Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Implications of US withdrawal from the Paris Agreement

Making good on the promises made during his campaign days, President Donald Trump withdrew the United States (US) from the 2015 Paris Climate Change Agreement on June 2. This decision will have repercussions on the deal's goal of slowing down pumping of carbon dioxide and methane into the atmosphere to check climate change. This has put the world in an uncomfortable position.

Mr. Trump reasoned that the deal has put disproportionate burden on the US which will have detrimental impact on the US economy. His country is the second largest polluter in the world. Also, he explicitly said that the US should not be paying for the environmental sins committed by China and India—the first and the third largest carbon emitters—at the cost of American jobs. He also announced that the US will not make any payments to the Green Climate Change Fund, which was set up to help developing countries meet the cost of climate change adaptation and mitigation as a part of the negotiation deal.

Paris Climate Change Agreement of 2015 is hailed as a landmark deal. For the first time, almost all the countries in the world came together to support one single cause—keeping average global temperature rise within 2°C by 2100. One of the main reasons for the climate change accord garnering wider acceptability—195 signatories and ratification by 147 governments—was it being non-binding agreement and the absence of enforcing mechanism. The agreement that had undergone several rounds of negotiations, with the US as an active participant, ensured that the countries were free to determine their own emission targets in the form of their Nationally Determined Contribution (NDCs). Thus, if the US felt that it had to shoulder unnecessary burden, it was free to not to fulfil its part of the deal.

The US's withdrawal may not unravel the agreement as the other large polluters—countries in the European Union (EU), China and India—have expressed their support to the pledge. They have also committed to fill the vacuum left by the US, especially in terms of funding. Former US President Barack Obama, who was one of the principle architects of the deal, expressed his disappointment but expressed hope saying, "An agreement that even with the temporary absence of American leadership will still give our children a fighting chance." Still, many countries that were reluctant participants to the accord may feel encouraged to ignore fulfilling their pledges. This can put countries in South Asia in a vulnerable position notwithstanding their mitigation actions.

Countries in South Asia have championed the deal since the beginning. The enthusiasm for this cause stems from South Asian countries' increasing vulnerability to the impacts of climate change. The Maldives faces the existential threat owning to the water-level rise. Together with Bangladesh, it had even been advocating for bringing down the climate pledge of maintaining temperature rise within 1.5 °C instead of two. The poor South Asian countries have livelihood mostly based on agriculture. It is this very sector and the farmers that are hit hardest by the erratic climate patterns. As a result of climate change, the region is already experiencing rising sea level, unprecedented glacier outbursts, erratic rain, frequent heat waves and persistent dry spells, among others. All the countries in South Asia, except Pakistan and Afghanistan, have made unconditional mitigation commitments. But their attempts mean nothing if the large polluters are not committed in checking this global evil.

All eyes are now trained on Asia to rein in the carbon emission. India has already come out and vowed to keep supporting the Paris Agreement. Indian Prime Minister Mr. Narendra Modi said that India would "continue working... above and beyond the Paris accord", calling it "part of the world's shared heritage". China, with its reiterated commitments, is being touted as the next leader in climate change negotiations after US's exist. It has already reached its estimated peak carbon emission two years ago and is now devoting more on advancing technology to develop renewable energy sources. At the same time, India has shied from committing to carbon emission reduction citing its stage on developmental trajectory which would require more energy consumption in future. However, it has pledged to replace the fossil fuel and coal with renewable energy and create carbon sinks to offset the emissions.

There have been voices opining that Paris Accord did mean nothing for its non-binding nature. Presence of the US on the deal table headed by the current president, who thinks climate change is a hoax, would have only disrupted the proceedings. But, the US withdrawal is not as scary as the prospect that it will reverse on the policies adopted so far to curb emissions of greenhouse gases. The US scientists project that such scenario would cause "three billion tonnes of additional carbon dioxide in the air a year". For South Asia, the immediate potential loss would come through the decreased availability of climate funds. South Asian countries' potential to earn from schemes like the Reducing Emissions from Deforestation and Degradation (REDD) is also going to take a backseat. The least-developed countries in the region will be ones to be affected the most.

REPORT

South Asia to remain top investment destination

According to the "World Investment Report 2017: Investment and the Digital Economy", South Asia is expected to remain one of the preferred foreign direct investment (FDI) destinations mostly due to stable flows to India and a rise in flows to Pakistan.

The annual publication of the United Nations Conference on Trade and Development (UNCTAD) projects that global investment flows will increase to almost US$1.8 trillion in 2017, continuing to US$1.85 trillion in 2018, due to a higher economic growth across major regions. However, the Report cautions about policy uncertainty and geopolitical risks that could hamper the recovery.

After a strong rise in 2015, global FDI flows had lost growth momentum in 2016. In developing Asia, the inflows declined by 15 per cent to US$443 billion. The region still remained the second largest FDI recipient in the world, with China, Hong Kong (China), Singapore and India ranking among the top 10 FDI host economies. South Asia saw the rise of FDI by six per cent, to US$54 billion. FDI flows to India were largely flat at about US$44 billion in 2016, up only one per cent from 2015. This is despite a historically high number of announced greenfield projects in 2015.

FDI to Pakistan rose by 56 per cent, pulled by China's rising investment in infrastructure related to the One Belt One Road Initiative. Some projects currently under construction under the overall framework of the China–Pakistan Economic Corridor have also attracted a large amount of foreign investment in infrastructure, especially electricity generation and transport.

FDI outflows from developing Asia rose by seven per cent to US$363 billion. This was primarily due to surging cross-border merger and acquisition (M&A) purchases by Chinese firms. FDI outflows from South Asia declined by 29 per cent to only US$6 billion in 2016, as India's outward FDI dropped by about one third. The signing of a tax treaty by the Indian and Mauritian Governments in May 2016 might have contributed to reduced round-tripping FDI.

After a high of US$44 billion in 2015, FDI inflows to the 48 least-developed countries (LDCs) contracted by 13 per cent to US$38 billion. FDI into LDCs in Asia and Oceania also retreated, by 14 per cent to US$7 billion. Despite this retreat, Bangladesh and Cambodia, two manufacturing exporters, performed well. Bangladesh became the fourth largest FDI host among LDCs with a record US$2.3 billion in inflows. China remained the largest investor in the group. Its FDI stock in LDCs was almost three times more than the next largest investor's at the end of 2015.

Official development assistance (ODA) tends to dominate external financial flows to LDCs, including FDI flows. It is due to the fact that various LDCs are major ODA recipients: Afghanistan was the second largest recipient of ODA in the world in 2015. The dip in FDI flows in 2016 made them fall behind remittances, too. Nearly 40 per cent of aggregated remittances to LDCs in the last five years (2012–2016) went to Bangladesh and more than 15 per cent to Nepal.

FDI to LDCs is expected to recover in 2017. Foreign investors are bullish about the LDCs' potential in manufacturing and services, although oil and gas will continue to dominate FDI in the near future, says the Report. South-based investors continue to show a keen interest in LDCs. Regional integration could also contribute to higher FDI flows to LDCs. Intraregional FDI, especially from China and India, is likely to grow in Bangladesh and Nepal as well, facilitated from India by shared membership in the South Asian Association for Regional Cooperation (SAARC) and from China by bilateral agreements.

The theme of this year's Report is "investment and the digital economy". The Report argues that digital economy is a key driver of growth and development. However, it comes with a host of policy challenges, including the needs to bridge the digital divide, minimize potential negative social and development impacts and deal with complex internet-specific regulatory issues.

According to the Report, international production by foreign affiliates of MNEs is still expanding, but the rate has slowed in recent years. UNCTAD's new database on State-owned multinational enterprises (MNEs) shows their growing role in the global economy. They announced greenfield investments accounting for 11 per cent of the global total in 2016, up from eight per cent in 2010. Digital MNEs are found to be making about 70 per cent of their sales abroad, with only 40 per cent of their assets based outside their home countries.

Regional cooperation for investment in internet infrastructure is expected to make infrastructure projects more attractive for international investors. Overall, a rules-based investment regime that is credible, has broad international support and aims at sustainability and inclusiveness, can help reduce uncertainty and improve the stability of investment relations.

(Adapted from the "World Investment Report 2017: Investment and the Digital Economy")

NEWS

Bangladesh's plan to burn grain for fuel threatens its food security

Bangladesh plans to begin turning some of the grain it produces into ethanol to make its fuel greener. The economists and experts warn that the move could hurt food security in a country that is already a grain importer.

Energy Ministry officials said in a gazette notification early this year that the country will begin using maize, broken rice grains and molasses to produce ethanol to mix with petrol fuel at a five per cent ratio. But in a heavily populated country that produces relatively little climate-changing emissions and that already relies on imports of maize and other grains, the result could be rising food prices, especially for the poor.

Mr. Moshiur Rahman, who convenes the Bangladesh Poultry Industries Coordination Committee, called the move to begin using grain for fuel "suicidal". Much of Bangladesh's maize is used to feed animals, including chickens. But the country grows only half of the maize it needs, importing the rest from the US and Brazil, he said, which could mean rising prices due to increased demand.

According to a study by Bangladesh's Energy Ministry, the country could produce 18 million litres of ethanol a year or about 75,000 litres each working day. That would require 60,000 tonnes of broken rice each year—about 3.5 per cent of the country's total production. Alternately, the country could produce ethanol with 62,000 tonnes of maize (2.8 per cent of production) or 97,000 tonnes of molasses (nearly all of the country's production).

The study warned that if the government scales up ethanol production beyond those levels, it will raise demand for grain to the point that it could hurt food security. But junior energy minister Mr. Nasrul Hamid said that Bangladesh needs to go for greener and more varied fuels in the future, like other nations.

Already many people face daily hunger and can manage meals only once or twice a day, experts say. Last year, Bangladesh ranked in the top 25 percent of the world's most hungry countries, according to the Global Hunger Index of the International Food Policy Research Institute. Therefore, it is a particular worry that Bangladesh decided to burn food grains to produce ethanol without taking into consideration the food security of its 160 million people.

Source: news.trust.org, 01.05.2017.

India's services proposal faces tough opposition at WTO

Several countries have deflated India's proposal for a comprehensive agreement on facilitating global trade in services at the World Trade Organization (WTO). During a special session of the Doha negotiating body on services, India introduced its 13-page draft proposal for facilitating international trade in services on the lines of what was agreed in the Trade Facilitation Agreement for goods on 3 May.

Traditional allies like South Africa and Rwanda on behalf of the African Group, and also Uganda, which coordinates the LDCs, among others, politely reminded India that it is difficult to discuss the provisions contained in India's proposal on "Trade Facilitation Agreement on Services", citing its extremely broad scope and lack of balance. The proposal is not appropriate in the current international political climate, they suggested.

Even major industrialized members of the WTO such as the US, the EU, Canada and Australia, among others, expressed sharp concerns over the proposal, stating it contains elements that are outside the remit of trade policy. The US said it needed more details as to what India seeks through the agreement, maintaining that the current environment has deepened known sensitivities, said a South American negotiator who asked not to be named.

Turkey and Switzerland, however, welcomed India's proposal, saying that they are ready to negotiate the issues set out in the proposal. Brazil and Argentina said that they were willing to participate in discussions on the Indian proposal for facilitating trade in services. China also cautiously welcomed the Indian proposal, but raised several technical issues.

India said the proposed agreement should not be viewed as a vehicle for market access and further liberalization of services. It insisted that the proposal is merely seeking modest improvements to ensure that commitments undertaken by members remain meaningful. India also clarified that the cross-border flow of information in cross-border services is not about e-commerce. It urged members not to treat improvements in temporary movement of short-term services providers in the proposal as amounting to issues of immigration.

In an unusual intervention at the meeting, a WTO official in charge of the division on services praised the Indian proposal, maintaining that members have not seen such a lively discussion for some time now. Despite the systemic concerns raised by members, the WTO official—Mr. Hamid-Abdel Mamdouh—said the Indian proposal was very refreshing from an institutional point of view, according to people present at the meeting.

Source: www.livmeint.com, 06.05.2017.

Bhutan says exit from BBIN motor vehicles pact is temporary

Bhutan's temporary withdrawal from BBIN (Bhutan-Bangladesh-India-Nepal) motor-vehicles agreement (MVA) dialogue may end up widening the scope of both bilateral and sub-regional cooperation as Ms.

Sripriya Ranganathan, Joint Secretary (Bangladesh and Myanmar) in the Ministry of External Affairs, refused to call it a pull out.

“Bhutan was finding it a little difficult to ratify the agreement. We requested Bhutan to allow us (Bangladesh, India and Nepal) to proceed with implementation, while Bhutan is to complete the process. They have responded to our request,” she said at a Delhi Policy Group conference on 5 May. A senior Bhutanese observer concurred with Ms. Ranganathan’s views. India offered this option to prime minister Mr. Tshering Tobgay-led government keeping in mind the political compulsions of poll-bound Bhutan.

The MVA has generated heat in Bhutan ever since it signed the deal in June 2015. Having unsuccessfully tried to ratify the proposal for more than a year, Bhutan finally declared last week that it was unable to proceed with the ratification process ‘for now’. The Bhutanese fear that the implementation of the deal would lead to an influx of vehicles from other countries impacting its own transporters and degradation of environment.

Considering, Bhutan already has a bilateral arrangement for seamless vehicle movement with India, with whom it shares 90 per cent of the trade; the fears were over vehicles coming from Bangladesh and Nepal. To keep the focus on the issue of flooding of foreign vehicles and the resulting loss to its own transporters, Thimpu even stopped issuing permits to Indian commercial passenger vehicles since last week.

Bhutanese observers feel this is merely a short-term disruption that would benefit the BBIN cooperation agenda in the long run. The country, they say, have merely pressed the pause button on the MVA dialogue but not on wider economic sub-regional cooperation initiatives including energy, water and water transport. Bangladesh recently invited Bhutan to use its waterways, a deal which can only be implemented if the BBIN multi-modal agreement comes into force.

Meanwhile a quick roll out of MVA between India, Nepal and Bangladesh may pave way for Thimphu’s entry in the long run, as everyone is keen to get it back on track. At a four-nation brainstorming in June first week, delegates from Nepal and Bangladesh were forthcoming in pointing out that BBIN MVA has given the option to Bhutan and other participants to apply a cap on the number of foreign vehicles entering their territory.

Source: www.thehindubusinessline.com, 07.05.2017.

EU restores GSP+ concessions to Sri Lanka

The EU has formally restored the Generalised Scheme of Preferences Plus (GSP+) concessions to Sri Lanka seven years after key beneficiary access to the country’s biggest export market was suspended. The Government’s Information Department said on 11 May that the EU Foreign Affairs Council had approved GSP plus for the country. The approval reportedly completes the three procedural requirements for Sri Lanka to receive GSP Plus status.

Sri Lanka had secured a crucial vote at the European Parliament in Brussels in April and its application was referred to the 28-member EU Council of Ministers for approval. In granting the GSP+ facility, the EU’s Foreign Affairs Council said that Sri Lanka has ratified and implemented measures contained in a number of international conventions on human and labour rights, environment protection and good governance.

The EU is Sri Lanka’s biggest export market accounting for nearly one-third of Sri Lanka’s global exports. In 2015, total bilateral trade amounted to €4.7 billion. EU imports from Sri Lanka amounted to €2.6 billion and consisted mainly of textiles as well as rubber products and machinery. The concessions are particularly valuable to the apparel, rubber products and ceramics industries.

“It is a great win for the Government and for the people of Sri Lanka,” Foreign Affairs Deputy Minister Mr. Harsha de Silva said. “Regaining GSP+ calls on Sri Lanka to open up further to attract FDI in order to diversify our export basket. We need to change our export basket from being buyer-driven to producer-driven to reap the best from this opportunity,” he pointed out.

The EU withdrew the coveted tariff concessions from Sri Lanka in 2010 in the face of the country’s deteriorating human rights record and failure to comply with its international human rights obligations under the administration of President Mr. Mahinda Rajapaksa. After his defeat at the 2015 presidential elections, the new Government reapplied for the import duty concession.

Source: www.ft.lk, 12.05.2017.

Belt and Road Forum concludes in Beijing

The first Belt and Road Forum for International Cooperation concluded in Beijing on 15 May with more than 270 deliverables achieved in boosting connectivity between countries involved in the Belt and Road Initiative, according to a joint communique released after the two-day event. The document reaffirmed the vision of the initiative "to work for a globalization that is open, inclusive and beneficial to all," and congratulated China on successfully hosting the event.

The forum, attended by more than 1,500 delegates from over 130 nations, including 29 foreign heads of state and government, was the highest-level conference on the Belt and Road Initiative since Chinese President Mr. Xi Jinping first raised the concept in 2013. At a press conference after the Leaders' Roundtable Summit, Mr. Xi announced that China had already signed Belt and Road cooperation agreements with 68 countries and international organizations and that the country would hold its second forum on international cooperation under the Belt and Road framework in 2019. He expressed his confidence in the initiative's future and called it "a long-term undertaking".

China signed Memorandum of Understanding on Belt and Road cooperation with Mongolia, Pakistan, Nepal, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Timor-Leste, Singapore, Myanmar and Malaysia. It also signed cooperation documents with a number of international organizations, including the United Nations (UN) agencies such as the United Nations Development Program (UNDP) and the UN Industrial Development Organization (UNIDO).

During the forum, the Chinese government also inked economic and trade cooperation agreements with 30 countries such as Vietnam, Pakistan, Sri Lanka, the Philippines, Indonesia, Uzbekistan and Belarus. The list also highlighted China's promises to scale up financing support for the initiative, including expanding the Silk Road Fund by about US$14.5 billion, encouraging financial institutions to conduct overseas fund business in Chinese Yuan with an estimated amount of about US$43.5 billion and providing replenishment of US$1 billion to the South-South Cooperation Assistance Fund.

Source: www.cgtn.com, 15.05.2017.

Sri Lanka calls on SAARC countries to boost trade and investment

Sri Lanka's Minister of Industry and Commerce Mr. Rishad Bathiudeen has called on the South Asian Association for Regional Cooperation (SAARC) countries to collaborate rather than compete to boost the trade and investments.

"I believe more FDIs can be sourced for SAARC if we collaborate, rather than compete. Even trade within the SAARC countries is less than six per cent," Mr. Bathiudeen said addressing a press briefing held to announce the SAARC Investment Forum & Trade Fair to be held in September. He pointed out that Sri Lanka's historic Free Trade Agreements (FTAs) started not with any distant continents but in its own backyard and more investments in South Asia can help stop the brain drain from the region where a quarter of global population are living.

The briefing was jointly organized by the Federation of Chambers of Commerce & Industry of Sri Lanka (FCCSL), and Islamabad based SAARC Chamber of Commerce & Industry (SAARC-CCI). The SAARC-CCI presented a study report on "SAARC Investment Outlook" while FCCISL unveiled its report "Eliminating Non-Tariff Barriers on Sri Lanka to Improve Trade with SAARC Countries on Selected Products". "The Indo-Sri Lanka Free Trade Agreement and Pakistan-Sri Lanka Free Trade Agreement allow more than 8000 product lines to be exported to these two markets at zero duty," said Mr. Bathiudeen. He pointed out that low time period given for SAARC visa is impacting SAARC business. Lack of investment and integration in South Asia are also reasons for these obstacles.

The SAARC Investment Forum is expected to welcome over 250 investors and will have local and foreign investors and entrepreneurs. The SAARC-CCI president Mr Suraj Vaidya called for a stop to skills migration out of SAARC region. "Our skilled employees are leaving and working elsewhere. The reason is the low investment. Drawing more FDI can create more and better employment in the region," he said.

Source: www.colombopage.com,19.05.2017.

Australia waives farm export subsidy

Australia has become the first developed member country of the WTO to eliminate the farm export subsidies from its WTO schedule of commitments. The step has been taken in line with the commitment, made by the WTO members at the Nairobi Ministerial Conference in 2015, to eliminate farm export subsidies.

According to the Nairobi declaration, WTO members have to abolish agricultural export subsidies and fix disciplines on export measures with equivalent effect. By eliminating export subsidies, WTO members have made a collective and historic contribution to delivering on a key target of the UN Sustainable Development Goal to end all forms of hunger and malnutrition.

Australia is the first WTO member among the 16 with export subsidy entitlements in their schedules of commitments to take the step of modifying their schedules, according to a press statement of the multilateral trade organisation. Australia's modified schedule is effective as of 22 May 2017, three months after the document outlining the changes was circulated to WTO members.

Source: www.thefinanacialexpress-bd.com, 27.05.2017.

ACTIVITIES

Prospects of navigation in Narayani River discussed

SAWTEE organised a dialogue on the prospects and challenges of water transport on the Gandak River Basin on 26 May, in Tribeni, Nawalparasi district, Nepal. The Sapta-Gandaki (Narayani) River flows through different parts of northern India, the Gandak River Basin, before finally mixing with the River Ganga. The event was organised under the "Expanding Tradable Benefits of Trans-boundary Water: Promoting Navigational Usage of Inland Waterways in Ganga and Brahmaputra Basins (IW project)". The event saw lively discussion regarding challenges posed by river gradient and lack of enthusiasm by public and private sector in exploring the possibility of navigation. The participants pointed out that water transport would be beneficial to revive Triveni as a river port that it used to be before the East-West Highway was constructed. Likewise, proximity to Chitwan National Park meant water transport could help attracting tourist to further down the Narayani River, bringing jobs to the area. They pointed out the prospect of increased income for the locals. The event saw participation of representatives of local authorities, political parties, boatmen, fishing community and organisations working on the environmental conservation in Nawalparasi, Chitwan, and Rupandehi districts.

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