minister AMA Muhith told reporters after a meeting with Wencai Zhang, a vice-president of the Asian Development Bank, in Dhaka yesterday.

"As I said, the change of government in India requires a fresh start in this area. I think we will wait for action from the Indian side."

The country has already signed bilateral agreements with Nepal and Bhutan on energy, transit and road connectivity. All that remains is for India to join in.

The new Indian government said the issues agreed on connectivity by the previous regime would continue, according to the finance minister. "This issue will be settled in a single sitting."

Asked when the meeting will be held, Muhith said: "I don't know -- you ask the foreign ministry about it."

However, he said such delay is normal after a change of government.

About India's wish to get transit facility from Bangladesh for its Seven Sister states, he said there has been no progress.

Three agreements were supposed to be signed in the Saarc summit, now being held in the Nepalese capital, but the plan has been shelved.

The minister said ADB is very much interested on regional cooperation and it has been rendering assistance to this.

Europe feels sting in the tail of Russia sanctions

REUTERS, *Brussels*

AT a technology fair in Moscow last month, European executives faced the new reality of doing business in Russia since the West imposed sanctions: the number of companies at the international showcase had shrunk by half from a year ago.

"The impact on business couldn't be clearer. Fewer stands, fewer companies," said Mark Bultinck, a sales executive for Belgian digital screen maker Barco, which had a booth at the annual expo for the audiovisual industry.

The impact of the sanctions was already clear to Barco.

The company lost Russia's biggest shipbuilder as a client when the United States and the European Union blacklisted United Shipbuilding Corporation in July, meaning Barco could no longer sell screens to the company for its vessel training simulators.

Barco's experience shows how sanctions are having a broad impact not just on Russian companies but on European ones too and at a time when Europe's weak economy can ill afford it.

The European Union and the United States imposed economic sanctions on Russia in late July, targeting the Russian energy, banking and defence sectors to punish Moscow's support for rebels in eastern Ukraine, the West's toughest steps yet.

As EU governments consider blacklisting more Ukrainian separatists and potentially more Russians and companies over the crisis in Ukraine, anecdotal evidence and new EU data show the economic costs for Europe of pressuring the Kremlin.

In August, the month after sanctions were imposed, EU exports to Russia fell 19 percent to 7.9 billion euros ($9.91 billion) compared to July, a loss of almost 2 billion euros, according to the EU's statistics office Eurostat.

Although the data is not adjusted for seasonal swings, exports were also down 18 percent compared to August 2013 at a time of year that is traditionally busy for exporters.

The drop partly reflects the food ban Moscow imposed on the European Union in August in response to the West's sanctions. But it goes well beyond that. Total EU exports fell 12 percent in the first eight months of this year compared to a year ago.

In August, EU exports of machinery and transport equipment such as cars and tractors fell 23 percent compared to July. Compared to a year ago, those exports fell 21 percent.

Manufactured exports fell 16 percent across the 28-nation bloc in August. Germany, which accounts for one-third of sales to Russia, saw a sharp drop in sales of those goods, while Italy's manufactured exports tumbled by almost half.