

The SiFA Chronicles

Volume.2



INDEX

01

A TO Z OF SOVEREIGN
GREEN BONDS

02

THE CONSEQUENCES
OF WAR

03

INDIA'S STRENGTHENING
RELATIONSHIP
WITH FTAs

THE NEW DARLING OF PENSION FUNDS: A TO Z OF SOVEREIGN GREEN BONDS

Climate Change: The New Emphasis:

Climate change and global warming are the talk of the town lately. When events such as the alarming rate at which the glaciers are melting, extreme weathers, protests by environmental activists or the Great Amazon forest fires made headlines everybody knew that it was high time.

Today, global warming, and particularly climate change, has taken to the center stage in every decision making of international organizations, government bodies and corporations.

At COP15 in Copenhagen in 2009, nations agreed that to “stabilize greenhouse gas concentration in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system,” we must reduce global emissions so as to hold the increase in global average temperature below 2 degrees Celsius (2°C) above pre-industrial levels and co-operate in achieving the peaking of global and national emissions as soon as possible. This feat however requires tremendous amounts of capital for a prolonged period.

According to a study by British lender Standard Chartered Bank, emerging markets, as a whole, will need an additional USD 94.8 trillion, if they are to meet the climate goals without hitting their citizens' cost of living. Now that's a lot of money to start with.

Now who has got this much money to finance the low-carbon climate-resilient projects? Financial markets can help solve the climate challenge by meeting the growing demand for low carbon projects around the world, from urban transit infrastructure to renewable energy facilities. Financial institutions and fund managers need to step up to bridge these two. With the advent of ESG investing the foundation is being laid.

The Addition of a New Weaponary to tackle the Climate Change:

Now one thing to keep in mind, ESG investments cannot bridge it all alone. The reason- infrastructure. The investments needed to keep climate change and global warming in check are mostly capital expenditures in the infrastructure segment. Financing 101, governments don't raise money for capital expenditures through equity. Debt is the primary source of external financing.

Taa daa..enters Green bonds!

The instrument created solely for the purpose, Green bonds are bonds which unlike regular bonds are “labeled”, i.e. designated as “green” by the issuer or another entity, whereby a commitment is made to use the proceeds of green bonds (i.e. the principal) in a transparent manner, and exclusively to finance or refinance “green” projects, assets or business activities with an environmental benefit.

Like any other bond, a green bond is a fixed-income financial instrument for raising capital from investors

through the debt capital market. Typically, the bond issuer raises a fixed amount of capital from investors over a set period of time (the “maturity”), repaying the capital (the “principal”) when the bond matures and paying an agreed amount of interest (“coupons”) along the way.

Green bonds are issued by companies, countries and multilateral organizations to exclusively fund projects that have positive environmental or climate benefits and provide investors with fixed income payments. Proceeds from these bonds are earmarked for green projects. This is unlike standard bonds, the proceeds of which can be utilized for various purposes at the discretion of the issuer. These bonds can be marketed toward ESG focused funds. The green bond market has seen cumulative issuance worth more than \$1 trillion since market inception in 2007. By the end of 2020, 24 national governments had issued sovereign green, social and sustainability bonds totalling a cumulative \$111 billion, according to the London based Climate Bonds Initiative. “New financial tools like green bonds are helping drive more capital to these projects, and clear standards and better market data will accelerate the use of green bonds by making them an even more attractive way to invest”, said Michael R. Bloomberg, United Nations Secretary-General’s Special Envoy for Cities and Climate Change.

A Near Perfect Tradeoff between Risk and Reward:

Green bonds offer the fitment to the investor portfolio by providing a perfect trade off between risk and return. Investors can balance risk-adjusted financial returns with environmental benefits. Satisfies Environment, Social and Governance (ESG) requirements and

green investment mandates. This is especially important for fund houses with specific mandates from investors or regulators regarding the same. Improved risk assessment in an otherwise opaque fixed income market through use of proceeds reporting. This is what makes green bonds more likable. Added transparency of proceeds use and reporting requirements provides informational advantages otherwise unavailable (on spending efficiency, project details and updates, impact performance) which gives green bond investors a significant information advantage.

India Riding the Tide:

PM Narendra Modi in the latest COP 26 Glasgow Summit made hefty promises towards India’s path to achieve sustainability. The promises made were:

- 1. India will get its non-fossil energy capacity to 500 gigawatt by 2030.**
- 2. India will meet 50 per cent of its energy requirements till 2030 with renewable energy**
- 3. India will reduce its projected carbon emission by one billion tonnes by 2030**
- 4. India will reduce the carbon intensity of its economy by 45 per cent by 2030**
- 5. India will achieve net zero by 2070**

These promises though achievable demand a lot of financial resources and long term commitments. To be precise India will need to find a funding gap of USD 12.4 trillion to meet net zero emissions goals, out of the

USD 17.77 trillion it needs for the green journey. To give you a picture of the scale of investments, India's nominal GDP of 2021 is around USD 3 trillion.

In line with India's commitments to shifting towards a low-carbon economy, the Finance Minister, Nirmala Sitharaman, in the 2022 budget announced India's maiden foray into the green bond space where India will issue at least Rs. 24,000 crores (\$3.3 billion) in Sovereign Green Bonds.

Our View:

Whether these Sovereign green bonds are just another short lasting trend or its going to run the long marathon is a matter of time. How the market for Sovereign green bonds will unfold however depends on numerous variables. Convergence towards commonly-accepted definitions and reporting procedures will be essential to maximize the effectiveness, efficiency and integrity of the market along with proper audit controls in place. Inclusion of these bonds into the leading debt market benchmarks will indeed be a great push.

- Rohan Jain

The Consequences of War

Introduction:

Wars have, unfortunately, always been integral to human history. They have disastrous effects on a nation. It includes the mass destruction of the cities, deaths of citizens, and has a long-lasting impact on the economy of the country. The war impacts the society, economy, politics, socio-cultural life, peace and the underlying morals of the country. World war I and II had a catastrophic impact not only on the country level but also on the global level. These wars had brought some important changes in global and geo-politics.

The human, social and economic costs of war are colossal. Armed conflict can have displaced entire communities. About 25 million people have been displaced by the end of 2001, owing to the various local, national and international violence records. The destruction of cities, the environment, communities, and families tops the list of the evils of war. Families of veterans face marital problems, domestic violence, depression, and sleep disturbances and are not even considered in the human cost of war. Deaths of civilians often result in induced and accelerated poverty, hunger, and medical shortages. This article aims to analyse the very many effects a war has on the different aspects of life as we know today:

Effect on Children:

Children during the war are exposed to both physical and psychological sufferings. The terrors and horrors of the war severely impact the mental health of children. Apart from being subjected to the horrors of

armed conflict, death, suffering and chaos at a vulnerable age, post wartime recovery relies heavily on children who serve as the scapegoats for what a nation's leader calls rehabilitation. Records of the same can be found, chronicling the harsh, hard life that adolescent and young adults lived after the two world wars.

Economic Effects:

The economic loss caused by wars is extensive, deep and damaging. Damage to the buildings, infrastructure, rising inflation, declining work population, high death rate, low birth rate, and rise in debt, all contribute to heavy economic losses and owing to the nature of such losses, make it very difficult for nations to recover. Wars often lead to inflation in countries as well as the world economy. The prime example for the same is the ongoing Russia-Ukraine crisis, which has led to a very visible rise in the global inflation level, which is already at a high in the US at 7.5% and 4.8% in Europe. Inflation, as an economic phenomenon wipes out the savings of the common people. During the civil war, authorities started printing money, and the value of money declined soon, wiping out the savings. And it wipes out whatever pretence of peace countries are seeing at this time, inching violence, riots and a very dangerous increase in demand.

During the second world war, the United States experienced a significant rise in inflation. The causes were the economy reaching its full potential, high spending by the government, and a shortage of workers. During the same time nine countries' inflation turned into hyperinflation. The destruction of the capital stock of an

economy and dramatic reduction in the output of the country can be seen and misplaced fiscal and monetary policies add fuel to this all consuming fire.

The national debts tend to increase during wartime. The government borrows a lot more than usual. In the United States during world war II, the costs of financing the military had pushed the debt up sharply, from around 40 percent of GDP before the War to a peak of nearly 110 percent of GDP as the War ended. The United Kingdom suffered heavily during world war I and II. The national debt rose very sharply during war-time. UK national debt rose to 150% at the end of World War II but then rose to 240% by the early 1950s.

The Oil Story:

Wars also lead to an increase in oil prices across the world, threatening the availability and supply chains of the same. The Russia-Ukraine crisis has led to the rise in oil prices leading to Brent nearing \$140 a barrel earlier in the month of March, to hit the highest since 2008, before easing. Being one of the largest suppliers of oil and gas, economic sanctions on Russia will reduce the supply and thus result in the increase the oil price.

Food Security:

According to Food and Agriculture Organization (FAO), agriculture production falls by about 1.5 % per year in periods of conflict. During the war times, food production falls and citizens are left to starve. This results in hunger, starvation, and malnutrition among the citizens. Among the 815 million people suffering from chronic malnutrition in 2016, 60 percent lived in areas affected by armed conflict. The shortage in food supplies results in the displacement of the communities.

In the Syrian conflict, six million Syrians were displaced internally. The major cause behind was the shortage of food supplies and a significant decrease in agricultural production. The conflict between Russia-Ukraine can escalate food price inflation and push some parts of the world towards food insecurity. Russia and Ukraine combined account for 29% of the global wheat exports and 62% of sunflower oil. In March, the price of wheat on global markets was about 50% higher than in February and almost 80% higher than a year ago. These high prices are likely to affect the emerging markets and developing economies such as Bangladesh, Lebanon, Tunisia, Yemen, Libya, etc. This war can cause severe outcomes for vulnerable people in several Middle East, and North African countries.

The deal with Steel:

Russia was the third-largest exporter of steel while Ukraine is the eighth largest in the world in 2020. The European Union, due to Russia's invasion in Ukraine, has imposed a sanction on Russian steel sales. While in Ukraine Russia destroyed the Iron and steelworks in Mariupol. As two of the top ten exporters of steel are at war the cost of rebar steel in Europe surged to 1,140 euros per tonne, up 150% from late 2019. Thus, further adding to global inflationary pressure.

Possible Redemption:

A controversial take, there have been some positive outcomes of the World War II, such as

- **Full employment** - America during world war II achieved the full employment target. In 1944, unemployment dipped to 1.2 percent of the civilian labor

force, a record low in American economic history and near to “full employment”.

- **Higher economic growth** - America profited from world war II. The gross national product grew from \$88.6 billion in 1939 to \$135 billion in 1944. War-related production skyrocketed from just two percent of GNP to 40 percent in 1943.
- **The rise in Innovation** - The government spending on investing in new technology increased. Examples include the development of radar/jet engines during the second world war.
- **Change in societal norms** - During the first world war, women entered the labor force as men went to war.

Conclusion:

The pros, if at all existent, outweigh the cons by massive proportions. Wars are a human evil and are an existential threat to humanity and life as we know it, keeping in mind the breakthrough technological changes that can be seen in the field of modern warfare. Its economic costs, infrastructural damage, mass genocide, cultural impact, generational trauma and the many many more strings attached make war an undesirable, unending and unnecessary situation, which can be avoided if we as humans stop our greed, an emotion that is the biggest contributor of the loss of millions of lives, wiping out of entire communities, destruction of nature and just downright wrong.

-Sai Kharade

INDIA'S STRENGTHENING RELATIONSHIP WITH FTAs

“India’s wrapping up of the free trade agreement with Australia soon after a deal with UAE sends global signals that its trade policy is moving into higher gear”

As the trade hit by the pandemic slowly moves back towards normalcy, India aims to expand its trade ties like never before. This is evident in its push for Free Trade Agreements with countries, the most recent ones being the India-UAE and India-Australia deals.

What are FTAs and why should we be talking about them? What benefits do these agreements hold for India? Why do countries agree to allow zero duty imports? How does this benefit global trade? Is it a bane or a boon? And most importantly what does the general public have to do with this? How will it impact our lives? Let us answer some of these questions for you:

What is an FTA?

A Free Trade Agreement (FTA) is a pact between two countries to reduce the barriers to imports and exports among them. The aim is to make sure that goods and services can be bought and sold with ease across international borders, with little or no government tariffs, duties, and so on to pose a hurdle to the exchange.

The concept is opposed to that of trade protectionism - which is protection given to domestic industries by imposing heavy restrictions on imports of foreign goods - but that does not mean the indigenous traders in the

involved countries are open to exploitation and losses. There are strong provisions made specifically to avoid this which will be elaborately discussed further in the article.

Why are Free Trade Agreements important?

The most obvious benefit that free trade agreements provide is that they make it easier and cheaper for traders to export their goods to other countries. Other than this, the following are the benefits of such agreements:

- **Higher competition:** FTAs throw the field open for various competitors in a market on a global level. This inevitably increases the efficiency of domestic industries, pushing them to do better and in turn provides for cheaper, better quality product for the consumer.
- **Elimination of behemoths:** The unchallenged monopoly of companies in certain sectors is also ended due to FTAs due to the increased competition.
- **Enhanced ease of doing business:** As mentioned earlier, FTAs make business a lot cheaper for traders, allowing innovation and wider reach.

Along with these, FTAs also hold a huge significance in strengthening countries’ bilateral relations and building greater partnership and collaboration. This further attracts major FDIs in governmental and non-governmental projects. Give examples:

Recent Major Agreements:

India Australia Agreement - ECTA - April 2, 2022:

The first trade agreement signed by India with a developed country in over a decade, the India - Australia FTA formally known as the **Australia-India Economic Cooperation and Trade Agreement**, is a major milestone for India's foreign trade. The Government expects bilateral trade to double to \$50 billion in 5 years as this agreement will not only eliminate or lower tariffs but also address many of the other challenges to trade such as technical barriers, and so on.

UNDER THE AGREEMENT:

85% of Australian exports get 0- duty access to Indian Markets. Australia has agreed to provide a 100% market access to all Indian goods over a period of 5 years.

Effective Immediately, From the first day of implementation of the pact, Australia will provide zero duty market access for 96.4% value of Indian exports. Exports from labour intensive sectors such as apparel, footwear and jewellery stand to benefit from this. The 85% of tariffs being eliminated on Australian goods with immediate effect, would gradually be increased to 91% over a period of 10 years.

AREAS COVERED:

Australia:

- Reduced duties on Australian wine
- Opportunity to export potatoes, lentils, and meat products
- India may also acquire Australian food processing machinery
- A historic first: India opens up to a wide range of alcoholic and non alcoholic drinks such as Australian beer

India:

- Gains 'preferential access' to labour intensive sectors of export items such as gems and jewellery, textiles, leather,

footwear, furniture, food, engineering products, medical devices and automobiles with immediate duty free access.

Services sector:

- Indian chefs and yoga teachers will get specific entry quotas into Australia
- Indian students in Australia will be able to secure work visas for periods ranging from 18 months to four years and the same will be reciprocated for Australian students in India.
- Along with this, the pharmaceuticals sector has also been boosted as both the countries have agreed to enable fast track approval for certain types of medicines. Both sides have also agreed to audits of imports that involve sanitary and phytosanitary inspection as per the country's laws.

PROTECTION OF SENSITIVE INDUSTRIES:

India has managed to shield its dairy sector from any tariff reduction at all while excluding most sensitive agriculture items such as chickpeas, walnut, pistachio nut, wheat, rice, bajra, apple, sunflowers seed oil and sugar. Some other items that have been excluded are, iron ore, silver, platinum, jewellery, and most medical devices. Now why is it necessary to shield these sectors in trade deals?

Most of India's population is dependent on the agriculture and dairy sectors for their employment and livelihood. These areas are thus of paramount importance to the nation's people and it is in the interest of protecting these jobs from being taken away by cheaper product and heavy market competition ultimately crushing the domestic producers, that the Indian Government has taken the decision to provide very little to no relaxation in these.

Thus the aim of these protections is to make sure that Indian jobs are not affected negatively as a result of trade agreements.

India UAE FTA - CEPA - 18 February, 2022:

A deal negotiated in a record time period of 88 days. Expected to create 10 lakh new jobs. Increasing bilateral trade to \$100 billion by 2030.

The Comprehensive Economic Partnership Agreement signed with the UAE is expected to benefit around \$26 billion worth of Indian products that are subject to 5% import duty.

TERMS OF THE DEAL:

The UAE will remove customs tariffs on nearly 80% of the goods, which account for 90% of India's exports to the Gulf nation by value. Immediate reduction on import duties on about 65% of tariff lines on imports from the UAE. This is geared up to increase to 90% of tariff lines in about 10 years.

AREAS COVERED:

CEPA also covers 11 service sectors and over 100 sub-sectors, which include business services, telecommunications, construction, education, tourism, nursing, finance among many others.

The agreement is comprehensive in scope and also includes areas like government procurement, digital trade and intellectual property rights.

Gold imported from UAE has been given duty concessions while Indian exporters get a zero duty access to the jewellery market in UAE

EXCLUDED ITEMS:

To protect the interests of domestic producers, India has kept items such as dairy, fruit, cereals, vegetables, tea, coffee, tobacco, dyes, soaps, footwear, petroleum, tyres, toys, aluminium scrap, copper, processed marble, among others, out of the trade pact.

Will FTAs hamper Make-in-India?

A common question that might pass through one's mind is why bother promoting Make-in-India when the government is pushing to get good import substitution deals through these FTAs?

But as Prime Minister Modi, rightly explained in one of his addresses earlier this year(2022), he emphasised on the fact that Make-in-India will continue being a priority for the nation.

This is because along with the import of such goods which are impossible/hard to produce in the country itself due to geographical, weather and other such constraints, FTAs give a wider reach for Indian traders as well to export their goods that are produced beyond self sufficiency. Exports give better pricing for the products than what the trader would have gotten in the home market. He also mentioned that Make-in-India is as much about making world-class products and services for the whole world. That is why, for us, improvements towards free trade are also important so that developed countries open their markets to not only to goods but also to services. Thus, FTAs and Make-in-India go hand in hand.

Key Threats for Indian Trade from FTAs

Free Trade Agreements can either be the best thing that can happen to a country's businessmen or turn out to be a nightmare. To the latter, one might ask "how"?

Well, a poorly negotiated agreement could easily become a burden for a country, let us see how with an example of the impact of FTAs on the value chain of goods:

If a trade agreement makes the import of cheaper factors of production easier, it ultimately boosts domestic

production from the bottom level, thereby increasing profits for producers.

In the same case, if an FTA boosts the import of finished goods that can pose a direct threat to domestic products.

India's past experience with FTAs has not been very encouraging, with the exception of SAFTA (South Asian Free Trade Agreement), which gave a considerable boost to India's exports. For example, India's pacts with Korea and ASEAN have been more beneficial to their respective economies while on the other hand, shown no significant trade advantage for India.

The treaty with Japan as well has led to bilateral trade either declining or stagnating after the first year of implementation. Moreover, there has been a substantial rise in the trade deficit with Japan.

One of the postulated reasons behind this is that India's past FTAs were signed with more of a political benefit in mind rather than an economic benefit. But a change in this trend is being observed as India moves into more rigorously analysed and negotiated agreements and reaching neutral grounds with the other country before finalising the deal.

Consequences on Future FTAs due to India's Neutral Stance on the Russia-Ukraine Crisis

It may not come as a surprise that Australia is facing some backlash for signing an FTA with India when India has consistently been neutral about Russia's invasion in Ukraine. On the other hand Australia has strongly condemned the invasion and has vocally as well as monetarily aided Ukraine during these tough times. But in reply to the backlashes Scott Morrison

has defended India, saying that it was a beneficial and strategic move which would be foolish to pass off.

Following the same track, the UK's Prime Minister Boris Johnson also has given his views regarding India's stance on the matter during his visit to New Delhi on the 22nd April, 2022.

There were a large number of British parliamentarians who were against the furthering of ties between India and UK. They believed the UK should use its strategic position of advantage to build up the pressure on India. But the UK PM's statement in a press conference in New Delhi came as a relief to India.

"No one can preach to India on democracy" said the British PM Boris Johnson, in an interview with Times Now. Not much was said on India's stance in the Ukraine crisis but it was made clear that India-UK ties would not be hampered by it.

Further the UK trade minister had also confirmed that the target was set as Diwali to finalise the terms of the agreement and come to a decisive conclusion.

It is hoped that other players follow the positions taken by Australia and the UK and view India's stance on the Ukraine crisis in the light of India's past.

CONCLUSION:

FTAs thus hold an extremely significant place in a country's foreign relations and India's sudden push for them has come as a welcome move to all - citizens and foreign countries included. This, along with India's renewed outlook towards Free Trade Agreements reflects a new phase in our country's growth trajectory where it is now building regional cooperation thereby increasing its strength and position of power in the global order.

~Aarya Kale and Hrishita L.

MENTORS

Dr. Hrishikesh Soman
(Principal)

Dr. Tessy Thadathil
(Vice-Principal)

Prof. Monica Parikh
(Faculty Coordinator)

Prof. Puratan Bharti
(Editor-in-Chief)

CORE TEAM

Mallar Chakraborty

Atharva Tidke

Krishna Shenoi

Rashika Namdev

Kshitij Vidyarthi

Radhika Parikh

Aastha Kumaarr

Divyanshi Arora

EDITORIAL BOARD

Aarya Kale | Aarya Rawool | Dhiresh Sarda | Ehsan Ziyad |

Hrishita Gavhane. | Hrishta L | Mrinal Bhakuni |

Sai Kharade | Rohan Jain |

DESIGNED BY:

Krishna Shenoi



Symbiosis Investments and Finance Association



: *@sifa.scac*



: *Symbiosis Investments and Finance Association (SIFA)*