

# ECONOMIQUITY

January-March 2016

## India's Solar Panel Dispute: A Need to Look Within

The 'Make in India' initiative took a new hit when the World Trade Organisation (WTO) dispute settlement panel ruled that India cannot discriminate between foreign and domestic suppliers of components for solar panels used by solar power developers in India. A closer look at the case reveals that we are not allowed to discriminate. That being the case, what's the way forward?

On February 24, a panel of the WTO found that India's domestic content requirements (DCRs) under the Jawaharlal Nehru National Solar Mission (JNNSM) violates its commitments under the global trading rules, specifically the General Agreement on Tariffs and Trade (GATT) and the Agreement on Trade Related Investment Measures (TRIMs).

The JNNSM was launched by the government in 2010 in order to "establish India as a global leader in solar energy, by creating the policy conditions for its diffusion across the country as quickly as possible". In order to boost the capacity of indigenous industries, the government mandated the solar power developers to use cells and modules manufactured in India in different phases of the project and the government would, in turn, buy the electricity thus produced at a fixed rate for 25 years.

The US argued, and the WTO panel agreed, that by imposing DCR, India accorded imported solar cells and modules less favourable treatment than similar products manufactured in India.

India argued that the measure was exempted from the scrutiny under the WTO agreements because the government ultimately procured the electricity so produced and thus be treated as government procurement. However, the WTO panel, held that the product procured was electricity, whereas, the product discriminated against was the inputs used to produce electricity and hence the exception did not apply.

Both arguments were rejected by the WTO panel, which stated that international environmental obligations imposed no binding commitments on nations and thus they were not 'laws or regulations' that had to be complied with.

There are two policy goals that India is seeking to achieve. One is to promote the 'Make in India' initiative and to become self-sufficient in manufacturing high technology products. The other is to generate green energy at a lower cost to meet its growing demands.

In the light of these two goals, India needs to reassess its policies and incentives. First, India must discontinue the DCR measures that violate international trading rules. Instead, to give fillip to the Make in India initiative, India should look to incentivise production of such products in manners which are WTO compatible like giving direct subsidies to domestic manufacturers, tax breaks, ensuring a strong line of long term credit at low rates, collaborating with global leaders to enhance domestic research and development.

Second, to meet the increasing demand for clean energy, India must deeply engage with international partners and get the best available technology at internationally competitive rates. Collaborative research and development projects would help in reducing the cost of energy and increasing efficiency in the long run. At this stage, due to the underdeveloped Indian industry, it would be more efficient, to import the technology, while taking efforts to enhance domestic capabilities.

A combination of these measures will lead to greater self-sufficiency and increased capacity in solar energy production.

*Excerpts from The Wire, March 15, 2016. The writers are Pradeep S Mehta, Secretary General, CUTS International and Smriti Bahety, Policy Analyst, CUTS International.*



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# The US World Order is a Suit that No Longer Fits

Fu Ying\*

*China needs to propose ideas on addressing global problems*



Even in the aftermath of the 9/11 attacks on New York and Washington more than a decade ago, international terrorism was — to use a Taoist quote — “a semblance great, the shadow of a shade”.

Now such violence has moved out of the shadows. Many see political violence as the most important threat to the modern world.

At the same time, geopolitical rivalries between states are also resurfacing. Tension between Russia on the one hand, and the US and its European allies on the other, over the crisis in Ukraine caused some to wonder whether a new cold war had started.

## The world has moved on

In truth, the world has moved on, even if there will always be those who cling to old ways and pretend that all new problems are just variations of those of the past.

In Asia, too, it seems that the US wants to fuel a geopolitical contest by elbowing its way into regional disputes, this time over the ownership of various islands and shores in the South China Sea. On our continent, Washington’s biggest concern seems to be the possibility that America will be “pushed out” by China. This mindset has led the US to meddle in the problems China has with its neighbours, which risks elevating territorial disputes into strategic rivalry.

On the economic front, the US tries to maintain dominance in global economic affairs by pushing harder on trade deals, such as the Trans-Pacific Partnership, to set new rules without including all the major economies.

## Global economic order to move toward exclusive blocs

The western-centred world order dominated by the US has made great contributions to human progress and economic growth. But those contributions lie in the past. Now that same order is like an adult in children’s clothes. It is failing to adjust.

Since the end of the cold war, the US has made major strategic mistakes, one after another. Its invasion of Iraq in 2003 created chaos that lasts to this day. In 2010, after political upheaval in Tunisia, the west encouraged the so-called Arab Spring. The US and its allies are opening a Pandora’s box in one country after another.

For the past three years the US has been trying to get out of the mess by proposing a “pivot to Asia”. However, by making China the target of this initiative, the US has fuelled mutual distrust between the two countries. Will it turn out to be another mistake, one that deprives both powers of the chance to work together to address the world’s problems?

We should not be overly pessimistic. The international community has already started to explore solutions.

## Role of G20 in combatting financial crisis

The G20 played a crucial role in combating financial crisis. The International Monetary Fund has agreed to bring the renminbi into the system of special drawing rights, its unit of account; a package of reforms to the western-dominated institution is finally close to being approved by the US.

The Asian Infrastructure Investment Bank, initiated by China, will compensate for the inadequacy in the existing international mechanism. A bilateral agreement between China and the US on climate change laid the foundation for the success of the UN climate conference in Paris in December 2015.

China has no ambition to lead the world. We have huge domestic challenges to tackle. And China believes that in future, world affairs have to be handled by countries working together.

China needs to maintain stable and constructive relations with the US, while assuming more international responsibilities commensurate with its growing importance.

When Henry Kissinger, the US statesman, was in Beijing in November, I arranged for him to meet some young Chinese people.

Many of them were critical of the US and its role in the old world order. Kissinger listened patiently, and then asked: “Young folks, if you were given the chance to run the world, what kind of order structure do you have in mind?”

There was no clear answer. We are dissatisfied and ready to criticise. Yet we are not ready to propose a new design.

Earlier than we expected, the weight of international responsibilities is falling on Chinese shoulders. We need to come up with more specific ideas, to reassure others and advance our common interests.

And we need to get better at communicating with the world.

\* Chairs the Foreign Affairs Committee of China’s National People’s Congress; Excerpts from an article appeared in *The Financial Times*, on January 07, 2016.

### Indonesia Plans 'Big Bang' Economy

Indonesian President Joko Widodo unveiled plans for a 'big bang' loosening of restrictions on foreign investment in nearly 50 sectors of the economy to encourage competition. Widodo's proposal, which will ease rules in the e-commerce, retail, healthcare and movie industries, is the most far-reaching yet in a string of stimulus packages rolled out over the past six months to arrest a slowdown in growth.

Indonesia is Southeast Asia's largest economy which has been growing at its slowest pace in six years because of falling commodity prices and cooling growth in major trading partner China.

Indonesian Trade Minister, Tom Lembong stated that the sweeping changes planned for the so-called 'Negative Investment List' signalled a greater openness to foreign investment and would partly prepare the country for free trade agreements, including eventually the Trans-Pacific Partnership. *(BS, 11.02.16)*

### Global Pact to Deal with Monetary Policy

Reserve Bank of India (RBI) Governor Raghuram Rajan said that there needs to be a co-ordinated global discussion on the spillover effects of monetary policy actions of larger economies on the rest of the world.

The governor said that monetary policies had external spillover effects but that did not mean they were all justified. What mattered was the net spillovers. "One source of spillovers is through the trade channel, the relative magnitude of *demand creating-vs-demand switching* effects.

Another source of spillovers is through cross-border capital flows, and their effect on financial stability elsewhere," he said.

*(Mint, 22.03.16 & 21.03.16,)*

### Party Over for Oil-Producing Nations

If you can check the pulse of an industry by the way it parties, then the winners and losers were easy to spot at London's International Petroleum Week. The round of receptions that dominates one of the best attended events of the oil market calendar showed just who had made – and lost – money from the biggest price rout in generation.

Those oil-producing nations used to throwing champagne-soaked jamborees in the era of US\$100 oil were notably restrained, with lager and warm white wine reflecting the new reality. Some had cancelled their parties entirely, including the state oil companies of Algeria and Angola.

Crude oil has dropped more than 70 per cent since the middle of 2014 to near US\$30 a barrel, shredding the budgets of oil-producing countries and forcing energy companies to reassess hundreds of billions of dollars in spending plans. *(FT, 13.02.16)*

### Warning of Mass Unemployment

Scientists have warned of the prospect of mass unemployment affecting everyone from drivers to sex workers, triggered by strides in the development of artificial intelligence and robotics.

"We are approaching the time when machines will be able to outperform humans at almost any task," Moshe Vardi, Computer Science Professor at Rice University in Texas, said.

"Society needs to confront this question before it is upon us: if machines are capable of doing almost

any work humans can do, what humans do? A typical answer is that we will be free to pursue leisure activities. I do not find the prospect of leisure-only life appealing: I believe work is essential to human wellbeing." *(FT, 15.02.16)*

### IMF's Lagarde Still Sees Growth

International Monetary Fund (IMF) Managing Director Christine Lagarde said she still sees growth intact, even amid growing risks to the global economy.

As finance chiefs from the world's 20 biggest economies begin a two-day meeting in Shanghai, Lagarde cited threats from geopolitical risk, the credit cycle, capital outflows and falling commodity prices.

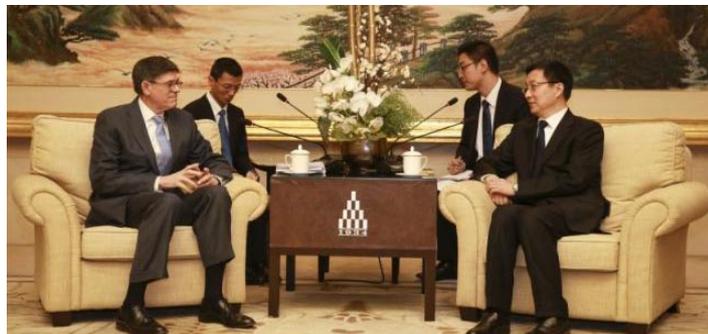
China is in a massive transition toward focussing on services and consumption, and the IMF strongly recommended that the nation set a growth target range of 6 per cent to 6.5 per cent, Lagarde said.

Meanwhile, the effects of Central Bank monetary policies, even innovative ones, are diminishing, Lagarde said at an Institute of International Finance conference on the sidelines of the G20 finance ministers and central bankers meeting. *(FE & Bloomberg, 26.02.16)*

## World to Look Beyond Ultra-Easy Policy for Growth

The world's top economies declared that they need to look beyond ultra-low interest rates and printing money to shake the global economy out of its torpor, while renewing their focus on structural reform to spark activity.

A communique from the G20 finance ministers and central bankers flagged a series of risks to world growth, including volatile capital flows, a sharp fall in commodity prices and the potential 'shock' of a British exit from the EU.



"The global recovery continues, but it remains uneven and falls short of our ambition for strong, sustainable and balanced growth," said the communique, issued at the end of a two-day meeting in Shanghai.

"Monetary policies will continue to support economic activity and ensure price stability ... but monetary policy alone cannot lead to balanced growth."

*(FE, Reuters & NDTV, 27.02.16)*

**Developing Nations in Tax Evasion Fight**

Developing countries will be invited by the G20 industrialised nations to join talks aimed at stopped multinationals dodge taxes, in a bid to defuse tensions over their limited role in global tax reforms.

Finance ministers meeting in Shanghai endorsed proposals to open up talks on stopping ‘base erosion and profit shifting’ (Beps) to all countries willing to implement them.

Pascal Saint-Amans, the top Tax Official at the OECD, the Paris-based club of mostly rich nations which has been drawing up the Beps reforms, said the development was likely to be ‘a turning point in international taxation’.

*(FT, 25.02.16)*

**Grim Forecast for Developing Nations**

Developing economies in 2015 recorded their slowest growth since the immediate aftermath of the 2008 financial crisis and are facing the prospect of an equally grim 2016.

Releasing its latest forecasts, the World Bank said it expected the global economy would grow 2.9 per cent in 2016, up slightly from 2.4 per cent in 2015.

Developing economies as a group grew at a rate of 4.3 per cent in 2015, the slowest pace since 2009, and the bank predicted they would grow 4.8 per cent in 2016.

But 2016 was already shaping up to be ‘risky’ and the forecast for this year “comes with the realisation that there are faultlines below the surface”, said Kaushik Basu, the World Bank’s chief economist.

*(FT, 07.01.16)*

**Saudis Plea to take Economic Pain**

Officials in Riyadh are heaving a sigh of relief amid indications that Saudis are willing to shoulder unprecedented cuts to long-cherished government subsidies.

But with predictions of more economic pain to come it is unclear whether they will accept further reductions to their incomes.

Facing its worst fiscal outlook in 15 years amid falling oil prices, the government announced an austerity budget in December 2015, slashing spending to plug the gap and lifting petrol, electricity and water prices for consumers and gas and feedstock prices for industry.

The cuts will cost the average household an extra US\$140 a month. But despite an initial flurry of comment on social media, most people have taken the increases well, Saudis and diplomats say.

*(FT, 11.02.16)*

**Italy Urges EU to Investigate McDonald’s**

Three Italian consumer organisations have urged EU antitrust regulators to investigate McDonald’s franchise system in Europe, a month after the opening of an EU inquiry into the US fast food company’s tax deals with Luxembourg.

The organisations filed their complaint with the European Commission, urging it to step in and look at a system, which they alleged was anticompetitive.

Franchising is a key business model for the world’s largest fast food chain.

The company made US\$9.27bn in revenues from its franchised restaurants worldwide in 2015, accounting for about a third of overall turnover.

At issue are 20-year contracts which are twice as long as most other franchises, a requirement that licensees lease premises from McDonald’s at above-market rates and conditions hindering them from switching to competitors, the group says.

*(BL & Reuters, 12.01.16)*

**IBM Granted US Patents in 2015**

International Business Machines (IBM) Corp received the most US patents for the 23<sup>rd</sup> consecutive year, as the company extends its bet that clients will increasingly need and buy more services that use machine learning and similar technologies to improve business functions.

IBM was awarded 7,355 patents in 2015. Utility patents cover function rather than design. Among the technology giants notable for their intellectual property, Alphabet Inc’s Google stepped up its patent activity, moving to the 5<sup>th</sup> position from eighth in 2014, while Apple Inc. stayed at the 11<sup>th</sup>.

IBM Chief Executive Officer Ginni Rometty focussed on expanding the company’s portfolio of what it calls cognitive computing, which uses machine learning and data analytics technologies to help businesses predict behaviour and events as well as streamline operations.

*(BL, 13.01.16)*

**The Precarious State of the Global Economy**

In the seven years since it was elevated to the level of supposed guardian of global stability, the G20 grouping of large economies has struggled to make a noticeable impact.

In general, though they have paid lip service to global co-operation over macroeconomic policy, none of its members has been overly bothered about ignoring the views of the rest of the group. Each has generally gone its own way on fiscal, monetary and exchange rate policies.

But at meeting of G20 finance ministers in Shanghai, the stakes for failing to co-ordinate policy across the world are higher than for some time. With recent financial market turmoil and great uncertainty about Chinese economic prospects, a sense of unease has persisted since the turn of the year.

Although the global economy has continued to expand, the need for a general effort to prepare monetary and fiscal stimulus has become more pressing.

*(FT, 26.02.16)*



*www.davegranlund.com*

### Global Growth Prospects Clouded

Global economic prospects remain clouded in the near term as emerging markets are losing steam and a coherent policy response is needed to boost overall growth.

The Organisation for Economic Cooperation and Development (OECD) cut its global growth forecasts, saying the economies of Brazil, Germany and the US are slowing and warning that some emerging markets are at risk of exchange-rate volatility.

Global gross domestic product (GDP) will expand 3.0 per cent in 2016, the same pace as in 2015 and 0.3 percentage point less than predicted in November 2015. Suggesting measures to boost growth, OECD said the case for structural reforms, combined with supporting demand policies, remains strong to sustainably lift productivity and the job creation that would promote improvements in equity. (FE & BL, 26.02.16)

### South Korea is King in Innovation

In the world of ideas, South Korea is king. Germany, Sweden, Japan and Switzerland rounded out the top five in the 2016 Bloomberg Innovation Index, which scored economies using factors including research and development spending and concentration of high-tech public companies.

South Korea notched top scores worldwide for manufacturing value-added as well as for tertiary efficiency — a measure that includes enrolment in higher education and the concentration of science and engineering graduates. While the country's No. 39 ranking for productivity might pass for mediocre, it was second for R&D intensity, high-tech density and patent activity and ranked sixth for researcher concentration.

The conversation in South Korea has been more about how the economy can get the bang for its buck in innovation, with a focus on North and South Korea.

(Bloomberg, 23.01.16)

### China's Growth Slow in 25 Years

China's economy grew at its weakest pace in a quarter of a century in 2015, raising hopes Beijing would cushion the slowdown with more stimulus policies, which in turn prompted a rally on the country's rollercoaster share markets.

Growth for 2015 as a whole hit 6.9 per cent after the fourth quarter slowed

to 6.8 per cent, capping a tumultuous year that witnessed a huge outflow of capital, a slide in the currency and a summer stocks crash.

Concerns about Beijing's grip on economic policy have shot to the top of global investors' risk list for 2016 after a renewed plunge in its stock markets and the yuan stoked worries that the economy may be rapidly deteriorating.

(BL, 19.01.16)

### Chinese Currency Sinks to 5-Year Low

The pace of China's falling currency, now at its lowest level in nearly five years, has raised the prospect of renewed intervention by the central bank as Beijing seeks to control its fragile exchange rate policy.

The sharp decline in the renminbi has put investors on notice that the Chinese economy, an engine of global growth, may be slowing at a faster pace than previously forecast.

Investors around the world are worried that an unexpectedly fast depreciation will further destabilise China's economy. Some also fear it could trigger a wave of competitive devaluations across the region.

Traders are selling the renminbi in the open market, and drop has intensified pressure on other emerging market currencies, particularly in Asia.

(FT, 07.2.16)

### New Investment Bank Opened

The China-led Asian Infrastructure Investment Bank (AIIB) was formally opened for business, signalling the steady revamp of the global financial architecture, which will also soon incorporate the New Development Bank of the Brazil-Russia-India-China-South Africa (BRICS) grouping.

Despite opposition from Washington, US allies including Australia, Britain, Germany, Italy, the Philippines and South Korea have agreed to join the AIIB in recognition of China's growing economic clout.

The bank would aim to invest in projects that were "high-quality, low-cost". The AIIB's President-designate, Jin Lique, stressed the bridging the digital divide between the regional and global economies would be the bank's top priority in the future.

(TH, 17.01.16 & BS, 16.01.16)

## Richest 1% Now Wealthier than Rest of the World

The gap between the haves and have-nots of the world is steadily increasing and in proportions that cannot be glossed over, the international anti-poverty charity Oxfam International says in a report entitled *An Economy for the 1%*.

In the report published on the eve of the World Economic Forum's (WEF) annual meeting in Davos, Switzerland, the non-



profit organization, citing data from Credit Suisse Group AG, said the world's most affluent controlled most of the global wealth in 2015. That's a year earlier than it had anticipated.

Oxfam said that in 2015, just 62 people had the same amount of wealth as 3.6 billion people across the world, and of these 62 people, 53 were men.

Growing economic disparity also compounds existing inequalities between social groups, notably gender inequality. The wealth of the most affluent rose 44 per cent since 2010 to US\$1.76tn, while the wealth of the bottom half fell 41 per cent, or just over US\$1tn.

(Mint, 19.01.16)

**UN Agrees to New Aircraft Standards**

Global aviation experts agreed to the first emissions-reduction standards for aircraft in a deal that will take effect with new models in four years, but environmental groups said the carbon dioxide cuts did not go far enough.

The standards are aimed at makers of small and large planes alike and will apply to all new aircraft models launched after 2020, the Montreal-based United Nations aviation agency said.

They will also be phased in for existing aircraft built from 2023, with a cut-off date of 2028 for planes that do not comply with the new standard. The standards should be approved by the International Civil Aviation Organisation's Governing Council later in 2016. The standards would become mandatory for national aviation authorities around the world.

*(Reuters, 08.02.16)*

**Global Warming Dividing Rich-Poor**

A new study has warned that global warming will drive vast and unpredictable shift in natural wealth by

taking away from the poor and giving it to the rich.

According to the studies of various state universities of Princeton, Arizona, Yale, Rutgers the biophysical changes of the movement of critical natural resources are moving pole wards including fish stocks resulting in the shift of wealth from the equatorial regions to the polar regions creating inequalities.

Thus not affecting the overall loss in global wealth the reasons for which are the unpredictable price impacts in places where the quantities of fish stocks increase depending on the institutional and regulatory setup.

*(DNA, 28.02.16)*

**Celebrating World Water Day!**

As the world celebrates World Water Day on 22 March, the situation in India is grim. In Maharashtra's parched Latur district, the collector has imposed Section 144 of the Criminal Procedure Code, banning the assembly of more than five people near tanker-filling points, public wells, tanker-plying routes and storage tanks.

Stressing on the need for increased storage, Benedito Braga, president of

the World Water Council said, "We need to increase resilience to climate variability through more storage capacity. We can be prepared for situations like droughts. It is important that governance involves all stakeholders including the NGOs to make it more sustainable. Water security is dependent on climate."

He added, "India is one of the fastest growing countries in the world with a lot of challenges. [...] The solutions that India finds, is important that they be shared with the world. India needs to be on board in capacity building to fight the water crisis." *(Mint, 22.03.16)*

**China to Shut Polluting Firms in 2016**

China will shut down 2,500 polluting firms in 2016 in its latest environmental protection efforts to reduce pollution as the city continues to be engulfed by smog most part of the year.

The Fengtai, Fangshan, Tongzhou and Daxing districts are required to close 2,500 enterprises at the end of 2016 while the whole city will finish the task in 2017.

China aims to basically eliminate coal use in six downtown districts in two years and help 600,000 households shift from coal to clean energy in five years. *(ToI, 09.01.16)*

**Solar Alliance to Ease Transfer**

International Solar Alliance was formed with France Prime Minister Francois Hollande by the Prime Minister of India Narendra Modi, with its headquarters at New Delhi, India. It is said to be an independent global institution that intends to bring 122 nations that receive more than 300 days of sunlight.

Hollande said the Alliance will help pool resources of nations, expand the market for solar energy to bring down investment costs and ease the transfer of technology to developing countries.

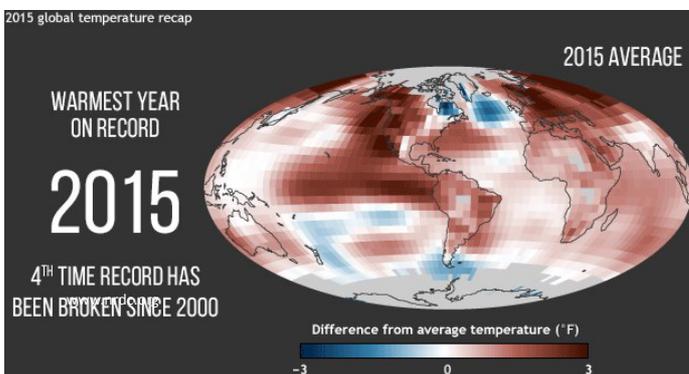
"Apart from providing land for the ISA headquarters India is contribution US\$15mn to the corpus and aims to mobilise US\$1tn by 2030 to make solar power affordable for developing nations", said Modi.

The French government will donate •300mn in the next five years and share expertise. *(BL, 25.01.16)*

**2015 was the Hottest Year on Record**

The year 2015 has been reported as the hottest year by National Aeronautics and Space Administration (NASA) and National Oceanic and Atmospheric Administration (NOAA) since 1880. The temperature was 0.13C more than 2014 NASA administrator Charles Bolden quoted that it is the time to act on climate.

NASA's analyses are based on surface temperature measurements from 6300 weather stations, ship and buoy based observations of sea surface temperatures and temperate measurements from Antarctic research stations.



The World Meteorological Organisation showed that significant warmer temperatures were recorded over western north America, large areas of South America, Africa and southern and eastern Eurasia. Elizabeth Muller of Berkeley Earth insisted on the use of energy efficiency and the use of renewable, natural gas and nuclear power. *(Mint, 22.01.16)*

**Oceans to have More Plastic by 2050**

The World Economic Forum (WEF) and the Ellen MacArthur Foundation with knowledge partner as McKinsey & Co. released a report that forecasted that by 2050, plastic will weigh more than fishes in the oceans.

Plastic packaging being one time use results in loss of US\$80bn-US\$120bn worth every year. The 46<sup>th</sup> Annual Conference of the WEF began at Davos on January 19, 2016 with its theme as 'Mastering the Fourth Industrial Revolution'.

The Indian delegation to the conference which was headed by Union Finance Minister Arun Jaitley, including RBI Governor Raghuram Rajan and Bharti Enterprises Chairman, Sunil Bharti Mittal. *(TH, 20.01.16)*

**Mother Nature and South Asian Cities**

In South Asia, 302 million people will join the urban population between 2011 and 2030. The number of people exposed to natural hazards is growing by 3.5 per cent a year in the region. By 2050, 246 million South Asians will reside in cities in cyclone-prone areas.

This growth is primarily driven by the urbanisation process, which concentrates people in risk-prone areas, while climate change exacerbates disaster risks in those areas. Increasing urban resilience in South Asia is particularly vital because of the large numbers of people and physical assets concentrated in risky areas.

Urbanisation has the potential to lift millions of South Asians out of poverty and bring forth tremendous economic growth, if cities can limit the effects of the natural disasters that will inevitably occur. *(WB, 09.02.16)*

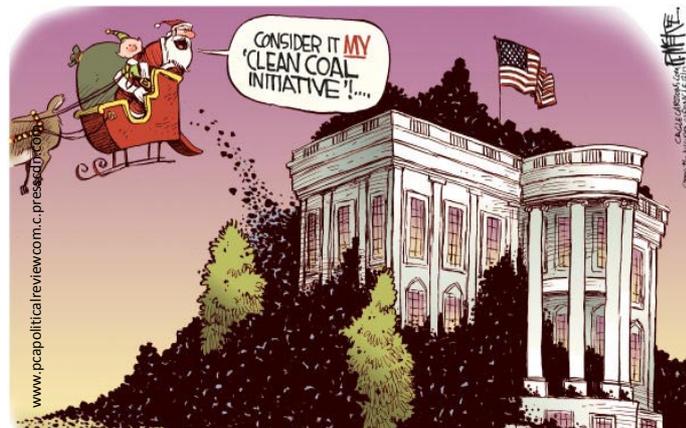
**Ganges Dam Project Stumbles**

Bangladesh's plan to build a dam on the Ganges River to ease water shortages in its southwest coastal region hangs in the balance as neighbouring India has yet to accept the plan.

Bangladesh started work on the proposed Ganges Barrage Project during the tenure of the previous ruling Awami League government in the late 1990s. The country has already completed a feasibility study and the design for the proposed 2.1km long dam.

**Obama Freezes New Coal-mining Permits**

The Obama administration has stopped issuing coal mining rights on government land as it launches a sweeping review of their economic and environmental effects.



The move will pave the way for the biggest shake-up in coal management in more than 30 years and will reverberate well beyond the US in countries that consume American coal. President Barack Obama hinted at the steps in his State of the Union address as he sought to cement a legacy of action on climate change at the start of his last year in office.

Despite its contribution to greenhouse gas emissions, coal remains America's single biggest source of electricity. Federal land accounts for 40 per cent of all US coal production. The freeze on permits was immediately condemned by Republicans as the latest front in an Obama-led 'war on coal', which they say is ravaging parts of the US dependent on mining and cheap coal power. *(FT, 21.01.16)*

Water scarcity and water salinity — made worse by climate change — are common problems in the region, which is why Bangladesh has given the barrage project top priority.

Experts say salinity is on the rise in the southwest due to sea-level rise from global warming. The proposed dam would release water through river channels to help dilute the salt levels. *(Mint, 13.01.16)*

**WTO's Blow to India's Solar Power**

The WTO dispute settlement panel has struck a blow to India's solar power programme, ruling that India violated global trade rules by imposing domestic content restrictions on the production of solar cells and modules as part of its National Solar Mission.

The ruling comes three years after the US launched a dispute against India at the WTO, complaining that its domestic content requirement (DCR) measures violated core norms of trade-related investment provisions, national treatment provisions for treating imported products on a par with

domestically manufactured products, and financial subsidy rules.

Its final report was issued after India and the US were unable to reach an agreement on the changes suggested by India to its Solar Power Programme. *(TG, 25.02.16)*

**Quest to Save Coral Reefs**

For millions of years, corals have lived in changeable environments, pummeled by storms and the vicissitudes of climate, and they have evolved to be inherently dynamic and resilient systems.

Battered corals can recover from catastrophic events like bleaching or cyclones, but they need time. Corals grow slowly, averaging between .02 to 8 inches per year (a rate stunted by rising acidity), so even a fast recovery takes years.

Less local pressure from overfishing, land-based pollution, and destructive coastal development means healthier coral before global events, which means greater resilience afterward and the possibility of healthier reefs in the future. *(TA, 17.03.16)*

# Climate Change is a Potent Element in the Deadly Brew of Disaster Risk

Robert Glasser\*

*By tackling the environment we can also mitigate the impact of disasters, as heatwaves, droughts and floods threaten the lives of millions*



The Hyogo framework for action (HFA), adopted in January 2005 by UN member states, was an unprecedented move to promote saving lives and livelihoods from disasters over a decade. Has there been progress?

The Centre for Research on the Epidemiology of Disasters and major insurance companies agree that, in 2015, figures for deaths, numbers of people affected and economic losses from disasters were below the 10-year average.

But are we getting better at managing disasters, or are we actually reducing disaster risk? There is a significant difference between the two, and addressing that difference should have a profound impact on development.

If better disaster management is solely responsible for the drop, then we may not be addressing the underlying issues. While improved preparedness and response are both necessary and commendable, so is disaster risk reduction, particularly as the threat posed by disasters is rising.

## Climate change: increasingly potent element

Climate change is an increasingly potent element in the deadly brew of disaster risk. Already, at least 90 per cent of disasters linked to natural hazards are climate related. Last year, thousands of people died from heatwaves in Europe and Asia, and droughts and floods – including those

exacerbated by normal climate variability, such as the current strong El Niño phenomenon – are increasing.

Rising sea levels and warmer sea-surface temperatures result in greater moisture in the air and contribute to more intense cyclone and typhoon seasons. This was observed last year in the Indian and Pacific Oceans: Mexico was hit by the strongest cyclone ever to make landfall, and Vanuatu and other south Pacific nations were pumelled by a category five storm.

Rapid urbanisation is elevating risks from both climate and geological hazards. The potential for significant losses is increasing apace with population growth, migration and unplanned urban development.

Globally, more than half of the urban environment that will be in place by 2030 has yet to be built. If this expansion is unplanned and disregards building codes and environmental impacts, disaster risk will grow. Loss of lives, livelihoods and infrastructure will surely follow. Emphasising risk-informed urban development now has the potential to offset future losses and protect lives and resources.

## Paris agreement

While the recent Paris agreement on tackling climate change is a big step forward, it will be decades before rising temperatures and their associated impacts are sufficiently reined in. The need to prioritise climate change adaptation and disaster risk reduction

has never been so evident or urgent.

Mortality is declining in many places because of better disaster management and more effective use of early warning systems. But more needs to be done to reduce risk comprehensively, including by tackling the compounding factors of poverty and inequality, rapid and unplanned urbanisation, damage to eco-systems, and poor risk governance.

Better risk governance is needed, along with the policy, legal and procedural environments that facilitate action. More national disaster loss databases to guide investments should be established.

The Sendai framework for disaster risk reduction was adopted in March 2015. It promotes the multi-hazard management of disaster risk in development, and addresses the complex nature of disaster risks and the interplay between them, which can create new risk and increase losses.

It was the first major development-related new agenda to be adopted in a year that also brought the adoption of the sustainable development goals, the Addis Ababa action agenda on financing for development, and the Paris agreement.

There is a golden opportunity now to ensure coherence between these agreements so that climate adaptation and disaster risk reduction work together to strengthen resilience across the full range of environmental, technological and biological hazards.

\* Head of the UN Office for Disaster Risk Reduction and the Secretary General's Special Representative for Disaster Risk Reduction; Excepts from an article appeared in *The Guardian* on March 03, 2016.

# Has the Global Trade-Development Link Peaked?

Otaviano Canuto\*

Trade has been a key driver of global growth, income convergence, and poverty reduction. Both developing countries and emerging market economies have benefited from opportunities to transfer technology from abroad and to undergo domestic structural transformation via trade integration in the last decades. Yet, more recently, concerns have been raised over whether the current pace and direction of world trade lead towards a lesser development-boosting potential.

## What happened to world trade?

World trade suffered another disappointing year in 2015, experiencing a contraction in merchandise trade during the first half and only low growth during the second half. This follows a similar pattern since the onset of the global financial crisis (GFC), in which world trade volumes have lagged behind GDP growth (Figure 1).

As suggested by Figure 2, after steadily increasing between the mid-1980s and the mid-2000s, the trade elasticity to GDP has lost steam. After jumping in previous decades, the world's exports-to-GDP ratio seems to have started to approach some plateau.

## A major wave of vertical and spatial fragmentation of production has passed

The full establishment of cross-border GVCs intrinsically raises trade measured as gross flows of exports and imports relative to GDP, a value-added measure, because of 'double counting' of the former – although the ratio of trade to GDP still increases even when trade is measured on a value-added basis (Canuto, 2013a).

Figure 3 shows that the ratio of foreign value added to domestic value added in world gross exports increased by 2.5 percentage points from 2005 to 2012, after having risen by 8.4 percentage points from 1995 to 2005.

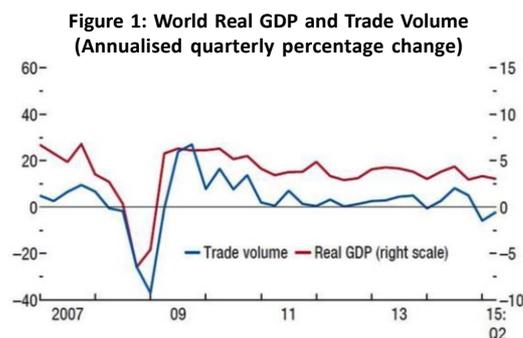
## Advanced countries are becoming services economies

While both the GVCs' rise and growth-cum-structural-transformation were taking place, with corresponding impacts on the landscape of foreign trade, advanced economies maintained a steady evolution toward becoming services economies. Lower GDP shares of the value added in manufacturing have accompanied rising shares of employment in services.

Both supply and demand factors explain such trends in advanced economies. On the supply side, beyond the higher pace of increases of productivity in manufacturing than in services, not only did the relative prices of manufactured goods fall, but a substantial part of local production was also off-shored as a result of GVCs and the incorporation of cheaper labour from areas previously out of the market economy world.

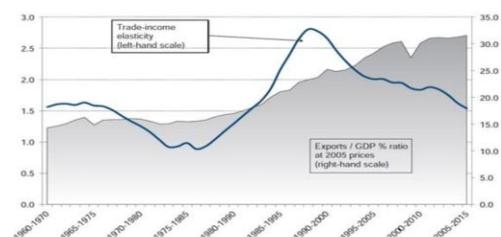
On the demand side, one may point out both a higher income-elasticity of demand for services and to technology trends favouring 'software' vis-à-vis 'hardware' - or 'intangible' relative to 'tangible' assets - as leading to an increasing weight of services in GDP and employment (IIF, 2015).

The run-up to 'peak trade' was one of primarily exploring complementarities within GVCs to substitute for existing producers. The post-peak trade era may well be one of building complementarities.



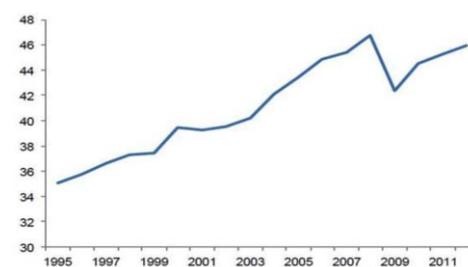
Source: IMF, *World Economic Outlook*, October 2015.

**Figure 2: Trade-income elasticity and Exports-GDP ratio - global economy**



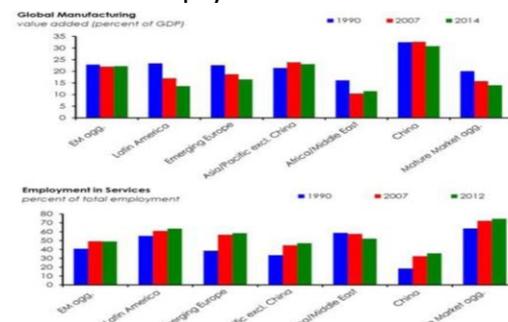
Source: *Esaith and Miroudot, ch. 7 in Hoekman (2015)*.

**Figure 3: Ratio of Foreign Value Added to Domestic Value Added in World Gross Exports (%)**



Source: *Constantinescu et al (2015)*

**Figure 4: Global manufacturing and employment in services**



Source: *Institute of International Finance, "The rise of services - what it means for the global economy", December 15, 2015.*

\* *Executive Director at the Board of the International Monetary Fund (IMF) for Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor Leste and Trinidad and Tobago; Excerpts from an article appeared in The Huffington Post, on January 26, 2016.*

**India Drags US to WTO Over Visa**

India has brought the US to the WTO over its controversial decisions to impose higher fees and fix numerical limits on work visas such as L-1 and H-1B.

Seeking consultations with the US the Indian government has alleged that the visa rules favour US workers over those from other countries. The issue is of special interest to India as several Indian software professionals go to the US every year on temporary work visas.

The rules impact Indian information technology firms as they are being forced to hire local workers, which pushes up their overall cost of operations. *(ToI, 05.03.16)*

**EU Trademark Norms to Hit Indian Drugs**

Amendments to certain intellectual property (IP) provisions, which may restrict as well as prevent the transit of vital generic medicines through the European Union (EU) to developing countries in Latin America and Africa, may become a cause of worry for domestic pharma companies.

Faced with seizures of crucial drug consignments originating from the country, India had earlier raised the issue with the WTO dispute settlement mechanism against the EU.

But the EU recently raised the bar even higher on IP enforcement in its new rules on trademarks through the introduction of enforcement measures on goods in transit within its territories. *(ToI, 26.01.16)*

**India to Seek WTO Trade Facilitation Pact**

Amid criticism that India failed to guard its interest at the WTO Ministerial conference, India is preparing a strategy to protect its interests by seeking 'trade facilitation agreement for services', where the country enjoys considerable strength.

Trade facilitation agreement, which is aimed at streamlining customs rules and procedures across the member nations and reducing transaction cost by expediting trade flows, has been pushed by developed countries.

However, it is yet to be implemented as it will come into effect only when two-thirds of the member nations ratify it. As of now 63 countries of the 162 nations have ratified it while India is yet to ratify it. *(IE, 05.01.16)*

**India's Trade Pacts in a Changing World**

The Economic Survey 2015-16's analysis of the impact of India's free trade agreements (FTAs) on the economy is a valuable attempt to address a gap in the policymaking ecosystem.

Its conclusion — a conditional one, for it acknowledges the need for more analysis — is unsurprising. Controlling for potential non-FTA trade growth, India's FTAs have on the whole had significant impact, boosting trade without introducing inefficiency due to trade diversion.

So far, so good. But this raises interesting questions about New Delhi's long-standing preference for multilateral trade liberalisation and the

global shift to the contrary.

India faces a difficult balancing act: between trying to regain lost ground at the WTO and protecting its flanks via bilaterals; between securing trade pacts and checking the trade imbalance that has seen its existing FTAs result in a sharper rise in imports than exports; between protecting domestic industries and making the concessions that will allow it to extract its own concessions for leveraging its strong services sector. The Survey has started a necessary conversation. *(Mint, 12.03.16)*

**Japan-Vietnam to Enhance Trade**

Japan and Vietnam pledged to work together to expand trade and promote investment by Japanese companies' in the Southeast Asian nation on Saturday in Hanoi at the first meeting held by a special committee formed to boost bilateral economic cooperation.

"By using this committee as a springboard, we want to advance economic relations between Japan and Vietnam to a new stage," said Industry Minister Motoo Hayashi who attended the inaugural Joint Committee between Japan and Vietnam on Cooperation in Industry, Trade and Energy, which the two nation's agreed to in July 2015 to establish.

Hayashi became the first Japanese Cabinet minister to visit Vietnam after the country's ruling Communist Party unveiled its new leadership at the 12<sup>th</sup> National Congress in January. *(JT, 20.03.16)*

**China to Look at Rail Deal with Nepal**

China is in talks with the visiting Nepali Prime Minister KP Sharma Oil to establish a rail network connecting different cities in the Himalayan kingdom, sources said. This is besides the plan to extend the Tibetan railway to the Nepali border.

The two countries signed 10 different agreements, and began negotiations on greater transport connectivity. The moves, which come after the recent blockade on the India-Nepal border, have great implications for India, observers said.

Indian infrastructure companies are bound to lose out in competition for Nepali projects because of inapt political and diplomatic handling of the blockade situation, sources said. The two countries have also started working on the first draft of a free trade agreement. *(ToI, 21.03.16)*

**CHINA TO NEPAL ON TRAIN**

**China is planning to build a 540km strategic high-speed rail link between Tibet and Nepal passing through a tunnel under Mt Everest.** The project is being undertaken at Nepal's request and China has begun preparatory work, state-run China Daily reported on Thursday

**The line is expected to be completed by 2020**

Trains on the track to Nepal will probably have a maximum speed of **120kmph**

It will be an extension of the 1,956km Qinghai-Tibet line that links the rest of China with Tibetan capital Lhasa and beyond

China is also considering building a high-speed railway line to the US that would run for 13,000km, about 3,000km longer than the Trans-Siberian railway

**The line will probably have to go through Qomolangma (the Tibetan name for Mt Everest) so that workers may have to dig some very long tunnels,** says Wang Mengshu, a rail expert at the Chinese Academy of Engineering

### Egypt Backs Down on Wheat Ban

Egypt's Agriculture Ministry backed down its previous restrictions on wheat imports, which had angered international traders. Wheat cargos were rejected on the basis of traces of ergot, a hallucinogenic grain fungus, but same will now be accepted with up to 0.05 per cent of the substance, in accordance with international standards.

Previously it was stated that "no single grain infected with ergot has entered or will enter Egypt", which was surprising for grain traders, but the General Authority for Supply Commodities (GASC), had set the permitted ergot levels at 0.05 per cent.

The Egyptian government, provides subsidised bread to citizens, is the top buyer of wheat and an important customer to many leading agricultural traders. *(FT, 04.02.16 & 03.02.16)*

### Saudi-Russia to Freeze Oil Output

After oil prices fall 70 per cent since mid-2014, Saudi Arabia announced oil output freeze by some of the world's major producers, to stabilise the market.

Saudi Arabia has agreed with Russia to freeze output if they are joined by other large producers, in the first co-ordinated move to try to reduce a near record supply glut and halt the collapse in prices.

The speed of the deal between the Opec powerbroker and the world's largest crude oil producer surprised the market but traders remained sceptical that the provisional agreement would gain wider acceptance. Opec member Iran is seen as the biggest stumbling block. *(FT, 17.02.16)*

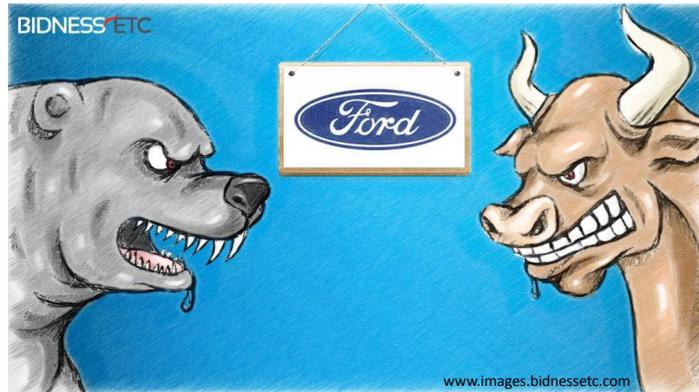
### US, EU Data Deal Raises Privacy Fears

A new transatlantic data agreement will put a senior American diplomat in charge of investigating alleged breaches by US intelligence agencies, and the deal will not allow EU citizens to claim financial damages for violations of their privacy.

The long-awaited release of the so called 'Privacy Shield' follows more than two years of negotiations and a 2015 move by the European Court of Justice (ECJ) to invalidate the long-

## Ford Pulls out of Japan and Indonesia

US carmaker Ford will exit Japan and Indonesia blaming poor sales and market conditions. The company would close all operations in 2016 as there was 'no reasonable path to profitability' in the two countries. The 12-nation Trans Pacific Partnership (TPP) trade agreement in its current form would not improve Ford's ability to compete there.



In 2015, Ford sales accounted for just 0.1 per cent of the Japanese market and only 0.6 per cent in Indonesia. It is another step in the global defeat of the US car industry.

In 2015, Ford sold just 6,100 cars and trucks in Indonesia and 5,000 in Japan, partly blaming the government for protective policies that favour domestic brands over imported cars. Ford employs 292 workers in Japan and has 44 dealerships there, and it employs 35 people in Indonesia. *(IE, 25.01.16)*

running 'Safe Harbour' agreement that had governed the treatment of transatlantic data flows.

The 'Privacy Shield' still faces a number of hurdles in the EU, with data protection agencies from the bloc's 28 member states still needing to sign off on the deal and a future challenge before the ECJ already expected. *(FT, 01.03.16)*

### 2015 Worst Year for World Trade

Weaker demand from emerging markets made 2015 the worst year for world trade since the aftermath of the global financial crisis, highlighting rising fears about the health of the global economy. The value of goods that crossed international borders in 2015 fell 13.8 per cent in dollar terms.

Much of the slump was due to a slowdown in China and other emerging economies. The International Monetary Fund warned that it was poised to downgrade its forecast for global growth in 2016, saying the world's leading economies needed to do more to boost growth.

Before 2008 crisis, global trade grew at as much as twice the rate of global output for decades. But since 2011,

trade growth has slowed to be in line with or even below, the broader growth of the global economy, prompting some to raise questions about whether the globalisation that has been such a dominant feature for decades has peaked. *(FT, 26.02.16)*

### D-8 Trade Agreement to Take Effect

The D-8 member countries have agreed to implement the preferential trade agreement from July 01, 2016 keeping Bangladesh's proposal regarding the local value addition criteria hanging.

D-8, also known as the Developing-8, is an organisation for development cooperation among Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey. Bangladesh has been demanding 30 per cent local value addition for its goods to be exported to the D-8 nations.

In other words, if Bangladesh can add just 30 per cent value to the product locally, it will be considered as manufactured in Bangladesh. The rest of the D-8 countries have agreed on 40 per cent local value addition. *(DS, 23.02.16)*

## Trade within Africa Could do Much Better

Two of the largest regional trade accords in history were agreed on in 2015. The Trans-Pacific Partnership involves 12 countries in Asia and the Americas, and was the subject of headlines and heated debate.

But most people have never heard of the Tripartite Free Trade Area (TFTA), which covers 26 African countries. It will create the biggest free-trade area on the continent, 'from Cairo to the Cape', as its supporters boast.



An abundance of borders has long divided the continent's 54 countries, limiting economies of scale. Fixing common problems such as a shortage of roads takes teamwork — and in turn should lead to more integration. Average transport costs in Africa are twice the world average and are thought to harm trade on the continent more than tariffs and other barriers.

(TE, 27.02.16)

### Russian Trade Hit by Sanctions

Russia's trade with the EU's eastern states fell by almost a third in 2015, as sanctions over Crimea and the economic impact of plummeting commodity prices further unravel the fraying links between Moscow and its former Soviet bloc allies.

Exports to Russia from the six countries for which full data are available were worth •5.9bn less in 2015 than 2014. Sales of goods from Lithuania, Latvia, Estonia, Poland, the Czech Republic and Bulgaria declined an average of 30 per cent in 2015.

If the trends since 1999 can teach anything, it is that due to the geography and familiarity of products and brands of Lithuanian companies, they would probably not miss a chance to be among the first to return to the Russian market if the economic situation in Russia stabilises and trade barriers are removed.

(FT, 15.02.16)

### Intermediate Goods Dominate Trade

Countries engaged in international trade complement each other through exchange of intermediate goods and

final goods — a reality that improves the regional value chain, Trade and Industry (DTI) Secretary Adrian Cristobal Jr. said.

The Philippines mostly ships parts to manufacture certain final products that will be imported back to the country like motorcycle, bicycle and cars, the former Cabinet official noted.

International trade now is more complementation than competition. It is because of the forming regional value chains. Before, intermediate goods were just a minority. Final goods were mostly traded. But now, 70 per cent or two thirds are intermediate goods.

(MT, 09.02.16)

### B'desh to Lose Garment Trade

The proposed signing of the EU-India free trade agreement and Vietnam's joining the TPP are unlikely to have any negative impact on Bangladesh's garment exports.

At present, India and Vietnam are no challengers to Bangladesh in garment trade, Zillul Hye Razi, Trade Adviser of the European Union, said.

The two countries operate close to

the high-end segment of the market, while Bangladesh mostly occupies the low end of the spectrum. Besides, they are shifting their focus from textiles and clothing and are now more interested in other products.

(BS, 02.03.16)

### FTAs Lead to Faster Growth

India's FTAs, currently about 42, have increased trade with FTA countries more than would have happened otherwise. However, increased trade has been more on the import than export side, because India maintains relatively high tariffs and hence had larger tariff reductions than its FTA partners, according to the Economic Survey.

The trade increases have been much greater with the ASEAN than other FTAs and they have been greater in certain industries, such as metals on the import side. On the export side, FTAs have led to increased dynamism in apparels, especially in ASEAN markets.

The overall effect on trade of an FTA is positive and statistically significant. The cumulative effect between the year of the FTA and 2013 on trade with ASEAN, Japan, and Korea is approximately equal to 50 per cent.

(BS, 27.02.16)

### Port Access to India Soon

Addressing a long pending demand by India, Bangladesh will soon grant India direct access to its Chittagong port even as both sides work on forward linkages.

Bangladesh is working on a Standard Operating Procedure (SOP) which will ensure India direct access to the port, which is significant in boosting bilateral and intra-regional trade.

Recently, Bangladesh Prime Minister Sheikh Hasina suggested creation of a joint consortium between both the countries in an effort to ensure better use of the port.

Once approved, this will help Indian industry and exporters save millions of dollars by sending direct shipments to Bangladesh and by using the Chittagong port as a transit hub to access other Southeast Asian destinations.

(BL, 02.02.16)

**Tax Elite to Reduce Inequality**

For India to meet its huge challenges of inequalities the elite would have to start paying more taxes, says Thomas Piketty, author of the best-selling book 'Capital in the Twenty-First Century'.

The current tax-to-GDP ratio is insufficient for meeting India's huge challenges of inequalities, the French economist said. The aim should be to evolve the ratio toward the 30 per cent to 50 per cent levels now seen in the US and some of the West European countries.

"I hope Indian elite will behave much more responsibly than the western elite did in the 20th century.... True reforms are yet to come in the public funding of the education system and improvement in the transparency in the tax collection system has not happened yet," Piketty said. (TH, 22.01.16)

**Indian Basmati Gets G1 Tag**

Traditional *Basmati* farmers in India have got a boost with the Intellectual Property Appellate Board (IPAB) ordering the Geographical Indications Registry to give GI recognition for the aromatic rice.

*Basmati* cultivation in the Indo Gangetic Plains (IGP) in the Himalayan foothills will get the GI mark. This will cover the unique variety of rice cultivated in Punjab, Haryana, Himachal Pradesh, Delhi, Uttarakhand, Western UP and two Districts of J&K – Jammu and Kathua.

In December 2013, the GI Registry had asked APEDA to include all areas where basmati is cultivated and submit an amended application including Madhya Pradesh, Rajasthan and Bihar. APEDA appealed against that order as diluting the GI application will be against the interest of Basmati growers in traditional areas. (BL, 05.02.16)

**Indian Diaspora is World's Largest**

According to the latest United Nations estimates, 244 million people, or 3.3 per cent of the world's population, live in a country other than the one where they were born.

They are concentrated in just 20 countries. By far, the most popular destination in 2015 was the US, followed by Germany, Russia and Saudi

Arabia. But the ranking should not be viewed as a popularity contest. Saudi Arabia shows up because it hosts an enormous number of migrant workers, not immigrants who resettle, as in the US.

Indians make up the largest diaspora: 16 million Indians are scattered across the world, which partly reflects the country's demographic size (1.2 billion) and youth (median age is around 26). After India, Mexico has the second largest diaspora, with 12 million living abroad, the majority of them in the US. (ToI, 14.01.16)

**India Inks Pact for Saving Birds of Prey**

India has become the 56<sup>th</sup> country to sign a pact on conservation of birds of prey in Africa and Eurasia, a move that will help the country gain knowledge in effectively managing the habitats of such raptors.

The government signed the 'Raptor MoU', covering 76 species, out of which 46 including vultures, falcons, eagles, owls, hawks, kites, harriers and others are also found in India.

The agreement was signed on March

07, 2016 at the Convention on Migratory Species (CMS) in Abu Dhabi by Ambassador of India to the UAE T P Seetharam. The CMS aims to conserve migratory species and India is a signatory to it since November 01, 1983.

(TH, 10.03.16)

**China's Income Inequality Globally**

Communist China has one of the world's highest levels of income inequality, with the richest 1 per cent of households owning a third of the country's wealth, a report from Peking University has found.

The poorest 25 per cent of Chinese households own just 1 per cent of the country's total wealth, the study found. China's Gini coefficient for income, a widely used measure of inequality, was 0.49 in 2012, according to the report.

The study from the university's Institute of Social Science Survey is likely to bolster calls for more progressive taxation and increased social welfare spending in the nominally communist country. The Gini coefficient has risen from roughly 0.3 in the 1980s. (FT, 15.01.16)

**Is the United Nations Still Relevant?**

In a reflection of the state of the world, the security council, which is charged with the maintenance of international peace, is busier than ever. Years ago, the council met for a few hours once or twice a week. These days it meets all day, often at night and weekends too.

Overworked diplomats discuss an ever-lengthening agenda of crises, from North Korea to Libya. The long list of meetings and committees may demonstrate the council's energy in addressing the manifold factors behind modern conflict but it



also reflects the council's failure: it does not take a diplomat to see that insecurity is spreading.

There are many reasons behind the UN's inability to stop the devastating war in Syria, but it's not good enough merely to blame Russia, as western diplomats tend to do. The disturbing truth is that the world's primary institution to deal with war is not working. (TG, 10.03.16)

**Scepticism in Germany Grows**

Germany took in more than 1 million refugees in 2015, an influx that could transform Europe's largest economy. Business initially saw it as a boon for a flourishing labour market that badly needs more workers.

Dieter Zetsche, Chief Executive of Carmaker Daimler, said they could unleash a new *Wirtschaftswunder* or economic miracle, much as the millions of guest workers from countries such as Turkey helped fuel Germany's postwar boom.

Germany's social services are stretched to breaking point, with school gyms overflowing and newly built tent cities filling up fast as a shortage of staff has led to large backlogs in processing asylum applications. It has proved hard enough to register the newcomers, let alone find them all jobs.

*(FT, 03.01.16)*

**UN Ushers in Ambitious 2030 SDGs**

With the start of 2016, the UN ushered in the ambitious 2030 Sustainable Development Goals that aim to end poverty, hunger and assure gender equality while building a life of dignity for all over the next 15 years.

The 15-year cycle of the anti-poverty Millennium Development Goals (MDGs) came to an end with 2015 paving the way for the SDGs, an even more ambitious set of goals to banish a host of social ills by 2030.

"The 17 Sustainable Development Goals (SDGs) are our shared vision of humanity and a social contract between the world's leaders and the people," UN Secretary-General Ban Ki-moon said.

*(FE, 01.01.16)*

**Shadow of Populism Hangs on Davos**

The shadow of Donald Trump has loomed over Davos in 2016. So has the prospect that refugee flows into Europe will undermine centrist leaders such as Angela Merkel, the German Chancellor. More broadly, those at Davos are aware that they increasingly represent the 'unpopular' — the business and political elites that are the targets of public anger and disillusionment.

Sooner or later, most corridor conversations in Davos have turned to the US presidential election. It is gradually dawning on people in the Swiss resort that either Trump or Ted Cruz, the Texas senator, will probably win the Republican nomination, and that the 'unthinkable' could happen.

European politicians, meanwhile, are battling their own populists. Merkel, who normally gives a warmly applauded speech at Davos, has had to stay at home in 2016 to deal with the refugee crisis.

*(FT, 23.01.16)*

**Consider Role in Creating Poverty**

Pope Francis told members of the world's wealthy political and economic

elite that they should not be deaf to the cry of the poor and must consider their own role in creating inequality.

New technologies such as robotics must also not be allowed to replace humans with 'soulless machines,' he said in a message to the World Economic Forum in Davos.

The pope, who wrote a major encyclical on climate change and protection of the environment in 2015, also urged business leaders to see to it that the planet does not become 'an empty garden.'

*(TH, 22.01.16)*

**Why Globalisers Still Retain Upper Hand**

The benefits of globalisation are both economic and political. In economic terms, they include enhanced global trade and international investment, which boost prosperity and enlarge choice for ordinary people.

Defenders of globalisation cannot simply dismiss the concerns that are driving voters towards nationalists. Rising inequality is an important issue in the US, the EU, and even China. But the causes are complex and involve technology and education, as much as international trade.

The better solution is to improve popular confidence in the security of borders and immigration procedures while continuing to make the moral and economic case for the benefits of immigration.

*(FT, 31.12.15)*

**The 'Colonial Plunder' Theory does not Work**

It is absolutely true that colonial powers stole natural resources from the lands they conquered. No one disputes that. And at the time, this definitely made the colonised regions a lot poorer.

The UK, for example, caused repeated famines in India by raising taxes on farmers and by encouraging the cultivation of cash crops instead of subsistence crops. That is a pretty stark example of destructive resource extraction.

The easiest way to see this is to observe all the rich countries that never had the chance to plunder colonies. Germany, Italy, Sweden, Denmark and Japan had colonial empires for only the very briefest of moments, and their greatest eras of development came before and after those colonial episodes.

Switzerland, Finland, and Austria never had colonies. And South Korea, Taiwan, Singapore and Hong Kong were



themselves colonies of other powers. Yet today they are very rich. They did it not by theft, but by working hard, being creative, and having good institutions.

*(Bloomberg, 01.02.16)*

## Four Global Risks

Martin Feldstein\*

*The end of the year is a good time to consider the risks that lie ahead of us. There are, of course, important economic risks, including the mispricing of assets caused by a decade of ultra-low interest rates, the shifts in demand caused by the Chinese economy's changing structure, and European economies' persistent weakness. But the main longer-term risks are geopolitical, stemming from four sources: Russia, China, West Asia, and cyberspace.*



### The geopolitical danger

The geopolitical danger arises from Putin's growing reliance on military action abroad – in Ukraine and now in Syria – to maintain his popularity at home, using the domestic media (now almost entirely under Kremlin control) to extol Russia's global importance. Russia also uses its gas exports to Western Europe and Turkey as an economic weapon, although Turkey's recent decision to source gas from Israel shows the limits of this strategy.

China is still a poor country, with per capita gross domestic product (GDP) at roughly a quarter of the US (on the basis of purchasing power parity or PPP). But, because its population is four times larger, its total GDP is equal to America's (in PPP terms). And it is this that determines a country's ability to spend on military power, to provide a strategically significant market for other countries' exports, and to offer aid to other parts of the world. China is doing all of these on a scale commensurate with its GDP. Looking ahead, even with the moderate growth rates projected for the future, China's GDP will grow more rapidly than that of the US or Europe.

### China to expand its strategic reach

China is now expanding its strategic reach. It is asserting maritime claims

in the East and South China Seas that conflict with claims of other countries in the region (including Japan and Vietnam). In particular, China is relying on the so-called "nine-dash line" (originally created by Taiwan in 1947) to justify its claim to most of the South China Sea, where it has created artificial islands and asserted sovereignty over their surrounding waters.

In West Asia, much of the world's focus has been on the threat posed by the Islamic State (IS) to civilian populations everywhere — including Europe and the US. But, the bigger issue in the region is the conflict between Shia and Sunni Muslims, a divide that has persisted for more than a thousand years. For most of that time, and in most places, the Shia have faced discrimination at the hands of Sunnis.

Thus, Saudi Arabia and other Sunni-ruled Gulf states view Iran, the region's Shia power, as their strategic nemesis. Saudi Arabia, in particular, fears that Iran wants to settle old scores and attempt to shift custodianship of Islam's holy sites in Mecca and Medina to Shia control. A conflict between Saudi Arabia and Iran would also be a fight over the vast oil riches of the Arabian Peninsula and the enormous financial wealth of small Sunni states like Kuwait and Qatar.

### Cyberspace: the final source of risk

The final source of risk, cyberspace, may soon overshadow all the rest, because borders and armies cannot limit it. Indeed, widespread theft of technology from US companies led to a recent agreement between China and the US that neither government will assist in stealing technology to benefit its country's firms.

These are important issues, but not nearly as serious as the threat that malware poses to critical infrastructure — electricity grids, air traffic systems, oil pipelines, financial platforms, and so on. Recent cases of malware use have been attributed to China, Iran, Russia, and North Korea. But states need not be involved at all: Individuals and non-state actors could deploy malware simply by hiring the needed talent in the underground marketplace.

These four sources of risk constitute an unusually serious set of geopolitical challenges. By highlighting them, I don't mean to downplay the importance of other issues that are likely to affect the global economy in the year ahead. What's special about the threats emanating from Russia, China, West Asia, and cyberspace is that they will persist and threaten our economic future for years to come.

\* Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research; Excerpts from an article appeared in *Business Standard*, on January 04, 2016.

# Trade Buzz

Trade Buzz is a quarterly e-newsletter of the SAARC Trade Promotion Network Secretariat and jointly produced with CUTS International. SAARC TPN is a network on business associations of South Asian countries. It is an initiative of the Federal Ministry of Economic Cooperation and Development (BMZ), Germany and the German Cooperation Agency (GIZ).

[www.cuts-citee.org/pdf/Trade\\_Buzz-Sep-Nov2014.pdf](http://www.cuts-citee.org/pdf/Trade_Buzz-Sep-Nov2014.pdf)



# Dossier on Preferential Trade Agreements & India

One of the most interesting trends in today's global trade is the emergence of bilateral and regional trade arrangements, collectively known as preferential trade agreements. This Quarterly Dossier does shallow analysis of potential impacts (on the Indian economy) of those preferential trade agreements of which India is not a party.

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# BRICS TERNewsletter

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