

# Trade and Development Monitor

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## OPINION IN LEAD

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### 8th WTO Ministerial: Where's the "early harvest"?

In his opening address during the 8th Ministerial Conference of the World Trade Organization (WTO) in Geneva on 15 December 2011, the WTO Director-General Pascal Lamy called on members to "stand up for the values of multilateralism" and for major players to "exercise leadership and to muster political courage to act together for greater trade opening and reform." Furthermore, he urged them to place the interests and needs of developing countries and, in particular, those of the poorest, at its heart. However, the wishes of Lamy were not fully reflected in the final outcome of the conference.

To avert tension over format of the text and agenda to be agreed upon, there was no Ministerial declaration on 17 December. Members made their individual statements during the sessions and the Chairman of the conference presented his own statement at the end of the session. As the chair of the least-developed countries, Nepal underscored the need for full, effective and immediate implementation of the Istanbul Programme of Action for the LDCs.

The formal and informal meetings during the conference were a disappointment on two fronts. First, they failed to agree on how to conclude the Doha talks launched in 2001. While all countries said they were committed to taking the Doha agenda to a logical conclusion, the major players stated this with some reservations. For instance, the United States (US) wanted emerging developing countries to further open up their markets, but the latter were disinclined to agree to that. The major players with substantial interests in the Doha agenda initially proposed talks to continue based on a plurilateral basis, i.e., involving only those members that are willing. But this ran counter to the WTO's foundation of multilateralism and inclusiveness and was subsequently rejected by a vast majority of developing countries. Another issue that was also raised by the LDCs was an "early harvest", which meant that countries would reach a deal on some of the already agreed issues rather than wait for the full Doha package.

Unfortunately, though most of the countries were receptive to this idea, they failed to act on it and failed to agree on issues that could be "harvested early". In this as well, the often argued proposal for duty-free and quota-free market access for LDC products and slashing down of cotton subsidies were rejected by the US. Meanwhile, developed countries argued that they could agree on trade facilitation measures and make it an "early harvest" in 2012. But developing countries stated that any such an "early harvest" should be related to agendas touching upon their development goals. These are: a special LDC package, enhanced special and differential treatment, resolving problems arising from the implementation of WTO agreements, and reduction of agricultural subsidies.

Second, the Ministerial failed to agree upon the future course of the WTO given the changing global dynamics after the fuel, food, financial and economic crises. The conference also failed to launch discussions on emerging issues such as climate change, energy security and food security. This was initially proposed by developed countries but developing countries argued that this would lead to digression from the development components of the Doha agenda.

Though the conference failed to agree on long-discussed issues, the major highlight was the accession of Russia, Montenegro and two LDC Pacific Islands—Vanuatu and Samoa—to the WTO, which now boasts 157 members. In the upcoming talks related to the Doha agenda, all countries should focus on putting development concerns at the core and deliver on something concrete, which is agreeable to all members, to boost faith in the multilateral trading system. Moreover, the WTO should also focus on moving forward by incorporating the evolving challenges posed by the global economic crisis, resource scarcity, food insecurity and effective implementation of the Aid for Trade agenda.

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## ANALYSIS

### A misplaced climate celebration in Durban

The Durban climate talks are over, and many are celebrating. After repeatedly reaching the brink of collapse, the summit produced agreements on several counts. The Associated Press reported that it approved a “landmark deal” that was “meant to set a new course for the global fight against climate change for the coming decades”. Christina Figueres, chief of the United Nations Framework Convention on Climate Change (UNFCCC), heralded the arrival of a “remarkable new phase in [the] climate regime”.

The celebration is misplaced. Most of the agreed texts fleshed out matters left unfinished in Cancun: rules for a new climate fund, the structure of an international network of technology centres, a scheme for avoiding deforestation, and parameters for a system meant to increase the transparency of countries’ emissions-cutting actions. It is this part that will have the greatest substantive impact and is worthy of celebration. A climate fund with good rules, for example, is more likely to attract money and to use it well, while a sound system for auditing countries’ climate efforts will make it easier to create a virtuous cycle of action.

But it was not debate on these matters that took the talks to the edge, and it was not resolution of them that inspired the most applause. Instead, it was an agreement to initiate “a process to develop a protocol, another legal instrument or an outcome with legal force under the Convention applicable to all Parties” that has led commentators to conclude that there will be a new treaty that will legally bind all countries to reduce emissions. Alas, that conclusion is not warranted.

The process that yielded this language was hard-fought. Developing countries had insisted that developed ones take new commitments to cut emissions under the Kyoto Protocol. Most rejected that out of hand. Europe, though, accepted in principle, but with a condition: the entire conference would need to agree to seek a legally binding deal covering all emitters by 2015, with the aim of bringing that deal into force by 2020. This ultimate demand—rejected by India and China, and met without enthusiasm by the United States (US)—was what nearly brought the talks down.

The precise dynamics that unfolded in the final days are still unclear. In the end, though, the talks came down to a simple choice. Europe insisted on language that would commit all countries “to launch a process to develop a protocol or another legal instrument under the Convention applicable to all Parties”. India strenuously insisted that “a legal outcome” be included as a third option. It is not clear exactly where China or the US, which were both fine with including “legal option” but otherwise largely sat out the final public fight, would have drawn the line if forced. Everyone ultimately compromised: an “outcome with legal force”, rather than a “legal outcome”, was added as the third option.

It is difficult to avoid concluding that the Europeans ultimately blinked, though you wouldn’t get that from their spin or from the media coverage. *The New York Times*, adopting a similar interpretation to most other outlets, reported that the deal foresees “a future treaty that would require all countries to reduce emissions that contribute to global warming”. Alas, there’s nothing much like that in the text.

The first problem is with the word “treaty”, which appears nowhere in the agreement. Indeed some will insist that a mere set of formal decisions by the parties – like, say, the Cancun Agreements of last year – ought to qualify as an “outcome with legal force”; they may not have as much legal force as some would like, but surely one can argue that they have some. Perhaps this traps countries like China and India a bit: they can argue out of seeking a new instrument only by asserting that Conference of Parties (COP) decisions have some legal weight. But one thing is clear: there is no commitment to seek a new treaty or protocol.

It is also worth noting that, contrary to most media reports, the text’s requirement for “legal force” is broad, and does not necessarily need to apply to emissions cuts. It could, for

example, be read to require that transparency provisions, rather than emissions cuts, have legal force. It would not be a surprise to see the US push such an approach.

Similarly, just because the text says that the new agreement must apply “to all Parties”, it need not have the same effect on all of them. The Kyoto Protocol, after all, also applied to all parties, just in very different ways. To be certain, this is a legalistic interpretation, and any country that tries to press it will probably suffer in the court of public opinion. In particular, the US and Europe will point to the lack of any language on “common but differentiated responsibilities”, “equity”, or anything explicitly distinguishing developed and developing countries in the text, in order to claim that all must be bound similarly. But arguing for differentiation remains an option nonetheless, and it is one that developing countries will almost certainly avail themselves of. Indeed, after Copenhagen, the US and Europe also claimed that the distinction between developed and developing countries had been abolished. That does not seem to have stuck.

Was all this vague language an intentional fudge? Almost certainly. But, given that Europe was the one holding out for something strong and specific on the legal front, it is the one that has conceded the most here. This is not a question of just focussing on the letter of the law rather than the spirit of the text. For the spirit of the text is not universal: Europe may believe that its true intent is to usher in a legally binding treaty with emissions cuts for all, but India surely doesn't share that view. A month from now, when heads cool, the US will be able to point to the detailed technical elaboration of the Cancun Agreements as its accomplishment, while India and China will be able to cite the unambiguous extension of the Kyoto Protocol. Europe, in contrast, will have to fight over the interpretation of “outcome with legal force” and “applicable to all Parties” to preserve its supposed victory.

It is also worth taking a step back to look at the broader contours of the talks. It is distressing to see how much attention has become devoted to form rather than function. The fact that people are so fixated on the future of Kyoto and the potential for a new legally binding treaty—neither of which, depending on its specific content, need have any impact on emissions—is extraordinary. It is particularly worrying that so many parties were willing in Durban to risk their real substantive progress because they could not agree on what are, in practice, largely symbolic matters. Congratulations are in order to those diplomats who found a face saving way for everyone to back down so that they could consolidate important incremental advances that they had made elsewhere. But the Durban outcome does not auger a “remarkable new phase” in the climate talks. Its most celebrated elements largely mask dysfunction as usual.

*Adapted from Michael A. Levi piece on Council on Foreign Relations (CFR)'s website, 11.12.11. Levi is David M. Rubenstein Senior Fellow for Energy and the Environment at CFR.*

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## NEWS

### India's food inflation dives to four-year low

India's food inflation plunged to a near four-year low as prices of vegetables and cereals tumbled, official data showed early December, marking a rare piece of good news for the embattled government.

Food price inflation has been in double digits all year, causing hardship for India's impoverished masses and heaping pressure on the Congress-led government reeling from graft scandals and charges of policy paralysis.

Annual food inflation dropped to 1.81 percent for the week ended 10 December from 4.35 percent in the previous week, as prices of essential produce such as vegetables, onions, potatoes and wheat fell sharply.

"It's a welcome direction -- we could even see food inflation go below one percent in coming weeks," Yes Bank chief economist Shubhada Rao told AFP.

The drop in food inflation raised chances the central bank could start reversing its aggressive string of interest rate hikes that have slowed the economy, Rao added.

Food inflation, a key driver of headline inflation which measures the cost of goods across the economy, now is at its lowest level since early February 2008 when it stood at 2.26 percent. Onions are 50 percent cheaper than a year ago while potatoes cost 34 percent less, helped by a bountiful monsoon and a high year-ago base effect.

The food inflation drop comes after annual headline inflation hit a year's low of 9.11 percent in November after crossing 10 percent two months earlier.

If inflation keeps moderating, the central bank "may go for a rate cut in the first quarter of 2012", Crisil chief economist D.K. Joshi said.

Top government economic advisor C. Rangarajan said overall inflation should be around 7 percent by next March -- within the central bank's so-called "comfort zone".

The bank has raised interest rates 13 times since March 2010 to choke inflation, angering business leaders who complain the monetary tightening has hit economic growth and investor confidence in the South Asian giant.

*Source: AFP, 02.12.11.*

## **Nepal okays Trans-Asia Railway Network pact**

Nepal has endorsed a pact that will enable it connect the railway lines it is planning to develop with Asian and European networks to facilitate the uninterrupted movement of people and goods.

The *Republica* daily said a cabinet meeting held in December approved the crucial Inter-governmental Agreement on Trans-Asia Railway Network.

"Approval of the agreement is a demonstration of the government's commitment to enter into the Trans-Asia Railway Network. This will greatly facilitate movement of people and goods via Nepal to other Asian and European countries," railway department director general Ram Kumar Lamsal told *Republica*.

"We will immediately send the ratification paper to UN once the parliament ratifies it." If ratified, the agreement will not only pave the way for increasing trade with partner countries in the region, but also facilitate the development of internal network of railway, reported Xinhua.

The agreement was signed in Busan, South Korea under the UN Economic and Social Commission for Asia and the Pacific. Along with Nepal, Armenia, Azerbaijan, Cambodia, China, India, Indonesia, Iran, Kazakhstan, Laos, Mongolia, South Korea, Russia, Sri Lanka, Tajikistan, Thailand, Turkey, Uzbekistan and Vietnam are signatories to the agreement.

So far, China, India, Thailand, Cambodia, Mongolia, Tajikistan, Russia and South Korea have ratified the agreement.

*Source: IANS, 21.11.11.*

## **'Himalayan region faces grim future'**

Remember the embarrassing controversy a few years ago about whether or not Himalayan glaciers are retreating due to global warming? Finally, the foundation for a thorough scientific study and monitoring has been laid, with the release of three key reports on the sidelines of the Durban climate change summit.

Prepared by scientists working with the Kathmandu-based International Center for Integrated Mountain Development (ICIMOD), the reports have for the first time identified over 54,000 glaciers spread over 64,000 square kilometres of the Hindu Kush-Himalaya (HKH) region, home to some of the world's highest peaks and the biggest storehouse of freshwater outside of the North and South Poles.

The reports clearly say that not enough study has been done on the snow and ice systems of this vast ecologically fragile system. But it provides a snapshot of the kind of changes that global warming is likely to cause in the coming decades.

Within the HKH region lie the origins of 10 crucial river systems that provide life to an estimated 1.3 billion people. These rivers—Ganga, Brahmaputra, Indus, Amu Darya, Irrawaddy, Mekong, Salween, Tarim, Yangtze, and Yellow—flow through 10 nations. This makes it a global warming hotspot—changes in temperature can lead to rapid and devastating changes in river water flows that would affect millions.

Latest studies show that river water flows are likely to be affected in much more complex ways than earlier imagined. While increasing temperature will cause snow and glaciers to dry up causing less water in the rivers 40-50 years into the future, this would be swamped by the much higher increase in monsoon rains in central and eastern Himalayas. The ICIMOD reports indicate that much more research is needed to fully understand these dynamics.

The reports also spell out a complex struggle for the over 25,000 species of plants and animals that inhabit the HKH region. As temperatures rise, all species will try to move upwards to cooler locations. This will spell doom for summit species—inhabiting the topmost levels—like the brown oak. With a 1 degree rise, almost 40 percent cover of this common tree will be wiped out, the study says.

*Source: Times of India, 06.12.11.*

## **Canada to withdraw from Kyoto Protocol**

Canada will formally withdraw from the Kyoto Protocol on climate change, the minister of the environment has said. Peter Kent said the protocol "does not represent a way forward for Canada" and the country would face crippling fines for failing to meet its targets.

The move, which is legal and was expected, makes it the first nation to pull out of the global treaty.

The protocol, initially adopted in Kyoto, Japan, in 1997, is aimed at fighting global warming. "Kyoto, for Canada, is in the past, and as such we are invoking our legal right to withdraw from Kyoto," Kent said in Toronto. He said he would be formally advising the United Nations of his country's intention to pull out.

He said meeting Canada's obligations under Kyoto would cost \$13.6 billion (10.3 billion euros): "That's \$1,600 from every Canadian family— that's the Kyoto cost to Canadians, that was the legacy of an incompetent Liberal government". He said that despite this cost, greenhouse emissions would continue to rise as two of the world's largest polluters—the United States and China—were not covered by the Kyoto agreement.

"We believe that a new agreement that will allow us to generate jobs and economic growth represents the way forward," he said.

Beijing criticised Canada's decision. Chinese foreign ministry spokesman Liu Weimin said it went "against the efforts of the international community and is regrettable".

Kent's announcement came just hours after a last-minute deal on climate change was agreed in Durban.

*Source: BBC News, 13.11.11.*

## **India's income inequality has doubled in 20 years**

Inequality in earnings has doubled in India over the last two decades, making it the worst performer on this count among all emerging economies. The top 10 percent of wage earners now make 12 times more than the bottom 10 percent, up from a ratio of six in the 1990s.

Moreover, wages are not smoothly spread out even through the middle of the distribution. The top 10 percent of earners make almost five times more than the median 10 percent, but this median 10 percent makes just 0.4 times more than the bottom 10 percent.

"The main driver has been an increase in wage inequality between regular wage earners-contractual employees hired over a period of time," says the Organisation for Economic Cooperation and Development (OECD) in a new report on inequality in the developed world and emerging economies. "By contrast, inequality in the casual wage sector—workers employed on a day-to-day basis—has remained more stable," the report said.

There is evidence of growing concentration of wealth among the elite. The consumption of the top 20 percent of households grew at almost 3 percent per year in the 2000s as compared to 2 percent in the 1990s, while the growth in consumption of the bottom 20 percent of households remained unchanged at 1 percent per year.

Of all the emerging economies, India has by far the highest proportion of informal employment, by any national or international measure. "In India...informal employment includes a disproportionate number of women, home-based workers, street sellers and workers sub-contracted by firms in the formal sector," the OECD report said.

*Source: Times of India, 07.12.11.*

## **88 districts of Pakistan face food insecurity**

It is a point to ponder that despite having eight million tons surplus grain, 88 districts of Pakistan are faced with food insecurity, as poor storage facilities is the main cause of 25-30 percent post-harvest losses every year.

This was the crux of the day-long policy forum on "Food Price Volatility and Policy Options" jointly organized by Actionaid and Oxfam GB in collaboration with Pakistan Kissan Ittehad and Sustainable Agriculture Action Group (SAAG).

The participants highlighted that the overall kitchen expenses have increased by over 50 percent in the last few years, basic utilities such as electricity and gas are not available, expenditures are high, but the incomes are still the same.

They said that there was no match between the rate of food price hike and income increases. They were of the view that the government should invest more in the agriculture sector. They urged the government to come up with a food security plan to ensure provision of food to 50 percent poor people as well as to protect small farmers.

They pointed out that around 60 percent of Pakistan's total population is facing food insecurity, while the increasing rate of chronic and acute malnutrition in the country is primarily due to poverty, higher illiteracy rate, among others, along with the government's lack of commitment towards ensuring food security to each and every citizen.

Over the last 10 years in Pakistan, the wheat prices have increased by 200 percent, sugar prices 174 percent and gram prices 133 percent.

*Source: Business Recorder, 31.12.11.*

## **Sri Lanka value addition growing in IT exports**

Sri Lanka's information and communications technology (ICT) industry is focusing more on value added software products and knowledge services where profits are higher, officials said. Over half the firms in the sector are building and exporting software products rather than providing services such as low-end call centres, they said.

The services sector is also dominated by knowledge services such as financial, medical and legal services which offer high-end value addition, according to a new survey by PricewaterhouseCoopers.

"We've seen very good growth in software exports rather than software-enabled services, also known as ITES (information technology-enabled services), which has seen little growth," said Janaka Ratnayake, chairman of the Export Development Board (EDB). "ICT export growth is remarkable—that is the future of our exports."

Mano Sekaram, chairman of the EDB's advisory committee for the ICT and business process outsourcing (BPO) sectors, said in Sri Lanka over half the companies in the sector were building software products, unlike in India where 80 percent provided software services. "It means they have high value of returns. So we're moving into value addition."

Although ITES exports growth has been lower, Sekaram, who is also general secretary of the industry body, SLASSCOM, Sri Lanka Association of Software and Services Companies, said it has potential as it is dominated by knowledge services. These include financial, accounting, and legal services. "We're really moving into knowledge services such as medical transcriptions, high-end analytical and architectural services. Industry earnings can even surpass one billion dollars if we take all the knowledge services which have not been captured in the survey. Lawyers and architectural firms are providing services internationally," Sekaram said.

*Source: Lanka Business Online, 30.12.11.*

## **Climate change endangers millions in South Asia**

Millions of people in South Asia are vulnerable to climate change because of depleting glaciers, increasing coastal erosion, frequent floods and other natural disasters associated with global warming, warn environmentalists and development agencies.

"We are extremely vulnerable to climate change threats," says Dr Durga Poudel, Head of Department of Renewable Resources, University of Louisiana at Lafayette, who has extensively studied climatic patterns of South Asia. "Our coping mechanism/resources are very limited and are dwindling, the level of public awareness is very low, and the national, regional, and local adaptation strategies and programs are insufficient and lack scientific rigors."

Climate Change Vulnerability Index (CCVI) 2011, issued by risks advisory firm Maplecroft, ranks Bangladesh, Pakistan and India, Afghanistan and Nepal among the highest risk category of 16 countries that face 'extreme risk,' because of climate-related natural disasters and sea-level rise, population patterns, agricultural dependency and conflicts and other factors. "Over the next 30 years their vulnerability to climate change will rise due to increases in air temperature, precipitation and humidity", the CCVI 2011 report adds.

The shrinking and retreating of the Himalayan glaciers is the greatest environmental threat to the region. Himalayan glaciers are the lifeline of Asia's mightiest rivers—the Indus, the Ganges, the Brahmaputra, Yangtze, and Mekong, upon which 1.3 billion people depend. Several fresh environmental studies and findings indicate that the Himalayan mountains, encompassing Bhutan, Tibet, India, Nepal, Pakistan, and Afghanistan, are receding alarmingly. As a result, the livelihoods of millions of inhabitants of these countries living around the rivers which depend upon glacial waters are at stake.

*Source: Eurasia Review, 29.12.11.*



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## ACTIVITIES

### PPD on Nepal's WTO commitments and roles of stakeholders

SAWTEE, in cooperation with the German International Cooperation (GIZ), Ministry of Commerce and Supplies (MoCS), Government of Nepal and Pokhara Chamber of Commerce and Industry (PCCI), organized a "Public-Private Dialogue on Nepal's WTO commitments and roles of stakeholders" in Pokhara on 2-3 December 2011. The major objective of the programme was to interact with local-level stakeholders on trade issues in general, and on Nepal's commitments at the WTO and the status of their compliance, in particular.

During the programme, some major World Trade Organization (WTO) agreements—General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS), and Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)—were discussed. The focus of the presentations and discussions were on the salient features of these agreements, Nepal's commitments under these agreements and the status of implementation of the commitments. Two sessions were specifically devoted to discuss tourism and health services.

Participants of the programme included WTO focal points, officials from various ministries and departments of the Government of Nepal, local entrepreneurs, medical personnel, media and other local stakeholders.

### World Competition Day

SAWTEE, in association with Lawyers' Academy Committee, Nepal Bar Association (NBA) and Society of Economic Journalists of Nepal (SEJON), organized a discussion forum on "Status of Competition in Nepal" on 5 December 2011 to mark the World Competition Day. The World Competition Day is celebrated on 5 December every year to mark the adoption by the United Nations of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices. This year the World Competition Day was marked with the theme 'Cartels and their harmful effects'.

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