

# Climate Change Challenges in ASEAN-facilitated Interventions in the Mekong Subregion

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August 2010

## 1. Introduction

The drive for economic integration in Southeast Asia has driven the Association of Southeast Asian Nations (ASEAN) to make institutional arrangement to serve one of its primary goals of establishing an ASEAN Economic Community (AEC) by 2015. The AEC is expected to sharpen ASEAN's competitive edge as the preferred destination for investment and establish ASEAN as a single market and production base.<sup>i</sup> In order to achieve this objective, ASEAN has committed itself to open regionalism. ASEAN's approach to trade and investment is reflected in the Mekong subregion's development approaches, with the countries in the subregion (comprising Cambodia, Lao PDR, Myanmar, Thailand and Vietnam) having started their transition from centrally planned to market-based economic systems and forging closer ties with external markets.<sup>ii</sup>

Over the past few years, however, it has been increasingly evident that the vital agricultural and natural resources of the Mekong subregion are exposed to a wide range of climate-related risks. For instance, agricultural production (e.g. rain-fed rice cultivation) in the subregion is bound to be affected by projections of longer but drier dry seasons and shorter but wetter wet seasons. There is little doubt that climate hazards and the risk they present to vital resources will affect the subregion's development targets, while production and trade will suffer the consequences of unaddressed climate change issues. At the same time, the development interventions resulting from international agreements, investments and trade may also increase the vulnerability of the subregion to climate-related risks if approaches in these areas are not climate risk sensitive.

The current challenges presented by climate change in the Mekong subregion—and in ASEAN member states in

general—can provide opportunities for climate change governance that will facilitate resilience to climate-related hazards in the region and open up pathways to low-carbon development.<sup>iii</sup> Because climate change has the capacity to impact on the development and survival of countries, it is viewed by some sectors as vital to the formulation of policy regimes, including those dealing with trade. On the other hand, trade arrangements should also be examined closely if trading arrangements are to avert the impacts of climate change and/or facilitate adaptation and mitigation activities.

## 2. Integrating climate change into trade policy?

Ever since the signing of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 and its taking effect in 1994, trade policy analysts and policymakers have distanced themselves from the mainstream of climate change policy discussions. In fact, strong defenders of the World Trade Organization regime have used the 'regulatory chill' strategy to prevent progressive governments from making meaningful decisions to address climate change by pointing out conflicts between climate change policies and established international trade rules.<sup>iv</sup> It was not until the December 2007 Bali 13th UNFCCC Conference of Parties and through the initiative of the Indonesian government that trade ministers sat down to discuss climate and energy policy, thus introducing trade and climate change linkages to the agenda of climate change talks.<sup>v</sup>

Although the nexus between trade and climate change is now being defined, these linkages remain vague, with some referring to trade measures as a useful incentive to promote adherence to climate goals, while others see them

as a potential threat to mutually agreed climate solutions.<sup>vi</sup> Furthermore, the way in which carbon trading has dominated high-level international and national policy responses to climate change over the past decade also risks concealing and undermining the true knowledge and analysis needed to respond to global warming.<sup>vii</sup>

There are several ways in which governments can use trade-related measures as part of their climate strategies, such as punitive tariffs or quantitative measures to ban or limit market access for products that are seen as harming the climate; anti-dumping duties on the exports of foreign producers; countervailing measures that could be applied to industries or regions that causes ‘injury’, ‘serious prejudice’ or ‘nullification of benefits’ expected from the General Agreement on Tariffs and Trade; border adjustment measures that could include the application of domestic carbon taxes; and standards and domestic regulations to increase barriers to trade for products from developing countries that do not meet national and/or energy- or carbon-efficiency standards.

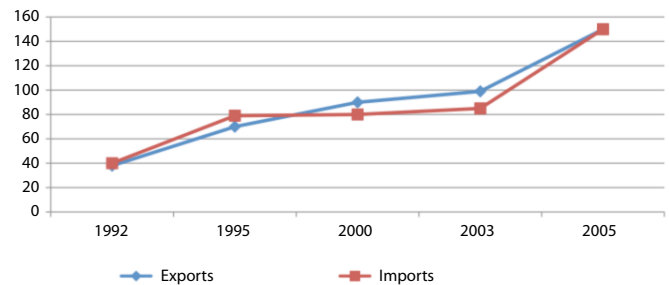
Unfortunately, most developing countries still fail to view trade measures as an important element in addressing climate concerns.<sup>viii</sup> These countries generally still have issues over trade mechanisms dealing with market access that affect the competitiveness of countries engaged in trade, e.g. standards setting, sectoral approaches to emissions reduction, tax deductions and subsidies for climate-friendly energy investments, and carbon leakage. Overall, therefore, any review of trade approaches to climate change has largely focussed on trade mechanisms that respond to mitigation targets. Except for concern over the loss of natural capital and technology transfer, trade approaches to address climate change have very little to offer countries with adaptation needs

### 3. Trade and climate change indicators and projected impacts in the Mekong subregion

The Mekong subregion has been characterized by centrally planned market systems, but is moving into a process of transition towards a free-market system and closer integration with external markets. Consequently, the subregion is increasingly keen to use trade as part of its

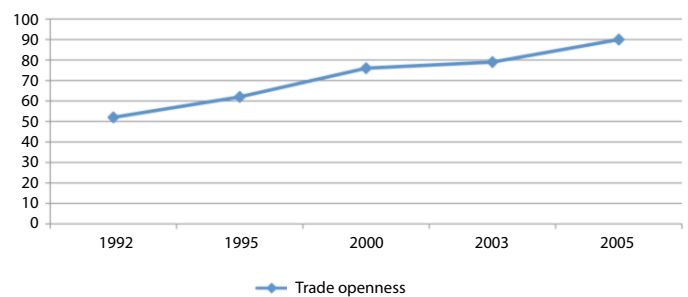
key development strategy. In general, trade flows in the region have significantly increased since 1992.<sup>ix</sup> Figures 1 and 2 show this increase in trade transactions and the level of openness of the economies of the Greater Mekong Subregion (GMS).<sup>x</sup> The GMS’s success has been attributed to several factors. The first is its outward-oriented strategies characterized by unilateral reforms to liberalize trade, rehabilitate infrastructure and institutions, and gain greater market access within the region and to developed country markets. Secondly, intra-GMS exports grew annually by an average of 19 percent in the period 1994–2006. Thirdly, exports to non-GMS members of the ASEAN Free Trade Area have increased significantly. These factors were accompanied by changes in the structure of commodity exports in line with the subregion’s comparative advantage, including agricultural and other natural resources, the low cost of labour and the production of labour-intensive manufactured goods.

**Figure 1: Trade trends in the GMS economies, 1992–2005 (USD billion)**



Source: ADB (2007: 3)

**Figure 2: The level of trade openness in the GMS economies, 1992–2005 (%)**



Source: ADB (2007: 3)

Despite this, the changing climate has been a major concern in the Mekong subregion, with temperature and other climatic variables expected to change significantly,

causing changes in rainfall patterns, and daytime and nighttime temperatures. The Mekong River Commission (MRC) recently published a report that highlights the consequences of climate change in the so-called Lower Mekong basin, which would include changes in the intensity, duration and frequency of extreme events involving climatic variables like temperature, rainfall and wind.<sup>xi</sup> The report also highlights a list of projected alarming impacts, such as seasonal water shortages, droughts, floods and saltwater intrusion that threaten natural ecosystems, food security and the resource base of the primary livelihoods of many communities in the subregion. If not addressed properly, these climate challenges will threaten the attainment of economic growth of the subregion's countries.

#### **4. Climate change and wider environmental considerations in ASEAN-led FTAs and/or EPAs**

Although responses to climate change exists within the various national, subregional and regional frameworks, full commitment from ASEAN to addressing climate change was only made possible following the signing of the 2007 Singapore Declaration on Climate Change, Energy and the Environment. As one of the most open economic grouping in the world, ASEAN has embarked on a number of free trade agreements (FTAs) and/or economic partnership agreements (EPAs) with its dialogue partners, both prior to and after the signing of the Singapore Declaration. Despite this, FTAs and/or other economic dialogues such as the EPAs that were pursued after the signing of the Singapore Declaration did not make explicit commitments to climate change. Yet, in some FTAs and/or EPAs, such as the ASEAN–Japan EPA, discussion on areas of cooperation dealing with the environment and energy is left to subcommittees. However, while comprehensive, these FTAs/EPAs also provide room for intervention specifically in negotiating the integration of climate strategies into trade-related mechanisms.

To start with, the ASEAN–Japan EPA is a comprehensive agreement on trade in goods and services, investment, and economic cooperation.<sup>xii</sup> The agreement entered into effect in 2008 and stands as one of the most comprehensive agreements ever entered into by ASEAN. However, there are no clear provisions for specific climate-

related actions, although the aim of achieving paperless trading can be said to further climate change mitigation. The section on fields for economic cooperation also has a subsection on the environment, energy, tourism, small and medium-sized enterprises, agriculture, fisheries and forestry (chap. 8, art. 53), all of which are sectors that are vulnerable to climate change. Moreover, Japan made an attempt to engage ASEAN, specifically the GMS, in climate change through the Japan-Mekong Hatoyama Initiative's Green Mekong initiative focussing on water resource management to address climate change challenges.

Other bilateral FTAs with ASEAN's Northeast Asian partners, such as those with China and South Korea, also fail to include any reference to environmental or climate change concerns. Within the context of the ASEAN–China Free Trade Area in particular, neither the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, which was signed in Phnom Penh, Cambodia, on 4 November 2002, nor the resulting 2009 Investment Agreement makes any mention of environmental or climate change concerns. China has invested in the regional power grid's interconnection and power transmission facilities in the Mekong subregion, with dams being built along the Irrawady and Salween rivers and hydropower projects on rivers flowing from the Cardamon Mountains and on the Xeset River.<sup>xiii</sup> These initiatives, however, are a cause for concern, since the construction of dams to harness hydroelectric energy has been labelled as environmentally friendly and, hence, a good climate change mitigation measure. But these dams will change the regular flow of water in the Mekong that nourishes the agricultural lands of the Lower Mekong basin. They will also destroy the natural ecosystems and floods forests that are essential for biodiversity sustainability in the Mekong subregion.

A more interesting development in the push for the incorporation of environmental considerations into ASEAN-facilitated FTAs/EPAs can be found in the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA). While the official document containing the agreement does not have a specific section on addressing climate change, it is worth noting that it specifically highlights electronic commerce; paperless trading (art. 8); the management of risks relating to health, safety and the environment (chap. 5); and deceptive practices (art. 8).<sup>xiv</sup> However, the Implementing Arrangement for the

AANZFTA Economic Cooperation Program Pursuant to Chapter 12 (Economic Cooperation) of the Agreement Establishing the AANZFTA<sup>xv</sup> mentions neither climate change nor environmental measures to be pursued, despite the fact that it covers programs like mining, which impacts on forests and water resources and may result in fugitive emissions of greenhouse gases during the processing of minerals.

## 5. Conclusion and policy recommendations

There is no doubt that the Mekong subregion is vulnerable to climate variability and change. National plans of action and platforms have been created to respond to the challenge of climate-related hazards. In an attempt to develop, many of the countries in the subregion have opted for trade liberalization as a means for economic growth. In the process, they have been made various trading arrangements, both among themselves and with their more developed trading partners. ASEAN's role in regional integration and in providing market access for countries in the Mekong subregion is recognized. The national plans of action of countries in the subregion have provided for trade-related mechanisms aimed at addressing climate change challenges, which include, among other things, access to support through the Kyoto Protocol's Clean Development Mechanism, establishing market mechanisms to promote the use of alternative energy sources, and energy management for the export of electricity. However, it is unclear whether such national plans of action can be attributed to ASEAN intervention.

A clearer mitigation action facilitated by ASEAN is the power generation projects in the Mekong subregion for the building of dams to supply hydroelectric power. Although this constitutes a low-carbon initiative and will provide a renewable energy source, the impact of these dams on natural resources will result in a loss of natural capital that cannot be substituted. In the same way, the ASEAN-facilitated AANZFTA paves the way for mining industry development. While this may be considered as an alternative to climate-threatened agricultural production and other industries dependent on primary resources and therefore can be seen as an adaptation option, the cost in loss of natural capital is far too high for countries that have relied on natural resources for their major industries and as the backbone of their peoples' livelihoods.

However, the people who in some way rely on the Mekong River have asserted their rights and have made known their aspiration to have their voices heard specifically on matters related to natural resources management and climate change. This has been taken into account by the MRC and has been factored into the plans for the first Mekong River Summit in 2010. To facilitate synergy and coherence, a cooperative agreement on climate change interventions may need to be forged among the MRC, ASEAN and the GMS. This is currently not on the summit's agenda, although cooperative arrangements between the MRC and ASEAN and between the MRC and ADB's GMS initiative are to be discussed. A multilateral cooperative agreement on climate change among these institutions will pave the way for better cohesion, synergy and integration of climate change concerns in trade and environmental interventions.

Based on these findings, the policy recommendations of this policy report are as follows:

1. *Climate change-related issues and/or concerns should be mainstreamed in ASEAN's institutional frameworks for economic cooperation.*

It cannot be denied that ASEAN is cognizant of its critical role in addressing climate change challenges. The mainstreaming of climate change issues and/or concerns in ASEAN's institutional frameworks for economic cooperation would require a rethinking of the interface between the economic and sociocultural communities' ways of working in terms of the Roadmap for an ASEAN Community 2009–2015.

2. *Existing and proposed trading mechanisms and the resulting projects and programs should be subjected to climate risk assessments.*

Trading arrangements, whether in the form of market access, emissions trading, sectoral approaches or the setting of standards, should consider the vulnerability and exposure of people in the Mekong subregion to climate hazards, as well as to hazards that may result from climate change mitigation and adaptation projects. This recommendation presents an actionable option if ASEAN is true to its commitment to being a people-oriented organization. However, it appears that environmental and climate change concerns are merely token commitments, since they are not



embodied in the formal and binding FTAs facilitated by ASEAN. Many of the commitments appear merely as statements in speeches at ministerial meeting and in minutes of meetings. However, given that many of the comprehensive agreements on economic cooperation/partnerships entered into by ASEAN provide room for discussion on specific areas of economic cooperation in the subcommittees created under such agreements, there is room for intervention, but this needs to be utilized much more.

3. *Climate strategies should be integrated into trade-related measures as possible instruments for mitigation efforts.*

Trade approaches, such as those discussed by Khor and Yu,<sup>xvi</sup> could serve as effective climate change mitigation tools. Another example of the use of trade approaches in mitigating the impacts of climate change could be the establishment of a unified ASEAN GHG inventory system for capturing embodied carbon, which could be covered under the product-specific rules of trade agreements. This initiative would curb environmental dumping.

4. *Alternative models of regional integration and economic polygons to address climate change concerns should be developed.*

Climate change is a complex issue and thus requires innovative thinking to address the problems that it causes. Using regional integration as a means to address climate change may be needed by subregions in ASEAN such as the Mekong subregion. Hence, apart from ASEAN's regional integration models, we also recommend that subregional arrangements (e.g. Singapore–Johor–Riau, the GMS and so on), transregional and/or interregional cooperation arrangements (e.g. ASEAN–EU, ASEAN Plus Three, and so on), and solidarity-based arrangements should be explored to strengthen cooperation on climate change.

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## Endnotes

- i ASEAN Secretariat, 2009a: 17.
- ii ADB, 2007: 14.
- iii Andonova *et al.*, 2007.
- iv Buck & Verheyen, 2001: 1.
- v Cosbey, 2008.
- vi Earley, 2009.
- vii Lohman, 2008.
- viii Yu, 2009.
- ix ADB, 2007.
- x Note that this report focuses on the Mekong subregion, but since this is part of the GMS, which includes the five countries mentioned above and China's Guaxi Zhuang Autonomous Region and Yunnan Province, here reference is made to this larger area, because often statistics for the economic performance of the Mekong subregion are subsumed in those for the larger GMS.
- xi MRC, 2009a.
- xii For further details, see ASEAN Secretariat (2003).
- xiii Sciortino, 2009.
- xiv For further details, see ASEAN Secretariat (2009b).
- xv For further details, see ASEAN Secretariat (2009c).
- xvi Khor, 2009; Yu, 2009.

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