Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Climate change a reality but global commitment remains a rhetoric

Given the complexity of global climate system, our understanding about it has for years remained beset with uncertainties. However, there is now strong scientific evidence that climate change is real and is primarily driven by greenhouse gases (GHGs) emitted by human activities. But unfortunately, according to the latest study—Climate Change 2014: Mitigation of Climate Change—released by the Intergovernmental Panel on Climate Change (IPCC), manmade emission of GHGs saw its highest increase in history in the years 2000-2010 and the trend is set to continue unless major steps are taken to reduce large-scale emissions; global GHG emission must be reduced by 40 to 70 percent of 2010 level by mid-century to prevent the global temperature from rising 3.7-4.8^{O}C in 2100.

Since mitigation and adaptation to climate change form part of Article 2 of the United Nations Framework Convention on Climate Change (UNFCCC), 197 countries are currently in talks to seal a post-2020 agreement on climate action to be signed next year in Paris. The recent findings of the IPCC will only add fuel to the ongoing negotiations. Moreover, while the world struggles to achieve a global climate action agreement, much of the developing world—including South Asia—continue to face the brunt of the impact of climate change. Owing to its geography, high levels of poverty and population density, and strong dependency on agriculture, South Asia is one of the most vulnerable regions to climate change. The region is highly susceptible to climate change impacts such as floods and droughts, variable precipitation, rising temperatures and extreme events, all of which have already been recorded in South Asia and are expected to intensify.

Changes in agro-ecological conditions have been one of the visible impacts of climate change in South Asia, which has directly affected agriculture, and hence the food production of South Asian countries. According to another IPCC study, 50 percent of favourable and high yielding wheat areas in the Indo-Gangetic Plains of South Asia could decrease due to the direct impacts of climate change. Moreover, seal level rise will inundate low lying areas and will especially affect rice growing regions, such as those in Bangladesh. For South Asia, which has the world's largest concentration of poor people—more than 500 million people living on less on US$1.25 a day—and where majority of the rural population directly dependent on climate sensitive sectors like agriculture, any volatility in food production is an eminent threat to economic growth and food security.

Additionally, with high rates of urbanization and an exploding population, the proportion of people and assets exposed to climate risk is increasing rapidly, as is the pressure on carbon resources, mainly coal. Thus, there is serious need to build resilience to climate change, and increase the use of pollution-free renewable power and phasing out fossil fuels in the long term.

However, such ambitious mitigation and adaptation efforts require significant finance. Considering South Asia's limited economic and financial flexibility to provide necessary funds to address climate change, the region is highly dependent on global climate finance. Unfortunately, much of the funds from global climate finance go towards mitigation efforts, which fails to address South Asia's immediate climate change adaptation needs.

Moreover, funding for climate action has been a difficult issue in international climate negotiations. Though several developed countries pledged funds to the United Nations (UN) climate finance channels and the Adaptation Fund reached its US$100 million fundraising goal during the 19th Conference of Parties (COP19) in Warsaw last year, new pledges were far short of the developing countries' needs and the conference failed to agree pathways to scale up climate finance to agreed-upon US$100 billion by 2020. Thus, developing countries currently face an unpredictable source of funding to fight climate change.

The dependence on developed countries for funding is delaying and preventing South Asian countries from addressing the challenges presented by climate change. Instead of waiting endlessly for the funds from developed countries, South Asian countries should look to promote regional cooperation by sharing knowledge and expertise on how to increase agriculture productivity, technical assistance in resource management and collaborative scientific research to undertake measures to adapt to climate change. But regrettably, measures so far undertaken by South Asian Association for Regional Cooperation (SAARC) to manage climate change have been inadequate. Even the Dhaka Declaration (2007) and the Thimphu Statement on Climate Change (2010) have failed to yield any concrete results. Due to the lack of substantial political support behind regional climate-related financing, policies and programmes, SAARC has only played a relatively small role in effective climate change policymaking in the region.

Therefore, to a large extent South Asia faces an issue of political willpower rather than capacity in its effort to tackle climate change. In this regard, it is necessary to understand that collective action to reduce emissions and adapt to climate change is the only way to address climate change impacts in South Asia. Concomitantly, South Asian countries should present a common front at the UN Secretary-General's Climate Summit in September to lay the cornerstone for a strong global agreement on climate change due to be signed in Paris in 2015.

ANALYSIS

Overcoming domestic risks for better economic prospects in South Asia

The World Bank in its latest *South Asia Economic Focus* report has predicted "cautiously optimistic" economic prospects for South Asia in 2014. While at the forefront of such optimism are growing exports and investments—according to the report—risks to growth are coming more from domestic side, including from an increasingly vulnerable banking sector. It reviews the major economic trends affecting the region, which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

In this semi-annual report, the World Bank forecasts that economic growth in South Asia would rise to 5.8 percent in 2015 from 5.2 percent this year. South Asian countries appeared to have largely recovered from last year's financial turmoil caused by changes in the United States (US) Federal Reserve monetary policy which capped economic growth to 4.8 percent. Many were reportedly rebuilding currency reserves while curbing current account deficits. However, the successes on the external side were accompanied by looming problems in the domestic economy. Therefore, economic growth could be held back by unstable banking sectors, inflation, fiscal deficits and debt, and persistent shortfalls in energy and transport infrastructure across the region, the report said.

The report also gives country-by-country forecasts. India—region's largest economy—is predicted to achieve a growth of 5.7 percent in fiscal year 2014 from 4.8 percent last year. The competitive exchange rate and many large investment projects are expected to boost the

Indian economy this year. The second largest economy in the region—Pakistan—may have 4 percent economic growth this fiscal year as compared to 3.6 percent last year. The growth would come from the benefits accruing from reduction in electricity blackouts, resilient remittance flows from workers abroad, rebounding manufacturing exports and a more buoyant services sector. As regards Nepal, the country is recovering from a difficult year affected by setbacks in the agricultural sector and with its government budget. However, the country is supported by strong remittance flows boosting consumption and the services sector that are expected to help the economy grow by 4.5 percent in the fiscal year 2014. It is a marked rise from last year's growth rate of 3.6 percent. Sri Lanka—experiencing a high growth rate of 7.3 percent in 2013 due to increased investments in infrastructure and post-conflict rebuilding—is expected to continue to grow at the same rate.

The prospects, however, does not look optimistic—alike other South Asian countries—for Bangladesh and Afghanistan. Bangladesh is expected to suffer from its recent political turmoil in terms of stagnating private investment paired with lower consumption due to decreasing remittance flows. This is ultimately expected to lead to subdued service sector and industrial activity, with real GDP growth projected to come down to 5.4 percent in fiscal year 2014 against 6 percent in 2013. In the likes of Bangladesh, Afghanistan is also expected to have lower GDP growth due to continued uncertainty regarding government transition and security issues as well as lower agricultural output. Hence, the country is projected to grow only at 3.2 percent this year which is a slight decrease against 3.6 percent in 2013.

In addition, the report investigates banks in India, Nepal, and Pakistan to conclude that they poise risk to optimistic economic prospects in South Asia. Such risks come in the form of rising corporate debt in India, government debt in Pakistan and excess liquidity in Nepal. According to the report, other domestic vulnerabilities exist in the region in the form of political risk and uncertainty due to social unrest and turmoil, and fiscal stress due to persistent weaknesses in revenue generation and collection.

As corroborated by the latest International Monetary Fund (IMF) *Global Financial Stability* report, financial stability has broadly strengthened in advanced economies. However, as the US transitions to a less accommodative monetary policy stance, global financial conditions are tightening, which poses new challenges and reveals vulnerabilities in some emerging market economies. The key challenge in such environment is to make a successful transition from policy accommodation to self-sustaining, investment-driven growth while minimizing spill overs that threaten financial stability.

Against this backdrop—as the report rightly puts forth—policy makers in South Asia need to take these vulnerabilities seriously because a problem in the banking sector can easily put pressure on already constrained government budgets and have a damaging impact on the wider economy. Meanwhile, it is imperative for South Asian countries to avail of the benefit of improved external environment by overcoming the supply-side constraints with focus on improving the banking sector along with strengthening the investment climate and overcoming infrastructure bottlenecks.

NEWS

India displaces Japan to become third-largest world economy in terms of PPP: World Bank

India has displaced Japan to become the world's third biggest economy in terms of purchasing power parity (PPP), according to a World Bank report released on 29 April. But surprisingly, in terms of *per capita* GDP, even in PPP terms, India ranks very low at 127 in the 199-country ranking.

PPP is used to compare economies and incomes of people by adjusting for differences in prices in different countries to make a meaningful comparison. India's share in World GDP in terms of PPP was 6.4 percent in 2011 compared with China's 14.9 percent and the US' 17.1 percent, the latest International Comparison Program (ICP) showed.

The survey covered 199 economies. "The US remained the world's largest economy, but it was closely followed by China when measured using PPPs. India was now the world's third largest economy, moving ahead of Japan," the report said.

Despite high inflation in India in recent years, prices in the country are still well below those in advanced economies, explaining the higher raking for India on the PPP measure. But according to the IMF, India's economy is 12th largest and only about a third of Japan's in terms of absolute unadjusted dollars.

"Because economies estimate their GDP at national price levels and in national currencies, those GDPs are not comparable. To be compared, they must be valued at a common price level and expressed in a common currency," the report said, giving out the rationale for the PPP adjustments.

In the latest ranking, India's economy was 37.1 percent of the US economy compared with 18.9 percent in 2005. The report said in terms of spending power, the differences have come down.

Source: www.economictimes.indiatimes.com, 30.04.2014.

Bangladesh might get duty, quota-free access under WTO framework

Washington has clarified that Dhaka might get duty-free and quota-free access for the US market under the World Trade Organisation (WTO) framework, but not bilaterally. The US has provided duty-free and quota free (DFQF) access to some least developed countries (LDCs) in Sub-Saharan and Caribbean countries, but the benefit has never been provided to Bangladesh.

In the first Trade and Investment Cooperation Forum Agreement (Ticfa), Bangladesh reminded the US delegation that Washington had a responsibility to help the LDCs become developing countries. Dhaka pays around 16 percent duty on an average for its exportable items to the US market.

“Bangladesh deserves DFQF access [to the US market] as it is a least developed country,” the Bangladeshi Commerce Secretary Mahbub Ahmed said. He added that after they had referred to the DFQF facility provided to some LDCs, the US delegation said those LDCs were vulnerable countries.

The meeting reviewed bilateral relationship and Generalised System of Preferences (GSP) Action Plan, market access for goods and service, US investment in Bangladesh, transfer of technology, Bali Package and Istanbul Plan of Action. The secretary also said the US side spoke on some specific issues including tariffs of fire, electrical and structural safety equipment; public tender specification; double fumigation (cotton); diabetic drugs; currency issue; delayed payment; intellectual property rights; and regional economic development.

About the GSP issue, Assistant US Trade Representative for South and Central Asia Michael Delaney said there was more work to be done in the implementation of labour law reform, safety and inspection. “These are the things that have been launched but they are very much work in progress and they are not completed,” he said.

Washington suspended GSP facility for Bangladesh in June last year blaming poor working conditions in the country.

About the high duty paid by Bangladesh compared to other countries including China, Delaney said the claim was not correct. Bangladesh and China enjoy most favoured nation status in the US and both of them pay same tariff rate for their exportable items, he said.

Source: www.dhakatribune.com, 29.04.2014.

Food Ministry starts review of raw sugar subsidy amidst WTO pressure in India

The department of food in India has started a review of the INR 3,300 crore raw sugar subsidy scheme announced towards end of last calendar year, albeit maintaining that the scheme will continue for remaining months till the new cabinet comes in place. The review follows strong objection raised by the members of the WTO stating that this will distort global trade as India is the third largest exporter of sugar in the world.

Meanwhile, the government of India has decided to strongly defend its stance on the raw sugar exports on the ground that the export subsidy is not intended for exporters or industry but for farming community or cane millers. According to sources close to the development, the subsidy to be given for export of raw sugar will be passed on to the cane growers for diverting the sugarcane produce from processing white sugar to raw sugar which is not the usual practice in India. Explaining this, sources said, usually in India there is no demand or consumption of raw sugar and the entire cane is processed for sugar or jaggery or mollases etc. On the other hand, there is surplus stock of sugar in the country which is why the sugarcane farmers are not in the position to get proper remuneration as the cost of production is higher than the market price.

Therefore a conscious decision has been taken by the government to divert the domestic production to the export market where the demand is for raw sugar and not processed sugar, said sources. The subsidy thus is intended for helping the millers/farmers to divert manufacturing of sugar to raw sugar. Thus the concern of the world community is not correct in stating that the raw sugar subsidy will distort the global prices as they are not intended for the exporters but for the cane millers and farmers.

Last year, the Cabinet Committee on Economic Affairs (CCEA) has also approved INR 6,600 crore interest-free loans to the sugar industry with interest subvention of 12 percent to be borne by the Sugar Development Fund.

The loans will be provided by banks to sugar mills exclusively for making payments to sugarcane farmers, including arrears. The loans are equivalent to the excise duty paid by the mills in the past three years and the mills have to repay the loans in five years. These mills could avail of a moratorium on repayment for the first two years. The decision was taken to help the sugar industry tide over the cash crunch.

Source: www.business-standard.com, 22.04.2014.

WTO Raises Trade Growth Forecasts for 2014, 2015

World trade is expected to grow this year by 4.7 percent, WTO economists announced this week, exceeding earlier predictions (4.5 percent) for 2014. While these numbers show a noticeable improvement over the past two years, they still lag well below the 20-year average for trade growth. For 2015, trade growth is slated to be even higher - at 5.3 percent growth, matching the historical average for 1983-2013.

However, the positive uptick in trade flows could be put at risk by geopolitical tensions, the WTO warned. “Civil conflicts and territorial disputes in the Middle East, Asia, and Eastern Europe could provoke higher energy prices and disrupt trade flows if they escalate,” the report said. While developed economies are becoming increasingly stable, developing economies still face some downside risks like large current account deficits in India and Turkey, together with the currency problems being faced by Argentina. Another area to watch was the potential for monetary policy in developed economies to become less accommodative which could affect developing economy growth.

Looking retrospectively, world merchandise trade rose by 2.1 percent in volume in 2013, just below the 2.3 percent increase seen in 2012. These numbers were slightly lower than what WTO economists had predicted late last year, when they downgraded their estimates for 2013 from 3.3 percent to 2.5 percent. The report also found that trade growth is not keeping pace with that of the global economy. Traditionally, world trade tends to grow at twice the rate of global GDP, WTO economists noted. Over the past two years, growth in global merchandise trade has averaged only 2.2 percent.

Note that the 159-member body concluded a deal on trade facilitation last December, which some economists predict could add US$1 trillion to the global economy once it enters into force. WTO members are now examining ways to restart—and eventually resolve—the Doha Round of trade talks, which have long been stalled. WTO members have been instructed by their ministers to develop by year’s end a Doha Round “work programme” that would essentially outline how to address the outstanding issues of the 13-year trade talks.

"It's clear that trade is going to improve as the world economy improves," WTO Director General Azevêdo said. "But I know that just waiting for an automatic increase in trade will not be enough for WTO members. We can actively support trade growth by updating the rules and reaching new trade *agreements."*

Source: www.ictsd.org, 17.04.2014.

Pakistan announces tariff concessions on import from Sri Lanka

Pakistan's Federal Board of Revenue (FBR) has announced tariff concessions on the import of 993 items from Sri Lanka under Free Trade Agreement (FTA). According to the notification, the Federal Government exempts import to Pakistan from Sri Lanka, if made in conformity with the "rules of Determination of Origin of Goods under the Free Trade Agreement between Pakistan and Sri Lanka (Pakistan-Sri Lanka FTA Rules of Origin)" and the operating "Certification Procedure for the Rules of Origin", notified by the Ministry of Commerce. The goods falling under the respective Heading and sub-Heading numbers of the First Schedule of the Customs Act has been exempted from so much of the customs-duty, as in excess of the rates specified in the SRO.

The extent of tariff concession is 50 percent on the import of herbal cosmetics manufactured and marketed as Sri Lankan National brands, shampoos, eye make-up preparations, pre-shave, shaving or after-shave preparations, personal deodorants and antiperspirants, perfumed bath salts, other bath preparations as well as other items. Meanwhile, the extent of tariff concession is 20 percent on the import of tiles, cubes and similar articles, whether or not rectangular, the largest surface area of which is capable of being enclosed in a square the side of which is less than 7cm, bottle cooling machine and other items.

The 100 percent tariff concession is applicable on the import of green tea in packets/bags in immediate packing of a content not exceeding 3 kg (10,000 MT in one financial year) and black tea and partly fermented tea, in immediate packing of a content not exceeding 3 kg.

The extent of tariff concession is zero percent on the import of palm sterain, RBD Palm Oil, palm olen, crude oil, castor oil and its fractions, cigarettes, varnishes, perfumes, sets of assorted articles, microwave ovens, electric ovens, line telephones with cordless handsets, video phones, modems, networking equipment, components for assembly/manufacturing of vehicles in any kit form and other items specified in the notification.

Source: www.southasianmedia.net, 12.04.2014.

Government plans conclaves to help exporters face quality, standards barriers in India

India is working on a roadmap to help exporters deal with quality and technical standard barriers faced in foreign markets. Exports of shrimps, rice, steel, peanuts and milk powder from India are increasingly facing quality and specification barriers that are often not backed by proper scientific evidence.

The Commerce Ministry will hold consultations with experts from international trade organisations, standard setting bodies as well as representatives from the Indian industry to identify ways in which quality issues can be better handled. The first such conclave, brought together experts from the WTO, the Food and Agricultural Organisation (FAO), the International Trade Corporation, the global standard setting body—Codex, and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), in New Delhi on April 16-17. The conclave assessed the gaps in existing procedural, administrative, regulatory, and legislative areas and arrived at a roadmap of reforms required to meet global challenges.

"Recommendations will be given to the Government on steps to be taken to be rated better on the quality front so that exports can be promoted. Wherever standards are being used as barriers, we will try to find remedies for them," Joint Secretary of Commerce Sudhanshu Pandey said.

Although the Government does not have numbers on the trade affected by quality barriers, the quantum is fast growing as it is not just the developed countries, but developing countries too that are using these. "At present, awareness is very poor and exporters often don't even get to realise whether the barriers that they are facing are genuine or can be contested. They keep suffering silently," he added.

Source: www.thehindubusinessline.com, 08.04.2014.

Bollywood called to arm against climate change

Bollywood's glitterati heard an appeal to use their star power to fight climate change as they opened their first awards ceremony in the US. Bringing a sombre note in the midst of Bollywood's trademark festive dancing, Rajendra Pachauri, the Indian scientist who leads the Nobel Prize-winning UN climate panel, took the stage in Tampa, Florida, to urge stars to channel their influence for the planet.

Pachauri, chairman of the IPCC, which recently issued its latest stark warning, said that average sea levels have risen 19 centimetres over the past century and could rise as high as 98 centimetres by the end of the century without action. Pachauri said that he spoke before the Bollywood ceremony to Florida Governor Rick Scott, a Republican who has expressed doubt about the science on climate change, and told him that the coastal state was "particularly vulnerable."

Source: www.newsdaily.com, 24.04.2014.

Government fails to meet climate change policy goals in Nepal

The government has failed to meet the specific objectives set in its climate change policy despite allocating billions of rupees annually to address an issue that has global ramifications. The climate change policy adopted by the government in 2011 has stated that 80 percent of the climate change budget will be diverted to local components. But National Planning Commission reports that only 11 percent of climate budget was being shared with local components.

The government has allocated 10.3 percent of the total budget for fiscal year 2013/14 under the climate change budget code involving 11 ministries for 124 programmes. But the local community has not effectively accessed funds, nor has the government used effectively the money it received from donors.

Other goals set in 2011 but not met include establishment of a Climate Change Centre by 2012, preparation of a national strategy for carbon trade by 2012 and assessment of losses and benefits from climate change in several geographical areas and development sectors by 2013.

The government has also failed to develop a reliable impact forecasting system to reduce the adverse impacts of climate change in vulnerable areas as stated in the policy.

Prakash Mathema, Chief of the Climate Change Management Division at the Ministry of Science, Technology and Environment, admitted that the country had failed to meet all the objectives set in the policy. Mathema, who also chairs the LDC Group, thinks lack of local government representatives for long could be one of the major obstacles in diverting budget to the local components. "Existing mechanisms, institutional arrangement and capacity of the service providers are also to blame."

"Though country is not responsible for global warming, the government has been focusing on adaptation activities," Mathema said, adding US$350 million worth National Adaptation Programme of Action and Local Adaptation Plan of Action are under way after Nepal signed UNFCCC in 1992 and became party to it in 1994.

Source: www.thehimalayantimes.com, 17.04.2014.

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