

A Report of Proceedings

Looking at Future Challenges of the International Trade Regime from South Asian Perspectives June 22, 2009, Jaipur, India

Introduction

CUTS International organised a conference on the future challenges facing international trade regime from the South Asian perspective in Jaipur, India, on June 22, 2009. This event discussed the emerging issues relevant to the South Asian countries in the global trading system and further assessed the way forward for them. The key objectives of the conference was to discuss future challenges facing the international trade regime from the South Asian perspective and identify research agenda for new work relating to Climate Change, Food, Energy and Financial Security, with an objective of informing negotiating stances. In this regard, effort was made to present country studies on the mentioned issues on the basis of a thorough review of the relevant academic/policy literature and pertinent questions were raised to deal with the issues, by the experts. These were followed by comments from discussants.

Participants

Apart from the speakers, the meeting was well attended by more than 30 participants who included representatives of several civil society organisations (CSOs) in South Asia and some other countries. Prominent participants in the event, among others, were Anwarul Hoda, Former Member, Planning Commission, Government of India; Datuk M Supperamaniam, Adviser World Trade Organisation/Free Trade Agreement (WTO/FTA) Negotiations, Federation of Malaysian Manufacturers; S Chakravarthy, Adviser/Consultant on Competition Policy and Law; M A Razzaque, Economic Adviser Economic Affairs Division, Commonwealth Secretariat; and Rashmi Banga, Senior Economist United Nations Conference on Trade and Development (UNCTAD) etc.

Inaugural Session

Introduction: Pradeep S Mehta, Secretary General CUTS International

Key Note Address: Anwarul Hoda, Former Member Planning Commission, Government of India

Introduction and Opening Remarks

Pradeep S Mehta in his introductory remarks welcomed the participants and highlighted objective of the conference. He expressed that aim of conference is to discuss future challenges facing the international trade regime from the South Asian perspective and identify research agenda for new work related to Climate Change, Food, Energy and Financial Security, for informed negotiating stances.

The select issues have been profoundly dealt at an academic level and studies show they have significant impact on the livelihoods of people in South Asia. Moreover, the issues are increasingly becoming significant in the context of international trade agenda. Thus, it was felt pertinent to strategise regional cooperation programme and identify research oriented policies at South Asia level to tackle these issues. Since the issues are of common concern to South Asian countries, and are severely impacting the poor, the conference offered an opportunity to analyse the implications of climate change and food, financial and energy security, for trade policy and negotiating stances of South Asian countries and was successful in suggesting a way forward.

Following the brief introduction, the key-note speech was delivered by **Anwar-ul-Hoda**, Former Member, Planning Commission, Government of India. Hoda expressed that the emerging issues will have enormous impact on the WTO and its membership while in the context of the Doha Round natural impulse of new trade liberalisation will be very less. Nonetheless, he also asserted that there are bunch of non trade issues which should be kept out of the WTO agenda. The discussions on new issues could be initiated and should be carefully looked at as most of these important issues cannot be solved by international negotiations and therefore must be resolved by national governments by taking appropriate measures.

One such issue is climate change. He suggested that national governments should take measures, such as disaster management set up, work towards adaptation through research to develop new varieties of crops other than looking for mitigations steps, to prepare themselves for the consequences of climate change. Further, he expressed great concern over finite energy resources and mentioned that energy resources like fossil fuels are being exploited at a higher speed and therefore may not long last. Similar condition would be true for other energy sources also, where their supply will be peaked, while demand will continue to rise. He cited example of oil whose demand has peaked in recent years and its dwindling supply against high demand has led to skyrocket prices.

Hoda articulated that concern about food security is not new but it certainly has new and emerging dimensions attached to it. For example, generally people confront problem of energy supply by diverting use of food grains for energy purposes and this eventually has pushed food prices to go up, adding to other issues of food security like purchasing power ability etc. Corollary to this is the effect on other related items like fertilizers, urea etc.

Lastly, he also expressed that country's financial structure needs to be carefully regulated and suggested that exchange rate manipulation has become another hitch which is affecting trade between countries, and thus needs to be addressed effectively. It was reiterated that the role of national governments is much more in dealing with most of the topics of discussion and there is a limited scope of international negotiations.

Session 1: Trade, Climate Change and Food Security

***Moderator:** Atul Kaushik, Director, Geneva Resource Centre and Adviser (Projects), CUTS International*

***Speaker:** Siddhartha Mitra, Director (Research) and Head, CUTS Centre for International Trade, Economics & Environment (CITEE)*

***Discussant:** Anwarul Hoda, Former Member, Planning Commission, Government of India*

Introduction

In this session, **Atul Kaushik** briefly introduced the speaker and the discussant. Kaushik began by referring to a meeting of Pascal Lamy, Director General WTO with CSOs and media organised by World Trade Institute and International Centre for Trade and Sustainable Development (ICTSD), Geneva in June, 2009. In this meeting, Lamy mentioned although none of the new issues are in the negotiating agenda of the Doha Round, yet WTO has been collaborating with other inter-governmental organisations (IGOs) which has more specific mandate to take up these issues. Kaushik gave a pointer that WTO is a trade negotiating body and its mandate should be carefully expanded. On the other hand, WTO has not only been able to but also willing to adapt new rules to the extent that trade rules matter in furthering global agenda like climate change and food security. The same was offered as a perspective for the discussion

The session provided an overview of effects of global warming induced climate change and thereby impact of climate change on agriculture in South Asia. The session also looked at the role of trade and regional cooperation in tackling the issue of food insecurity in South Asia. The discussion provided various comments and suggestions in terms of way forward to prepare for consequences of climate change and its impact on food security in South Asia.

Dr. Siddhartha Mitra presented and shared his views on Trade, Climate Change and Food Security by conceptualising obscuring of climate change and its effect on food production. He mentioned that most of the earlier studies/conferences have explored relationship between trade and climate change; climate change and food security or trade and food security. However, this is one of the first South Asian forums, which is examining trade, climate change and food security is being linked. It is important to appreciate triadic linkage as its implications are extremely important for the people of South Asia. He mentioned that in the next century, climate change and associated global warming will reduce staple crop yields in South Asia and sub-Saharan Africa (SSA) barring improvement in technology while yield will increase in temperate parts of the world. He cited an Overseas Development Institute (ODI) study which suggests that by the year 2080, world will produce three times the amount of staples produced today, yet the amount of production in South Asia will decline.

Global warming will give rise to floods, rise in sea level etc., and may result in actually reducing the amount of cultivable land in South Asia. So it will not only reduce the yield but also will lead to increase in floods and other calamities. At the same time, this region will experience enhanced demand for staples due to economic growth and population growth. For instance, India's population will probably be 50 percent higher than what it is today, by 2060. This in itself increase food demand by 50 percent and the region will confront a situation where food production will go down and food demand may increase, given the per capita demand for staples will go up by 50 percent. This will again be supplemented by an increase in population and economic growth, which would lead to increase in food demand. Eventually, the disconnect between quantity demanded and supply conditions would increase the food prices and may result in food insecurity.

Mitra asserted that the essence of the problem is that *'how in light of declining food availability in South Asia meets the objective of food security given that both population and economic growth are going to take place and how do we solve this problem through the international trading regime and internally'*.

Further, Mitra highlighted general impacts of change in climate, such as increase in temperature in hot countries leading to less possibility of survival of crops in these countries resulting in decrease in length of the growing season. Decrease in length of growing season may lead to decline in food yield. Second general impact would be erratic rainfall, which will have adverse impact on yields because of lack of appropriate rainfall at a time when crops grow. Third instance cited by him, is extreme weather such as droughts, which will affect water availability, while floods will lead to decrease in land under cultivation. Fourthly, rise in sea level will result in inundation of the coastal land and thus decrease in cultivable land and thereby deteriorating the quality of soil near coastal land.

Mitra continued to present some evidences on potential impact of climate change in South Asia. Meteorological evidences indicate that average temperature in India will increase by 2-4⁰ C by the year 2050 and the number of rainy days in a year will decrease, which means rainfall will be concentrated over fewer number of days, which will again be bad for crops. In Sri Lanka, average

air temperature has increased by 0.64⁰ C over the past 40 years, which is quite significant increase of 0.16 degree Celsius per decade. The frequency of droughts and landslides has increased. The number of storm surges, larger storm waves and more intense flooding events has also increased in Maldives. Maldives is also a severely food deficit economy. Alike in Pakistan, a recent rise in mean temperature of around 0.6-1.0⁰ C and 10-15 percent has led to decrease in rainfall in arid plains and coastal belt. In Bangladesh, 7.6 to 10.2 cm rise in high tide level per year and a rise in sea level of one meter have been predicted within the next 50 years. Thus, as a consequence a lot of land near the coast will be lost.

Mitra further reflected on gravity of the problem in terms of food supply when the actual need arises. Besides, natural problems like erratic weather and its consequences, decline in yield would impact the purchasing power of agricultural population. The subsistence farmers will be able to produce smaller proportion of their consumption and thus rely on market to a greater degree. Next, issue of food aid will become important because South Asian countries will become food deficit and would be rely on food aid programmes, especially in years when the production is lower than usual. However, various food programmes such as The World Food Programme do not compulsorily buy grains from countries that have imposed export bans and this may become a cause of concern in the context of food security.

These problems will be more crippling when countries face shortage of food. The argument was substantiated by citing example of Pakistan, where wheat yield rose steadily till 2004 but would fall by around 6 percent by 2080; the fall would be in all regions except the Northern mountainous region. In Sri Lanka, the rice yield will reduce by 5.9 percent every 30 years and may decline to 20 percent, given the current rate of rise in temperature. In the case of India, the expected temperature rise and its estimated impact on yield would imply a decline of wheat yield to approximately 10-40 percent by 2050. He asserted that these are very chastening figure because all these countries will experience a population growth of around 50 percent and economic growth.

Commenting on role of trade in these circumstances, Mitra argued that world will be clearly divided between the surplus producers and the deficit countries. The countries with surplus grain will rationally try to exploit other countries because staples have unusual characteristics of being demand inelastic; i.e. even if price of staple increases, its demand will not fall. Therefore, countries can jack up their revenues by manipulating prices of staple and form a sort of food cartel.

Thus, it is extremely important to devise ways and mechanism of cooperation at the South Asian level. For instance, import of climate change friendly technologies; import of inputs facilitating the implementation of these technologies; to identify ways in trade negotiations and outcomes preventing distortion of the market by surplus producing countries, use of the suggested ways to prevent macroeconomic distortion (Balance of Payments problems). He further suggested that the solution to these problems lie at a more regional level and national level, for instance, better sharing of water resources to maximise production of staples within the region, better utilisation of the principles of comparative advantage in staple food production, research collaboration to facilitate development of climate friendly technologies tuned to South Asian conditions.

Finally, two set of approaches were proposed to deal with subject issues. First approach mentioned about allowing farmers to response to yield losses in staple cultivation through changes in crop mix/land allocation and secondly, food deficit countries to import food from countries with surplus. However, the approach was presented with its risks like cartelisation, high food prices, and bad subsidies. The second approach recommended countries to become self-

sufficient in food production which nevertheless, is posed with an issue of diversion of land from other uses to meet staple food demand.

While concluding the presentation, Mitra expressed that per se it is not a problem of trade but productivity and posed some valid questions that in order to facilitate enhanced demand for staple, how do we maintain food grains productivity in the context of climate change and suggested that if not trade negotiations but general diplomatic community has a role in it.

Anwar-ul-Hoda acknowledged many of the pertinent issues which arose in the presentation and pointed out that climate change has multi-dimensional effects on people. He suggested that developing countries may conduct research in developing varieties which are heat resistant and increase in yield thereby address/mitigate the effects of rise in temperature. As regards food security concerns, countries should think beyond self sufficiency and may demonstrate willingness to explore alternatives. For instance, to keep bigger stock of food grains, willingness to invest on food grain and buying from the international markets is crucial. In order to solve issue of land inundation, governments should invest in construction of dykes and dams.

He reiterated that all these responses do not need international trade negotiations but individual governments can take steps in sharing of research experiences in resolving these problems. As regards comments on proposed approaches, Hoda expressed that they need to be sophisticated because in terms of argument on diversion of land from other uses, there is not much land and large part of it is also required for industrialisation. Around 60-65 percent of people in agriculture find it difficult to in meet their ends by agriculture land alone (who are deriving their livelihood from agriculture) and therefore they must be migrated to be employed in industry. In case of choice to farmers to produce, they are absolutely free to produce (staple or cash crop) and make their own choices by responding to market forces.

Lastly, there were interesting queries from the floor. Issues like economic growth and its impact on composition of food demand, intra-household demand for food, role of technology, evolution of technology and its reaction to price signals, importance of self-sufficiency in food production in terms of food security, water management and its distribution in the regions, role of hybrid and genetically modified organisms (GMOs) during food crises, urbanisation, willingness to invest in agriculture, need for awareness and attitudinal change, were few pertinent issues that were raised from the floor.

Session 2: Trade and Energy Security

Moderator: Gijsbert Van Liemt

Speaker: Shaheen Rafi Khan, Research Fellow, Sustainable Development Policy Institute (SDPI)

Discussant: M A Razzaque, Economic Adviser Economic Affairs Division, Commonwealth Secretariat

Gijsbert Van Liemt began the session and introduced the speaker **Dr Shaheen Rafi Khan** who then shared his views on trade and energy security *vis-a-vis* South Asia by way of power point presentation. He began by stating facts and figures that South Asia accounts for only 5.9 percent of world's energy consumption where per capita consumption is 26.2 percent of the world average. The widely used energy sources in South Asian countries – Bangladesh, India, Maldives, Nepal Pakistan and Sri Lanka, are coal (44 percent), petroleum based (33 percent), natural gas (12 percent), hydropower (7 percent) and nuclear (1 percent). He further discussed country wise consumption of these sources of energy in South Asia. Thereafter, a careful examination of existing demand and supply gaps in these South Asian countries through a chart of demand and supply was carried out.

The World Bank studies show that South Asia's strong economic growth has translated into increasing energy demand and this growth is fast becoming constrained by significant shortages in energy supply. He also expressed because of this growth, fossil fuel demand is expected to grow annually in the range of 6.6 to 11.5 percent during the next 15 or 20 years. Concurrently the demand for electricity is also growing at the rate of 7 percent in most countries of Asia except in Afghanistan, Bhutan and Maldives, where the infrastructure for electricity is at minimal level.

Khan then explored the scope of trade in fuel and energy at intraregional, interregional and transit trade. Possibility of hydro electricity exports from Nepal and Bhutan to India and to increase grid interconnections within the region was discussed extensively while examination of exporting coal outside the region and import of oil into the region also threw light on the scope of trade in energy. He suggested that transit trade provides opportunities of having a gas pipelines from Central Asian and Middle East to India.

He further analysed the costs and benefits in energy trade and explained that such trade will develop natural resources where local markets are small, will generate innovation and economies of scale in energy production. Further, trade in energy will intensify diversification and reduce prices, domestic pollution etc. The costs of conducting trade in energy may have social and environmental impacts, will increase dependability on global price volatility and may render subsidy policies a choice.

Energy trade facilitation which includes energy infrastructure, energy pricing and energy trade protocols was discussed in detail. There has been increase in interests in cross border electricity and gas trade among South Asian countries and a number of regional projects are drawn on board and are moving towards implementation. This goes on to underline the importance of energy infrastructure within South Asia. Despite this, in reality the level of cross border energy trade is very low and national gas and electricity networks are largely isolated from each other. In his presentation, Khan also emphasized on issues of energy pricing and energy trade protocols.

Nevertheless, the region is gripped by acts of terrorism and therefore there is lack of faith among countries. Therefore, it was examined scrupulously whether energy cooperation could lead to sustainable development and thereby peace in the region. It has been suggested by many studies that energy trade is likely to produce opportunities for both cooperation and confrontation in South Asia and that the regional energy security is not likely to be threatened as much as by the shortage of resources as it is likely to be endangered by disruption of supplies by growing terrorism and geopolitical conflicts. Following which energy – poverty nexus was discussed comprehensively.

Whilst concluding the session, Khan provided not only strategic basis of recommendations but also made actual recommendations. He recommended that a regional power grid for power exchanges/trading within the region and with neighbouring countries around the region should be developed. Developing a regional gas grid and promotion of regional trade in natural gas was also suggested.

M Razzaque while discussing on trade and energy expressed that the average energy consumption is lowest in South Asia after SSA and emphasised that if South Asian continues to grow at same pace, energy security will be the key. He further enunciated that the role of private sector is significant in relation to trade and energy security. In this regard, role of CSOs in highlighting these issues and campaigning good sides of energy security was stressed upon. Lastly, he acquainted the participants of South Asian Association for Regional Cooperation

(SAARC) 2007 consensus on energy security and appealed for increased cooperation on energy trade in the region.

Several interesting questions, such as whether there is consensus on the definition of energy security within the region, impact on the livelihood and storage of energy etc, were put forward by participants and discussed and answered by Dr Khan and Razzaque jointly and severely.

Overall, intelligent presentations, from the speaker and discussant, and active participation from the floor made the session a success.

Session 3: Trade, Capital and Financial Security

Moderator: Posh Raj Pandey, President, South Asia Watch on Trade, Economics & Environment (SAWTEE)

Speaker: Rashmi Banga, Senior Economist, UNCTAD

Discussant: Pranav Kumar, Senior Trade Policy Adviser, British High Commission, India

The session briefly touched upon some pertinent factors that triggered the global financial crisis and highlighted and discuss the various channels through which the meltdown affected South Asian economies. A detailed empirical study on India, undertaken by UNCTAD-India addressed the impact of the global slowdown at the sectoral level providing further insights on the impact as well as offering mitigation strategies for the same. The discussions provided various comments and suggestions to the methodology of the empirical estimation while similar detailed studies were deemed necessary for other South Asian economies to fully understand the impact of the global slowdown.

Posh Raj Pandey opened the session with a pointer towards the origins of the financial crisis which has ultimately taken a toll among both developed and developing countries. The impact has percolated from various channels ranging from – decline in trade, industrial production, foreign direct investment, remittance flows and slow down in tourism – leading to fiscal stress in developing countries along with a potential for fall in foreign aid.

After the setting up of stage, **Rashmi Banga** proceeded with a presentation on “Trade, Finance and Capital Security in South Asia” drawing from an UNCTAD-India project. The presentation addressed channels through which the financial crisis crept into the real sectors of countries, highlighting international trade as one of the most important channels. Changes in exports of developing countries indicated the presence of a lag in the impact of the global crisis while South Asian economies, particularly Pakistan and Sri Lanka were found to be experiencing a rapid deterioration in their current account balance. It was shown that trade financing for developing countries have been falling with adverse impacts on supply chain operations, particularly in Asia. In addition to trade in goods, service trade has also taken a hit with a decline in tourist visits and fall in exports of Information and Communication Technology (ICT) services.

While tighter credit conditions and dismal corporate profits have decreased foreign direct investment (FDI) in many countries, yet FDI has been resilient in South Asian economies, mainly due to continuing investment flows into India. Remittance flows in developing countries have also fallen with dismal projections for 2009 while recovery is expected in 2010. Results from an India case study on the impact of the global crisis on vulnerable sectors in terms of exports and employment indicated heavy reliance of Indian exports on the US and other developed country markets to have adversely affected export growth. Results from an econometric estimation model looking at the impact of a decline in global gross domestic product (GDP) growth on India’s sectoral export growth show a flat export growth for 2009-10, approaching a marginal negative

trend while recovery is expected in 2010 with an export growth forecast of 8.3 percent. Some of the most adversely affected sectors were textiles, gems & jewellery, ores and minerals with net job losses projected for 2009-10.

Actions at the national, regional and global level were suggested along with recommendations to built resilience of South Asian economies. Diversification of export markets and export products, simplification in customs procedures along with domestic action on identifying and remedying non-tariff barriers (NTBs) impeding exports were also mentioned. Emphasis was placed on the necessity to 'look within' and push for full implementation of the South Asia Free Trade Agreement (SAFTA) as well as encouraging possible formation of 'regional supply chains' to increase trade and investments. In addition, it was recommended that declining trade finance could possibly be reduced through South-South financing.

While regional effort against protectionist policies of developed countries particularly on issues pertaining to trade under Mode 4 is required, there is also a need to closely examine the impact of the recent bail-out packages on regional exports. In addition, such regional stand on issues like implementation of 'duty-free quota-free' (DFQF) treatment for least developed country (LDC) exports and developed country assurance on keeping GSP schemes free of new conditions could be realised through partnerships in the region. The need for identification of future growth poles particularly in sustainable agriculture and resource-efficient products were stressed while future research pertaining to detailed country-specific studies for identifying vulnerable sectors, research in trade and investment supply chains along with policy advocacy were recommended for strengthening economies in the region.

Pranav Kumar concurred on many of the pertinent recommendations and action points suggested by Banga and pointed out some of the disappointing realities with respect to the current state of affairs. He mentioned, for example, in discussion between India and Pakistan terrorism has taken precedence over economic issues. Similarly just when India was ready to open up its domestic financial sector, the timing of the global meltdown has dampened the momentum of the country to go ahead with such liberalisation.

He elaborated that the impact of the financial crisis on South Asian economies have come through indirect channels also like trade, FDI and remittance flows. However, it is not clear whether decline in trade is due to fall in global demand or slackening of trade finance. While Generalised System of Preference (GSP) is one of the most important contributions of UNCTAD, he stressed that there is a need for a similar kind of tool to facilitate South-South trade. On one hand South-South FTAs are struggling in comparison to North-North FTAs, while on the other, FDI flows into South Asia have been dismal in comparison to investment flows into East Asian and Latin American countries.

In terms of service trade, particularly tourism, it was also not clear how much of the fall in tourist arrivals were due to the global slowdown and how much due to South Asian countries' own internal problems resulting in numerous travel advisories being issued. Moreover, within the region, Indian tourists made up a large share of the visitors in Nepal and Sri-Lanka in recent years. Further, the importance of remittances for South Asian economies and trade facilitation for North-East India, Nepal and Bhutan were also emphasised while foreign aid flows and particularly trade preferences were deemed important for South Asian exporters.

The floor discussions resulted in various questions and comments ranging from those specific to the technicalities of the econometric estimation model to the practicality of some of the mitigation strategies and recommendations. It was emphasised that detailed sectoral studies were needed for

each country to fully understand the impact of the slowdown given that each country was at different stages in terms of their integration into the global economy. Concerns were raised on the availability of foreign aid to trade dependent economies like Bangladesh while country specific bail-out packages in South Asia were deemed to be short-sighted with a cash subsidy focus, lacking a long term productivity dimension.

Drawing from an econometric study looking at the impact of the global slowdown on South Asian economies, particularly on India's sectoral export growth and employment, various mitigation strategies and recommendations emerged in the session. It was suggested that South Asian countries need to strengthen their internal supply capacities and export capacities through diversification of markets and products, formation of supply chains within the region and through movement up the value-chain. The need for trade financing and facilitation, identification and appropriate action to reduce NTBs, strengthening of South-South trade and investments along with policy advocacy and coherence for mitigating the adverse effects of the financial crisis on South Asian economies were emphasised.

In conclusion, the financial crisis, its impact on South Asian economies as well as strategies towards strengthening regional capacities and building resilience to deal with the after math of the slow down were discussed in this session. It was added that this particular experience for South Asian economies was the first of its kind following economic reforms and trade liberalisation in the region. Hence, this should be viewed as an opportunity to plan and prepare for the future by strengthening our own domestic conditions. Due to the diverse nature of South Asian economies and their varied stages of development, each country in the region has been affected in a different manner, and hence, mitigation strategies and prescriptions should not be generalised across the board.