Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Energy cooperation and trade in South Asia

The SAARC Framework Agreement for Energy Cooperation (Electricity) concluded between the South Asian Association for Regional Cooperation (SAARC) member states during the 18th SAARC Summit held in Kathmandu on November 2014 has paved a way for the growing prospects intrade of energy—as any other commodity—to support the growing power demand in the region.

Despite consistent economic growth in the region for the past few years, per capita energy consumption in South Asia has been frustratingly low. The region, with a low rate of electrification, presents a bleak picture when it comes to energy security and access. Thus, the opportunity for energy cooperation and trade remains pivotal to fuel growth potential of the region.

The region collectively has a potential to supplement the energy needs and subsequently contribute to socio-economic development of the region. It is often argued that the South Asian countries will benefit substantially from greater integration through energy trade, commerce and river basin management. However, there are several factors that hinder energy trade in the region. The lack of infrastructure and investment, political issues and geographical barriers are the most dominant ones.

The agreement is also expected to address broader issues in electricity trade such as enabling institutions and infrastructures for cross border trade in electricity, the development of a common regulatory mechanism and the waiving of customs fees, to name a few.

There is also a need to take into consideration that even within the electricity sector, there exists a vast asymmetry between liberalized Indian electricity market and domestic markets in other South Asian countries. It is thus important, as also stipulated by the Agreement, for the South Asian countries to heavily reform their electricity sector to put in place institutions and regulations to expedite electricity trade within the region

In a recent two-day conference held in Paro, Bhutan on 24-25 July, 2015 SAARC Chamber of Commerce and Industry (SAARC CCI)—South Asia's apex body for private sector—has proposed an Energy Charter Treaty for the protection and promotion of foreign investments in energy sector in the region. Such treaty is thought to be important to facilitate free trade in energy-related materials, products and equipment based on the World Trade Organisation (WTO) rules. The Conference has called for a public-private forum to promote seamless energy trade in the region, the freedom for transit of hydrocarbons via pipelines and the extension of most-favoured nation status between and among the countries.

Electricity trade, however, is not a new thing in South Asia. India-Bhutan, India-Nepal and India-Bangladesh grids are already interconnected and bilateral cross-border electricity trade is already taking place. India exports power to Bangladesh and Nepal. Bhutan has electricity as the main export commodity with India as the sole importer. The SAARC grid, which would connect India with its neighbouring countries with cross-border transmission network, is currently evolving and is expected to be completed by 2016. Bangladesh and Nepal are reportedly going to set up state-owned power traders to maximize the benefits of electricity trade.

The role of India remains instrumental in enhancing electricity trade in South Asia. India should not only provide transit to transmission lines, but should also play significant role in building necessary infrastructure for electricity trade as financing transmission lines and power generation facilities remain a huge challenge for the other countries of the South Asian region.

It is most likely that the financing agencies such as the World Bank and the Asian Development Bank, which are already financing power sector in the region, will also provide significant contribution to finance infrastructure for electricity trade in the region. Opening up the 'economic and/or infrastructure window' of the SAARC Development Fund (SDF) that has been dormant until now can also be an important move in this regard. There is also a need to scale up the investment through some innovative financing mechanism, for example though the proposed SAARC Development Bank which could also help set-up necessary infrastructure for electricity trade.

The development of power corridor between Afghanistan, Pakistan and India can link South Asia to petroleum and gas-rich Central Asia through Afghanistan. However, amid the continued conflict between these countries, it seems far from being realised in the near future. In this regard, the example of successful energy trade between Thailand and Myanmar amid political tensions can be a good lesson for the region which needs to refrain from entangling regional cooperation and politics and work towards mutual benefits.

Amidst all this we can only hope that South Asia will move forward in the direction of energy cooperation which remains important for the region to tread in the direction of cooperation in other energy sources, and moreover on the contentious issue of water sharing. This is not only important to increase accessibility and affordability of electricity among millions of under-privileged people in the region but may also help in reducing political hostilities between the countries, in addition to fuelling regional economic growth.

REPORT

Risk assessment necessary for effective actions on climate change

The realization of the threat of climate change has forced many countries to formulate policy responses to it. Currently, 196 countries are preparing to sign a new global agreement on climate change duringthe United Nations Climate Change Conferenceto be held in Paris this December. But according to a new report on the risks on climate change—*Climate Change: A Risk Assessment*, the risks of climate change are likely to be greater than arecommonly realized and thus, existing plans to curb carbon emissions would only heighten the chances of crossing important thresholds "beyond which the inconvenient may become intolerable".

Highlighting the magnitude of the problem, the report aims to inform the most important decision any government has to make about addressing climate change, i.e. how much effort should be put into adapting and mitigating the impacts of climate change. The report takes a holistic approach to consider all relevant factors that are necessary to better understand the risks of climate change and presents existing knowledge in a way that is consistent with the principles of risk assessment. In this regard, the assessment considers four main areas: (i) future pathway of global greenhouse gas emissions; (ii) direct risks to human interests; (iii) systematic risks arising from interactions between changes in the physical climate and human system; and (iv) risk valuation of all expected changes.

The report states that without increased political commitment and an acceleration of technological innovation, the likelihood of following a pathway in which emissions fall rapidly and approach zero by the end of the century is very low. Currently, governments are not fully exploiting available green technologies to reduce emissions, and technology is not progressing fast enough to give governments the policy options they need to do so. More importantly, the report argues that the direct risks of climate change are non-linear, thus opening up the possibilities of wide range of global temperature increases as high as 7 degree Celsius by the end of the century. Considering the impact of heat stress on the human body as is evident by fatalities due to heat wave in many hot countries, global temperature rise of around 5 degree Celsius will increase the probability of individuals experiencing unsafe climatic conditions with fatal consequences. Also, crops have limited tolerance for high temperatures and if/when critical thresholds are exceeded, yield may be dramatically reduced and could thus pose very high risks to global food security.

In South Asia, rising temperature could slightly offset otherwise increasing risk of water stress, but drastically increase the risk of flooding. Drought in Afghanistan and Pakistan, and frequent flooding and loss of land to sea in Bangladesh could precipitate large-scale migration into India. Considering such direct risks of climate change, it is imperative for countries to seek out non-linear, discontinuous, transformational change through strong political leadership and efficient use of existing green technology.

In addition to direct risks associated with climate change, the report argues that greater systematic risks may also arise from the interaction of the climate with complex human systems such as global food markets, governance arrangements and international security. The increase in the frequency of extreme weather events due to climate change will undoubtedly have a significant impact on global food production, which could be amplified by policy and market responses, and consequently lead to unprecedented price spikes and widespread food insecurity. Moreover, extreme water stress and competition for production land could become sources of conflict and increase the risks of state failure.

Political tensions over water have already arisen in South Asia with respect to the Indus, Ganges, and Brahmaputra rivers (India, Pakistan, Bangladesh and China). But while it is clear that climate change could lead to significant economic as well as human losses, understanding the gravity of the impacts of climate change calls for the valuation of these risks, a necessary but subjective exercise. According to the report, standard economic estimates of the global costs of climate change are highly sensitive to scientific assumptions and to judgements about the value of human life. Moreover, some of the impacts of climate change could be non-monetary, while many others may be difficult to quantify, leading to underestimation of risk.

But while the risk of climate change is greater than estimated, the assessment report rightly argues that our capacity to confront such risks is also greater than that has been realized, which implies that there exist opportunities to make more informed decisions on climate change. Since the impacts of climate change is likely to get worse over time, it is necessary to have a long-run approach when conducting risk assessment. It is also equally important to involve broader participation of experts to ensure that the various facets of climate change are adequately considered when assessing the risks of climate change. Moreover, considering that a risk assessment aims to inform the government/decision makers on the need and ways to adapt or mitigate the risk of climate change, assessments of such risks should report directly to those with the responsibility for governance. Armed with better understanding of the risks of climate change and commitment to counter climate change, governments can gauge the level of threat posed by climate change and accordingly prioritize their responses to effectively address the imminent threat of climate change.

(Adapted from, King, David, Daniel Schrag, Zhou Dadi, Qi Ye and Arunabha Ghosh. 2015.Climate Change: A Risk Assessment. Accessed August 8, 2-15. http://www.csap.cam.ac.uk/media/uploads/files/1/climate-change--a-risk-assessment-v10-spreads.pdf

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NEWS

Bangladesh now middle-income country

Bangladesh has been ranked a lower-middle income country for its improved economic performance in the past year, according to the World Bank.With this, the country has moved out of the low-income threshold for the first time.

The global agency's estimates show Bangladesh's gross national income (GNI) per capita touches that ofthe countries that have annual GNI between US$ 1,046 and US$ 4,125.The World Bank has categorised the middle-income countries in two groups, namely lower-middle income and higher-middle income countries.

Professor Mustafizur Rahman, Executive Director at the Dhaka based think-tankCentre for Policy Dialogue (CPD)said, “It is the recognition and reflection of continuous economic development of the country. It is obviously a great achievement for us and a landmark as well.”

He said the achievement will enrich reputation and uplift the status of Bangladesh to the world. A relatively advantageous position will be created for the country to get loans from the international money market, he pointed out. "Bangladesh now will be considered as a less risky country."However, the country will stay in the least-developed country (LDC) group as it is yet to overcome other indicators to graduate out of the LDC category.

According to Bangladesh Bureau of Statistics (BBS), per capita income in Bangladesh is US$ 1,314. But the World Bank shows the income to be just above US$ 1,095.The World Bank’s latest estimates of GNIper capita continue to show improved economic performance in many low-income countries, with Bangladesh, Kenya, Myanmar, and Tajikistan now becoming lower-middle income countries, joining those with annual income threshold between US$ 1,046 and US$ 4,125.

The World Bank on 1 July every year revises the income classification of the world’s economies based on estimates of GNI per capita for the previous year.

Source:http://en.prothom-alo.com/, 02.07.2015.

GCF of US$ 100 bn/year not enough to tackle climate change: India

India has said that the commitment by some developed nations to generate US$ 100 billion towards Green Climate Fund (GCF) every year by 2020 will not prove sufficient to tackle the climate change issues. India, which is in the advanced stage of finalising its Intended Nationally Determined Contributions (INDCs), also said pre-2020 actions to tackle climate change should be "ambitious", while stating that the countries which had pledged to cut carbon emissions should fulfil their commitment even if a new global pact is arrived at in Paris later this year, for post-2020 implementation.

INDCs are voluntary pledges that countries are making to cut carbon pollution ahead of UN climate meet in Paris at the end of the year. The meeting is supposed to come out with a new global climate agreement.

"We are at a fairly advanced stage of finalising our INDCs. We will submit our INDCs before the September deadline. Already, some 40 countries have declared their INDCs”, Environment Secretary Ashok Lavasa said at anevent in New Delhi on 14 July. Asserting that India believes in having "comprehensive" INDCs, Lavasa said that INDCs should not confine to mitigation goals alone but reflect the developed countries' commitment towards mobilising finance and green technologies.

The Secretary further said that though some developed countries have committed to provide US$ 100 billion per year towards the GCF by 2020, but certainly the funds are not enough to tackle the climate change issues. "We all know that transfer of technology and R&D—all requires capital resources. Certainly, US$ 100 billion may not be enough to solve the problem of climate change," he said.

The GCF was set up under the framework of the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 and developed countries had committed to raise US$ 100 billion each year by 2020 to help developing countries deal with climate change.

Even at the Petersburg Climate Dialogue in May this year, India had sought clarity on ways to mobilise the targeted global climate fund saying the developed countries are "nowhere" near the goal and this raises question on the credibility of the commitment.

Source: http://www.business-standard.com/, 14.07.2015.

Both India and Pakistan need to ease trade restrictions

Pakistan Business Council (PBC)—a private sector not-for-profit business policy advocacy forum—has said that Pakistan's Non Discriminatory Market Access (NDMA) to India will lead to a mutually beneficial trade relationship only if India agrees to gradually ease its Non-Tariff Barriers (NTBs).

In its latest report on Pakistan-India trade, PBC, which represents Pakistan's 47 largest enterprises including multinationals, said the country must build capacity to support its exports and protect the local industry from subsidised imports from India.

The report also said that details and time-frame of India's promised concessions to Pakistan must be determined and considered before granting NDMA.

India's concessions to Pakistan must be consistent with its concessions to other South Asian Free Trade Area (SAFTA) countries such as Bangladesh and Sri Lanka to ensure Pakistan gains fair access to the Indian market post-NDMA.SAFTA came into force in 2006 resulting in tariff concessions by both, India and Pakistan along with the other South Asian neighbours.

India granted Most Favoured Nation (MFN) status to Pakistan in 1996, which Pakistan has to reciprocate being a signatory of the WTO. The final step towards normalised trade relations between the two countries is thought to be NDMA status for India to be granted by Pakistan. The PBC study argues for caution in granting India NDMA given the current challenges faced in Pakistan-India trade.

Pakistan's exports to India grew from US$158 million in 2004 to US$392 million in 2014, but it could only claim 0.09 percent of total Indian imports from the world in 2014. India's exports to Pakistan grew much more significantly over the period under consideration, from $454 million to $2.1 billion, but it too could only claim 0.63 percent of total Pakistani imports from the world in 2014.

The study finds that there is a significant potential for trade between Pakistan and India and offers analysis of high potential export products at 6-digit level.

India, in addition to possessing very high export capability to Pakistan, offers substantive support to its producers in the form of subsidies and export support schemes and maintains intractable NTBs to discourage imports, the report noted.

Pakistan also possesses considerable export potential to India, but it offers little support or protection to its producers and exporters, and has relatively low NTBs, according to the report.

Source: http://tribune.com.pk/, 16.07.2015.

UN approves new development financing framework at Addis meet

After months of tough preparatory negotiations, UN member states meeting in Addis Ababa, Ethiopia last week agreed to a revised global framework for development finance, aligning flows with a range of economic, social, and environmental priorities.

The 39-page “Addis Ababa Action Agenda” outlines a series of principles that countries agree should underpin development financing efforts in the context of an emerging sustainable development architecture. These included building resilience to economic shocks in an interconnected world; recognising the risks posed by climate change and environmental degradation; and reaffirming the importance of freedom, the rule of law, and good governance.

A set of seven action areas are identified in the document, with policy efforts defined under each to scale up the means to deliver sustainable development. The areas cover domestic public resources; domestic and international private and business finance; international development cooperation; international trade; debt and debt sustainability; systemic issues; science, technology, innovation and capacity building.

“The Addis Ababa Action Agenda points the way for all stakeholders for smart investments in people and the planet where they are needed, when they are needed, and at the scale they are needed,” UN Secretary-General Ban Ki-moon said in a statement at the close of the meet.

UN officials also said the document features several new policy deliverables. These include the decision to establish a technology facilitation mechanism to boost stakeholder collaboration in support of sustainable development.

The mechanism will be composed of an inter-agency UN team; a multi-stakeholder forum on science, technology, and innovation for a new set of sustainable development goals; and an online platform to facilitate access to information. Various stakeholders welcomed the move, noting that technology has not been included as extensively in past financing for development outcomes.

The document encourages countries that have not yet done so to achieve a target of spending 0.7 percent of GNI on official development assistance (ODA). The 28-member European Union collectively pledged to dedicate 0.20 percent of GNI as ODA to the LDCs.

Source:Bridges Weekly Trade News Digest, Vol. 19, No. 27, 23.07.2015.

Pre-shipment inspections, brokers needed to remove trade barriers

The Ministry of Commerce and Supplies (MoCS) has said that Nepal could carry out pre-shipment inspections and use customs brokers in order to remove barriers to the free movement of trade goods. These are the measures a country should be able to implement to get technical assistance for infrastructure development and legal reforms from the WTO.

According to the MoCS, Nepal has started using customs agents to clear the customs process of both imported and exported goods. “We are all set to implement the pre-shipment inspection process,” said Naindra Prasad Upadhyay, Secretaryatthe MoCS.

The pre-shipment inspection process includes appointing permanent agents in countries with which Nepal conducts trade to deal with customs related obstacles there. These measures have been taken in line with the Trade Facilitation Agreement (TFA) signed during the WTO meeting in Bali, Indonesia in 2013. The TFA aims to fast track any movement of goods among countries by cutting down bureaucratic obligations. The landmark initiative was unveiled by the WTO on 22 July 2014. It seeks to help the developing countries and the LDCs reap the benefits of the TFA. These countries are expected to receive technical assistance from the WTO through this initiative to enable them to conduct free trade globally.

The aforementioned two measures come under the A category of the TFA which should be notified to the WTO within a year after the country is prepared to implement it. Following the notification, a country like Nepal can get technical assistance from the WTO to conduct legal reforms and manage the necessary infrastructure to facilitate trade.Similarly, legal reforms come under the B category of the TFA. Institutional capacity building, infrastructure development and enforcement of information technology come under category C.

Mina Aryal, Under-secretary at the MoCS, said Nepal had started work to assess the country's ability to carry out legal reforms and manage the infrastructure necessary to facilitate trade.Aryal said the ministry was ready to notify the WTO regarding its readiness to implement clauses under category A. "The progress notification in this category could open up avenues for the country to receive technical support to enforce the conditions in the other two groups," she said. "Regarding the clauses in the other two groups, we will start studying which clauses the country can implement on its own and which it cannot."

Presenting a paper, Allen Bruford, representative of the World Bank, said the TFA would provide technical assistance after assessing the country's position in its legal framework, human resource capacity and infrastructure to facilitate the free movement of goods.

Source: http://www.ekantipur.com, 29.07.2015.

Activity

Experts discuss economic aspects of the draft constitution

SAWTEE organized a discussion programme on the economic aspects of the draft constitution on 20 July 2015in Kathmandu. Senior economists, representatives of the private sector, bankers and other expert-stakeholders participate in the discussion to prepare a set of suggestions to be considered when finalizing the constitution.

Dr Posh Raj Pandey, Chairman, SAWTEE, said that the provisions of the constitution should be instrumental for the creation of prosperous and just Nepal. "But the draft—that will write the fate of generations to come—includes several contradictory provisions which may obstruct economic and social transformation as dreamed during the people's movement ", he added. He pointed out that we have not assessed the financial obligations created to the state—as well as in defining governance structure and state apparatus—in ensuring rights, such as that of free health and education, of employment and food security, among others, enshrined in the rights of the citizens. He also cautioned that assigning banks and financial institutions to the federal states would jeopardize the growth and stability of the financial system. He further said that the draft constitution is not coherent with Nepal commitments at the international, regional and bilateral levels, such as providing national treatment to foreign investors.

Mr Pashupati Murarka, President, Federation of Nepalese Chambers of Commerce and Industry (FNCCI), demanded that the 'socialist' word used in the draft be termed 'democratic socialism' as there is no possibility for Nepal to deviate from the market-led economy. He was of the view that the draft talks about the rights of the labourers, while it is silent on the rights of the private investors. He demanded that the constitution explicitly mention that no industrial property will be nationalized. He further opined that the federal government should have all the rights of imposing indirect taxes and income taxes so that duplication of taxes will be avoided. He further said that the prerogative rights on the natural resources conferred on the locals proposed by the draft will deter investment in harnessing natural resources.

Dr Shankar Sharma, Former Vice Chair, National Planning Commission (NPC), was of the view that the federal government should make investments on important sectors such as education, health and agriculture for equitable and sustainable development of these sectors that are the backbone of development for any country. He suggested that state obligations on sectors such as health and education should be based on states' ability to provide such services as directive principles on progressive realization that the state can ensure such services on the basis of economic viability.

Dr Yuba Raj Khatiwada, Former Vice Chair, NPC and Former Governor, Nepal Rastra Bank (NRB), was of the view that the constitution should not be like a 'plan document' of the government. He pointed out that the issues that should be covered under 'social security' have been included in the fundamental rights, which will pose an unlimited responsibility to the state coffers at the cost of capital formation. He opined that the private property should not be nationalized by the government, while the natural resources should be owned by the state. He further suggested that the new constitution should include air space of Nepal as the country's territory.

Altogether 39 experts participated in the discussion.

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