

● **TRADE** ●
insight

UNCTAD



**IN SEARCH OF
DEVELOPMENT-LED
GLOBALIZATION**

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Development challenges and UNCTAD

AMID a bleak outlook for the world economy, it comes as an apparent whiff of good news that poverty incidence as well as the number of poor people are on a downward trajectory the world over, including in South Asia. But the fact that over a third of South Asians still live under US\$1.25 a day and even those who have escaped poverty live precariously close to the poverty line underscores the development challenge facing the region.

Achieving some of the Millennium Development Goals, such as those pertaining to hunger and infant mortality, and, importantly, sustaining the progress made, also remain a challenge for most South Asian countries. Climate change presents additional formidable challenges to the realization of development goals, including food security.

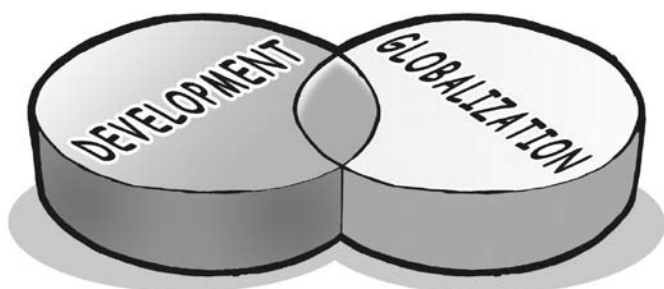
Development aid is one instrument of helping poor countries overcome development challenges. However, progress in increasing the effectiveness of aid remains slow. Inadequate alignment of aid with recipient-country needs and priorities, aid fragmentation and duplication, and bypassing of national systems in aid delivery are some factors working against aid effectiveness. The debate on aid effectiveness, however, should not divert attention from unfulfilled promises on the volume front. Developed countries are yet to honour their pledge to provide 0.7 percent of their gross national income (GNI) as official development assistance, or even to scale up aid to the least-developed countries to 0.15–0.2 percent of GNI. Real additionality in aid-for-trade flows and whether whatever is being provided is targeted at alleviating supply-side constraints remain doubtful. Financial resources needed for climate change adaptation in poor countries are flowing in drips and drops.

While aid for trade is not being focused on easing supply-side constraints, market access barriers also constrain export prospects of poor countries. The latter are also losing their development policy space through multiple routes. The global financial and economic crisis, the tremor of which continues to reverberate, coupled with the recent bouts of sovereign debt crises, underlines the vulnerability faced by poor countries associated with their integration into the global economy due to the policy mistakes of others.

With the developing world continuing to face traditional challenges as well as new ones, the continued relevance of the United Nations Conference on Trade and Development (UNCTAD), founded half a century ago to advance the trade and development interests of the developing world and which is set to hold its 13th quadrennial meeting, is undoubtedly clear.

Over the years, UNCTAD, despite its limited resources, has demonstrated excellent research and analytical capabilities, has refused to blindly follow mainstream views on trade and development and has espoused alternative views. It has remained an astute critic of what it calls finance-driven globalization. This good track record has to be advanced further into the areas of facilitating technical assistance and knowledge sharing/transfer, which requires, among others, scaled-up resources. It is deeply disturbing that in the run-up to UNCTAD XIII, attempts are being made by a section of rich countries to squelch UNCTAD's voice and stymie its intellectual resistance to finance-driven globalization and other negative facets of hyperglobalization. We hope that better sense will prevail, as a strengthened and well-funded UNCTAD is ultimately in the interest of the entire world. ■

UNCTAD XIII



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SAWTEE NETWORK

- BANGLADESH**
1. Bangladesh Environmental Lawyers' Association (BELA), Dhaka
 2. Unnayan Shamannay, Dhaka
- INDIA**
1. Citizen consumer and civic Action Group (CAG), Chennai
 2. Consumer Unity & Trust Society (CUTS), Jaipur
 3. Development Research and Action Group (DRAG), New Delhi
- NEPAL**
1. Society for Legal and Environmental Analysis and Development Research (LEADERS), Kathmandu
 2. Forum for Protection of Public Interest (Pro Public), Kathmandu
- PAKISTAN**
1. Journalists for Democracy and Human Rights (JDHR), Islamabad
 2. Sustainable Development Policy Institute (SDPI), Islamabad
- SRI LANKA**
1. Institute of Policy Studies (IPS), Colombo
 2. Law & Society Trust (LST), Colombo

Prospects for sustainable development

WITH the possibility of recession in the European Union and slowdown in major economies, policy makers the world over are looking for pragmatic policy initiatives to avert further hardships brought about by a series of crises—food, fuel, financial, economic, environmental and sovereign debt. Given this backdrop and the increasing anxiety over the long-term resilience of people and the planet, it is high time the world chose to integrate economic, social and environmental dimensions of development and move on the path of sustainable development, which has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. To this end, recently, the High-level Panel on Global Sustainability urged in its report presented to the United Nations Secretary-General Ban Ki-moon that in order to achieve sustainable development, people should be placed at the centre of any development strategy. By urging for the integration of social and environmental costs while determining world prices and measuring economic activities, it calls for a set of sustainable development indicators that go beyond the traditional approach of gross domestic product, and recommends that governments develop and apply a set of Sustainable Development Goals that can mobilize global action and help monitor progress.

The 22-member Panel, established by the Secretary-General in August 2010 to formulate a new blueprint for sustainable development and low-carbon prosperity, was co-chaired by Finnish President Tarja Halonen and South African President Jacob Zuma.

The Panel’s final report titled *Resilient People, Resilient Planet: A Future Worth Choosing* contains 56 recommendations to put sustainable development into practice and to mainstream it into economic policy. If fully implemented, these measures will have profound implications for societies, governments and businesses.

The report argues that the eradication of poverty and improving equity must remain priorities for the world community and that empowering women and ensuring a greater role for them in the economy is critical for

The world needs to adopt a new approach to the political economy of sustainable development to address sustainable development challenges.

sustainable development. Furthermore, it calls for improving health and education; ending of subsidies on fossil fuels, which are around US\$400 billion each year, and agriculture subsidies, which are also around US\$400 billion in the Organisation for Economic Co-operation and Development (OECD) countries alone; changing financial market regulation to promote long-term, stable and sustainable investment; improving access to clean water, sanitation and food; meeting the Millennium Development Goals

and going beyond them; ensuring universal access to affordable sustainable energy by 2030; and having universal telecommunications and broadband access by 2025. The Panel’s report underscores the importance of science as an essential guide for decision-making on sustainability issues. It calls on the Secretary-General to lead efforts to produce a regular Global Sustainable Development Outlook report that integrates knowledge across sectors and institutions, and to consider creating a Science Advisory Board or Scientific Advisor.

The report provides a timely contribution to preparations for the UN Conference on Sustainable Development (Rio+20) to be held in Brazil in June 2012. A recently leaked draft agenda document for the Rio+20 asks countries to sign up for 10 new sustainable development goals for the planet and promise to build green economies. Importantly, the recommendation of the Panel, if implemented, will put the world on a path of sustainable development that will not only propel prosperity, but also ensure measures to sustainably utilize natural resources and the environment to meet that end. As global population reaches 9 billion by 2040 and middle-class consumers increases by 3 billion over the next 20 years, the world will need at least 50 percent more food, 45 percent more energy and 30 percent more water. These cannot be addressed with the existing development paradigm. The world needs to adopt a new approach to the political economy of sustainable development to address the sustainable development challenges in a new and operational way. It is time to work for a sustainable planet, a just society and a growing economy. ■

India issues compulsory licence for anti-cancer medicine

INDIA'S Patent Office issued a compulsory licence (CL) on Bayer's anti-cancer medicine *sorafenib tosylate* on 12 March to a domestic manufacturer Natco Pharma, opening the door to a much cheaper generic version of the life-saving medicine.

Sorafenib is an anti-cancer medicine for the treatment of primary renal cell carcinoma (kidney cancer) and advanced primary liver cancer known as hepatocellular carcinoma that cannot be treated with surgery. Sorafenib can extend the life of patients in kidney cancer by 4–5 years and in liver cancer by 6–8 months.

The CL is granted to Natco under Section 90 of the Indian Patents Act with 13 terms and conditions, and is operational for the remainder of the



principledthoughts.files.wordpress.com

term of the patent till 2020. When the patent expires in 2020, there will be no restriction on other generic production. The patented version produced by the German pharmaceutical giant Bayer costs about US\$5,600 per month and under the CL, the price of the generic medicine sold by Natco shall not exceed Rs. 8,880 (about US\$176) for a pack of 120 tablets, required for one month of treatment. This constitutes a price reduction of nearly 97 percent. The licence is granted solely for the purpose of making, using, offering to sell and selling the medicine covered by the patent for the purpose of treating two types of cancer in humans within the territory of India (TWN Info Service on Health Issues (Mar12/03), 15.03.12). ■

Targeted food subsidies needed

A SPIKE in the cost of food staples like rice and wheat could push tens of millions more people into extreme poverty in South Asia, but food subsidies targeted at the very poorest in the region would help them cope with still-high prices, says a new report by the Asian Development Bank (ADB).

South Asia's high population growth rates and the high number of people already living on or close to the extreme poverty line of US\$1.25 a day mean it is one of the most vulnerable regions in the world to food price shocks. Spending on food already accounts for half the total budget of low-income households.

According to Hiranya Mukhopadhyay, an economist in ADB's South Asia Department and an author of the report, subsidizing the cost of a basic meal for the poorest and most vulnerable in places like India means the help goes to those who need it the most without putting an excessive burden on government finances. The study says that a 10 percent rise in prices could push almost 30 million more Indians and nearly 4 million more Bangladeshis into extreme poverty. With the same price leap causing an additional 3.5 million more people to drop to or below the US\$1.25-a-day income mark, Pakistan is also at risk. Nepal and Sri Lanka would be less affected, although a further surge in

wheat prices would be especially painful for Sri Lanka, which is completely dependent on imports of the staple and has already seen prices hit historical highs in recent years.

The report *Food Price Escalation in South Asia: A Serious and Growing Concern* notes that after peaks in 2008 and 2011, prices of key food commodities have eased somewhat, although the rate of decline has been slower in South Asia than the international average. In addition, the region suffers from higher overall food inflation rates than the rest of developing Asia, with food making up a bigger share of items measured by the consumer price index (ADB, 19.03.12). ■

Progress in poverty reduction

IN every region of the developing world, the percentage as well as absolute number of people living on less than US\$1.25 a day declined during 2005–2008, according to estimates released by the World Bank. An estimated 1.29 billion people in 2008 lived below US\$1.25 a day, equivalent to 22 percent of the population of the developing world. By contrast, in 1981, 1.94 billion people were living in extreme poverty. The update draws on over 850 household surveys in nearly 130 countries. 2008 is the latest date for which a global figure can be calculated.

More recent post-2008 analysis reveals that while the food, fuel and financial crises over the past four years had, at times, sharp negative impacts on vulnerable populations and slowed the rate of poverty reduction in some countries, global poverty overall kept falling. Preliminary survey-based estimates for 2010—based on a smaller sample size than in the global update—indicate that the US\$1.25-a-day poverty rate had fallen to under half of its 1990 value by 2010. This would mean that the first Millennium Development Goal of halving extreme poverty from its 1990 level has been achieved before the 2015 deadline. The developing world as a whole has made considerable progress in fighting extreme poverty, but the 663 million people who moved above the poverty lines typical of the poorest countries are still poor by the standards of middle- and high-income countries.

In South Asia, the US\$1.25-a-day poverty rate fell from 61 percent to 39 percent between 1981 and 2005 and fell a further 3 percentage points between 2005 and 2008. The proportion of the population living in extreme poverty is now the lowest since 1981 (*World Bank*, 29.02.12). ■

India bans cotton exports



INDIA banned cotton exports on 5 March to ensure supplies for domestic mills amid a jump in overseas sales. Exports have been higher-than-expected because of strong demand from China, which takes about 80 percent of Indian production, despite disease damaging crops in several states, cutting yields. India is the world's second-largest producer and exporter of cotton. International cotton prices have risen since the export ban was announced.

Farm minister Sharad Pawar wrote to the prime minister (PM) seeking to lift the ban on the ground that production had increased and farmers were complaining of falling prices. The chief minister of Gujarat, Narendra Modi, also wrote to the PM asking why the decision was taken without consulting "affected" states. Gujarat is one of the leading producers of cotton.

Indian Trade Minister Anand Sharma said that India will not allow additional cotton exports for the current year ending in September as of now. "Until further orders, there will not be fresh registrations," Sharma said after a panel of ministers met to review the ban (*BBC News*, 08.03.12; *Reuters*, 09.04.12). ■

Trade growth to slow in 2012

WORLD merchandise trade expanded in 2011 by 5 percent in real terms, a sharp deceleration from the 2010 rebound of 13.8 percent, and growth will slow further still to 3.7 percent in 2012, World Trade Organization (WTO) economists project. They attributed the slow-down to the global economy losing momentum due to a number of shocks, including the European sovereign debt crisis. "More than

three years have passed since the trade collapse of 2008-09, but the world economy and trade remain fragile. The further slowing of trade expected in 2012 shows that the downside risks remain high. We are not yet out of the woods," WTO Director General Pascal Lamy said.

WTO economists cautioned that preliminary trade figures for 2011 and forecasts for 2012 were difficult to gauge due to the extraordinary levels

of volatility in financial markets and in the broader economy for the last few years. There are severe downside risks for growth that could have even greater negative consequences for trade if they came to pass. These include a steeper than expected downturn in Europe, financial contagion related to the sovereign debt crisis, rapidly rising oil prices, and geopolitical risks (*www.wto.org*, 12.04.12). ■

BIMSTEC endorses Poverty Plan of Action

THE second Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) ministerial meeting on poverty alleviation endorsed the regional Poverty Plan of Action (PPA), issuing the Kathmandu Statement. They pledged to incorporate the PPA in their respective countries' plan and programme in fighting against poverty. The PPA—that was drafted and proposed by Nepal in consultation with the representatives from the member countries—includes increased cooperation on technology transfer, capacity building, sharing

of best practices, promotion of trade and tourism and improved transportation and communications among member countries.

The seven-member sub-regional bloc—Bangladesh, Bhutan, India, Myanmar, Nepal, Thailand and Sri Lanka—also agreed on regular consultations among member countries on issues of international trade and investment, and human capital investment specifically targeted at poor and vulnerable groups.

The endorsed PPA—with its eight broad strategies that include accelerated, pro-poor and inclusive growth; social development; imple-

mentation of targeted programmes for the poor; increased coverage for social protection; increased preparedness to address adverse effects of climate change; disaster risk management; good governance; and periodic progress review—will analyse trends of income, human development and non-income dimensions of poverty and human development, identify best practices and learn lessons for poverty reduction and suggest common areas of international cooperation to alleviate poverty in BIMSTEC member countries (*The Himalayan Times*, 16.01.12). ■

Moves to “silence” UNCTAD’s voice

A GROUP of former senior officials of the United Nations Conference on Trade and Development (UNCTAD) has warned against efforts by major developed countries to trim the organization’s mandate and deny it the right to continue to analyse global macroeconomic issues from a development perspective.

This warning, on the eve of the UNCTAD quadrennial conference in Doha, Qatar (UNCTAD XIII), came in a statement issued by the former staff members of UNCTAD on 11 April. The some 50 signatories include one former Secretary-General (Rubens Ricupero), and two former deputy Secretaries-General (Carlos Fortin and Jan Pronk). In their statement, the former UNCTAD staff members said that since its establishment almost 50 years ago at the initiative of developing countries, UNCTAD has always been a thorn in the flesh of economic orthodoxy. Its analyses of global macroeconomic issues from a development perspective have regularly provided



an alternative view to that offered by the World Bank and the International Monetary Fund controlled by the West. “Now efforts are afoot to silence that voice...”, reads the statement.

John Burley, one of the signatories to the statement, said at a media briefing at The Swiss Press Club, Geneva that UNCTAD has always looked at these issues in the context of interdependence—the relationship among the various flows of trade, finance and technology and how that relationship affects development—and that this

aspect of UNCTAD has never been popular with developed countries. He said that two key principles are being threatened: the need for a plurality of views in the international system and the need to preserve UNCTAD’s freedom of speech.

Yilmaz Akyuz, a former chief economist at UNCTAD and now chief economist at the South Centre, said that major Organisation for Economic Co-operation and Development governments are trying to stymie UNCTAD’s work in the areas of finance, governance of international finance, the exchange rate in the international monetary system, and the form of the international financial architecture. He said that his understanding is that “they don’t want to see the word ‘finance’ in the agreed text defining the mandate of UNCTAD.” He further said that his impression is that they want to keep the issues of finance out of the UN system, and not just UNCTAD (*SUNS* #7349, 13.04.12). ■

WTO approves European Union duty waiver for Pakistan

A **WORLD** Trade Organization (WTO) committee on 1 February 2012 approved a European Union (EU)-proposed import duty waiver for Pakistan, a move intended to help the country recover from devastating floods in 2010.

The EU had requested for this waiver in October 2010, and it took 15 months of negotiations to develop a consensus among WTO members. The waiver covers 75 products, including textiles, leather and ethanol. Competing textile exporters had opposed the plan but dropped their objections after the EU amended the scheme to use tariff rate quotas on 20 products rather

than full liberalization.

The waiver has been approved for a year, and will be extended for one more if the EU does not find an adverse impact of the concessions on its local industry at the year-end review. The EU could ask for the waiver to be extended for a third year if it believes Pakistan's economy still needs help.

The EU's imports of the 75 products from Pakistan are worth almost US\$1.2 billion, or about 5 percent of Pakistan's overall exports. The waiver is estimated to increase the exports by US\$100 million–US\$200 million (<http://tribune.com.pk>, 02.02.12). ■

Ahmed Saleem SAARC Secretary General

HIS Excellency Mr Ahmed Saleem of the Maldives assumed charge as the Secretary-General of the South Asian Association for Regional Cooperation (SAARC) with effect from 12 March 2012. H.E. Mr Saleem is the 11th Secretary-General of SAARC and succeeds Fathimath Dhiyana Saeed of the Maldives.

H.E. Mr Saleem joined the Maldivian Ministry of Foreign Affairs in 1968. He had a distinguished career in the Maldivian Foreign Service spanning over 26 years during which he was, among others, Chief of Protocol and Head of the Multilateral Division at the Ministry. H.E. Mr Saleem served at the High Commission of the Maldives in Sri Lanka and the Permanent Mission of the Maldives in New York.

He also served as the Maldivian Government's first Alternative Governor for the World Bank and the Asian Development Bank when he was deputed to the Ministry of Finance for one year in 1977. From 1990, he served as the first Director from the Maldives at the SAARC Secretariat in Kathmandu.

H.E. Mr Saleem was one of the original nine members when the Human Rights Commission of the Maldives (HRCM) was first established by Presidential decree on 10 December 2003. In 2006, he was appointed President of the newly constituted HRCM, a fully autonomous body under Maldivian law and in full conformity with the Paris Principles. He served in that capacity until August 2010 (www.saarc-sec.org, 12.03.12). ■



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Sri Lanka: Tea rich but nutrient poor

TEA in Sri Lanka is one of the country's biggest cash crops, but families working on tea estates are among the nation's poorest in terms of earnings as well as nutrition, say experts who back regional approaches to tackle nutrition disparity.

One in every five children younger than five is malnourished nationwide and one in six newborns has a low birth weight, one cause of infant deaths, according to a recent study by the Colombo-based Institute of Policy Studies of Sri Lanka (IPS). The situation is even worse for children of tea estate workers, with one in three classified as underweight and 40 percent of babies born with too-low weight, IPS noted.

Household income plays a major role in determining nutrition levels of under-fives. Those in the poorest quintile are three times more likely to be malnourished than those in the richest quintile. In the government's most recent demographic and health survey conducted in 2006–2007, some



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17 percent of under-fives surveyed were stunted, a sign of chronic malnutrition and lack of nutrients. Nuwera Eliya District—150 km south of the economic capital of Colombo—and the adjoining Badulla District, both of which have large tea plantations, recorded the highest stunting rates nationwide that year: 44 percent and 33 percent respectively (*IRIN News*, 20.01.12). ■



Aid effectiveness debate in Busan

Saman Kelegama

The Fourth High Level Forum (HLF) on Aid Effectiveness, which took place from 29 November to 1 December 2011 in Busan, South Korea, came out with a “New Deal for Engagement in Fragile States”—a somewhat novel document of aid architecture that provides fragile states a greater role in their destiny.

Those who argue that there was a breakthrough in Busan call the New Deal revolutionary and that it will transform the relationship between donor and recipient countries. They argue that the New Deal places the fragile states for the first time at the helm of their development goals. They also argue that the New Deal articu-

lates the vision and principles of the Millennium Declaration and the Monrovia Roadmap—a 2011 document that outlines five peace-building and state-building objectives and several high-level commitments to include increasing citizens’ access to justice, managing revenues, and building transparency. Furthermore, they argue that the New Deal acknowledges the need of fragile states for special assistance in developing strong government institutions.

The Busan outcome also focuses on new development challenges and this is highlighted in the Busan text under the theme “From Effective Aid to Co-operation for Effective Development”

where there are four subsections, namely, South-South and triangular cooperation for sustainable development, private sector and development, combating corruption and illicit flows, and climate change finance.

In order to assess whether there was a breakthrough in Busan, it is essential to examine the key objectives of the Fourth HLF. They were: i) to look at experiences in implementing the Paris Declaration and the Accra Agenda for Action to highlight good practices, identify lessons that could be learned and highlight where more work was needed; ii) to assess new development challenges—evolving landscape of actors and partnerships—

to enhance aid's contribution to broad and inclusive development goals; and iii) to chart the way forward in the form of a new agenda for development and aid.

In this context, it is important to comprehend the evolution of the Paris Declaration and the Accra Agenda for Action (AAA) in the aid effectiveness debate, which is directly related to the first objective.

Aid effectiveness debate

Over the last few decades, the efficacy of foreign aid as a developmental tool has been mixed. The literature suggests several factors that influence the efficacy of aid, including the quality of domestic policies, types of conditionalities, quality of domestic institutions, and rent seeking. While some studies have found evidence of aid effectiveness under certain conditions such as good economic policies, others have found evidence to the contrary. A 2006 survey shows that on average, foreign aid is effective in spurring economic growth in recipient countries.¹ Overall, the message for policy makers is that aid is necessary, particularly in the context of achieving the Millennium Development Goals (MDGs), but that there is a need for reform in the practice of aid delivery.

Accordingly, since the MDGs were announced in 2000, there have been several multilateral initiatives

that have focused on the issue of both increasing the magnitude and quality of aid. In 2002, global leaders met in Monterrey, Mexico to discuss the modalities of enhancing finance for development. To quote from the Monterrey Consensus:

"We recognize that a substantial increase in ODA [Overseas Development Assistance] and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness."

The Monterrey meeting was followed by the First HLF in Rome in 2003 where heads of donor agencies, both multilateral and bilateral, met with representatives of donor and partner countries to discuss measures to enhance harmonization of aid, particularly by working within partner-country systems. The Rome HLF was followed up by the Second HLF in Paris in 2005, which culminated in the Paris Declaration (PD) on Aid Effectiveness. The PD was signed by 91 countries, 26 international organizations (mainly donor agencies) and 14 civil society organizations. The formulation of the PD grew out of the need to understand why aid was not

producing expected results, and to step up efforts to meet the ambitious targets set by the MDGs. The PD offers a blueprint for effective aid that maximizes impact from investments, synchronizes donor efforts and integrates the full spectrum of development challenges. Today, it is the rallying point for international consensus on aid effectiveness and many countries adhere to it.

The PD is founded on five core principles born out of decades of experience on what works for development and what does not. These principles have gained support across the development community, changing aid practices for the better. It is now the norm for aid recipients to forge their own national development strategies with their parliament and electorates (ownership); for donors to support these strategies (alignment) and work to streamline their efforts in-country (harmonization); for development policies to be directed at achieving clear goals and the progress towards these goals to be monitored (managing for development results); and for donors and recipients to be jointly responsible for achieving these goals (mutual accountability).

In 2008, to step up implementation of the PD and build countries' capacity to manage their own future, an unprecedented alliance of developing countries, Development Assistance



Saman Kelegama

Committee (DAC) donors, civil society organizations, emerging economies, the United Nations and multilateral institutions, and global funds agreed on the AAA at the Third HLF in Accra. The AAA proposes improvements in three main areas: i) ownership: developing countries participate in policy formulation, take the lead in aid coordination, and have aid delivered through their own country systems; ii) inclusive partnerships: all partners—DAC donors and developing countries, other donors, foundations and civil society—participate as full partners; and iii) delivering results: aid is squarely focused on producing real and measurable impact on people's lives.

In other words, the key principles agreed upon in Accra relate to enhancing predictability of aid, ownership (partner countries engaging more with parliaments and civil society), use of country systems in aid delivery, untying aid, country-led division of labour among donors to avoid aid fragmentation, enhanced use of PD principles, including South-South partnerships, and increased transparency in reviewing aid.

In 2010, three new agreements grounded in the PD to improve the impact of development cooperation came into operation. The Bogota Statement commits partners engaging in South-South cooperation to deepen the exchange of knowledge and mutual learning. The Dili Declaration proposes to counter conflict and fragility through country-led processes in peace-building and state-building. And the Istanbul principles were set to provide specific guidance for the development work and practice of civil society organizations.

A recent study by the Brookings Institution² shows that ownership, alignment, predictability and capacity development are key development outcomes. Countries must show strong leadership over their development programmes and be able to count on long-term support from their major partners. A well thought-out exit strategy from aid also emerges

Proliferation of aid channels and fragmentation of ODA is costly for fragile states and low-income countries.

as an important feature of successful development model.

The PD has been criticized for not being able to address development goals of human rights, social justice and equity. The Reality of Aid³ argues, "PD springs from a technocratic depoliticized vision of development, with no accountability for intended beneficiaries. The power in aid relationships is still heavily weighted on the side of donors, and the Declaration does nothing to check this imbalance. The aid effectiveness being promoted remains essentially donor-centered."

Back to Busan

Critics, while acknowledging the positive outcome of Busan with regard to objectives (ii) and (iii), argue that the Busan outcome does little to improve aid effectiveness in developing countries as discussed in the past High-Level Forums, in particular in Paris and Accra.

Building on similar surveys undertaken in 2006 and 2008, a Survey on Monitoring the PD was conducted in 2010 in which 78 countries volunteered to participate. The results of the survey are sobering: Only one out of 13 targets established in 2010—coordinated technical cooperation (a measure of the extent to which donors coordinate their efforts to support countries' capacity development objectives)—has been met, albeit by a narrow margin. Donors were using developing-country systems more than in 2005, but not to the extent agreed in Paris.

Critics have also shown that aid is becoming increasingly fragmented, despite taking some initiatives to address this challenge. Emerging

economies like China, Russia and India, and foundations like the Bill Gates Foundation have gained importance in the aid landscape. Thus, the proliferation of aid channels and fragmentation of ODA are on the rise. This is particularly costly for fragile states and low-income countries with little capacity to manage multiple actors. Therefore, there is more urgency to consolidate funding mechanisms and make better use of multilateral channels to mitigate the impact of fragmented aid systems.

Furthermore, most donors have not yet met their long-standing pledge to provide 0.7 percent of their GDP as ODA. This aspect hardly received attention in Busan, perhaps due to economic distress that donor countries themselves are going through at present. These issues are vital and should have been addressed before embarking on a New Deal in Busan.

To conclude, it is clear that the aid effectiveness debate has a long way to go and Busan has only laid some building blocks, and just like we have the three 'A's from Accra, we now have three 'B's from Busan, i.e., the Busan Building Blocks (BBB). The BBB, together with the AAA, can now gradually shape the international aid architecture that is required to make aid more effective and meaningful for developing countries in the coming years. ■

Dr Kelegama is Executive Director, Institute of Policy Studies of Sri Lanka, and Editor of the forthcoming book, Foreign Aid in South Asia: Emerging Scenario, Sage Publications.

Notes

¹ McGillivray, M., M.S. Feeny, N. Hermes and R. Lensink. 2006. "Controversies over the impact of development aid: It works; it doesn't; it can, but that depends..." *Journal of International Development* 18 (7): 1031–1050.

² Kharas, H., K. Makino and W. Jung. 2011. *Catalyzing development: A new vision for aid*. Washington, D.C.: Brookings Press.

³ Reality of Aid. 2008. *The reality of aid: An independent review of poverty reduction and development assistance*. Philippines: IBON International (www.realityofaid.com).

The Post-Durban Climate Change Agenda

Thomas L. Brewer

As in past years, there were more than 10,000 participants in Durban in December 2010 for the 17th Conference of the Parties (COP17) to the United Nations Framework Convention on Climate Change (UNFCCC). They included diplomats from nearly all countries for the official meetings; and thousands of other stakeholders, including representatives of environmental and other non-government organizations (NGOs), staff members of international agencies, business people, academics and journalists, as observers and participants in side events.

There have often been dramatic endings of climate conferences, as there was at Durban; and in the aftermath of the conferences, there is often much debate about the nature and implications of what was agreed, as there is now about COP17.

This article addresses three questions about COP17 and its aftermath: i) What happened at Durban? ii) What is the current state of play on the international climate change policymaking agenda? iii) What are the possible ways forward on international climate change issues?

COP17 at Durban

Two days after it had been scheduled to end, in the early hours of 11 December, representatives of the Government of India and the European Union (EU) met for a few minutes during an intermission in a plenary meeting. They reached agreement on two points that had been preventing a closure to the plenary with a core agreement, namely, to seek some kind of a binding agreement in the long term and keep the Kyoto Protocol alive, at least in the short term.

This agreement made it possible for the plenary meeting then to adopt



a decision “to launch a process to develop a protocol, another legal instrument or a legal outcome under the Convention applicable to all Parties, through a subsidiary body under the Convention hereby established and to be known as the Ad Hoc Working Group on the Durban Platform for Enhanced Action.” The new agreement—whatever its form may eventually be—is to be achieved by 2015, with entry into force by 2020. There was also a decision to extend the Kyoto Protocol for a second commitment period beginning 1 January 2013.

There are two seemingly diametrically opposed interpretations of the significance of establishing the Ad Hoc Working Group on the Durban Platform for Enhanced Action (the AWG-DP). One is the pessimistic—some would say cynical—view that the Durban Platform represents a non-binding agreement to agree to an unspecified something within four years, and implement it within another five years. In other words, there is not necessarily much to do anything for another *nine* years. Another view is that there was a historically significant “paradigm shift” in the negotiating process, according to which the distinction between developing and developed countries in the old paradigm has been abandoned. In particular, there is no explicit distinction between Annex I developed countries and non-Annex I developing countries.

Actually, both of these views are accurate, and it remains to be seen what tangible outcomes will be there over the next several years. There may be very little progress, or there may be a great deal, which will remain unknown until December 2015. In any case, COP17 marked a significant turning point in the international climate change negotiating process.

Within this context, there are two issues about the future of climate negotiations: one concerning common-but-differentiated responsibilities, and the other concerning the Ad hoc Working Group on Long-Term Cooperative Action (LCA), which has been one of the principal negotiating venues. As for common-but-differen-

tiated responsibilities, the concept is not mentioned in the Durban agreement. So there is no legal requirement for it to be included in the prospective agreement by 2015. However, it seems likely that it will be there in some form because many countries will insist on it. For instance, there may be binding commitments by all countries but with much variability in the nature of the commitments according to countries’ per capita incomes.

As for the LCA, there was a decision that it would continue for only one more year “in order for it to continue its work and reach the agreed outcome pursuant to [the Bali Action Plan adopted by COP13 in 2007].” What does this entail? The LCA is supposed to “identify a global goal for substantially reducing global emissions by 2050” and “a time frame for a global peaking of GHG [greenhouse gas] emissions”. These may become important inputs into the new Durban Platform negotiations, and may affect public dialogue as to what to do about climate change; but otherwise the LCA work will not lead to significant new agreements.

More ambitiously, there was a decision that the AWG-DP “shall plan its work in the first half of 2012, including, *inter alia*, on mitigation, adaptation, finance, technology development and transfer, transparency of action, and support and capacity-building.” Its mandate thus includes the entire range of issues that have been on the agenda for several years.

In sum, the new post-Durban multilateral climate negotiating process is filled with many uncertainties, together with a combination of high expectations and deep misgivings. In any case, there are certainly opportu-

nities for constructively addressing many issues in coming months and years.

Current state of play

It is not feasible to address all of the issues at play in the post-Durban environment. Therefore, I highlight four issues of special interest related to trade and climate. They concern developments in the Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), the global airline industry, and a proposal for a new international Sustainable Energy Trade Agreement. Altogether, they demonstrate how the international climate change policymaking process is expanding far outside the UNFCCC process, and how it is becoming enmeshed in energy policymaking processes.

In APEC, the Leaders’ Declaration last November includes an annex on Trade and Investment in Environmental Goods and Services (EGS), in which there is agreement on clean energy policies. In particular, APEC leaders have agreed to reduce applied tariff rates on EGS to 5 percent or less and eliminate local content requirements by the end of 2012. They have also agreed to refrain from adopting new rules, including as part of any future domestic clean energy policy.

At the WTO, countries have already started bringing in dispute cases related to climate-friendly technology policies. For example, the United States (US) filed a complaint against China’s wind industry subsidies, which was settled before going to a dispute panel. Similarly, Japan and the European Union (EU) filed complaints against local content requirements for suppliers to a new feed-in tariff system in Ontario, Canada. A US objection about alleged Chinese solar subsidies and dumping, which are being investigated by the US government’s International Trade Commission, may also end up in the WTO dispute settlement process.

In the world aviation industry, there is the on-going, high-profile conflict between the EU and the governments and airlines of several countries,

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including China, India and the US. This relates to the inclusion of aviation in its Emissions Trading Scheme (ETS) by the EU, under which airlines are required to purchase allowances to offset the GHG emissions for flights arriving at airports within the EU. This requirement applies to all flights regardless of the country of origin of the flight or the country of ownership of the airline.

There is a wide range of legal, political and economic issues at stake. Legally, such aviation issues fall within the province of the International Civil Aviation Organization (ICAO) and the Chicago Convention of 1944 that established it. They are not directly covered by the WTO, where the Civil Aviation Agreement covers only trade in manufactured commercial aircraft and where the General Agreement on Trade in Services (GATS) covers only civil aviation ground services. Otherwise, commercial aviation services are not covered by WTO agreements. At the same time, though, the looming prospect of a "trade war" that spills over to other issues leads some observers to fear that the fallout from the issue will lead to WTO disputes. No matter how the trade issues evolve, it is concerns about climate change mitigation measures, and the associated concerns about the environmental effectiveness of the measures as well as international competitiveness in the industry, that are at the core of the controversy.

Finally, among the climate-trade issues that are currently at play, there is a proposal for the establishment of a new international Sustainable Energy Trade Agreement (SETA). The WTO is one possible forum where such an agreement could be negotiated, and a WTO plurilateral agreement is one possible format for a SETA. But there could be other SETAs in other settings. Whatever the eventual venue(s) and format(s) that may evolve, the basic concept is to facilitate trade and investment in climate-friendly goods and services in order to achieve sustainable development. Among other measures, reductions in tariffs and

non-tariff barriers (NTBs) could make a significant contribution to increasing international diffusion of sustainable energy technologies.¹

In short, the "state of play" on international climate change policymaking involves numerous and diverse venues at bilateral, regional and multilateral levels, and it involves many venues that have not traditionally addressed climate change issues.

Way forward

There are many possible ways forward in many international venues. In fact, climate change issues and energy issues that are directly related to climate change are already on the agendas of many international agencies, either formally or informally. The G20, the Major Economies Forum (MEF) and certain programmes at the World Bank, the International Energy Agency (IEA) and the Organisation for Economic Co-operation and Development (OECD) are particularly important. The G20 has been actively engaged in issues concerning fossil fuel subsidies—certainly one of the most important climate-related issues in the international arena these days. The MEF provides a forum where the largest-emitting developing countries can meet with industrial countries to discuss climate change issues in a forum that is much smaller than UNFCCC meetings, and where the countries responsible for most of the world's GHG emissions can focus on those issues.

The World Bank has numerous climate-related programmes, including its Carbon Finance Unit which facilitates investments in carbon offset projects, and the Special Climate Change Fund within the Global Environment Facility to support adaptation and technology transfer in developing countries that are parties to the UNFCCC. The IEA and the OECD both have extensive research and related programmes concerning climate and related energy issues, which include international technology transfer, trade and investment.

In light of the developments at

COP17 and in the midst of the increasingly fragmented international climate change agenda and policymaking process, two features stand out.

First, the UNFCCC process embodied in the annual COPs and the subsidiary bodies has entered a new era. The entire range of issues on the agenda will now be considered in the context of a virtually open-ended agreement with distant target dates.

Second, other international institutional arrangements are increasingly important, both as negotiating forums and as operational agencies with a diverse array of ongoing programmes. Developments in regional, plurilateral, industry-specific and other arrangements are all increasingly important.

Anyone with a serious interest in international climate change issues, therefore, will find those issues even more challenging to track and to influence in the future. As an example of the complexity of the process, just within the context of the UNFCCC, the following notice for meetings in May in Bonn is suggestive:

"The 36th sessions of the Subsidiary Body for Implementation (SBI) and of the Subsidiary Body for Scientific and Technological Advice (SBSTA), the fifteenth session of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA), the seventeenth session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) and the first session of the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) will take place concurrently from 14 to 25 May." ■

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Note

¹ Background information about SETA is available in a paper of the International Centre for Trade and Sustainable Development (ICTSD), *Fostering Low Carbon Growth: The Case for a Sustainable Energy Trade Agreement*.

UNCTAD



IN SEARCH OF DEVELOPMENT-LED GLOBALIZATION

Debapriya Bhattacharya

The Cairo Conference of developing countries held in 1962 called for the creation of a platform within the framework of the United Nations (UN) to address “all vital questions related to international trade, primary commodity, trade and economic relations between developing and

developed countries”. Accordingly, the United Nations Conference on Trade and Development (UNCTAD) was established as a permanent inter-governmental body under the UN General Assembly to deal with issues related to trade and development through an integrated approach. Since

1964, UNCTAD has met in quadrennial sessions to update its mandate and set the principles and priorities of its future work programmes. Building on its earlier accomplishments, the 13th session of UNCTAD, better known as UNCTAD XIII, is going to take place in Doha during 21–26 April 2012.



The pertinent question is whether UNCTAD XIII will be able to provide action-oriented guidance in addressing the persistent and emerging developmental challenges.

The overarching theme of the upcoming conference is “Development-Centred Globalization: Towards Inclusive and Sustainable Growth and Development”.

The official part of the event will contain ministerial meetings, high-level segments, thematic roundtables and dedicated panel discussions as well as a Global Services Forum and a World Investment Summit. As is customary, a Civil Society Forum (17–25 April 2012) will precede the official meetings and a number of side-events are being organized during the conference. However, general debates at the “Committee of the Whole” along with meetings of the working groups for the finalization of the negotiating text for UNCTAD XIII, i.e., the *Doha Accord*, will define the final outcomes of the conference.

Deliberations on the leitmotif of UNCTAD XIII are being fashioned around four sub-themes: i) enhancing an enabling economic environment at all levels in support of inclusive and sustainable development; ii) strengthening all forms of cooperation and partnerships for trade and development, including North-South, South-

South and triangular cooperation; iii) addressing persistent and emerging development challenges as related to their implications for trade and development and inter-related issues in the areas of finance, technology, investment and sustainable development; and iv) promoting investment, trade, entrepreneurship and related development policies to foster sustained economic growth for sustainable and inclusive development. The objectives and scope of these four themes closely proximate three of the four sub-themes addressed during UNCTAD XII in Accra in 2008. Unlike in UNCTAD XII, which had a specific sub-theme relating to “Strengthening of UNCTAD: Enhancing its development role, impact and institutional effectiveness”, UNCTAD XIII does not have a stand-alone comprehensive sub-theme to discuss the desired role of UNCTAD in the current context. The issue has been incorporated under each of the four identified sub-themes.

In recent months, a large number of documents have been produced, providing the intellectual underpinnings of the process leading to UNCTAD XIII. The UNCTAD Secre-

tariat has produced a number of background notes on the themes under discussions. The Report of UNCTAD’s Secretary General and the President’s Draft Negotiating Text for UNCTAD XIII are the two key documents that have informed the preparatory process. Inputs from various groups of Member States articulating their positions are providing the goalposts of the discourse on the outcome documents. Such inputs have been received from G77 and China, JUSSCANNZ (a group of developed economies), the European Union, the Least-Developed Countries (LDCs), Group D (a group of former centrally planned economies) and Landlocked Developing Countries (LLDCs). Thus, the evolving composite negotiating text of the conference reflects the struggle in deriving a consensus language taking note of the varying perspectives contained in the inputs received from these country groups.

Despite the elaborate arrangements made for hosting this global platform, the pertinent question is whether UNCTAD XIII will be able to provide action-oriented guidance in addressing the persistent and emerging

developmental challenges presently confronting the world. The operational modalities of UNCTAD are based on its three inter-linked pillars: i) forum for inter-governmental deliberations and consensus building; ii) think-tank for research and analysis on key and emerging development issues; and iii) provider of demand-driven technical assistance to developing countries. It is to be seen whether UNCTAD XIII, by leveraging on its three complementary roles, can strategically focus on the current global agenda on trade- and development-related issues.

The conceptual construct of rebalancing

The backdrop of UNCTAD XIII has been provided by the recent dramatic changes in the global economic environment within which both developed and developing countries have to confront the challenges relating to maintaining macroeconomic stability and accelerating economic growth. On the one hand, the global financial meltdown has been followed by fiscal disintegration in some developed economies, coupled with their above-trend unemployment. On the other hand, enhanced risks relating to food insecurity, energy price volatility, low value addition in commodity markets, and consequences of climate change are threatening the meagre socio-economic achievements of low-income developing countries.

Sustained performance of the Southern growth poles is also creating new tensions in the global political economy. As the terminal year of the Millennium Development Goals (MDGs) draws near, the state of low and uneven achievements of the MDGs has emerged as a major concern. Faltering global economic recovery, rising inequality, pervasive social exclusion, and deficit of investible resources for gainful employment generation are often getting manifested through social upheaval and political backlash. As a result, policy makers all over the world are being compelled to revisit their traditional economic wisdom.

In this context, UNCTAD XIII seeks to propose a development design, styled as “Development-led Globalization (DLG)”, with a view to attaining “inclusive and sustainable development”. The concept of DLG has been derived by distilling the lessons of the recent (ongoing) global financial and economic crisis. Three such lessons mentioned in the Secretary General’s Report are the following: i) leaving the markets to regulate themselves is both ineffectual and costly; ii) when a large number of economies collapse so dramatically, there must have been underlying weaknesses and fragilities missed or ignored by policy makers prior to the crisis; and iii) when things do fall apart, the state remains the only institution capable of mobilizing the resources to confront large and systemic threats.

To get away from a “business as usual” trajectory, the concept of DLG has been juxtaposed with the dominant practice of “Finance-led Globalization (FLG)”. Although a structured and/or formalized definition of DLG has neither been provided in the Secretary General’s Report nor in the text under negotiation, one can very well tease out certain notable characteristics of the proposed conceptual construct from the mentioned documents.

The critical emphasis of DLG is on addressing the “imbalances” pervad-

ing the global (also regional/national) economic policies and institutions. To this end, DLG is expected to reconnect “finance with real economy”, particularly for building productive capacity.

DLG calls for deployment of “new” industrial policies for “positive structural transformation” of developing economies based on “mutually supportive linkages between investment, productivity and employment”. Economic diversification, through participation in global supply chains, including in the services sector, is also considered important in this regard.

In order to provide social protection to vulnerable population, there is a need for strengthened role of social policies for putting in practice the concept of DLG. With a view to forging positive interface between economic and social policies, institutional and political relationship will have a critical role to play.

To address the high requirement for investible resources, DLG maintains that domestic resource mobilization has to be accelerated, concessional resource flow to low-income countries has to sustain, and innovative methods ranging from public-private partnership to the use of new financial instruments to tapping private philanthropy are to be exploited.

DLG recognizes the key role of private sector-driven economic growth as it will facilitate adjustments during structural transformation. Recovery of the global economy will be redeeming in this respect as it will help all countries to float in the rising tide.

DLG entails refashioning global economic governance, particularly for reconnecting the financial market to the real economy, to discipline the pro-cyclical flow of capital which is often speculative in nature and destined for a limited set of countries. For doing so, global institutions are to demonstrate more coherent, consistent and coordinated performance. Strengthened voice of developing countries in these institutions is to contribute towards this end.

Interestingly, while proposing some bedrocks of DLG, it has been



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recognized that there is no universal blueprint for achieving inclusive and sustainable development goals. It is reckoned that institutions and policies have to be tailored to local capabilities, conditions and needs. Therefore, “development is a challenging process of self-discovery, innovation and adaptation for each nation”. All countries should thus be endowed with the policy space for undertaking this developmental quest. This policy space is to be utilized for fostering deeper internal integration, complemented by external integration. The yardstick of a successful balance of the two (internal and external integration) would be effective mobilization of domestic and international resources for fostering productive capacities, entrepreneurship and enterprise development, job creation, technological upgradation, and resilience of the economy to unforeseen shocks.

The negotiating text underscores that all countries have the primary responsibility for creating an enabling environment for the achievement of the aforementioned goals at the national level. This calls for, *inter alia*, establishing strong and fair legal and regulatory framework, sound financial management and corporate governance, and efficient participation of civil society in the affairs of the state.

In sum, DLG is required to correct market failures, promote collaboration, manage integration of the global economy and ensure that rewards are evenly shared. One may consider that many of these propositions are motherhood statements reflecting the emerging consensus in development discourse, with which it is difficult to disagree. Others may find the same propositions too heterodox, particularly those relating to the economic role of the state in managing markets and guiding investment. Regrettably, the challenges of drafting a consensus

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document in a member-driven organization with varying interests and concerns inevitably lead us to the “lowest common denominator” in terms of language, if not thoughts. Experience suggests that, in the absence of a consensus regarding certain parts of the text (which in effect is an expression of difference in thoughts), negotiators often fall back on “earlier agreed” language. One wonders, given the

pursuing common goals with differentiated responsibilities. As may be expected, the need for strengthening all forms of “open and inclusive” cooperation for trade and development—including North-South, South-South and triangular—have been reiterated during the run-up to UNCTAD XIII. Some of the often-mentioned issues in this regard are discussed below.

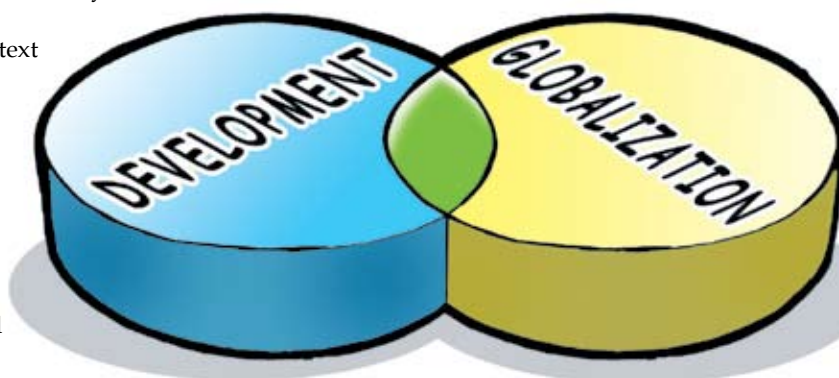
Renewed partnership in the area of trade, development and other related issues has to be directed in creating an effective global regulatory regime in support of DLG so as to strengthen and harmonize collective rules and actions, particularly in the area of finance.

The reinvigorated partnership has to address the vulnerabilities of developing countries emanating from the changes in policy and economic conditions in developed countries.

Given the continuing stalemate of the Doha Development Round of the World Trade Organization (WTO), UNCTAD has to strengthen its oversight role concerning the international trading regime, particularly with respect to the proliferation of non-tariff measures. The issue of

ensuring consistency and compatibility of regional trade agreements with relevant provisions of the WTO agreements has also attracted attention in the preparatory process of UNCTAD XIII. Other trade-related challenges that are expected to be under the purview of international cooperation include insufficient trade facilitation, high transport and commercial transaction costs, slow pace of technology diffusion and discriminatory impediments to WTO accession (for the LDCs).

There is also a need for international sharing of best practices in the area of operationalization of inclusive and sustainable development policies. The call for disbursement of of-



persistence of an unfinished agenda and prominence of new realities in the global economy, to what extent the drafters of the UNCTAD XIII outcome will find the old texts still usable. For example, how will the UNCTAD’s *Doha Accord*, among a plethora of global documents on different aspects of the current development challenges, distinguish itself in terms of inspiring vision and delivering a serviceable work programme?

Revamped international partnership

The outcome documents of all UNCTAD conferences have essentially been partnership documents expressing resolve of the Member States for

ficial development assistance (ODA) in accordance with UN targets, and taking active part in the Aid for Trade initiative, particularly in the Enhanced Integrated Framework (EIF), resonate on a number of occasions in the documents related to UNCTAD XIII.

Notwithstanding the broad agreement among the Member States on the aforementioned issues, the draft composite negotiating text does expose the varying perceptions regarding the relative role of emerging economies in giving effect to renewed cooperation and partnership. Given the growing economic prowess of emerging economies, South-South integration and cooperation have emerged as an additional development resource for low-income countries. The “emerged” South does appreciate its new role as an international development partner, but contends that it has not yet reached anywhere near the average levels of income in the North. Hence, for the time being, North-South cooperation has to remain the main form of international development cooperation. A number of stronger Southern countries have already provided duty-free and quota-free market access to the products of the LDCs, but they are not yet ready to be considered as a source of ODA for the latter. It is, therefore, to be seen how UNCTAD XIII redefines the scope and responsibilities of South-South economic cooperation and solidarity in practice.

Nevertheless, there is definitely an overwhelming consensus that the major beneficiary of the rebooted international cooperation has to be the most marginalized, disadvantaged and vulnerable countries in the world. The draft outcome document of UNCTAD XIII, on a number of occasions, singles out the LDCs, small island developing states, LLDCs, the countries in systemic transition and the countries in conflict (or in a post-conflict phase) as the major recipients of UNCTAD’s interventions.

Existential challenge to UNCTAD

Besides introducing a novel conceptual construct on globalization and

adopting a demand-driven outcome document of UNCTAD XIII, what will possibly matter the most in the coming days is UNCTAD’s capability to service its mandate: How will UNCTAD retain and reaffirm its unique identity and role by delivering on its new work programme? Since the creation of UNCTAD, over the decades, institutional features of the development landscape have undergone an immense metamorphosis. A number of competent and visible development-related agencies have emerged, often with work areas overlapping with that of UNCTAD (e.g., the WTO and Common Fund for Commodities). Indeed, a number of UN agencies, such as the United Nations Department of Economic and Social Affairs, the United Nations Development Programme and the UN Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, are also pursuing similar trade- and development-related issues. This is not to say that certain intellectual products of UNCTAD do not stand out on their own in terms of both rigour and relevance (e.g., works on investment and competition policies). The fundamental challenge for UNCTAD in this regard will be to protect and promote its niche space by avoiding duplication and building strategic alliances. Over and above, there is the demand on UNCTAD to be part of “UN Delivering as One”.

Admittedly, there are divergent views on the relative importance of the “three pillars” of UNCTAD’s function. Agreeing on the utility of UNCTAD as a forum for inter-governmental

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deliberations, some Member States attach more importance to UNCTAD’s role as a generator of fresh, innovative and alternative ideas for successfully addressing the trade- and development-related challenges of developing countries in a not-so-conducive global economic environment. Conversely, another set of Member States, also appreciating the value of UNCTAD’s inter-governmental process of consensus building, wants to promote the role of the organization more as an agent for delivering technical assistance of high practical value. Both these approaches have serious implications for UNCTAD’s financial and human resource requirements.

Thus, the relevant consideration in this respect would be the capacity of the top echelon of UNCTAD to provide a robust, inclusive and inspiring leadership. Regrettably, the public disclosure of the not-so-flattering findings of a recent management review conducted by an agency of the UN has foreshadowed these concerns.

Still, UNCTAD remains a resourceful institution with great heritage and continuing relevance. It has made key contributions in achieving concrete goals identified by the international development community. UNCTAD is a home to a large number of talented and dedicated development experts. The developing world looks upon it as a natural ally. The developed economies find it as a useful platform for generation of practical ideas to promote the integration of developing countries into the global economy. The civil society largely empathizes with the works of UNCTAD.

Thus, one is inclined to believe that UNCTAD XIII will provide the much-needed impetus to the organization, capitalizing on its comparative advantages, to come out of the “business as usual” mode, which it strongly recommends for the rest of the world. ■

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Biofuels and Food Security in South Asia

Kaushik Ranjan Bandyopadhyay and Kasturi Das

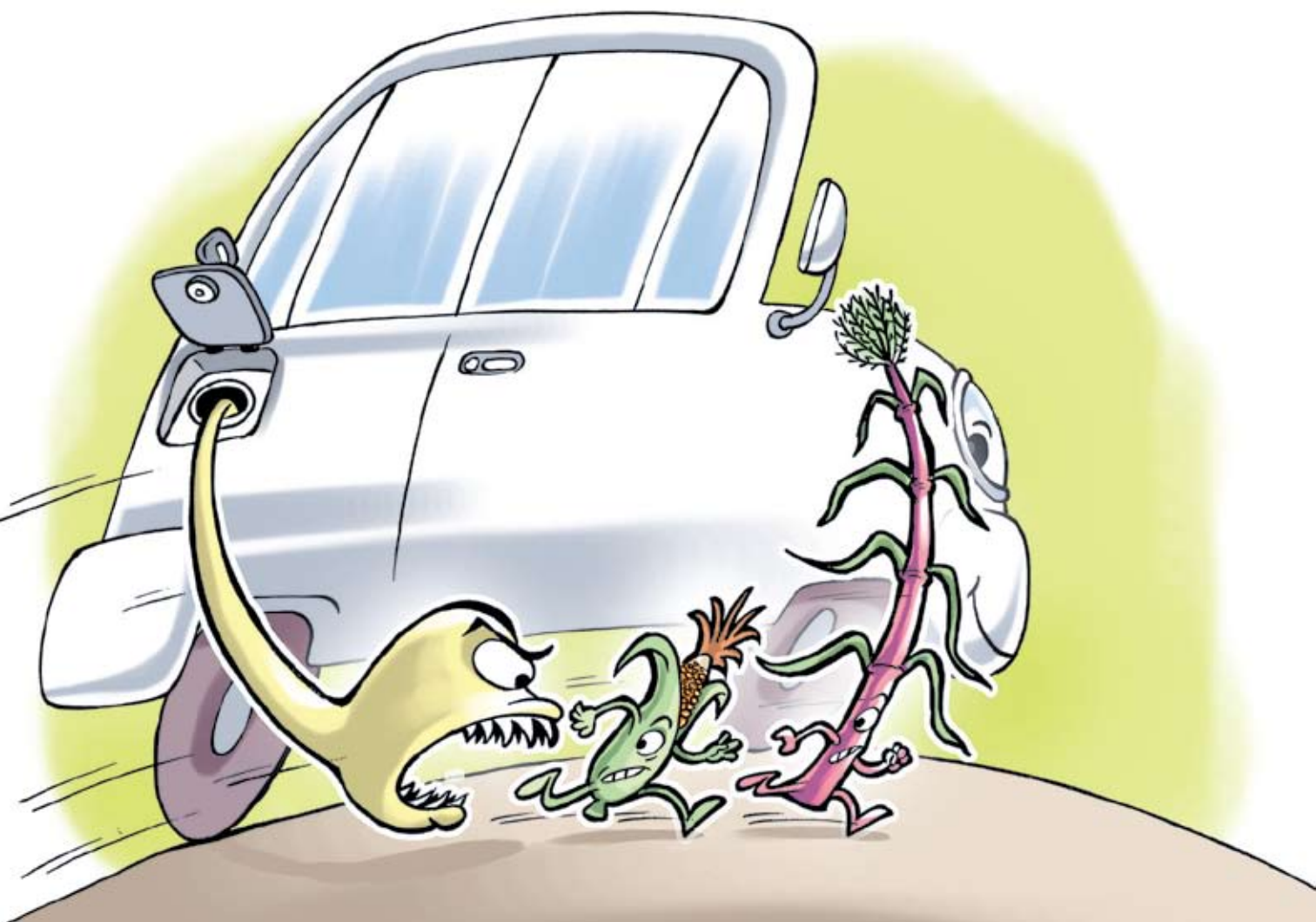
Production and use of biofuels is not a new phenomenon. Initial efforts to produce biofuels date back to the early days of the automobile. However, they were quickly replaced as the fuel of choice by cheap petrol, which continued relatively unchallenged until the oil crisis of the 1970s, inducing some countries (for example, the United States and Brazil) to explore alternatives to fossil fuels

predominantly for energy security-related concerns. However, once the oil crisis ended during the late 1970s to the early 1980s, interest in biofuels gradually eroded.

The past few years are witness to a rapid increase in the demand for biofuels in different parts of the world. Apart from energy security concerns, another driving force behind the renewed interest in biofuels is their

purported potential to reduce greenhouse gas (GHG) emissions.

For the past several years, the International Energy Agency (IEA) has consistently underscored in its flagship publication *World Energy Outlook* that the transport sector, driven primarily by the rapid pace of urbanization, would have an increasing share in future energy consumption and the concomitant flows of GHG emissions,



especially carbon dioxide (CO₂). As of 2007, nearly 23 percent of the world's energy-related CO₂ emissions arose from the transport sector. Furthermore, the growth of transport-related CO₂ emissions has been the highest over the past three decades.

The lion's share of transport's energy comes from petroleum—a scarce exhaustible natural resource concentrated in the hands of a few producer countries primarily in the Middle East. As the proven oil reserves even in these oil-producing countries are gradually getting depleted and the spare capacities of the oil producers are getting eroded, the extraction of crude oil is becoming more and more difficult and expensive

The South Asian context

South Asia is particularly vulnerable to oil shocks as it has not only a very limited reserve of indigenous crude oil, but the existing reserves are also dwindling. Recognizing the dire importance of alternate sources of energy for reducing transport's dependence on petroleum products (gasoline and diesel), several South Asian countries have been mulling blending of liquid petroleum fuels with biofuels—gasoline with ethanol and petro-diesel with biodiesel. The interest in biofuels is also driven by the potential co-benefits in the form of increasing employment opportunities, rural development, reducing indoor pollution associated with firewood or biomass use, thereby improving health conditions in rural areas, and so on.

Depending on the feedstock and technology, biofuels can be classified into two types—first and second generation biofuels. First generation or conventional biofuels are usually derived from sugar, starch and vegetable oil. Second generation biofuels are derived from sustainable feedstock, such as cellulosic materials (e.g., grass, trees and crop residues), municipal solid wastes, algae, etc. Today, many second generation biofuels are under development.

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tion and consumption, but initiatives are underway in several other countries like Bangladesh and Nepal as well. All these initiatives are confined to usage of first generation biofuels, namely ethanol and biodiesel.

India

In India, the central government formed a committee on development of biofuels in 2002. The final report of the committee, released in 2003, recommended that India move progressively towards the use of biofuels. Subsequently, the National Biofuel Policy (NBP), approved by the union cabinet in 2009, set an indicative target level of biofuel blending of 20 percent to be achieved by 2017.¹

The blending level is supposed to be reviewed periodically depending on the availability of feedstock. At present, the government allows only 5 percent blending of ethanol with petrol. The NBP, among other things, envisages a minimum support price for non-edible oilseeds for biodiesel production, and allows production of ethanol directly from sugarcane juice apart from the present practice of production from sugarcane molasses. Under the policy, states will be asked to set up or designate an agency for development and promotion of biofuels in their respective jurisdictions to decide on land use for plantation of non-edible oilseed plants and allot government wasteland for raising such plantations. Although the multi-pronged policy prescriptions for development and promotion of biofuels appear positive, the achievement of the targeted blending of 20 percent by 2017 seems a remote possibility given the existing infrastructure and institutional set up.

First, the ethanol industry is facing

acute shortage of sugarcane molasses. This is coupled with restrictive government policies and unsustainable prices. Second, the management and operation of ethanol has become more complex due to the involvement of multiple government agencies. As for biodiesel, the foremost problem is the availability of adequate barren and waste land for the planting of feedstock like jatropha. The Planning Commission estimated in 2003 that in order to reach a blending target of 20 percent, the land requirement for jatropha cultivation would be around 14 million hectares. While as per the Planning Commission estimates, adequate waste and barren land exist in India to meet the aforesaid target, in actuality much of this land may be otherwise occupied, making it rather difficult to reallocate it for jatropha cultivation. Moreover, companies involved in the biodiesel business may not be interested in producing biodiesel feedstock in barren or waste land, if the productivity is not high enough to make the venture profitable.

Pakistan

In Pakistan, the biodiesel industry is still in its infancy.² The Government of Pakistan's Alternate Energy Development Board (AEDB) outlined the National Biodiesel Programme aimed at reducing the country's fuel import bill and decided to assist and facilitate the stakeholders involved for this purpose. The AEDB successfully engaged the Pakistan State Oil (PSO) in the process. The PSO has established a jatropha nursery and a model farm and has also processed and tested different biodiesel blends on its fleet vehicles and generators.³

Pakistan's first ever commercial biodiesel production facility has been set up in Karachi. Experimental cultivation of biodiesel feedstock on a scientific basis has also been started. The cultivation rose from around two acres in 2005 to more than 700 acres in 2010. This surge in jatropha cultivation is mainly based on aggressive campaign undertaken by AEDB. A number of institutions also imported

jatropha seeds for germination from a variety of sources and countries. They have been developing such nurseries at various sites in Sindh, Punjab and Balochistan.⁴

Nepal

The Government of Nepal has been implementing the National Biofuel Programme since 2008–2009 by focusing particularly on promotion of jatropha for the production of biodiesel. A number of plantation practices and engine test runs have been successfully conducted in Nepal. As biofuel has a huge potential for addressing the rural energy requirements in Nepal, jatropha is being introduced rapidly in various rural programmes as well.

Bangladesh

Bangladesh is another South Asian country heavily dependent on petroleum import. It has been estimated that by cultivating karanja plant in its estimated 0.32 million hectares of unused land, Bangladesh can reduce its fossil fuel import by 28 percent.⁶ Nonetheless, biofuels production is yet to take off in Bangladesh as there are debates regarding appropriate policies and technologies.⁷

Although promotion of first generation biofuels in South Asia may possibly reduce dependence on imported oil and has potential co-benefits in the form of employment generation and overall rural development, as well as improvement in the quality of environment, such initiatives are also fraught with risks. For instance, ethanol has its own share of problems for using food crops and feed as feedstock, which inherently leads to shortage of food grains and feed for livestock, eventually leading to food-feed-fuel struggle. This has been clearly observed in the case of the US, which produces ethanol from maize or corn. The trade-offs, however, tend to be country-specific. For instance, if a country has a large segment of its population living in extreme poverty, food security may be the top priority. However, if that country is also grossly energy insecure, then the trade-off

becomes even more complex, as is the case with South Asian countries.

Even though these countries are promoting production of biodiesel from non-edible oil-seeds like jatropha, jojoba, karanja, etc., primarily in waste and barren land, questions still remain as to whether the region has adequate waste and barren land to grow more oil seeds in order to reduce import dependence substantially. Furthermore, one cannot entirely rule out the possibility of diversion of land currently used for food cultivation by farmers towards production of oil-crops. The extent of diversion would be contingent upon the relative profitability of oil-crops *vis-à-vis* food crops and the steps undertaken by the governments to address these concerns. Furthermore, the purported claims on carbon neutrality, net energy gain and less water consumption pertaining to biofuels have been challenged by a number of life-cycle analyses based on scientific research and studies. This also raises a plethora of doubts on the veracity of claims regarding the environmental benignity of biofuels. In fact, the environmental implications of biofuels are largely contingent upon the type of feedstock, production system, location, and land cultivation practices.

Conclusion

The challenges posed by biofuels in South Asia have exacerbated since 2006 with the increasing volatility and frequent spikes in international prices of agriculture commodities. This could largely be attributed to mandate-setting by developed countries, especially the US for corn-based ethanol production, and the European Union for vegetable oil-based biodiesel production, in order to combat oil price volatility. This eventually led to a rising demand for this feedstock and created an upward pressure on prices of food crops and agriculture commodities. This unhealthy intertwining of the markets for oil and agriculture commodities, coupled with extreme weather events and increasing speculative tendencies in the agriculture commodity markets,

have only made the situation worse.^{8,9} The International Food Policy Research Institute came out with a new Global Hunger Index (GHI) in 2011,¹⁰ which shows a dismal performance of South Asian countries. The proportion of undernourished in the region has gone up since 1995–1997. In light of this unstable scenario, which can hardly be expected to show any sign of respite in the near future, aggressive promotion of first generation biofuels may not be a prudent decision unless adequate policy cushions are put in place against the potential trade-offs. ■

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Notes

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“Green Growth” debate from the lens of South Asian LDCs

Without financial support and technology transfer, South Asian LDCs will not be able to mainstream themselves into the green growth trajectory.

Puspa Sharma

The Rio Declaration on Environment and Development, which was an outcome of the United Nations Conference on Environment and Development (UNCED) that took place in 1992, was reflective of the realization that the paths that countries in the world were taking in pursuit of development were not sustainable. As the Figure (next page) illustrates,

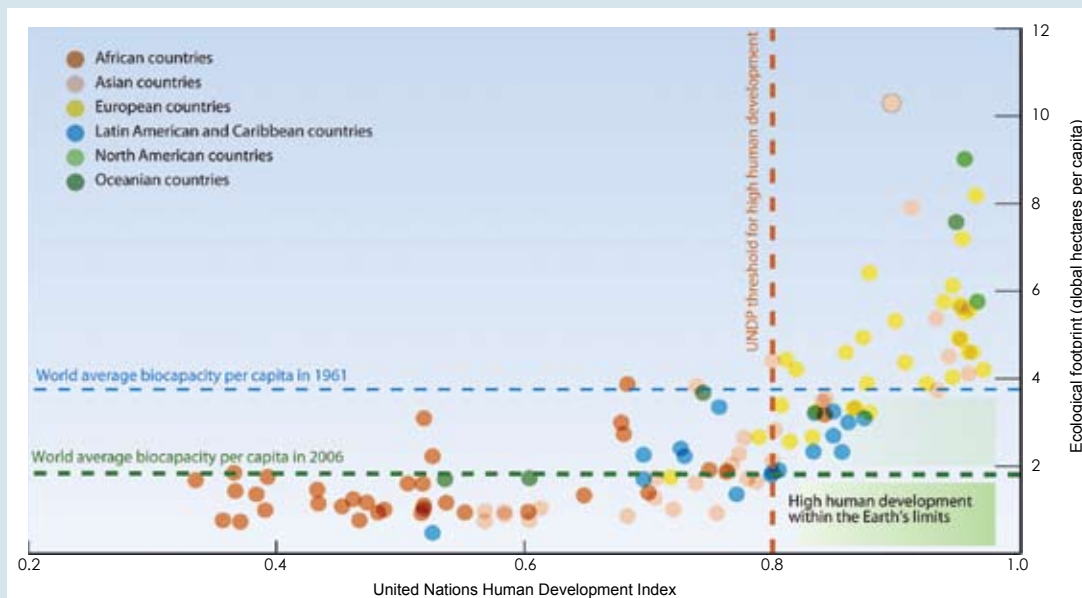
most countries have developed at the cost of large ecological footprints. Therefore, the 1990s saw a sort of convergence among most countries in the world that it was necessary to revisit the model of development they had pursued until then. Consequently, the term “sustainable development” gained traction. The Rio Declaration clearly stated that “sustainable devel-

opment” is based on three pillars—economic, social and environmental sustainability. Any development that takes place disregarding this fact would mean compromising the rights of future generation to development. Of these three pillars of sustainable development, the environmental sustainability pillar has received more attention in recent years, mainly due



Figure

Human Development Index and ecological footprint



Source: UNEP. 2011. *Towards a green economy: Pathways to sustainable development and poverty eradication*. Geneva: United Nations Environment Programme.

to increasing focus on the issue of climate change. For example, the terms “green economy” and “green growth” have received centre-stage attention in many academic and policy discourses in the past few years.

The United Nations Environment Programme (UNEP) has defined green economy as one “that results in improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities”.¹ Likewise, green growth is “about making growth processes resource-efficient, cleaner and more resilient without necessarily slowing them”.² Often, these two terms are found to be used interchangeably, with some preferring to use the former and others the latter. Green economy or green growth is considered to be an essential component of sustainable development.

The threat of climate change today is the result of, as the Figure also illustrates, extensive use of natural capital and massive greenhouse gas (GHG) emissions by developed countries in their pursuit of development in the past. Emerging developing countries

are also following the same model. For example, China and India are respectively the first and third largest emitters of carbon dioxide in the world. Hence, the major debate today on green growth is centred on whether developing countries have the right to development in the same way as developed countries did in the context that the latter have already exhausted the former’s share in resources use and emissions. Or, does there exist an alternative path other than that adopted by developed countries in the past—that is, can countries follow the green growth strategy and still strive to attain, at the minimum, the status of today’s developed countries? This article briefly discusses some of these issues from the perspective of South Asian least-developed countries (LDCs).

South Asian LDCs' contribution to climate change

The share of different economic sectors in a country’s gross domestic product (GDP) is different in LDCs compared to developed countries (Table 1 compares the same for South Asian LDCs

and select developed countries). Unlike in developed countries, the share of agriculture in GDP in South Asian LDCs is still high. Although service is the dominant sector in all South Asian LDCs except Bhutan, its contribution to GDP is not as huge as that in developed countries. Regarding the contribution of industry and manufacturing to GDP, there is not much difference. However, since the size of GDP in developed countries is much larger than in LDCs, even a medium share of industry and manufacturing in GDP in developed countries entails much greater activities in these sectors in these countries.

Emissions of various GHGs in these countries are in line with the contribution of different sectors to the economy. For example, as per the latest available data, in 2005, South Asian LDCs’ share of agricultural methane emissions in their total methane emissions was in the range of 63.5 percent to 83 percent, except for Bhutan and the Maldives for which data are not available, whereas in the case of developed countries, such share was in the range of 35 percent to 55

percent, Japan being an exception with a share of 71 percent.³ On the other hand, carbon-dioxide (CO₂) emissions, which occur mainly due to fossil fuel combustion and mineral and metal production, are incomparably higher in developed countries than in South Asian LDCs (Table 2), and according to the Intergovernmental Panel on Climate Change (IPCC), CO₂ represented 77 percent of total anthropogenic GHG emissions in 2004.

LDCs cannot always remain predominantly dependent on agriculture and other primary activities and achieve the level of growth necessary to alleviate poverty. They need to move up to secondary sectors such as manufacturing and industries as is evident from the success stories of China and India also. If South Asian LDCs adopt the strategies of developed countries in the past and emerging developing countries at present to achieve higher growth, their share of contribution to climate change through emissions of different GHGs is sure to increase. Therefore, it is appropriate and timely that the concept of green growth or green economy has been brought to the fore. However, this should not be taken forward as a “one size fits all” approach. It is necessary that special attention is given to the needs of LDCs and that their concerns are taken on board.

Adaptation first, then mitigation

Lately, rising temperatures, erratic rainfalls, droughts, floods, glacial retreat, etc. have been frequent occurrences in many South Asian countries. These have had, and are going to have, severe implications mainly on these countries’ agriculture sector. According to the Fourth Assessment Report of the IPCC, crop yields in South Asia could decrease up to 30 percent by the mid-21st century due to climate change. Therefore, for South Asian countries, adapting to climate change is the major concern and the first priority. Within South Asia, LDCs are even more vulnerable to the impacts of climate change than developing countries, but due to their almost

insignificant contribution to climate change, mitigation is not yet their priority. Nevertheless, South Asian LDCs have taken some initiatives towards climate change mitigation. Bangladesh’s “Grameen Shakti Renewable Energy Scheme” and Nepal’s “Community Forestry” are two such examples.⁴

South Asian LDCs are aware of the need to undertake climate change mitigation measures and the importance of moving towards a green economy. Where possible and feasible, they have taken initiatives to undertake such measures too. However, due to many competing priorities against resource constraints, they have not been able to adopt green economy policies encompassing all sectors of their economies. Hence, their current focus, rightly, is on climate change adaptation, but they have not adequately received the much-needed international support even on this front.

Bowen and Fankhauser (2011) argue that LDCs should follow low-carbon development paths appropriate to their development needs for three main reasons: i) tackling many of the market and government failures that stand in the way of low-carbon development would enhance productivity and wellbeing in LDCs themselves; ii) it is very likely that in the near future, progress will be re-directed towards

low-carbon technology globally, and if LDCs do not follow a green growth path, they will not be able to share in the growth from this source; and iii) relatively cheap options for reducing emissions, particularly from agriculture, land use and deforestation is offered by LDCs.⁵ Similarly, UNEP (2011) argues that “LDCs possess the economic conditions, the natural and cultural assets, and the policy setting to embrace, if not lead, a green economy transition, which would in turn accelerate their development”.⁶ While there is no denying these assertions, it is important to bear in mind that non-availability of targeted financial support and relevant technology is a major concern of LDCs, including those in South Asia. In the absence of such support for climate adaption in the first place, there cannot be a compelling case for LDCs to take climate mitigation measures.

Other concerns

LDCs are concerned that increasing focus on green economy or green growth would lead to trade protectionism in the name of low-carbon development by rich countries, evidences of which are already visible. For example, implementation of the “food miles” concept has impacted exports of fresh vegetables and horticulture products from African countries to

Table 1

Value addition to GDP (%) in 2010

	Agriculture	Industry	Manufacturing	Services
South Asia				
Afghanistan	29.92	22.17	13.12	47.92
Bangladesh	18.59	28.46	17.89	52.96
Bhutan*	18.75	43.17	8.43	38.08
Nepal	36.08	15.43	6.64	48.49
Few OECD countries				
USA	1.15	20.40	13.37	78.45
UK	0.73	21.80	11.50	77.47
Japan*	1.42	26.68	18.06	71.91
Australia**	2.55	29.09	10.47	68.36

* Data for 2009; ** Data for 2008

Source: World Bank, World Development Indicators.

European countries, mainly the United Kingdom. There are also concerns that developed countries would resort to putting in place border tax measures and other barriers, which would erode market access opportunities of LDCs. The use of such measures is already visible as environment-related product and process standards, regulatory regimes and restrictions are steadily ratcheting up in industrial economies, and private buyers in these countries are also developing a parallel set of related standards and codes.⁷ Also, it is highly likely that developed countries would resort to providing excessive subsidies to their firms, industries or sectors to promote green growth, which could put developing countries, and particularly LDCs, at a clear disadvantage.

Another concern of LDCs is that enhanced focus on green growth and endorsement of its wider promotion could provide rich countries the leeway to impose additional conditionalities in the provision of aid. This could further jeopardize the already precarious situation of LDCs. Moreover, to undertake green growth policies, LDCs require aid in addition to what they have been receiving already, but they are concerned that even if rich countries would provide aid to support green growth in LDCs, they would do so by diverting the aid that they are currently providing as official development assistance.

Technology transfer is another important pre-requisite for LDCs to undertake green growth policies. However, given the poor track record of developed countries in facilitating technology transfer to LDCs despite their commitment as per Article 66.2 of the Agreement on Trade-related Aspects of Intellectual Property Rights of the World Trade Organization (see related article on next page), LDCs are highly skeptical that they would receive the necessary technology to adopt green growth policies.

Conclusion

In the context that climate change is already happening and its impacts felt

Table 2
CO₂ emissions (2005)

	In kiloton (kt)	In metric ton per capita
South Asia		
Afghanistan	700	0.02
Bangladesh	37,653	0.27
Bhutan	682	1.03
Nepal	3,234	0.12
Few OECD countries		
USA	367,393	18.01
UK	1,238,188	9.69
Japan	542,474	9.01
Australia	5,595,358	18.92

Source: World Bank, World Development Indicators.

by all countries, although in varying degrees, promoting green growth or green economy policy is necessary. However, because not all countries in the world are on the same level of development, one should not expect the adoption of the policy in the same way by all countries. Also, since developed countries are the ones mainly responsible for bringing the world to this state, in a way by also using up the share of today's developing and least-developed countries in GHG emissions, the major responsibility of adopting green growth policy lies with them. But developing countries and LDCs too should strive to go green gradually. This, however, is not possible unless they, particularly LDCs, receive external support in the form of financial resources and technology transfer. Also, resorting to trade protectionism and putting forward additional conditionalities in the provision of aid to LDCs could be counterproductive in getting LDCs adopt green growth policies. Providing support to LDCs and enabling them to gradually adopt green growth policies is not a favour that developed countries would do to LDCs; rather it is the right of LDCs to development which they are claiming in return for the mess that developed countries have created. Hence, LDCs' concerns in general, and South Asian LDCs'

concerns in particular, should be one of the focus areas of any debate on green growth. ■

Notes

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Monitoring mechanism needed to ensure technology transfer to LDCs

Suerie Moon

A central premise of the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was that it would enhance technology flows to developing countries. Special consideration was given to the least-developed countries (LDCs) in the TRIPS Preamble and Article 66.2, which requires developed country WTO members to provide incentives to induce technology transfer to LDC members. The question of whether TRIPS can be implemented in a manner conducive to technology transfer is becoming more urgent, as the end of the (extendable) transition period for LDCs to implement the Agreement is rapidly approaching in 2013 (2016 for pharmaceutical patents).

This article presents findings from an analysis of reports submitted by developed countries regarding their implementation of Article 66.2, and

has found that the existing reporting system is insufficient to monitor Article 66.2 implementation in a meaningful way. It then outlines the main elements of a proposed monitoring mechanism to improve the functioning of Article 66.2 to induce more relevant, timely and sufficient transfer of technology to the LDCs.

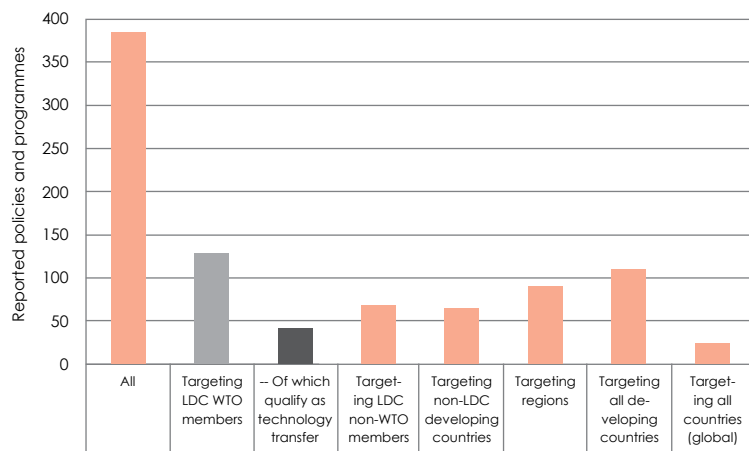
Country submissions to the TRIPS Council (1999–2010)

TRIPS Article 66.2 establishes a binding legal obligation on “developed country” members of the WTO, as it states, “Developed country members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base.” Developed country member governments are

not obligated to carry out technology transfer themselves, but rather are to provide incentives to their “enterprises and institutions” to encourage technology flows to LDC members. WTO members began to submit regular reports on their activities after the 2001 Ministerial Conference in Doha mandated that the TRIPS Council put in place a monitoring mechanism for Article 66.2. Developed members must submit full reports on activities undertaken to meet these obligations every three years, beginning in late 2003, with annual updates to be provided in subsequent years.

An analysis of all developed-country reports submitted during 1999–2010 (79 reports totalling about 1,200 pages) sought to discern the extent to which the Article 66.2 obligation led developed countries to provide additional incentives over business-as-usual for encouraging technology transfer

Figure
Number of reported activities qualifying as incentives for technology transfer



financing the purchase of technologies; incentives for foreign direct investment in technologically-oriented fields; providing insurance against the risk of doing business in LDCs for technology-related firms; training and other general activities intended to improve an LDC's capacity to absorb technology. Had this analysis adopted a narrower definition, the proportion of reported activities deemed to fulfil the Article 66.2 obligations would have been even lower.

Despite adopting a broad definition, many of the programmes or policies reported by developed countries were either not technical in nature or did not include a technology transfer component, for example, "good governance" programmes, trade agreements, support for building a conducive business environment, general budgetary support for the EU or multilateral institutions (World Bank, United Nations agencies), and activities that did not specify any technological component nor arrangements for transfer.

Of the 384 programmes listed by the reporting countries, only 11 percent met the criteria of targeting an LDC WTO member with a programme or policy that encourages technology transfer (Figure). In general, there was almost no evidence of additionality—that is, new incentives had been put in place as a result of Article 66.2. Assessing additionality is important for two key reasons. First, inducing technology transfer from the most industrialized countries to the LDCs may be particularly challenging, given the wide gaps in levels of economic development between them; additional incentives especially targeted to the LDCs are likely to be necessary to induce a sufficient level of transfer. Second, technology transfer is part of the bargain inherent in TRIPS.

The implementation of intellectual property protection and enforcement systems in LDCs requires significant human, financial and political resources, and may narrow down paths to technology acquisition and industrialization followed by many of today's

to LDC members. It did not analyse the volume or nature of the technology that has actually been transferred, but rather, examined the actions taken by developed countries to encourage such a transfer.

Which countries report?

Reporting by developed countries is irregular and many countries do not submit reports at all. A total of 21 countries and the European Union (EU) have ever submitted a report, with an average of 13.5 countries reporting each year between 1999–2010. The WTO does not formally classify countries as "developed." If we consider members of the Organisation for Economic Co-operation and Development (OECD) as "developed" countries, then 70 percent of required members have ever submitted a report, and on average 45 percent report each year.

In contrast, if we consider all High-Income Countries (HIC) as "developed" (per capita income of more than US\$12,196 in 2009), then less than one third of 69 countries have ever participated. The mere act of submitting a report provides some (albeit limited) indication of a government's commitment to meeting its Article 66.2 obligation.

To what extent do policies target LDC WTO members?

Many of the policies and programmes reported either barely targeted or did not at all target LDCs. Overall, out of 384 unique programmes reviewed, 33 percent were targeted specifically towards LDC WTO members; 18 percent were targeted towards LDC non-members, and the remainder were targeted either to non-LDC developing countries (17 percent), to regions (in which LDCs may or may not be present) (24 percent), to developing countries as a whole (29 percent) or globally (all foreign countries) (7 percent) (Figure).¹ While it is possible that LDCs benefited from technology transfer as a result of broader policies covering all developing countries, a key aspect of Article 66.2 was to single out LDCs for targeted action. Presumably, one reason for this preferential status was that LDCs would be less likely to receive technology transfer through regular market channels if they competed directly with middle-income countries.

Is technology transfer to LDC members encouraged?

The analysis adopted a relatively broad definition of technology transfer, and included incentives such as

developed countries. If technology transfer is intended to counterbalance the costs to LDCs of TRIPS implementation, it ought to be additional. If Article 66.2 does not produce any additional technology transfer, the rationale for the LDCs to invest considerable resources in implementing other parts of TRIPS is weak.

Building a monitoring mechanism

A more robust monitoring mechanism for Article 66.2 is needed. Such a mechanism should both improve actual technology flows to LDCs, and strengthen capacity to assess how well Article 66.2 is functioning overall. The 2001 Doha Ministerial Declaration mandated the creation of a monitoring mechanism—a request reiterated by several LDC members—but to date none has been established.

We propose the establishment of a Monitoring Mechanism Group (MMG) comprised of about 7–10 persons, which could improve the operation in practice of Article 66.2. The MMG could include individuals from WTO delegations (6–8 persons from LDC, developing-country and developed-country members), with a few seats reserved for independent experts (e.g., 2–4 persons). The MMG would have two primary functions: informational and evaluative.

The informational function would track the provision of incentives over time. As an essential first step, a uniform, digitized, searchable reporting format should be agreed upon that would make monitoring efforts both more feasible and meaningful. Next, it will be necessary to agree on which countries are considered “developed” and therefore obligated by Article 66.2 to provide incentives. Finally, it will be critical to clarify what types of incentives actually meet Article 66.2 obligations, by developing a positive and negative list of qualifying incentives.

The evaluative function would be carried out by assessing how well the incentives achieved improved technology flows. LDCs should clearly

identify priority areas in which they need improved access to technology. LDCs could submit periodic reports to the TRIPS Council specifying their priorities and gap assessments with respect to technology transfer, along with independent assessments of how well existing incentives are functioning. These assessments could be used by the MMG to carry out a global evaluation of Article 66.2, and to generate improved practices over time.

Finally, information and case studies are needed regarding best practices of countries that have successfully implemented incentives for technology transfer to LDC Members. This type of research could inform the development of the positive/negative lists suggested above.

Compliance

While the MMG should improve the quality and user-friendliness of the information provided by reporting countries, and evaluate the effectiveness of provided incentives, it could not assess developed country compliance with Article 66.2, a function reserved for the WTO Dispute Settlement Body (DSB). It may become necessary to assess compliance formally if, even after the establishment of the MMG, it becomes clear that developed countries are not putting in place effective incentives.

Further legal research is needed regarding available remedies for inadequate compliance with Article 66.2. One possibility is that the DSB could authorize an LDC to suspend obligations/concessions within TRIPS or in another WTO Agreement in retaliation for non-compliance. On two occasions, the DSB has authorized a developing country to suspend some TRIPS obligations in retaliation for non-compliance by a developed-country member with other WTO obligations.² However, no LDC has ever brought a TRIPS-related complaint to the DSB.

Conclusion

There is little evidence that TRIPS Article 66.2 has resulted in significant additional incentives beyond business-

as-usual for transferring technology to LDC members. The existing reporting system does not function as an effective monitoring mechanism. In order to operationalize Article 66.2 more effectively, the TRIPS Council should establish an effective monitoring system as described here.

Knowledge and technology are playing an increasingly important role in addressing global development challenges, yet gaps in technological capacity and access between rich and poor countries remain vast. Developing countries and LDCs have pressed for enhanced technology transfer in a variety of forums, such as the WTO, World Intellectual Property Organization (in the context of the Development Agenda) and in multilateral environmental agreements such as the United Nations Framework Convention on Climate Change. At the same time, promises and commitments by developed countries in this area have played a critical role in helping to reach international agreement on difficult issues such as climate change. The credibility of such promises and commitments is essential. Building an effective global system for genuine, meaningful technology transfer is therefore in the interests of all countries, and the case of TRIPS Article 66.2 is a compelling place to begin. ■

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Notes

¹ Percentages do not add up to 100, since some policies targeted more than one category, e.g., a specific LDC as well as specific non-LDCs.

² See Dispute DS 27 involving Ecuador/European Union and Dispute DS267 involving Brazil/US.

Challenges to investment in South Asia

Despite the increasing level of investment, several investment climate constraints, which are not entirely common to all countries, are still restraining potential investment.

Chandan Sapkota

Due to economic slowdown, high unemployment, and sovereign debt risks in developed economies after the financial crisis, investment is gradually flowing to rapidly growing emerging and developing economies. South Asia has drawn the attention of investors as a result of impressive growth rates, investment reforms, expanding domestic markets and good macroeconomic conditions. However, despite the increasing level of investment, several investment climate constraints, which are not entirely common to all countries, are

still restraining potential investment. While acknowledging that sound macroeconomic conditions are crucial for increasing investment, this article will focus on country-specific firm-level challenges to investment.

Investment in South Asia

In South Asia, latest available data show that Bhutan has the highest gross fixed capital formation (GFCF) as a share of gross domestic product (GDP) (41.33 percent). It is followed by the Maldives, India, Sri Lanka, Bangladesh, Nepal, Afghanistan and

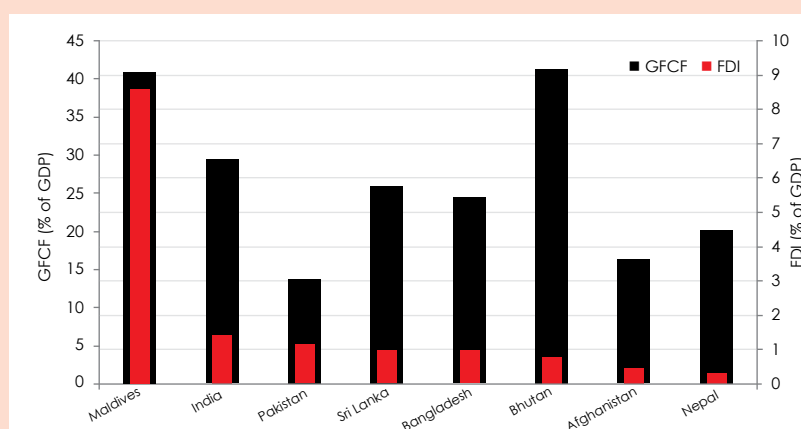
Pakistan. FDI as a share of GDP is highest in the Maldives (8.58 percent), followed by India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Afghanistan and Nepal (Figure 1).

The amount of FDI inflows to South Asia was increasing rapidly until 2008, reaching US\$50.28 billion, which dropped to US\$28.34 billion, which represented 2.28 percent of total world FDI inflows. The average annual FDI inflows during 1990–2000 were US\$2.56 billion, which increased to US\$21.5 billion during 2001–2010. The FDI inflows are not distributed evenly in South Asia. India's share of total FDI inflows to South Asia was 41.18 percent in 1990, which reached 86.95 percent in 2010 amounting to US\$24.64 billion. It reflects investors' confidence in the Indian economy, its reform process and the rapidly growing domestic market.

Obstacles to investment

Compared to the global investment level, the relatively low shares of FDI and GFCF in GDP indicate a range of obstacles faced by investors, discouraging them from scaling up investments in the region. Overall, the major constraints to investment, as perceived by firms in South Asia, are lack of adequate supply of electricity, access to

Figure 1
GFCF and FDI (share of GDP), 2010



Note: GFCF for Bhutan and the Maldives refer to 2009 and 2005 respectively; FDI for Nepal refers to 2009.
Source: World Bank, World Development Indicators.

finance, political instability, tax rates, corruption, access to land, security, informality, tax administration hassles, lack of human capital, rigid labour regulations and transportation, among others (Figure 2).²

Country-specific constraints

The South Asian average of perception of challenges to investment climate masks country-specific obstacles to investment. Hence, a closer look at country-specific challenges to investment is warranted.

Afghanistan

Around 20 percent of firms in Afghanistan perceived that crime, theft and disorder were the biggest obstacles to investment. Other main obstacles were lack of adequate electricity supply (17.9 percent), access to finance (16.8 percent), political instability (16.4 percent), access to land (12.2 percent) and corruption (8.4 percent). Constraints such as tax rates, courts system, human capital and labour regulations were considered less worrisome than the ones mentioned earlier. Specifically, about 45 percent of firms paid extra for private security, which increased cost by 2.8 percent of annual sales. The number of electrical outages in a typical month averaged 20 and it lasted for 11.5 hours, inflicting losses of about 6.5 percent of annual sales. Consequently, 71.1 percent of firms owned or shared a generator, which was used to supply about 74.9 percent of power demand by firms. It takes 46 days to get electrical connection upon submitting an application. Regarding access to finance, only 3.4 percent of firms had a bank loan and 1.4 percent of them were using banks to finance investments. Furthermore, 79 percent of loans required collateral and its value amounted to almost 254 percent of the loan amount.

Bangladesh

Around 43 percent of firms in Bangladesh perceived lack of adequate supply of electricity as the main obstacle to investment. Other top constraints were access to finance (34.9 percent),

political instability (11.4 percent), corruption (4.3 percent) and access to land (4.1 percent). Specifically, the number of power outages in a typical month averaged 101, which lasted for 1.1 hours and increased cost by 10.6 percent of annual sales. About 52 percent of firms owned or shared a generator, which supplied 23.6 percent of total electricity demand by firms. It takes approximately 50 days to obtain an electrical connection upon submitting an application. Approximately 24.7 percent of firms used banks to finance investments and only 17.1 percent of total investment was financed by banks. Regarding corruption, 85 percent of firms reported that they expected to give gifts to public officials to “get things done”, especially to get an operating licence, import licence, construction permit, electrical connection and water connection. Meanwhile, 54.4 percent of firms expected to give gifts during meetings with tax officials and 18.4 percent of firms identified courts system as a challenge to better investment climate.

Bhutan

Around 22 percent of firms in Bhutan perceived access to finance as the main obstacle to better investment climate. The other major constraints were tax rates (12.6 percent), inadequately educated workforce (10.5 percent),

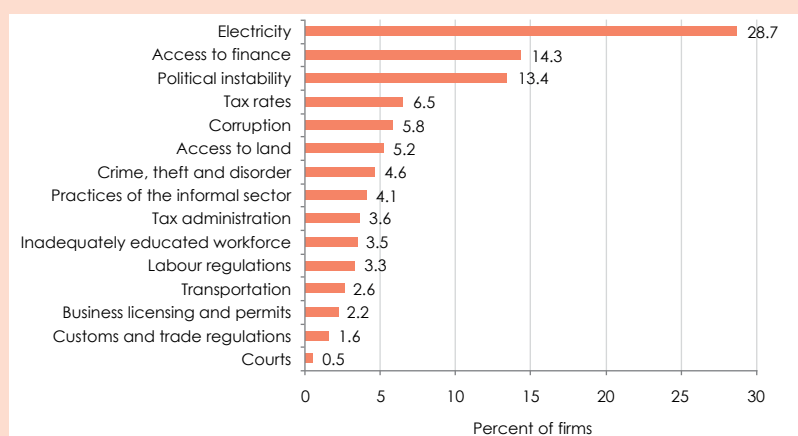
labour regulations (9.7 percent) and transportation (9.1 percent). Access to land, courts system, electricity supply and political instability were perceived to be less problematic for investors. Approximately 64 percent of firms used banks to finance investments and almost all firms needed loans. Furthermore, 97 percent of loans required collateral, whose value was about 283 percent of loan. Investors felt that tax administration hassles and high tax rates (40.8 percent of profit³) were also discouraging investors. Regarding human capital, there were virtually no permanent skilled full-time workers in the manufacturing sector and only 23.3 percent of firms were offering formal training. Cumbersome labour regulations and inadequately educated workforce were also problematic for investors. While real annual sales growth and annual employment growth were 17.9 percent and 13.1 percent respectively, annual labour productivity growth was just 5.7 percent.

India

Approximately 35 percent of firms identified electricity as the main obstacle to investment. The other main challenges were tax rates (16.8 percent), corruption (10.7 percent), tax administration hassles (8.5 percent), and access to finance (4.5 percent). Political

Figure 2

Perception of obstacles to better investment climate in South Asia



Source: International Finance Corporation, Enterprise Surveys.

instability, business licensing and permits, crime and theft, and courts system were not considered major challenges to investors in India. The average duration of a typical electrical outage was 3.6 hours and the average loss was 6.6 percent of annual sales. Almost 41.4 percent of firms owned or shared a generator, which supplied 9.8 percent of demand for electricity by firms. It takes 30 days to obtain an electrical connection upon submitting an application.

Regarding tax administration, 6.7 percent of senior management's time was spent in dealing with the requirements of government regulation. The total tax rate is equal to 61.8 percent of profit.⁴ Additionally, only 46.6 percent of firms were using banks to finance investments and the proportion of investments financed by banks was just 27.9 percent. Around 74.3 percent of loans required collateral and the value of collateral needed was 126 percent of loan amount.

Nepal

Around 62 percent of firms identified political instability as the main challenge to investment. The other main obstacles as perceived by firms were electricity supply (26.5 percent), labour regulations (2.6 percent), access to finance (2.5 percent) and transportation (2.4 percent). The number of electrical outages in a typical month averaged 52 and the average duration was 6.5 hours, inflicting loss of about 27 percent of annual sales. Some 15.7 percent of firms owned or shared a generator, which satisfied 24.6 percent of electricity demand by firms. It takes 9 days to get an electrical connection upon submitting an application. Investor confidence is low due to losses arising from civil unrest (44 days a year on average) and power outages.

The rigid labour regulation and the excessive unionism in the industrial sector have led to closure of domestic as well as multinational companies.⁵ Furthermore, only 17.5 percent of firms used banks to finance investments and the proportion of investments financed by banks was 12.4

percent. The proportion of loans that required collateral was 81 percent and the value of collateral needed was 260 percent of total loan amount. The lack of adequate infrastructure (road connectivity and electricity) is identified as the most binding constraint to economic activities in Nepal.

Pakistan

Around 67 percent of firms perceived electricity supply as the biggest obstacle to investment. The other main challenges were corruption (11.7 percent), crime, theft and disorder (5.5 percent), access to finance (3.9 percent), and tax rates (3.7 percent). The number of electrical outages in a typical month averaged 40 and the average duration was 2.3 hours. The loss due to electrical outages amounted to 9.2 percent of annual sales. Almost 26.3 percent of firms owned or shared a generator, which satisfied 29.3 percent of demand for electricity by firms. It takes 106 days to obtain an electrical connection upon submitting an application.

Regarding corruption, 48 percent of firms expected to give gifts to public officials to "get things done". Additionally, 49 percent of firms paid for private security, inflicting extra cost of around 2.3 percent of annual sales. While almost all firms needed loans, only 9.7 percent of them used banks to finance investments and the banks financed just 8.4 percent of investments. The proportion of loans requiring collateral was 76 percent and the value of collateral needed was 68 percent of the loan amount. Total tax rate is equal to 35.3 percent of profit.⁶

Sri Lanka

Around 16 percent of firms perceived that a large informal sector was the biggest obstacle to investment. Other main challenges were access to finance (14.1 percent), tax rates (11.9 percent), electricity (11.4 percent) and access to land (9.8 percent). When compared to these constraints, firms were least bothered by security of investment, corruption, political instability and courts system. Approximately 47.4 percent of firms competed against

unregistered or informal firms, leading to loss of markets and profits due to unfair competition. Regarding access to finance, 43.6 percent of firms used banks to finance investments and banks financed 35.4 percent of investments. The proportion of loans requiring collateral was 79.2 percent and the value of collateral needed was 194 percent of total loan amount. Total tax rate is equal to 105.2 percent of profit.⁷

Conclusion

Overall, the challenges to investment in South Asia are country-specific. While investors in countries like Bhutan with adequate electricity supply do not think power outages as a challenge to investment, investors in other countries perceive it as a strong constraint. Similarly, while competing unfairly with the informal sector is the main headache for firms in Sri Lanka, investment in other countries is crippled by insecurity, inadequate access to finance and poor infrastructure. Tackling them by introducing new reforms, earnestly implementing the already enacted ones, promoting and protecting investments while at the same time maintaining good macroeconomic conditions might boost investment. ■

Notes

¹ UNCTAD, *World Investment Report 2011*.

² South Asian regional average of indicators is computed by taking a simple average of country-level point estimates. Unless otherwise noted, the figures and obstacles to investment climate are sourced from Enterprise Surveys.

The survey year for Afghanistan is 2008, Bangladesh 2007, Bhutan 2009, India 2006, Sri Lanka 2011, Nepal 2009 and Pakistan 2007.

³ World Bank, *Doing Business 2012*.

⁴ *ibid*.

The total tax is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions.

⁵ See Sapkota, Chandan. 2011. "Imprudent unions & weak industries." *Republika*, 27 August, p 6.

⁶ Note 3.

⁷ Note 3.

Anti-competitive practices and food inflation

Anusree Paul

Cartels and barriers to entry in the food-processing industry are exacerbating food inflation in South Asia.

The food industry comprises food production and processing. The food-processing industry is of enormous significance for economic development because it can link up industry and agriculture efficiently and effectively. Hence, from a micro-economic point of view, the structure of the food market is responsible for the determination of food prices, and any distortions in terms of its competitiveness leads to a market failure and hence price instability. However, when markets fail, competition policy and law are the tools used to bring about the efficient workings of markets and alleviate market failures. This article discusses the situation of competition in the agro-food sector in South Asia in the context of rising food prices.

The trajectory of food inflation

There has been a sustained rise in food prices in South Asian countries since 2000. During 2007–2008, rising global food prices contributed to an acceleration of inflation across the Asia-Pacific region. In 2011, further rise in food prices reached alarming proportions.

The food crisis has put food and agriculture back into prominence on national and global agendas, after decades of policy neglect and underinvestment in agriculture science, rural infrastructure and rural institutions. A

transformation is taking place in food markets, particularly in Asia in terms of market structure towards a more competitive framework with inclusive-

ness.¹ Hence, the role of competitive regulation becomes important in this changing market structure to combat inflation and to protect consumers,



particularly those who are poor and insecure from market distortions.

During the 2007–2008 food crisis, food price inflation became the main driver of general inflation throughout most of South Asia (Figure, next page). Though in the second half of 2008, prices started to come down, in 2010, food prices again became the main factor to drive up general inflation in a number of countries, including India, Nepal and Pakistan.² For countries that import food, the extent of transmission from global to domestic prices is dependent on the exchange rate, trade policy, other policy measures, and the speed of adjustment.³ But global prices are only one factor influencing local food prices. For countries that are not heavily reliant on imports, local crop conditions, supply costs and policy measures are among the important determinants of domestic food prices.⁴

Competition issues

In South Asia, traditionally, government policies and intervention in agriculture markets were motivated by the need for food security. But as governments began to realize the drawbacks of interventionist policies, including spiralling costs, inefficiencies, leakages and corruption in the food management system, they started liberalizing their food policies, with Sri Lanka leading the way followed by Bangladesh, India, Nepal and Pakistan.

In agriculture markets in South Asia, especially in food retailing, which are mostly unorganized in nature, traders enjoy more market power than farmers or consumers. Traders have oligopsony conjecture in their transactions with farmers on the one hand, and have the position of oligopoly in their transactions with consumers on the other, which allows them to be price fixers and not price takers in both transactions. This kind of increasing integration between the food and agribusiness network is influencing the market structure and competitiveness in terms of forward and backward linkages. Hence, it needs serious regulatory intervention

to address the market failure and price instability. India has enacted an Act to establish Agricultural Produce Market Committees (APMCs)⁵ to regulate food market distortions, but till date, enforcement of the law is not widely visible. Other South Asian countries such as Bangladesh, Pakistan, Nepal and Sri Lanka are slow in terms of introducing or enforcing competition regulation to curb food inflation.

The organized retail sector, on the contrary, is very small in size compared to the unorganized one. The emergence of supermarkets is making the food market more competitive as a consequence of food market liberalization. However, this segment still accounts for less than 1 percent of the entire market. Distortions are still prevalent in market mechanisms in terms of anti-competitive practices, contributing to food inflation. Thus, there is a structural dimension to food inflation in South Asia.

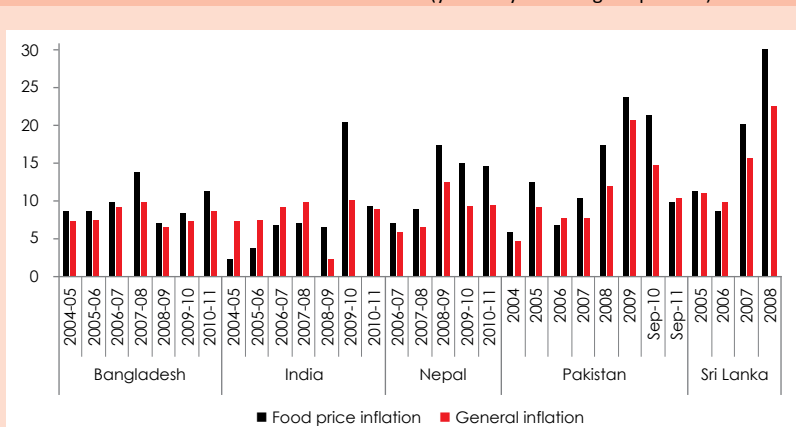
Cross-country literature reveals that there exists imperfection in the marketing system of the food sector due to the presence of intermediaries. This distortion leads to anti-competitive practices, resulting in high and rising food prices. For example, in Bangladesh, differences between farm-gate and retail market prices range from 60 percent to 150 percent.⁶ The reason identified behind this price dis-

crepancy is the collusion of intermediaries. A similar case is reported by the tax department of India about the existence of cartels in onion trade across Maharashtra, Punjab and Haryana which are cornering the price-sensitive vegetable market across the country.⁷ The farm-gate price of onion is INR. 25–30 per kilogram (kg) whereas retail prices of the commodity are hovering around INR. 70–80 per kg, although the mark-up from wholesale to retail should be just INR. 5–6 per kg for storage and transport. It is clear that the money is being pocketed by some unscrupulous traders^{8,9}. As these kinds of anti-competitive practices are arising primarily because of the informal behaviour of the marketing chain of the sector, competition regulation can play a vital role in controlling such behaviour.

Further, a number of case studies in South Asian countries reveal that anti-competitive practices such as cartels and barriers to entry exist in the food-processing industry, leading to price increases. Examples include cartels in the poultry industry¹⁰ and in the ghee and cooking oil industry¹¹ in Pakistan, and barriers to entry in the sugar industry¹² in Bangladesh. As reported by the Competition Commission of Pakistan, the vertically integrated poultry industry formed a cartel in all markets of day-old chicks.

Figure

General inflation and food inflation (year-on-year change in percent)



Source: Bangladesh Bureau of Statistics; Reserve Bank of India and Office of Economic Advisor, India; Nepal Rastra Bank; State Bank of Pakistan; Central Bank of Sri Lanka.



and transparency of food markets are essential.

Conclusion

The food sector is primarily an unorganized sector, which leads to market imperfection. In the present structure, competition regulation can potentially play a vital role to check anti-competitive behaviour and hence price distortions. There is a need for a watchful competition and regulation system under an effective competition law/policy framework to oversee agro-food markets to curb food inflation.

Addressing food inflation requires a strong governance of the food production and policy system. The major challenge, therefore, for local, national and global actors is how to make governance work for all. Weak institutions and lack of effective coordination and participation at global, regional and national levels impede the implementation of sound food policies. Hence, it is becoming increasingly crucial to develop and implement adequate global food governance arrangements with the active involvement of major stakeholders. ■

Dr Paul is Senior Policy Analyst, CUTS Centre for Competition, Investment & Economic Regulation, Jaipur.

Notes

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- ¹ Gulati, Ashok and Thomas Reardon. 2007. "Asian food market transformation: Policy challenges to promote competitiveness with inclusiveness". Prepared for Policy Forum *Agricultural and Rural Development for Reducing Poverty and Hunger in Asia: In Pursuit of Inclusive and Sustainable Growth*, organized by International Food Policy Research Institute and Asian Development Bank, 9–10 August 2007.
- ² World Bank. 2010. "Food price increases in South Asia: National responses and regional dimensions". South Asia Region Sustainable Development, Department of Agriculture and Rural Development Unit, The World Bank.
- ³ Asian Development Bank. 2008. "Food prices and inflation in developing Asia: Is poverty reduction coming to an end?"

Economic and Research Department. Available at: www.adb.org/Documents/reports/foodprices-inflation/food-prices-inflation.pdf

- ⁴ World Bank. 2011. "Responding to global food price volatility and its impact on food security". World Bank Staff Paper, 4 April 2011.
- ⁵ Agricultural Produce Market Committees constituted as per APMC Acts manage the markets. Over the years, to achieve an efficient system of buying and selling of agriculture commodities, most of the State Governments and Union Territories enacted legislation (Agriculture Produce Marketing (Regulation) Act) to provide for regulation of agriculture produce markets. Most of the wholesale markets and some of the rural primary markets have been brought under regulation. Many of the regulated wholesale markets have a principal market with a large area and relatively better infrastructure and a number of sub-yards attached to the principal market (Ministry of Food Processing Industries, Government of India).
- ⁶ "Gloomy winter for farmers", *The Daily Star*, 2 February 2012.
- ⁷ Narendranath, KG and Sandip Das. 2011. "CCI to investigate onion cartel", *Indian Express*, 7 January.
- ⁸ Cartel cannot solely be responsible for the onion price hike. The simultaneous increase in the prices of onion across India is a phenomenon known as "price parallelism". It is the price-fixing between competitors that occurs without an actual spoken agreement between the parties. Instead, one competitor will take the lead in raising prices. Others will then follow suit, raising their prices by the same amount, with the unspoken mutual understanding that all will reap greater profits from the higher prices so long as none attempts to undercut the others. Price parallelism is believed to be playing an important role in onion price rise in India.
- ⁹ Mehta, Pradeep S. 2011. "Learning from the onion crisis", *The Financial Express*; and Malhotra, Isha. 2012. "Price parallelism and tacit collusion with respect to practices under Indian Competition Law", Project Report, Competition Commission of India. Available at www.cci.gov.in/images/media/researchreports/Isha30jan2012.pdf
- ¹⁰ "Enquiry Reports, Competition Commission Pakistan". Available at: http://www.cc.gov.pk/images/Downloads/poultry_14_july_2010.pdf
- ¹¹ "Enquiry Reports, Competition Commission Pakistan". Available at: http://www.cc.gov.pk/images/Downloads/enquiry_report_ghee_cooking_oil.pdf
- ¹² Ellis, Karen and Rohit Singh. 2010. *Assessing the economic impact of competition*. United Kingdom: Overseas Development Institute.

The Pakistan Poultry Association sets the price and the mechanism for the sale of poultry products. This practice destroys competition and adds financial and economic costs to consumers. Similarly, ghee and oil manufacturers and their association behave in a collusive manner to fix their prices at a higher level.

In Bangladesh, four private companies dominate the market of refining imported raw sugar. They are large conglomerates and have a 46 percent market share. They have access to well-established distribution channels which they also use to distribute other edible products that they manufacture. In this close oligopolistic structure, a new entrant would face difficulties accessing distribution channels, which may represent a barrier to entry. This reveals a strong anti-competitive behaviour and would be an issue for investigation by a Competition Authority, if one is established in Bangladesh.

The development of the agro-food sector in South Asia has remained dominantly a supply-driven system. Producers have remained de-linked from markets, emerging demand patterns and, more so, from changing consumer preferences. The sector is characterized by small holdings, seasonality, and a traditional production and management system. Thus, imparting market orientation to the agro-food sector through dissemination of market information, linkage between agriculture and food-processing sectors, and promoting competition

The Greenhouse Gas Protocol

Niraj Shrestha

Reduction of greenhouse gas (GHG) emissions, particularly from industrial production, to combat global climate change is one of the biggest sustainable development challenges facing the world. To facilitate mitigation actions, carbon intensities of production processes are tracked and GHG inventories are developed. Such accounting of GHGs is a common practice in developed countries and is increasingly being adopted in developing countries as well. However, the need for an internationally acceptable standardized and comparable GHG accounting and reporting was felt necessary, which led to the establishment of the Greenhouse Gas Protocol (GHG Protocol), which has developed protocols, standards and guidelines.

What is the GHG Protocol?

The GHG Protocol is the most widely used and internationally accepted accounting tool or methodology to quantify and manage GHG emissions. It serves as the foundation for nearly every GHG standard and programme in the world—from the International Standards Organization (ISO) to The Climate Registry—as well as hundreds of GHG inventories prepared by individual companies.

The GHG Protocol also offers developing countries an internationally accepted management tool to help their businesses compete in the global marketplace and their governments make informed decisions about climate change.

The GHG Protocol Initiative arose when World Resources Institute (WRI), an environmental non-government organization (NGO) based in the United States, and World Business Council for Sustainable Development (WBCSD), a Geneva-based coalition of 170 international companies, agreed

Box	
Classification of GHG emissions	
Direct vs indirect	Scope
Direct GHG emissions: Emissions from sources that are owned or controlled by the reporting company.	Scope 1: All direct GHG emissions.
Indirect GHG emissions: Emissions that are a consequence of the activities of the reporting company, but that occur at sources owned or controlled by another company.	Scope 2: Indirect emissions associated with the generation of electricity, heat, or steam purchased for own consumption. Scope 3: Other indirect emissions, such as those associated with the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting company, electricity-related activities (e.g., transmission and distribution losses) that are not covered in Scope 2, outsourced activities, or waste disposal.

Source: WRI and WBCSD. 2007. *Measuring to manage: A guide to designing GHG accounting and reporting programs*.

in 1998 to launch an NGO-business partnership to address standardized methods for GHG accounting. Through the GHG Protocol Initiative, WRI and WBCSD have been developing GHG accounting and reporting platforms in global multi-stakeholder partnerships of governments, industry associations, NGOs, businesses, and other organizations.

The first edition of *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (Corporate Standard) was published in 2001, and a suite of calculation tools to assist companies in calculating their GHG emissions and additional guidance documents were developed subsequently.

In 2006, ISO adopted the Corporate Standard as the basis for its ISO 14064-1: *Specification with Guidance at*

the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals. This milestone highlighted the role of the GHG Protocol's Corporate Standard as the international standard for corporate and organizational GHG accounting and reporting. In December 2007, a Memorandum of Understanding was signed between ISO, WBCSD and WRI to jointly promote both global standards.

GHG reporting programme

In simple terms, accounting and reporting of GHG programme begins with the identification of programme objectives. These objectives may range from voluntary actions like tracking progress towards GHG reduction targets to supporting national climate change strategies, supporting GHG

trading programmes, and facilitating GHG mitigation activities, to providing information to shareholders and investors.

Then the programme decides on which GHG accounting principles to adopt. Basic principles include relevance, completeness, consistency, transparency and accuracy of data. After the base year has been selected, the process follows internationally accepted GHG accounting methodologies (see available protocols and standards below), which can be modified to suit the requirement of a country or a company.

Next, the programme design decides on coverage of sectors, sources and gases. Generally, major economic sectors such as energy, industrial processes, land-use change, agriculture, and waste disposal are considered. The sources considered for the purpose may be from stationary or mobile combustion, direct (Scope 1) or indirect (Scopes 2 and 3) emissions (see Box), process emissions (during manufacturing), and fugitive emissions (resulting from intentional or unintentional release of GHGs into the atmosphere like nitrous oxide that is released from agriculture soils). Usually, the programme focuses on six major anthropogenic GHGs listed in the Kyoto Protocol—carbon dioxide; methane; nitrous oxide; hydrofluorocarbons; perfluorocarbons; and sulfur hexafluoride.

The next important criterion for programme design is selecting geographic boundaries. Depending on the programme context, the programme may adopt reporting at sub-national, national or global levels, or a combination of these.

Inventories and reporting framework may be at the national level (as national inventory, which can be used for IPCC Common Reporting Framework), corporate level (all emissions within the boundary of a company), facility level (similar to corporate level but just at one, usually high-emitting, operating unit), product level (carbon footprint of one product from cradle to grave), and project level (reductions

India is the only South Asian country that has adopted the GHG Protocol.

such as under the Clean Development Mechanism, voluntary carbon market, etc.).

Protocols and standards

The GHG Protocol has already developed four separate but inter-linked standards.

Corporate Accounting and Reporting Standards (Corporate Standard):

It outlines methodologies for both private and public sector organizations to inventory and report all of the GHG emissions they produce.

Project Accounting Protocol and Guidelines: It quantifies the GHG benefits of climate change mitigation projects and is used for project-level inventories.

Corporate Value Chain (Scope 3) Accounting and Reporting Standard: It allows companies to assess their entire value chain emissions impact, both upstream and downstream of their operations, and identify the most effective ways to reduce emissions. The Scope 3 framework can account for emissions from 15 categories of Scope 3 activities.

Product Life Cycle Accounting and Reporting Standard: Using the standard, companies can measure the GHGs associated with the full lifecycle of products, including raw materials, manufacturing, transportation, storage, use and disposal.

Besides, there are a number of other protocols under development. **Mitigation Accounting** provides guidelines for quantifying GHG reductions from climate change mitigation actions and policies and tracking progress towards national and sub-national GHG reduction goals. **City Accounting Protocol** is expected to

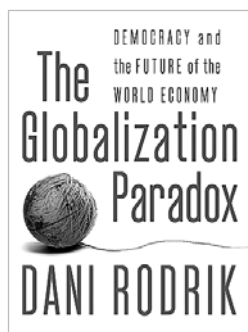
serve as the single minimum protocol for accounting and reporting city-wide GHG emissions that covers all three scopes of emission sources. **Agriculture Protocol** envisions clarity on how the GHG Protocol Corporate Standard should be used by agribusiness, while addressing the accounting challenges unique to the sector. **Green Power Accounting Guidelines** will consist of internationally relevant principles with attention on how to account for emissions associated with electricity consumption (Scope 2), particularly renewable energy purchases and related instruments in different regions throughout the world.

GHG Protocol in operation

A large number of businesses and organizations have developed their GHG inventories using the GHG Protocol, particularly the Corporate Standard. The 2007 *Corporate Climate Communications Report* of the Fortune 500 companies reported that 63 percent of companies use the GHG Protocol. The GHG Protocol Initiative is investing in major outreach efforts in China, Brazil, India, the Philippines and Mexico.

India is the only South Asian country that has adopted the GHG Protocol. The Energy and Resources Institute (TERI) and the TERI-Business Council on Sustainable Development (TERI-BCSD), in partnership with WRI and WBCSD, are working to build the foundation for a voluntary GHG emissions measurement and accounting programme for companies and organizations in India. In recent years, a small but growing group of Indian companies have adopted corporate GHG accounting. According to the Carbon Disclosure Project 2011 India Report, 46 percent of the total respondents reported their GHG emissions using the GHG Protocol. Recently, two new tools, the Product Life Cycle and Corporate Value Chain (Scope 3) Accounting and Reporting Standards, were launched in India. ■

More information about GHG Protocol Initiative can be accessed from www.ghgprotocol.org



The Globalization Paradox

Title: The Globalization Paradox: Democracy and the Future of the World Economy

Author: Dani Rodrik

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Adnan Kummer

The financial crisis of 2008 has laid bare the profound inadequacies of the current system of financial globalization and deep trade integration. Dani Rodrik is one of few leading economists of our time who had questioned the potential benefits of all this hyperglobalization at a time when most other scholars were all praise for it. The crisis has not only vindicated Rodrik but also cemented his credibility once again as a foremost expert on globalization and development.

In his latest book *The Globalization Paradox*, Rodrik traces the impact of globalization in virtually every region and every continent of the world, and identifies paradoxes along the way. He advances the thesis that the world needs not hyperglobalization, but more country-specific tempered globalization. No single theory captures the complete process of development, and the disagreements among scholars range from its very definition to the policy choices adopted in attaining it to what development success looks like for an individual country. Rodrik, who is a professor of international political economy at Harvard University, has managed to bring together many of these ideas and put them under one theoretical framework of globalization and development.

Much of his analysis is devoted to moving between Adam Smith's idealized state—a "night watchman" type of state—which is only responsible for enforcing property rights, keeping peace, and collecting a few taxes to pay for public goods like national defence; the state envisaged by the

Bretton Woods regime of post World War II; and the structure of the state as conceived by the globalization model. He argues that policy makers today face an austere choice between hyperglobalization, democratic politics, and the nation state, where at most they can choose any two—the "Political Trilemma of World Economy", as he calls it. While the popular choice is hyperglobalization and democratic politics, at the expense of the nation state, Rodrik himself believes there is just too much diversity in the world for nations to be "shoehorned" into one set of common rules of hyperglobalization. He asserts that the Bretton Woods-GATT (General Agreement on Tariffs and Trade) regime also sacrificed hyperglobalization in favour of the other two, and provided only a thin layer of globalization allowing countries "policy space" to chart their own course on such policies as capital controls.

"Would you rather be rich in a poor country or poor in a rich country?" Rodrik asks philosophically. For him, the correct answer is "Poor in a rich country," as the average poor person in a rich country earns three times more than the average rich person in a poor country. Although the last six decades have witnessed an extraordinary growth on a global scale, only few poor countries have managed to close the gap with advanced economies. In today's global economy, the emerging income disparity is much larger across nations than it is within nations.

If there is one underlying theme in Rodrik's work, it is skepticism that

globalization is the panacea for all ills and struggles of developing countries. He has persistently posed this question: Has globalization gone too far? The conventional answer—focused only on deregulation, trade and financial liberalization, privatization, fiscal discipline, etc.—is not satisfactory for Rodrik.

He wants to restore ethical dimension to the globalization debate. He points out that globalization has generated inequality and insecurity. And the reason countries like China and India achieved success is that instead of opening themselves unconditionally to the forces of international trade and international finance, they have pursued mixed strategies with a heavy dose of state intervention. Meanwhile, other countries that followed the more standard globalization prescription—such as those in Latin America—encountered serious failures and setbacks.

The book has historical as well as analytical quality. While the work is rich in insight and rigorous in political and economic analysis, it comes up short on details when Rodrik tries to make specific recommendations to address globalization challenges. Rodrik may have successfully constructed the general theory of development and globalization, but perhaps the challenges faced by policy makers are far greater as they reach to strike the right balance between state and markets, domestic as well as global ones. ■

The reviewer is a PhD Candidate in Political Economy at the University of Texas at Dallas.

Afghanistan delegation visits SAWTEE



ON 8 January 2012, SAWTEE organized a half-day interaction programme for the Delegation of Government of Islamic Republic of Afghanistan to share Nepal's experiences on accession to the World Trade Organization (WTO).

A 20-member delegation led by the Ministry of Commerce and Industry, Afghanistan participated in the meet-

ing. The delegation included representatives of nine ministries as well as the Afghanistan Chamber of Commerce and Industry.

SAWTEE shared Nepal's WTO accession experience with the delegation. The delegation stated that it would utilize the experience during Afghanistan's ongoing accession negotiations at the WTO. ■

Pakistan-India Track II dialogue on climate change

SUSTAINABLE Development Policy Institute (SDPI), Islamabad and Center for Science and Environment (CSE), New Delhi with the support of Heinrich Boll Stiftung organized the *Pakistan-India Track II Dialogue on Climate Change* on 13–15 February 2012 in Islamabad. The objective was to discuss water, energy, adaptation, gender equity and livelihood issues.

It was acknowledged by all that climate change exacerbates vulnerability of South Asia, which is already one of the most disaster prone regions in the world. Participants agreed that while changing climate has posed new challenges, the governments and civil society of India and Pakistan must work towards turning these challenges

into opportunities for low-carbon sustainable development and the promotion of peace in the region. They identified areas of cooperation to address common challenges posed by climate change in order to achieve food security, energy security, sustainable livelihoods, conservation of biodiversity, enhanced water use efficiency, low-carbon sustainable development and resilient communities. The recommendations included conducting a feasibility study on the establishment of a green climate fund for South Asia, and establishment of a Climate Policy Coordination Group between the policy makers of the two countries to harmonize positions at international forums. ■

Meeting on cost of economic non-cooperation

SAWTEE, CUTS International, The Asia Foundation, and Commonwealth Secretariat jointly organized a two-day dissemination meeting on *Cost of Economic Non-Cooperation to Consumers in South Asia* on 3–4 February 2012 in Kathmandu. The findings of a study by CUTS International, SAWTEE and other research organizations in the region were disseminated.

The study finds that increasing trade in South Asia at preferential rates on a range of products that have both high intra-regional trade potential and high prospects for improving consumer welfare could save at least US\$2 billion per year. Participants agreed on the need for national and regional campaigns to raise awareness of loss of consumer welfare due to regional economic non-cooperation. ■

Knowledge platform launched

INSTITUTE of Policy Studies of Sri Lanka (IPS), together with the World Bank, organized a High-Level Policy Workshop on *South Asia Region Urbanization Knowledge Platform Launch: Sustainable Urban Regeneration and Inclusive Growth for South Asian Cities* on 20 March 2012 in Colombo.

The Urbanization Knowledge Platform is an initiative launched by the World Bank's Urban Development and Local Government Unit in February 2011. It is part of the World Bank's "Open Development-Open Knowledge" agenda. ■



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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