# Trade, Climate Change and Development Monitor

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## CONTENTS

**OPINION IN LEAD**

## Harnessing waterways for commercial navigation

This year in March, India passed the National Waterways Act with a vision to transform its rivers into navigable waterways. This is a much-needed move towards realization of navigational potential of the country's colossal river network. India's decision to harness its water resource for transportation will not only be transformative for itself but may also be important for its neighbours in the BBIN—Bangladesh, Bhutan, India and Nepal—sub-region.

BBIN countries signed Motor Vehicle Framework Agreement (MVA) in June 2015 which allows free cross-border road transit for passenger and cargo vehicles across the territories of the countries. The MVA has rekindled a possibility of seamless movement of cargo in a single vehicle across countries. As a sequel to the MVA, the BBIN countries have started looking forward to a Multi-modal Transport Agreement which will encompass cross-border transit via inland waterways, along with road and rail.

Developing waterways for commercial navigation would provide the people of the region with cheaper and cleaner mode of freight transport. Moving cargo through water is cheaper than on trucks or railways. According to a study conducted by an India based Rail India Technical and Economic Service (RITES) Ltd, inland water transport would only cost INR 1.06 per tonne/km, as opposed to INR 1.41 per tonne/km for rail and INR 2.58 per tonne/km by road. Likewise, water transport offers better fuel efficiency as one horse power can ferry four tonnes of cargo on water, while the equivalent is 150 kg and 500 kg by road and rail, respectively. This makes water transport relatively less harmful to the environment.

India's push to exploit its waterways for commercial navigation would mean a lot to landlocked countries in the sub-region. Nepal and Bhutan suffer from high trading cost due to their geographical disadvantage and overdependence on India's congested Calcutta and Haldia as gateway transit ports. The commercial navigation via waterways is expected to allow consignments to be transported at their own river ports or to the nearest river ports in India, thus reducing duration and cost of transit. So far, inland water navigation is almost non-existent in Nepal and Bhutan, except for recreational purpose. India's own landlocked states such as Bihar, Uttar Pradesh and North Eastern states will have a direct access to sea through the tributaries of Ganges and Brahmaputra. Furthermore, India is already reaching-out to its far-flung states in the North-East using Bangladeshi land and waterways.

India already had six identified waterways that are not efficient and have limited infrastructure to support commercial navigation. It recently announced an ambitious plan of developing additional 105 waterways as National Waterways for commercial navigation. A pilot run of transporting goods on the National Waterways 1—on Ganges from Allahabad to Haldia—has been already started. In addition, India-Bangladesh waterways transit was also inaugurated in June this year. Indian goods were transported to Tripura through Bangladeshi inland waterways as it used to happen during the British Raj. Bangladesh has a relatively developed water transport system as 35 per cent of its cargo moves through inland waterways. On the other hand, despite 35,000 km of navigable stretch of water, India only undertakes four per cent of total cargo movement via waterways.

As demonstrated by the pilot run in August, with additional investment in infrastructure, India and Bangladesh are in position to start commercial cargo movement through their waters. However, for Nepal and Bhutan making its torrential Himalayan river navigable is bit of a Herculean task. To maintain a certain level of least available depth (LAD) for navigation throughout the length of the river, these countries will be required to build high dams which will alter natural course of water and cause large scale inundation. Thus, decision to pursue inland navigation needs to be taken only after carefully assessing economic, social and environmental impact of constructing such infrastructure.

Meanwhile, trans-boundary water sharing is a politically charged issue in South Asia. Repercussions of the three major riparian agreements between India and Nepal and even of the construction of Farrakha Barrage in India have shown that such undertakings leave deep political unrest across borders. Thus, in the immediate future, commercial connectivity of the sub-region via inland navigation still is a distant dream. Moreover, gaining access to waterways for transit transport would not bring down trading costs and bottlenecks if the transit providing countries insist on the existing procedures such as need of additional locks, loading and unloading of cargoes among others.

Having trans-boundary inland water network in the sub-region will definitely result in better connectivity between BBIN countries. With the progress in the proposed Multi-modal Transport Agreement, along with the development of the functional waterways navigation, transit transport is expected to become lot less expensive and swifter. The onus is on the participating countries to develop mutual trust and workable modalities for the realization of this ambitious plan.

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## ANALYSIS

### Slowing world trade

Global trade is in a grim state. Between 1985 and 2007 trade volume was almost double the size of the global GDP. Since 2012 the rate of growth has barely kept pace. Things appear to be getting worse. On 27 September, the World Trade Organization (WTO) slashed its forecast for growth in trade of goods from 2.8 per cent in 2016 to just 1.7 per cent, implicitly predicting that for the first time in 15 years, trade would grow more slowly than GDP.

Trade lets countries specialise, it allows ideas to spread and it promotes healthy competition. Policymakers interested in economic growth should be asking why it is so weak.

Trade depends on a mix of demand and supply in different countries. It can be bunged up by protectionism, and deflated by depressed economies (exports and imports depend on demand). It also depends on more benign factors.

The rapid growth of the 1990s and early 2000s was itself unnaturally high. Two forces added momentum to trade over that period: the falling costs of doing business across borders and China's entry into the global market. Lower costs encouraged a web of supply chains to form, so that parts that were previously manufactured domestically could be shipped and assembled in foreign countries. Now that costs are not falling as quickly, the process may have run its course. Second, China's spectacular economic growth over the 2000s was driven by huge increases in investment, which gobbled up imports such as oil and iron. As China switches to a more consumption-led approach to economic growth, the growth in trade volumes will naturally slow down.

Analysis in the International Monetary Fund's (IMF) October 2016 World Economic Outlook, published on 26 September, tries to separate the factors at work. China's transition explains around a sixth of the slowing growth in Asia's exports in 2014-15, and less elsewhere.

Looking at historical relationships between trade and demand, the report finds that the world's general economic funk is by far the biggest culprit—the IMF expects global GDP to grow at 3.1 per cent in 2016, markedly slower than the 3.4 per cent enjoyed two years ago. Comparing 2003-07 with 2012-15, some three quarters of the trade slowdown is explained by weak global demand. Weak investment growth is a particular drag—in both advanced and emerging economies. Other factors such as protectionism account for a smaller share of the decline in global real import growth annually since 2012.

This is frustrating for policymakers. Boosting demand sounds nice in theory, but it can be pretty hard to do in practice (as monetary policymakers have discovered). But they are not powerless. GDP growth and trade tend to feed off one another, and so pepped-up trade could start a virtuous cycle. One way is to ratify and implement international agreements to lower trade barriers, such as the Trans-Pacific Partnership between America and 11 other countries around the Pacific Rim, or the Regional Comprehensive Economic Partnership, a trade deal under discussion that includes India and China.

But passing these deals requires political will and convincing some disgruntled electorates, at a time when anti-globalisation rhetoric is thick in the air. If politicians really want to boost trade, they could start by trumpeting its virtues.

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**NEWS**

### Nepal-India Trade Treaty renewed for seven years

The Nepal-India Treaty on Trade and Transit has been extended for another seven years from 27 October 2016 without any changes in the existing treaty that was revised the last time on October 2009.

The joint commission meetings led by the foreign ministers of both countries held in New Delhi on 26 and 27 October noted the automatic renewal of the bilateral trade treaty. Though the treaty was renewed automatically for the next seven years, if needed, its provisions can be amended or modified in the future through a letter of exchange. The inter-governmental committee meeting led by commerce secretaries of both nations in June this year had agreed to the automatic renewal of the treaty considering the flexible provision of modification on mutual consent.

There was a debate in Nepal regarding revision of the treaty to make it more contextual and to harmonise it with other multilateral and regional trade agreements. As per the current provision of the treaty, any preference that Nepal extends to any country other than India will have to be extended to the southern neighbour as well.

The Nepal-India Trade Treaty offers many preferences to Nepal on non-reciprocity basis, but under Article IV of the treaty, Nepal must also provide reciprocal treatment to the Indian goods. In this regard, the country needs to exempt customs duties and quantitative restrictions on primary products. So, as per the treaty, Nepal partially exempts customs duties on imports from India. But the rampant import of agricultural goods from India has hurt Nepal's agriculture base.

Similarly, the private sector has long been laying stress on harmonizing the provisions of the bilateral trade treaty, especially on value addition calculation of goods and rules of origin criteria. Another major issue that has been raised by the private sector is elimination of quantitative restrictions. The prevailing treaty imposes tariff rate quota on vegetable fats, acrylic yarn, copper and zinc oxide. However, Nepal and India are both members of the WTO which prohibits such tariff rate quota on manufactured goods.

According to officials, they did not pursue amendment in the treaty this time due to the recent obstruction in Indo-Nepal trade. For revision, one of the contracting parties must give a prior notice of three months.

*Source: www.thehimalayantimes.com, 27.10.2016.*

### Environmental Goods Agreement negotiators prepare for December deadline

A group of 17 WTO members—counting the 28-nation EU as one—negotiating tariff cuts on select environmental goods will engage in a busy schedule of consultations over the coming weeks in a bid to secure a deal in time for a ministerial meeting in early December. Several sources confirmed that while the latest round of talks for an Environmental Goods Agreement (EGA) yielded good progress, some key aspects still need to be worked out. This includes making decisions on whether to include certain products, finalising a text with appropriate modalities and institutional arrangements, as well as determining the level of "critical mass" participation for the deal to enter into force.

The 16-20 October round held in Geneva, Switzerland, featured a series of small group meetings, which sources said, was a slight change in approach from the earlier process of having participants meet primarily on a bilateral level and in plenary. In those small groups, participants focused on a handful of product categories which were identified as relatively contentious by the EGA talks' chair, Andrew Martin of Australia. The small group discussions were attended by proponents and opponents of select products, allowing negotiators to refine their understanding of different participants' relative priorities and sensitivities, and suggest compromises.

According to some sources, potential solutions included offers to further sharpen "ex-out" descriptions to clearly capture the environmental good within broader trade tariff classifications, or to allow for tariffs to be eliminated over a longer time period for select commercially sensitive items. The latest round also saw several participants show conditional support for some products, depending on the balance of the final deal. Participants additionally discussed some text-related issues during bilateral exchanges.

*Source: Bridges Weekly Trade News Digest, Vol. 20, No. 36, 26.10.2016.*

### India-Pakistan tensions hit climate finance

A project in South Asia to minimize the risk of glacial lake outbursts was kept on hold following the objections raised by India during 14th board meeting of Green Climate Fund (GCF) held in Songdo, South Korea.

There was considerable acrimony at the board meeting when the representative of India objected to the US$37 million project meant to reduce the risk of glacial lake outburst floods (GLOF) in northern Pakistan. The project is supposed to be carried out by the United Nations Development Program (UNDP). Many of the activities under the project are planned in Gilgit-Baltistan, a disputed area under the administrative control of Pakistan.

Talking about the countries that are under threat from GLOFs in the Himalayas, Mr. Dinesh Sharma, a Special Secretary in India's Ministry of Finance, objected to the exclusion of India from the list in the project proposal. Mr. Sharma stressed that his objections were not political but technical. According to him, the proposal had assumed there would be no GLOF during the five years when construction under the project was going on, and which he called a faulty assumption citing a number of GLOFs in the region in the last few years.

After two days of debate and closed-door negotiations, the project was approved after the parties agreed to carry out an independent technical assessment to study its feasibility. The report of this assessment will be submitted to the board and the money for the project will be given only if the board approves the report.

The board meeting of GCF also approved ten more projects worth US$745 million to control greenhouse gas (GHG) emissions and to help adapt to climate change effects. At the meeting, the board appointed Howard Bamsey of Australia as the GCF Executive Director for the next four years.

*Source: www.thethirdpole.net, 25.10.2016.*

### Pak-Afghan trade halves 'due to transit trade glitches'

Former deputy trade minister of Afghanistan Mr. Muzamil Shinwari has said that bilateral trade with Pakistan has declined substantially due to 'problems' in transit trade. "If these problems are not addressed, bilateral trade could witness further decline," warned Mr. Shinwari, who was the chief negotiator for the 2010 Afghanistan-Pakistan Transit Trade Agreement (APTTA).

Mr. Shinwari said that the Pak-Afghan trade volume was US$2.5 billion in 2010 which has now come down to US$1.8 billion cautioning a further decrease in bilateral trade if transit trade through Pakistan is not facilitated. Pakistani officials used to say earlier that Afghanistan imports nearly 60 per cent of items from Pakistan; however, diplomatic tension has affected trade relations. "If the transit trade is affected, it would have a direct impact on bilateral trade as both are inter-linked," Mr. Shinwari argued. "Afghan traders, involved in transit trade, used to buy goods in markets in Karachi, Lahore, and Faisalabad. But now they would divert to Iran where they can buy goods in Zahidan, Mashhad and Tehran," he said.

Mr. Shinwari claimed that Pakistan had agreed during the APTTA negotiations in Islamabad to allow Afghanistan use the Wagah border with India in the presence of then United States secretary of state, Mrs. Hillary Clinton, and former prime minister Mr. Yousaf Raza Gilani. "Pakistan had sought time for the implementation of the agreement but assured us that Afghanistan would start imports from India via Wagah in the near future, which never happened," Mr. Shinwari said. "We allow Pakistani goods to be transported via Afghanistan to Tajikistan, Turkmenistan and Uzbekistan and even Russia and Europe. If Pakistani goods are exported to Central Asia, Afghanistan has the right to use Pakistan's territory for trade with South Asia," he insisted.

*Source: www.tribune.com.pk, 24.10.2016.*

### Food security left out of Oslo WTO meet agenda

India, China, Indonesia, among other major developing countries, have been left high and dry in the trade agenda to be discussed at a mini-ministerial summit of select countries on 21 and 22 October in Oslo, as their core bread-and-butter issues impinging on the lives of hundreds of millions of people are unlikely to be addressed at the WTO's 11th ministerial meeting next year, according to the "concept paper" issued by Norway.

Issues such as a permanent solution to public stockholding programmes for food security and a special safeguard mechanism to curb unforeseen surges in imports of agricultural products are being pushed to the future—beyond 2017. A permanent solution to public stockholding programmes for food security ought to have been concluded by December 2015, based on a general council decision, failing which it must be concluded by the eleventh ministerial meeting, according to the Bali ministerial decision of December 2013. New Delhi's attempts to initiate a discussion on trade facilitation in services, for removing barriers in the global trade in services, did not figure explicitly in the concept paper, though issues concerning domestic regulation in services are suggested.

Significantly, issues such as e-commerce/digital trade, disciplines for micro, small and medium enterprises (MSMEs), and fisheries subsidies, which are at the heart of the trade agenda being advanced by the United States and its allies in the industrialized world as well as some developing countries, are highlighted as primus inter pares, or first among equals, in the concept paper. Furthermore, it aims to discuss how the high standards negotiated in various bilateral, plurilateral, and regional trade agreements such as Trans-Pacific Partnership (TPP) can be brought into the WTO rulebook.

*Source: www.livemint.com, 19.10.2016.*

### BRICS development bank to lend US$2.5 billion next year

The development bank set up by the BRICS group of emerging economies will ramp up lending to US$2.5 billion next year after making its first loans to back green projects. The BRICS—Brazil, Russia, India, China and South Africa—agreed to create the New Development Bank (NDB) in July 2014 with initial authorized capital of US$100 billion. The lender was officially launched a year later.

The first head of the Shanghai-based NDB president Mr. K. V. Kamath speaking on the fringes of a weekend BRICS summit hosted in the Indian resort of Goa by Prime Minister Narendra Modi, said that the bank is scaling up, concentrating on people, getting all the skillsets in. The gathering seeks to add substance to the group that grew out of an acronym devised by Goldman Sachs economist Mr. Jim O'Neill back in 2003 that projected a long-term boom and global power shift in their favour.

With Russia, Brazil and South Africa on the economic skids and China slowing, the initial euphoria has faded, yet Mr. Kamath said the BRICS had much to gain by deepening their cooperation. "The fact is that these countries, collectively, have for the last few years contributed to more than 50 per cent of incremental economic wealth that has been generated globally," said Mr. Kamath. "I don't see that changing."

The NDB, headquartered in Shanghai, has already approved loans totalling US$900 million to green projects in each member state. It has also started a renminbi-denominated borrowing program, issuing a three billion Yuan (US$450 million) bond.

Mr. Kamath, said there was plenty of room for new lenders like the NDB and the Chinese-led Asian Infrastructure Investment Bank (AIIB), in addition to established institutions like the World Bank. "Infrastructure alone has needs globally of US$1-1.5 trillion a year—all the multilateral banks put together can do maybe 15 per cent of this," said Mr. Kamath, who ran India's ICICI Bank Ltd from 1996 until 2009.

*Source: www.reuters.com, 16.10.2016.*

## ACTIVITIES

### Dissemination meeting of the Trade and Transport Facilitation Audit in South Asia

SAWTEE organised a regional meeting to disseminate the findings of the studies conducted under the project “Trade and Transport Facilitation Audit in South Asia” on 29-30 September. The overall goal of the project was to contribute in enhancing economic integration in South Asia by identifying trade- and transport-related bottlenecks in the region and estimating the required investment. With support from the Australian Government’s Department of Foreign Affairs and Trade (DFAT), the project was implemented across South Asia with support from the member/partner organizations, namely Centre for Policy Dialogue (CPD) in Bangladesh; Consumer Unity and Trust Society (CUTS) International in India; Sustainable Development Policy Institute (SDPI) in Pakistan; and Institute of Policy Studies of Sri Lanka (IPS) in Sri Lanka.

“Trade and Transport Facilitation Audit”, based on a toolkit developed by the World Bank was conducted under the project in all South Asian Association for Regional Cooperation (SAARC) countries to assess their trade and transport facilitation status. The study examined difficulties, obstacles and inefficiencies in the cross-frontier movement of routine consignments with a focus on regulatory and transport procedures and supporting infrastructure. The study also appraised the transit procedures and estimated the investment requirements for priority trade facilitation measures.

The dissemination meeting brought together government officials, practitioners, private sector representatives, media personnel, academics and various other stakeholders to share their knowledge and experience in trade and transport facilitation across South Asia. The meeting also saw participation of some high-level dignitaries from the region, including the Honourable Commerce Minister of Nepal Mr. Romi Gauchan Thakali; Representative of the Secretary General of SAARC, Ms. L. Savithri, Director for Trade, Finance and Economics, SAARC Secretariat; and Mr. Suraj Vaidya, President, SAARC Chamber of Commerce and Industry, Islamabad.

### Ninth South Asia Economic Summit (SAES IX) organised

The Ninth edition of the South Asia Economic Summit (SAES IX) was organized and hosted by the Centre for Policy Dialogue (CPD) from 15-16 October in Dhaka. South Asia Watch on Trade, Economics and Environment (SAWTEE) was one of the co-organisers of the event along with Institute for Policy Studies (IPS), Colombo, Research and Information System for Developing Countries (RIS), New Delhi, and Sustainable Development Policy Institute (SDPI), Islamabad. The overarching theme of SAES IX was “Reimagining South Asia in 2030”. Deliberations at SAES IX focused on envisioning a South Asia which by 2030 will be an upper middle income region with a high GDP growth rate, a strong middle class, zero hardcore poverty and hunger, sustainable cities, and structurally transformed economies with a strong manufacturing sector. A common thread throughout the discussions was that South Asia is the least economically integrated region in the world, and there is a lot the region could achieve with regional cooperation on various socio-economic issues that are important to the countries in the region.

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