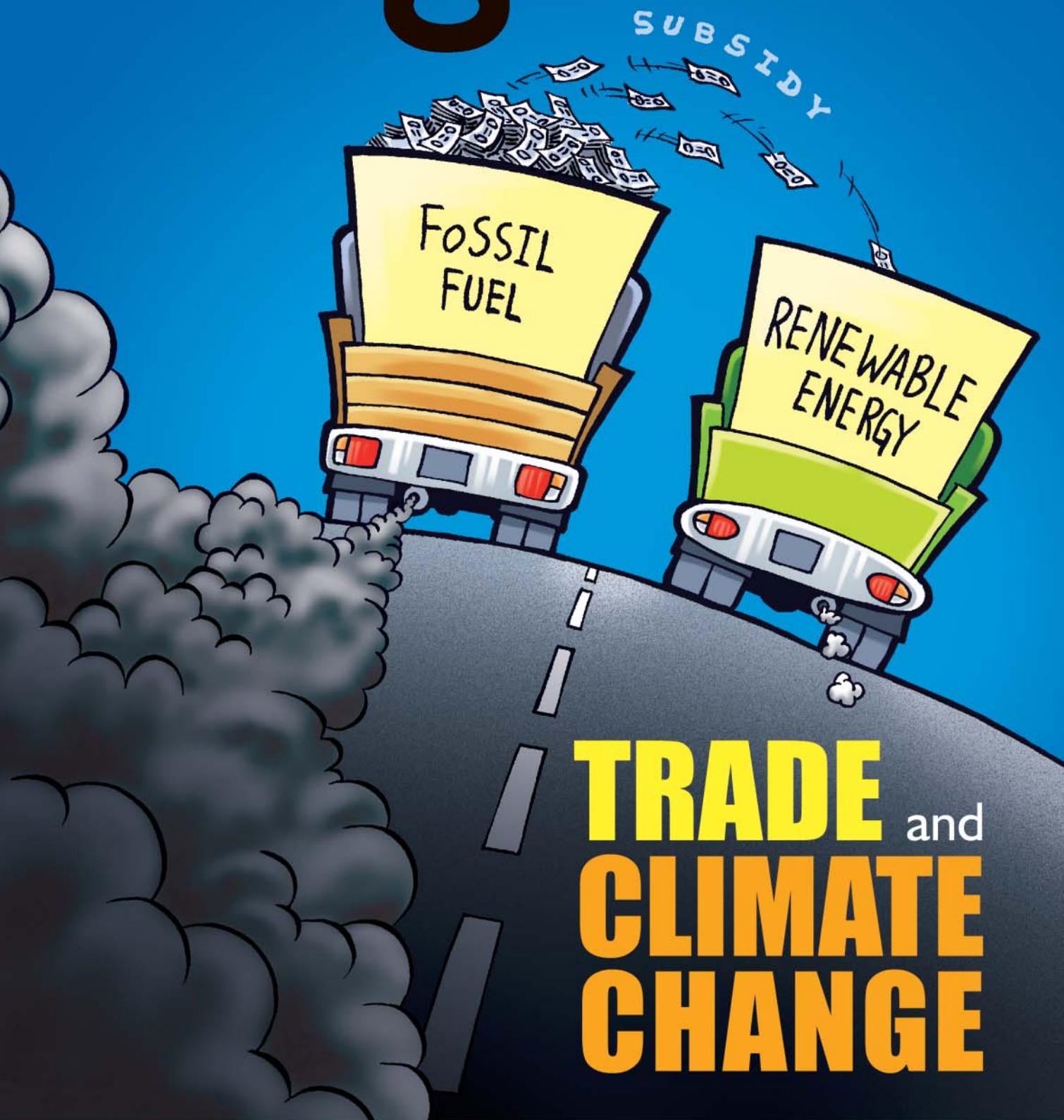


● TRADE ●

insight



TRADE and CLIMATE CHANGE

International trade and emerging challenges

THE world is facing unprecedented challenges due to climate change and rising food prices. Both of these have serious consequences for developing countries, including those in South Asia, and can be addressed only if the international community and national governments act collectively.

There is now resounding evidence that the Earth's climate has been warming due to human activities. Negotiations at both global and national levels are under way to address this challenge. In this regard, the role of international trade cannot be underestimated, as international trade policies and rules have both positive and negative implications for climate change. Of particular importance are the multilateral trade rules related to technology liberalization and subsidies.

Liberalization of trade in environment-friendly goods and technologies can make these cheaper and help address climate change. The combustion of fossil fuel is the primary cause of climate change. Yet the subsidies on the production, processing, transportation and consumption of fossil fuels in many countries around the world are much higher than the subsidies to renewable energy. A change of policy to encourage a shift of subsidies from fossil fuels to renewable energy will thus be immensely helpful to address climate change.

By March 2008, prices of wheat and rice were twice their levels of a year earlier, while those of maize were one third higher. Together with many developing countries, South Asian economies have been adversely affected by an unprecedented rise in food prices. A rethink on trade rules and other policies, and restructuring of systems that have failed to address the steep and steady rise in food prices are thus now more important than ever.

However, the international institutional efforts to address both climate change and rising food prices have proven to be inadequate, to say the least. The ongoing Doha Round of negotiations under the World Trade Organization (WTO) seems incapable of addressing these in the near future. There has been almost no progress even on major issues of negotiations since the WTO Hong Kong Ministerial in December 2005, let alone on trade in environment-friendly goods and technologies. Also, the 12th session of the United Nations Conference on Trade and Development (UNCTAD), the United Nations agency specializing in trade, which was held in Ghana in April, went unnoticed.

At the regional level too, trade agreements have been driven by the "market access" dimension and do not promote the cooperation required to address climate change and rising food prices. Even in the area of "market access", trade agreements in the region are likely to bring only temporary gains for the weaker economies. Though Sri Lankan exports to India have increased after the Indo-Lanka Free Trade Agreement of 1998, export diversification has been limited and the majority of exports have been in a few products with limited value addition. Similarly, India's offer to grant duty-free market access to least-developed country (LDC) products is unlikely to benefit LDCs in the region if non- and para-tariff measures are not addressed.

All these issues invariably point to the need for policies, rules and systems that foster mutual cooperation and collective action to fight trade, development and environmental challenges that the world is facing, and which, in particular, are constraining the capacity of developing and least-developed countries to respond to the emerging concerns. We are all doomed if we fail to address these challenges. And we do not have much time on our side. ■

PUBLISHED BY

South Asia Watch on Trade,
Economics & Environment (SAWTEE)

REGIONAL ADVISORY BOARD

Bangladesh

Dr. Debapriya Bhattacharya

India

Dr. Veena Jha

Nepal

Dr. Posh Raj Pandey

Pakistan

Dr. Abid Qaiyum Suleri

Sri Lanka

Dr. Saman Kelegama

EDITOR-IN-CHIEF

Navin Dahal

EDITOR

Kamalesh Adhikari

ASSOCIATE EDITORS

Paras Kharel
Shivendra Thapa

DESIGN

Indra Shrestha

ILLUSTRATION & COVER

Abin Shrestha

PRINTED AT

Jagadamba Press
Kathmandu

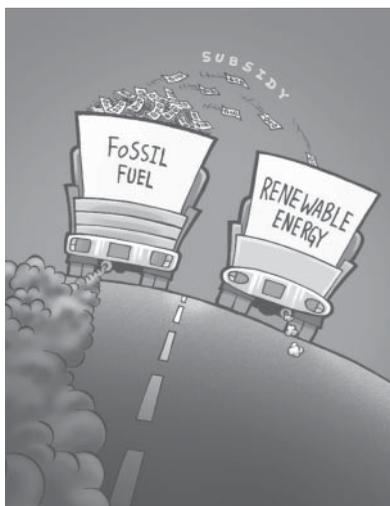


P.O. Box: 19366
254 Lamtangeen Marg
Baluwatar, Kathmandu, Nepal
Tel: 977-1-4415824/444438
Fax: 977-1-4444570
E-mail: sawtee@sawtee.org
Web: www.sawtee.org

PUBLISHED WITH THE SUPPORT FROM



The evolving debate on



TRADE and CLIMATE CHANGE

COVER FEATURE 15

Rising Food Prices in South Asia

Is the current global trend of rising food prices a cyclical or a permanent phenomenon? What implications does it have for South Asia?



FOOD PRICES 20

Paris Declaration and Aid for Trade

What conclusions can be drawn from the measurement of the potential effectiveness of the "aid for trade" initiative?

AID FOR TRADE 26

The views expressed in the articles published in *Trade Insight* are those of the authors and do not necessarily reflect the official position of SAWTEE or its member institutions.

FOOD CRISIS	4
TRADE WINDS	5
BIOENERGY	8
Biofuels and Trade	
BILATERAL TRADE	11
Indo-Lanka Free Trade Agreement	
MARKET ACCESS	18
India's Duty-Free Market Access Offer to LDCs: Will Bangladesh Benefit?	
ECONOMIC GROWTH	22
An Analysis of India's Growth Story	
REGIONAL TRADE	29
Gains for South Asia from SAFTA Implementation	
LEAST-DEVELOPED COUNTRIES	32
LDC Issues in the Doha Round	
UNCTAD XII	34
UNCTAD and Its Role in the Multilateral Trading System	
UNDERSTANDING WTO	36
Multilateral Trade Rules and Climate Change	
BOOK REVIEW	38
Future Control of Food	
NETWORK NEWS	39

SAWTEE NETWORK

BANGLADESH

1. Bangladesh Environmental Lawyers' Association (BELA), Dhaka
2. Unnayan Shamannay, Dhaka

INDIA

1. Citizen consumer and civic Action Group (CAG), Chennai
2. Consumer Unity & Trust Society (CUTS), Jaipur
3. Development Research and Action Group (DRAG), New Delhi

NEPAL

1. Society for Legal and Environmental Analysis and Development Research (LEADERS), Kathmandu
2. Forum for Protection of Public Interest (Pro Public), Kathmandu

PAKISTAN

1. Journalists for Democracy and Human Rights (JDHR), Islamabad
2. Sustainable Development Policy Institute (SDPI), Islamabad

SRI LANKA

1. Institute of Policy Studies (IPS), Colombo
2. Law & Society Trust (LST), Colombo

CAUSES AND CONSEQUENCES OF global food price rise

Rising food prices are causing hardship, panic and social unrest across the developing world, including in South Asia, where poverty and food insecurity are problems and most countries are net food importers. According to the Food and Agriculture Organization of the United Nations (FAO), overall global food prices have increased by 75 percent in dollar terms since 2000. By March end, prices of wheat and rice were about twice their levels of a year earlier, while those of maize were more than one third higher.

The World Bank estimates that if the cost of food increases by 20 percent, 100 million people could be forced back into poverty. South Asian countries are estimated to have suffered "severe terms of trade shocks of 1 percent of GDP" as a result of the phenomenon dubbed "agflation". As per FAO, 37 countries are facing a crisis and require external assistance: 21 in Africa, 10 in Asia, 5 in Latin America and 1 in Europe.

What a World Food Programme (WFP) official has termed a "silent tsunami" has triggered protests across the globe, from Haiti, which saw its government fall and about two dozen people killed, to Egypt, Bangladesh and the Philippines. International humanitarian agencies are also feeling the pinch of rising food prices. The WFP, for one, is in need of an extra US\$750 million to be able to maintain last year's food aid level.

Like any price rise, the phenomenon of rising food prices is the result of an interplay of the forces of demand and supply, structural as well as cyclical.

The Asian Development Bank says structural factors are fundamental in explaining the food inflation in recent years. Rising living

standards in rapidly growing developing countries have driven up demand for meat and dairy products. This constitutes a structural change, as does the diversion of land and food crops to biofuel production.

In 2007, one third of the maize crop was diverted to ethanol production in the United States (US), the biggest producer of maize. The European Union (EU) has set itself a target of replacing 10 percent of vehicle fuel with biofuel by 2020. Moreover, eth-

the wake of the US subprime mortgage crisis.

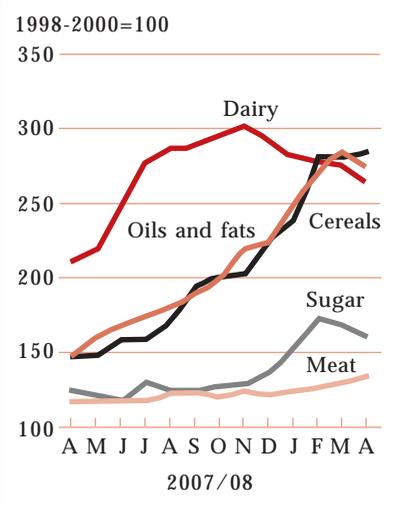
The food crisis is also attributed to agricultural policies adopted by developed countries and those foisted on developing ones through multilateral agencies. For 30 years, world food prices were kept artificially low, and poor-country farmers discouraged, courtesy of farm subsidies given by developed countries.

Exacerbating the crisis is the imposition of curbs on food exports by some 40 countries, including Vietnam and India. In an attempt to rein in inflation, the Government of India has banned the export of non-Basmati rice, raised the export price of Basmati rice and extended a ban on the export of pulses, in addition to an already existing curb on wheat exports. The ban on rice exports has added fuel to the inflationary fire in neighbouring countries, including Bangladesh and Nepal (incidentally, Nepal has also banned exports of rice and wheat following export curbs by India).

The UN on 29 April set up a high-level taskforce to draw up a comprehensive plan to respond to the food crisis. Chaired by the UN Secretary-General, the taskforce consists of the heads of the World Bank, the International Monetary Fund, WFP, FAO, the International Fund for Agricultural Development, and the World Trade Organization, among others. This shows that governments and global institutions are willing to make collaborative efforts to fight this global challenge.

However, the true test of their willingness to address the hardship, panic and social unrest across the developing world lies in their ability to make commitments beyond vested interests, including in trade negotiations. ■

Food commodity price indices



Source: www.fao.org, accessed 30 May 2008

anol production in the US receives a subsidy of US\$0.51 per gallon and a tariff protection of US\$0.54 per gallon. Escalating oil prices, reaching as high as US\$135 per barrel, are also fueling food price rise.

Among the cyclical factors that affected food production in 2007 were two successive droughts in Australia, flooding in China, dry weather in Europe, flooding in South Asia, and outbreaks of plant-hopper infestation in Vietnam. Also held culpable is the rise in speculative investments in commodity futures in

European Parliament set to reprimand Mandelson

THE European Parliament looks set to reprimand top trade official of the European Union (EU) over his attempt to persuade Thailand to revise its policy on pharmaceutical patents.

Soon after a new government took office in Bangkok earlier this year, EU Trade Commissioner Peter Mandelson urged it to review a series of compulsory licenses issued by the previous government that overruled patents on several medicines. When a copy of Mandelson's letter, dated 21 February 2008 was obtained by Members of the European Parliament, it drew an angry response.

Some Members accused the European Commission of backtracking on the commitments it has made to support the use of such measures as



compulsory licensing in order to reduce the price of medicines in developing countries.

Representatives of the Parliament's political groups have agreed to formally protest Mandelson's letter. They also decided to request that Mandelson appear before the Parliament's international trade committee in the near future to answer questions concerning his move (www.ip-watch.org, accessed 12.05.08). ■

India urges EU to lift restrictions

IN a move that may help negotiators to move ahead with the proposed "India-European Union Free Trade Agreement (FTA)", the Government of India has forwarded two significant proposals to the European Union (EU) to settle the strife on its health-related trade rules. India has called for lifting of the EU's Rapid Alert System for Food and Feed and a similar system called Rapid Alert System for Non-Food Products. These systems restrict the marketing and use of products that are found to pose serious and immediate danger to consumer safety and health by swiftly exchanging information. FTA discussions between India and the EU had begun last year (www.financialexpress.com, accessed 10.05.08). ■

Doha Round of Trade Negotiations mixed responses on the revised texts

IN the most recent series of offers and counter-offers at the ongoing Doha Round of multilateral trade negotiations under the World Trade Organization (WTO), chairs of the negotiating groups on agriculture and non-agricultural market access (NAMA) issued revised papers on 19 May and 20 May 2008, respectively.

These two documents are revisions of drafts previously circulated in July 2007 and February 2008, and the result of WTO Member governments' latest positions in the discussions since September 2007. The documents are not final but an important step towards a much-delayed ministerial-level meeting to resolve outstanding divergences over contentious issues such as the formulas for cutting tariffs and trade-distorting agricultural subsidies.

However, Members' reactions on these texts have been mixed, drawing criticism as well as support for further work. Two developing country groups—African, Caribbean and Pacific (ACP), and G-33—have called for a further revision of the draft on agriculture. The G-20 developing-country bloc, however, cautiously welcomed the text, saying that the group was "prepared to work hard this week to improve it and narrow the differences."

On NAMA, the United States (US) was of the view that the draft text requires "major changes", while the European Union claimed that increased flexibilities for developing countries would eliminate potential market access gains.

Meanwhile, the NAMA-11 group said that developing countries are still being asked to cut their manufacturing tariffs more deeply

than industrialized nations.

Due to such conflicting views and positions of Members, Don Stephenson, Chair of the Negotiating Group on NAMA, said at a meeting of WTO Members on 2 June 2008 that after a week of consultations with no progress, he was suspending the meetings of the Group until Members achieve some convergence.

The recent passing of the US farm bill also reduces the possibility of convergence on negotiating issues of agriculture. The passage of the controversial US\$307 billion farm bill by the US Congress has raised fears that the US will be more constrained than ever in its negotiating stance in the ongoing push for a framework agriculture deal at the WTO (*Bridges Weekly Trade News Digest*, 28.05.08; www.wto.org, accessed 04.06.08). ■

SAFTA to include services, speed up tariff liberalization

SOUTH Asian Association for Regional Cooperation (SAARC) Members have agreed to accelerate the process of bringing services trade within the ambit of the Agreement on South Asian Free Trade Area (SAFTA), in a bid to boost intra-regional trade. During the third SAFTA Ministerial Council meeting held in New Delhi on 3 March 2008, SAARC Members issued directives to the technical body to draft a framework agreement on trade in services. The ministers also decided to further explore the possibilities of speeding up tariff liberalization and slashing the number of

items on the trade-restricting negative list—particularly the exports of the least-developed Members (Bangladesh, Bhutan, the Maldives and Nepal). The Council instructed the SAFTA Committee of Experts to meet in June to formulate the modalities for narrowing down the negative list and the time span for liberalizing tariffs. It reviewed the progress of SAFTA implementation and discussed the impacts it has had on regional trade. They also endorsed the draft protocol of SAFTA for Afghanistan, the eighth Member of SAARC (*The Kathmandu Post*, 04.03.08; *IANS*, 03.03.08). ■

MYANMAR seeks SAARC membership

MYANMAR has formally requested for membership of the South Asian Association for Regional Cooperation (SAARC). Yangon had officially written to the SAARC Secretariat in March 2008, seeking full membership. Apart from Myanmar, Australia has requested the SAARC Secretariat for an observer status. The United States, European Union, South Korea, China, Japan, Iran and Mauritius already enjoy this status (www.indiaenews.com, accessed 28.05.08). ■

US DECISIONS CAST SHADOW OVER DOHA DEAL

US House votes against FTA

The Democrat-controlled United States (US) House of Representatives voted on 10 April 2008 to eliminate rules requiring the US Congress to approve or reject the US-Colombia Free Trade Agreement (FTA) within 90 legislative days, thus indefinitely postponing any action on the FTA. The vote is seen as significant since the FTA was negotiated under the Bush administration's Trade Promotion Authority (TPA), which expired in 2007. The Bush administration was harshly critical of the House vote.

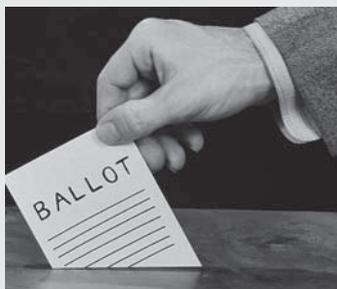
On the potential implications of the House vote for the Doha Round, some believe that if governments can wrap up an accord this year, any future US administration would find it difficult to make more than minor adjustments to it. Others disagree, suggesting that recession fears in the US would make any Doha deal vulnerable to a contentious debate on the benefits of trade liberalization. They also argue that as the Congress is expected to adjourn on 26 September 2008, the deadline for submitting a bill to it to approve a new TPA has already passed.

Moreover, sceptics caution that countries negotiating trade deals with the US under the Doha Round are likely to be feeling uncertain about the negotiating status of the present US administration, and hence the legal status of any agreement that is struck between them and the administration (*Bridges Weekly Trade News Digest*, 11.04.08). ■

US farm bill draws criticism

The United States (US) Congress recently passed a US\$307 billion farm bill, which is drawing serious concerns from the international community, due mainly because of farm support it intends to provide to US farmers. Critics of the bill claim that it misses a key opportunity to lower subsidies at a time when US farmers are enjoying substantial income increases due to high food prices. World Trade Organization (WTO) Director-General Pascal Lamy has said that the bill sends a "bad signal" to the rest of the world while talks on a new global trade deal are still continuing. The sections of the bill that could cause trouble in the Doha Round are those governing farm subsidies, which amount to US\$43 billion in the current bill. Another form of support, crop insurance to help shield farmers from losses, amounts to US\$23 billion.

The farm bill, with its many provisions for trade-distorting subsidies, has raised fears that the US will be more constrained than ever in its negotiating stance in the ongoing push for a framework agriculture deal at the WTO. The incumbent US administration has also been quick to decry the contents of the bill, with President Bush stating that "...it is inconsistent with our objectives in international trade negotiations..." (*Bridges Weekly Trade News Digest*, 28.05.08; www.timesofindia.indiatimes.com, accessed 30.05.08; *The Boston Globe*, 18.05.08). ■



www.baliballot.com

COP 9 at Bonn: Global call for biodiversity protection

AT the ninth meeting of the Conference of Parties (COP 9) to the Convention on Biological Diversity (CBD), representatives of 191 Parties and over 100 ministers produced significant new measures to protect biodiversity and promote its sustainable use for the wider benefit of the global community, including the local, indigenous and farming communities.

Bonn biodiversity compact

Parties to the Convention came to a set of agreements—the Bonn Biodiversity Compact—which if implemented expeditiously by all stakeholders, are expected to go a long way towards helping the parties meet the 2010 biodiversity targets set under CBD. It has been stated that the Compact would also set the roadmap for the Convention on the way to the COP 10 in Nagoya, Japan in 2010. The policy continuity of CBD in the long term was assured with the mobilization of the presidencies of Japan for the COP 10 and of Ecuador for the COP 11.



Kamlesh Adhikari

Support for CBD objectives

Government delegates at Bonn agreed on a number of measures that support conservation measures, ways to ensure its sustainable use and rules to ensure that benefits from the use of genetic resources are shared equitably. These measures included action on:

Fair sharing of genetic resources

Delegates agreed on a firm process towards the establishment of international rules on access to genetic resources and the equitable sharing of benefits from their use. The global gathering also produced a plan for the negotiations that not only sets out

a clear roadmap leading up to 2010, but also provides a short list of options as to which elements should be legally binding and which not.

Production and use of biofuels

While countries agreed that initiatives for the sustainable production and use of biofuels could have many positive contributions, their success depended on the methods of production, the feedstocks and the agricultural practices involved. They called for the development of sound policy frameworks on biofuels within the Convention, drawing upon the existing tools under CBD.

The COP 9 was held in Bonn, Germany from 19 to 30 May. The COP 9 also coincided with the International Day for Biological Diversity on 22 May. This year's theme was "Biodiversity and Agriculture," which highlighted "the importance of sustainable agriculture not only to preserve biodiversity, but also to ensure that we will be able to feed the world, maintain agricultural livelihoods, and enhance human well being into the 21st century". The COP is the governing body of CBD, and advances implementation of the Convention through the decisions it takes at its periodic meetings (*Also see <http://www.cbd.int>, accessed 01.06.08*). ■

Bangkok Meet on Climate Change

THE first round of the United Nations (UN) climate change talks in 2008 was held in Bangkok, Thailand at the end of March. The week-long meeting in Bangkok was intended to lay out the agenda for a series of succeeding sessions. The Bangkok talks were aimed at drawing up a plan for a treaty to succeed the Kyoto Protocol, which expires in 2012.

The talks in Bangkok marked the beginning of a new negotiating phase, drawing delegates from more than 160 countries tasked with implementing the Bali Road Map. This involved drawing up a work programme to devise a future

international climate pact that will successfully stop the increase in global greenhouse gas emissions within the next 10–15 years and reduce emissions by mid-century. The Kyoto Protocol requires industrialized nations to reduce their emissions by 5.2 percent of their 1990 levels, which must be achieved between 2008 and 2012.

Developed and developing countries, however, still remain divided on many issues leading a top United Nation's official to describe the Bangkok talks as "...at best disconcerting, and worse, a sign that we are in trouble." Developing countries were particularly apprehensive of a

Japanese-led proposal on industry standards and demanded greater aid to help them cope with the negative spillovers of climate change. Both developed and developing countries now generally agree that the world must take action to mitigate climate change, but they are divided on how to go about it. The United States, which has not ratified the Kyoto Protocol, is pushing for fast-developing nations like India, China and Brazil to sign up to binding emissions cuts while the European Union wants industrialized countries to take the lead (*news.yahoo.com, accessed 13.05.08; www.unfccc.int, accessed 09.05.08*). ■

Biofuels AND Trade

Need for a balanced energy policy

Bioenergy generation and its trade should not undermine public policy considerations that affect environment and development.

■ Heike Baumüller

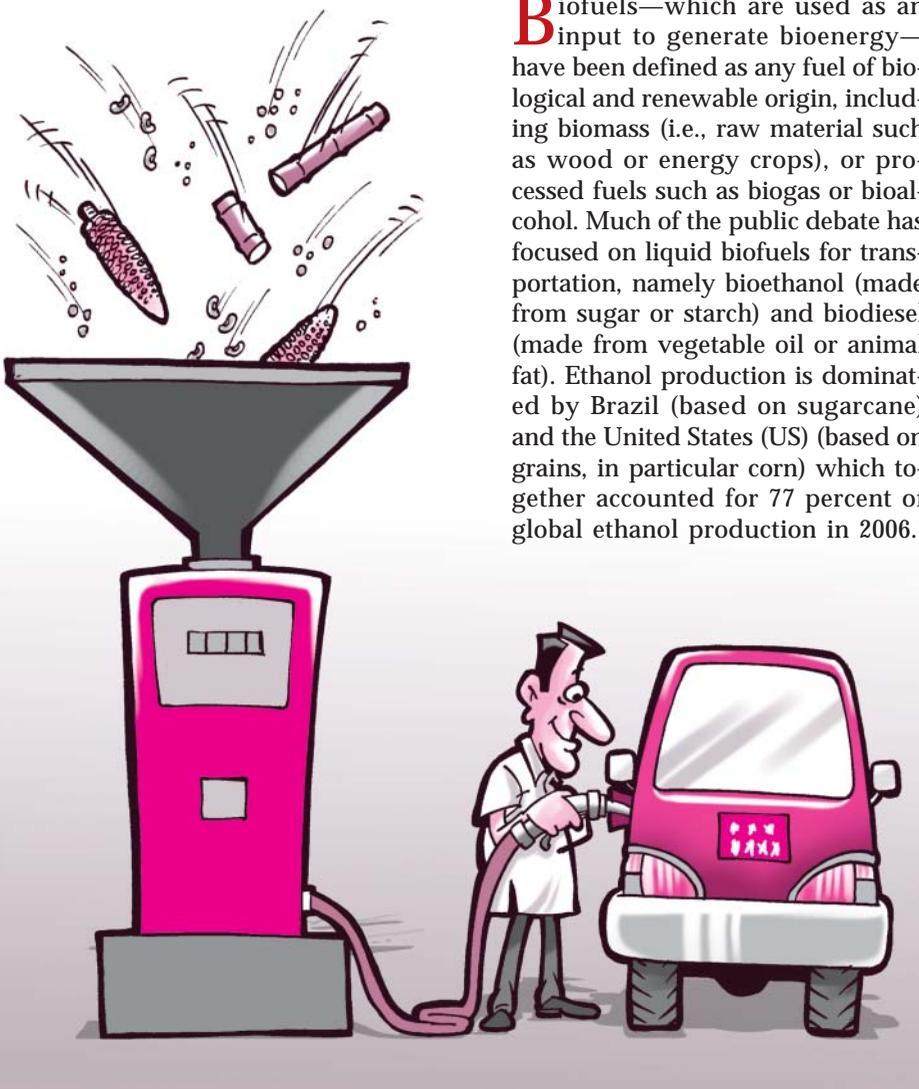
Biofuels—which are used as an input to generate bioenergy—have been defined as any fuel of biological and renewable origin, including biomass (i.e., raw material such as wood or energy crops), or processed fuels such as biogas or bioalcohol. Much of the public debate has focused on liquid biofuels for transportation, namely bioethanol (made from sugar or starch) and biodiesel (made from vegetable oil or animal fat). Ethanol production is dominated by Brazil (based on sugarcane) and the United States (US) (based on grains, in particular corn) which together accounted for 77 percent of global ethanol production in 2006.¹

The European Union (EU)—notably Germany, France and Italy—is the main producer of biodiesel, primarily from rapeseed and sunflower seed.

Generating bioenergy from burning biomass such as wood and agricultural residues is widespread in developing countries, supplying energy for 2–3 billion people around the world. In contrast, with the exception of Brazil, developing countries have not been significant producers of liquid biofuels although several countries have started developing the sector. For instance, India and, to a lesser extent, Pakistan have been promoting sugar-based ethanol in recent years. In 2006, India accounted for 4 percent of global production mainly for domestic use while most of Pakistan's comparatively small fuel ethanol production was destined for export.²

More recently, the use of non-edible oil for biodiesel has attracted considerable interest, in particular *jatropha*, and others such as *pongamia*, *neem*, *kusum* and *pilu*. The seeds of *jatropha curcas* (a perennial scrub that can grow in low-rainfall areas and on degraded soils) contain up to 30 percent oil which, once processed into biodiesel and blended with conventional diesel, can be used in standard diesel cars. The Government of India is planning to replace 20 percent of diesel consumption by 2011/12 with biodiesel from *jatropha* planted on 7–11.2 million hectares.³ Other countries, particularly in Asia, have started to follow suit.

Moreover, much hope has been pinned on so-called second-generation biofuels, which use cellulose conversion technologies to turn cellulose-rich biomass into energy. These technologies would allow a broader range of feedstocks to be used, including fast-growing perennial trees and grasses that require little cultivation and often have higher energy ratios (i.e., the quantity of useful bioenergy crop produced per unit of fossil fuel consumed) than annual crops, especially when grown in tropical climates.⁴ Second generation biofuels are expected to significantly reduce production costs below those of commodity-based biofuels.⁵



The pros and cons of bioenergy

In terms of socio-economic benefits, bioenergy has the potential to provide a cheaper and more readily available source of energy to rural areas and growing urban populations. Promoting cleaner bioenergy could also help reduce air pollution. Traditional combustion-based energy sources emit indoor pollutants that are estimated to cause more than 1.6 million deaths annually around the world.⁶ Liquid biofuels can also help improve outdoor air quality. In São Paulo, Brazil, for instance, the use of gasohol made up of 10 percent ethanol reduces carbon monoxide by more than 25 percent.⁷ In addition, biofuels could provide employment opportunities in rural areas to grow and process feedstocks.

On the negative side, biofuel expansion, in particular cereal-based ethanol, among other factors, has been blamed for recent sharp increases in prices of major commodities. Within just one year (between March 2007 and 2008), the price of corn increased by 31 percent, soya by 87 percent and wheat by 130 percent.⁸ While rising commodity prices might be good news for farmers, they are less so for consumers, especially in net-food importing countries, although in the longer term higher prices might allow food importers to boost domestic production. While *jatropha*—being a non-food crop that can be grown on land unsuitable for other agricultural products—has been advocated as a possible solution, farmers might, nevertheless, be tempted to cultivate the crop on fertile, irrigated soils where yields are higher. Competition for land with food crops could lead to greater land insecurity and dislocation of small farmers to make way for large-scale biofuel plantations.

Biofuels are often promoted as an environment-friendly alternative to fossil fuels. They have been described as carbon neutral since they release only the amount of carbon they ab-

sorbed while growing.⁹ This assumption was challenged by recent findings showing that some of the most commonly used biofuels, such as biodiesel from rapeseed and bioethanol from corn, can contribute as much if not more to climate change, while others, such as certain grass or woody species, have a lower impact.¹⁰ Actual net carbon savings, which take into account the carbon emitted during production (e.g., growing, processing and transportation), also remain contested. One study found that converting rainforests, peatlands, savannas or grasslands to produce biofuels creates a 'biofuel carbon debt'



www.telegraph.co.uk

by releasing 17 to 420 times more carbon dioxide (e.g., from fires used to clear land or decomposition of leaves and fine roots) than the fossil fuels they replace.¹¹ In contrast, producing bioenergy from waste biomass or feedstock grown on abandoned agricultural land is thought to incur little or no carbon debt.

A number of other environmental concerns have been raised. Burning of wood for cooking and heating, for instance, can put significant pressure on forest resources. Environmental impacts of energy crop cultivation include threats of deforestation and associated impacts on watershed protection, soil erosion

and biodiversity loss; increased water consumption and pollution during growing and processing; and impacts on soil quality from pesticides and fertilizers. While these impacts are not confined to biofuels but apply to agriculture more generally, some energy crops pose particular challenges, such as sugarcane cultivation which requires a considerable amount of water.

Global biofuel trade

To date, trade in biofuels has been limited. Brazil is the largest exporter of ethanol, accounting for almost half of total exports in 2005, while exports from other countries were comparatively minor.¹² The US was the largest importer (18 percent). How much of traded ethanol is used for fuel is unclear since all ethanol, whether for fuel, industrial processes or beverages, is traded under the same tariff line. The vast majority of Brazil's ethanol exports are thought to have been for fuel use. Ambitious government targets for biofuel use in some countries coupled with rising oil prices are expected to further stimulate demand for more and cheaper biofuels. Developing countries, in particular in tropical and sub-tropical regions, could be in a good position to supply certain biofuel feedstocks or processed bio-

fuels that can capitalize on longer growing seasons, low labour costs, availability of land and suitable soils.

Taking advantage of trading opportunities will be hampered by prevailing market distortions. In a number of industrialized countries, biofuels receive high subsidies motivated by diverse policy objectives, such as reducing greenhouse gas emissions, providing an alternative market for surplus production and improving energy security. Some of the most common measures include exemptions from fuel excise and sales taxes, income tax credits and grants or loans for investment in productive capacity. Support in Organisa-

tion for Economic Co-operation and Development (OECD) countries totalled US\$11 billion in 2006 with the largest share provided by the US closely followed by the EU.¹³

In addition, ethanol exports are subject to high tariffs in some markets. For instance, tariffs are estimated to add at least 25 percent to the price of Brazilian ethanol in the US market and over 50 percent in the EU market.¹⁴ One study predicts that the removal of trade barriers in the US market would result in a 24 percent increase in world ethanol prices between 2006 and 2015, while the domestic price in the US would decrease by almost 14 percent.¹⁵

Biofuels at the WTO

At the World Trade Organization (WTO), ethanol is categorized as an agricultural good (since it falls within the tariff chapters listed in the Annex of the Agreement on Agriculture-AoA) while biodiesel is an industrial good.¹⁶ This classification is an important one since it will determine under which WTO agreement the goods will be regulated. Thus, in terms of tariffs, AoA applies to ethanol, and the Agreement on Subsidies and Countervailing Measures to biodiesel.

However, the case of subsidies to liquid biofuel production is less clear since subsidies can have direct and indirect impacts at various stages of the supply chain, including feedstock production, processing and consumption.¹⁷ For instance, depending on how the subsidy is provided, support for rapeseed oil production could be an agricultural subsidy, but could also result in a downstream subsidy for biodiesel production (an industrial good).

Brazil, currently the world's most cost-efficient producer, has called for ethanol and biodiesel to be included among the environmental goods which will benefit from reductions or elimination of tariffs and non-tariff barriers in the ongoing trade round. Discussions on what constitutes an "environmental good" continue at the Committee on Trade and Environment. Some argue that they should only include goods with an

environmental end-use (which in the case of biofuels could arguably be climate change mitigation) while others would like to add environmentally preferable goods that cause less environmental harm at some stage during their life-cycle than comparable goods (e.g., biofuels versus fossil fuels). One challenge would be how to distinguish ethanol imports used for fuel (which might be eligible for lower tariffs) from ethanol imported for other uses.

South Asia: Looking ahead

As far as South Asia is concerned, in the short term, the greatest opportunities for using bioenergy in the region will lie in meeting domestic energy needs. Options could include promoting the use of energy-efficient and low-polluting stoves to burn traditional biofuels, with a focus on farm-level residues and by-products of agricultural processing such as sugarcane bagasse, rice husks or banana leaves. Certain non-food energy crops have also shown potential in the region. Large-scale production of and trade in biofuels, however, would require significant investments, including in fuel distribution systems and automotive technologies, which would pose significant challenges to most South Asian countries. India (and possibly Pakistan) would be in the best position to move into sizeable production.

Initiatives to expand bioenergy generation in South Asia and around the globe will, however, need to carefully balance diverse public policy considerations, within and outside the energy sector. In the end, no method of energy production, including bioenergy, will be socially or environmentally neutral. The challenge will be to adopt an energy mix with the best socio-economic and environmental outcomes. Efforts should be guided by a well-developed energy policy where biofuels would provide one among many possible energy sources whose risks and benefits need to be weighed up. ■

The author is an independent consultant and currently based in Cambodia.

Notes

- 1 RFA. 2008. *Annual World Ethanol Production by Country*. Washington, D.C.: Renewable Fuels Association.
- 2 *ibid.*
- 3 Gol. 2003. *Report of the Committee on Development of Biofuel*. New Delhi: Planning Commission, Government of India.
- 4 Hazell, P. and R.K. Pachauri. 2006. *Bioenergy and Agriculture: Promises and Challenges*. Washington, D.C.: International Food Policy Research Institute (IFPRI).
- 5 OECD. 2006. *Agricultural Market Impacts of Future Growth in the Production of Biofuels*. Paris: Organisation for Economic Co-operation and Development.
- 6 Hazell and Pachauri (2006). Note 4.
- 7 *ibid.*
- 8 BBC. 2008. The Cost of Food: Facts and Figures. <http://news.bbc.co.uk>, accessed 15 March 2008.
- 9 Raswant *et al.* 2008. *Biofuel Expansion: Challenges, Risks and Opportunities for Rural Poor People*. Rome: International Fund for Agriculture Development (IFAD).
- 10 Crutzen *et al.* 2007. N₂O Release from Agro-biofuel Production Negates Global Warming Reduction by Replacing Fossil Fuels. *Atmos. Chem. Phys. Discuss. 7*: 11191–11205.
- 11 Fargione *et al.* 2008. Land Clearing and the Biofuel Carbon Debt. *Sciencexpress*.
- 12 Walter *et al.* 2007. *Market Evaluation: Fuel Ethanol*. Paris: International Energy Agency (IEA).
- 13 Steenblik, R. 2007. *Biofuels - At what cost? Government Support for Ethanol and Biodiesel in Selected OECD Countries*. Manitoba: Global Subsidies Initiative, International Institute for Sustainable Development (IISD). (While the Brazilian ethanol industry also enjoyed generous subsidies when it was first established in the mid-1970s, these programmes were discontinued in the late 1990s).
- 14 *ibid.*
- 15 Eloheid, A. and S. Tokgoz. 2006. *Removal of U.S. Ethanol Domestic and Trade Distortions: Impact on U.S. and Brazilian Ethanol Markets*. Iowa: Iowa State University.
- 16 The Annex was agreed upon by the WTO Members and they would in principle be free to amend the list to exclude ethanol or include biodiesel. See IPC and REIL. 2006. *WTO Disciplines and Biofuels: Opportunities and Constraints in the Creation of a Global Marketplace*. Washington, D.C.: International Food & Agricultural Trade Policy Council and Renewable Energy and International Law.
- 17 IPC and REIL (2006). Note 16.

Indo-Lanka Free Trade Agreement Sri Lankan Perspectives

Though Sri Lankan exports have increased dramatically, non-tariff barriers, stringent rules of origin and *ad hoc* quota imposition are constraining the country's access to the Indian market.

■ Deshal de Mel



The Indo-Lanka Free Trade Agreement (ILFTA) was signed in 1998 and has been in operation for over eight years. During this period, India has fully liberalized trade with Sri Lanka barring the items on the negative list. Sri Lanka is in the final stage of liberalization. The ILFTA has brought about mixed results for Sri Lanka.

Structure of the Agreement

Tariff liberalization programme

The ILFTA fully acknowledges asymmetries between the two countries and its tariff liberalization programme reflects this fact: Sri Lanka is allowed a longer period of liberaliza-

tion and a larger negative list. As soon as the Agreement came into operation in March 2000, India provided immediate zero-duty access on 1,351 tariff lines, while the rest of the items, barring the 419 on the negative list, were liberalized in stages (50 percent, 75 percent and 100 percent) over a period of three years ending March 2003.

Sri Lanka, on the other hand, was to liberalize tariffs over a period of eight years. Sri Lanka's negative list was much larger than India's with 1,180 tariff lines, and the immediate zero-duty list consisted of 319 tariff lines. The remaining tariff lines were to be liberalized in two stages. A total of 889 items had a 50 percent preferential reduction of tariffs immedi-

ately, with the preference margin increased over three years (70 percent, 90 percent and 100 percent) till March 2003. The remaining tariff lines, termed the residual list, were to be liberalized completely over eight years with 35 percent tariff reduction in March 2003, 70 percent by March 2006 and 100 percent by March 2008. However, Sri Lanka postponed the second stage of liberalization from March 2006 till September 2006 due to procedural delays. Accordingly, the final stage of liberalization has been pushed back from the scheduled March 2008 deadline.

Negative lists

Sri Lanka's negative list comprises mainly agricultural products, key revenue items such as motor vehicles and items of significant domestic production such as ceramics and footwear. In terms of trade coverage, Sri Lanka's negative list, being larger in scope, naturally had broad impacts on trade. Out of the 1,180 items on Sri Lanka's negative list, 712 were actually traded between the two countries in 2006 at a value of US\$912.3 million. As a result, 50 percent of the value of India's exports to Sri Lanka fell under the latter's negative list.

On the other hand, India's negative list is smaller and only 70 of the 419 items on it were actually exported from Sri Lanka to India at a value of US\$16.1 million, which made up 3.3 percent of the value of Sri Lanka's exports to India in 2006. The bulk of India's negative list is made up of textiles, garment products, rubber products, paper products and plastic products. Nearly 85 percent of Sri Lanka's rubber and plastic product exports to India are subject to the negative list.¹ Since many of these products are exported by Sri Lanka to the rest of the world, their removal from the negative list would lead to increased trade in these products between the two countries.

Tariff rate quotas

Three of Sri Lanka's major export interests—garments, textiles and tea—were placed on India's negative list. However, India granted special

provisions for these items in the form of tariff rate quotas (TRQs).

Entry requirements for tea and rules of origin (ROO) requirements for garments were severe constraints to Sri Lankan exporters. As a result, quota utilization rates were very low—2.68 percent in tea and less than 1 percent in garments.² However, in June 2007, India removed the port restriction on imports of tea from Sri Lanka within a quota of 12.5 million kg. Furthermore, three million garment pieces now enjoy duty-free access to India, that too without any sourcing requirement.

Rules of origin

Under the ILFTA, 35 percent domestic value addition (DVA) coupled with a change of tariff heading (CTH) at the 4-digit level is required to benefit from the Agreement. However, the DVA component is reduced to 25 percent if the imported contents originate in the other party to the Agreement.

Effects on trade

Trade between India and Sri Lanka changed dramatically following the implementation of the ILFTA. Before the ILFTA came into operation, Sri Lanka's exports to India were limited. Following the implementation of the tariff liberalization programme, the situation changed as exports to India increased substantially every year, particularly in 2002 and 2003, following substantial tariff cuts by India as per the Agreement.³ India is now the third largest destination for Sri Lankan exports. India had been an important source of imports since the 1990s, but following the Agreement, imports increased even more rapidly (see figure).

India has, as a result, become further established as Sri Lanka's main source of imports. The exports of both countries have become increasingly diversified since the Agreement came into force. The number of products exported from Sri Lanka to India increased from 505 in 1999 to 1,062 in 2005. Similarly, India's exports to Sri Lanka became increasingly diversified with items such as pharmaceutical products, transport equipment

and light engineering products gaining a foothold in Sri Lanka.

Before the Agreement came into operation, India maintained significant trade surplus with Sri Lanka and there were concerns among Sri Lankan stakeholders that this could be exacerbated with increased liberalization of trade between the two countries.

In 1998, Sri Lanka's import-export ratio with respect to India was 14.3:1 and the absolute trade deficit was US\$501.7 million. However, following the Agreement, Sri Lanka's exports to India grew tenfold while imports from India grew less than fourfold between 1999 and 2005. As a result, the import-export ratio narrowed to 2.6:1 even though the absolute trade deficit increased to US\$880.5 million. This may change in the coming months as Sri Lanka will complete its final stage of liberalization of tariffs in 2008 whereas India completed its liberalization in 2003. Therefore, Sri Lanka's imports from India are likely to grow faster than exports in the future.

Disaggregated impacts on trade

Though exports from Sri Lanka to India have increased tenfold, they are

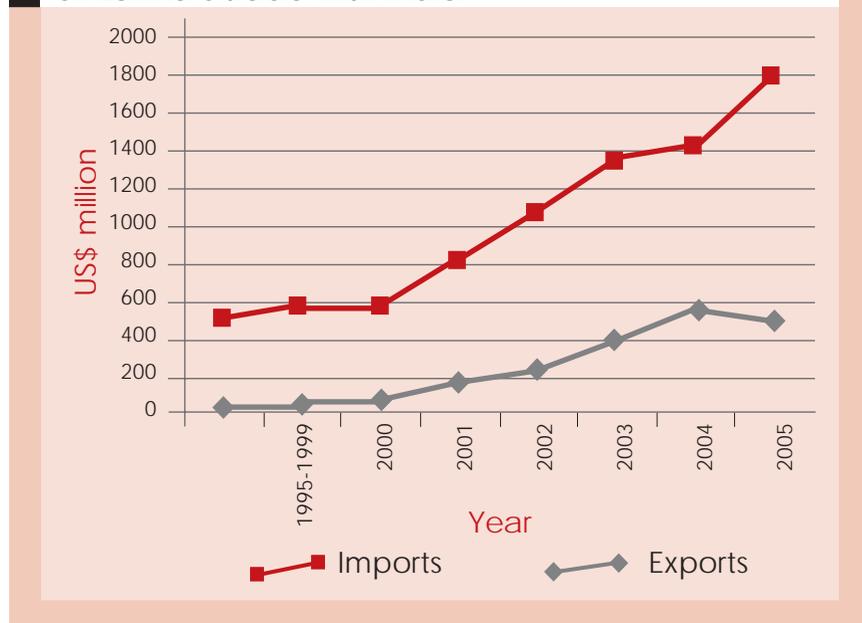
concentrated in a few sectors. Just two tariff lines—Article 15 (vegetable fats and oils) and Article 74 (copper and articles)—contribute nearly 50 percent of Sri Lanka's exports to India. Excluding these, Sri Lanka's total exports to India increased fivefold from US\$51 million in 2000 to US\$278 million in 2006. Were it not for the impact of vanaspathi and copper exports, it is likely that Sri Lanka's trade deficit with India would have widened following the ILFTA. More importantly, the emergence of export industries such as copper and vanaspathi are not due to any Sri Lankan comparative advantage in these products. Entrepreneurs took advantage of Sri Lanka's duty-free access into India's otherwise protected market by investing in Sri Lanka, importing raw materials from third parties and re-exporting to India with limited value addition.

Investment from India

Cumulative Indian investment as of 1998 was a mere Rs. 165 million. This has increased since the ILFTA came into operation, and in 2005, cumulative investment stood at Rs. 19.47 billion and India became the fifth biggest investor in the country.

FIGURE

Sri Lanka's trade with India



Source: Department of Commerce, Sri Lanka. <http://www.doc.gov.lk/web/index.php>.

However, much of the investment that came into Sri Lanka was associated with products such as vanaspathi and copper, as foreign investors from India and third parties saw an opportunity to break into India's market through Sri Lanka. Employment creation was also limited.⁴

According to the Board of Investment, 5,900 jobs were created as a result of Indian investment. But this includes 1,500 employees in the Indian Oil Company retail outlets, which entailed re-hiring staff from the Ceylon Petroleum Corporation-owned outlets rather than creation of new jobs.

Issues of contention

The disaggregated trade and investment data show that the real impact of the ILFTA is far less impressive than that portrayed by the aggregate data—export growth has been concentrated in a few low value-added products, and investment has not generated significant employment or technology transfer. The key question, in terms of moving forward and lessons for the future, is: why hasn't there been a broader positive impact on the Sri Lankan economy as a result of the ILFTA? Several reasons could be cited.

Tariff rate quotas on major exports

Tea, garments and textiles, which make up 58 percent of Sri Lanka's total world exports, have been placed under quotas in the ILFTA. Furthermore, quota utilization has been minimal due to stringent ROO requirements and port restrictions. It remains to be seen whether quota utilization will improve following a degree of relaxation of ROO and port restrictions in 2007.

Starting from scratch

Despite the geographic and cultural proximity between the two countries, India was not a major export market for Sri Lanka since Independence, with exporters preferring developed markets in the Western world. Therefore, increasing exports to India requires a general change in the perceptions and preferences of Sri Lankan exporters—a process that will

take time. The restrictions on established export items mean that new export products have to be developed from scratch—economies of scale need to be achieved, brand development must be carried out, and marketing and buyer relations must be developed. This becomes all the more challenging while attempting to penetrate a large and competitive market such as India. Furthermore, supply capacities in developing economies such as Sri Lanka take time to develop. This is exacerbated by the turbulent security and political situation in the country which has made investors reluctant to invest as much as they otherwise would have.

Non-tariff barriers

Many Sri Lankan exporters have faced difficulties in entering the Indian market due to the maintenance of non-tariff barriers (NTBs) such as state taxes, quality requirements and administrative procedures, which are outside the scope of tariff reduction under the ILFTA. One example is state taxes charged by Tamil Nadu, where Sri Lankan exports are taxed at 21 percent while local products are taxed at 10.5 percent on sales.⁵ The argument put forward by India is that products entering Tamil Nadu from other states are also taxed at 21 percent.

Rules of origin

Besides the stringent ROO within the TRQs for garments, the more general case of requiring a CTH at the 4-digit level has been burdensome for certain Sri Lankan exports. This rule has had a detrimental effect on Sri Lanka's blended tea exports—where a CTH at the 4-digit level is difficult to achieve even when blended with Indian tea.

Unilateral imposition of quotas

Following the surge of vanaspathi exports from Sri Lanka to India, the two countries entered into negotiations in 2003 to apply a quota on vanaspathi exports due to the disruptions caused to the Indian domestic industry. The two countries initially agreed to a quota of 250,000

metric tonnes per year. However, in 2006, India unilaterally reduced this quota to 100,000 metric tonnes. Further negotiations took place and the quota was reverted to 250,000 metric tonnes. Similar problems have occurred in exports such as bakery shortenings, pepper and copper. More than the disruptions to the individual industries as a result of such quantitative restrictions, what is of concern is the undermining of confidence in the Agreement as a whole.

Conclusion

Though the aggregate figures resulting from the ILFTA are undoubtedly impressive, the results have not been entirely positive from a Sri Lankan perspective. While exports have increased, export diversification has been limited and the majority of exports have been in a few products with limited value addition. Furthermore, there are issues of contention such as stringent ROO for certain products and NTBs which have undermined Sri Lanka's competitiveness in India. If issues such as NTBs, ROO and *ad hoc* quota imposition are dealt with, there is great scope for Sri Lankan exporters to benefit from greater access to the Indian market. ■

The author is associated with Institute of Policy Studies, Colombo, Sri Lanka.

Notes

- 1 Weerakoon, D. and J. Thennakoon. 2008. *India-Sri Lanka FTA: Lessons for SAFTA*. Jaipur: Consumer Unity & Trust Society (CUTS).
- 2 Kelegama, S. and I. Mukherjee. 2007. *Indo-Lanka Bilateral Free Trade Agreement: Six Year Performance and Beyond*. New Delhi: Research and Information System for Developing Countries (RIS).
- 3 Exports to India fell in 2006 following a dispute between the two countries relating to Sri Lankan exports of vanaspathi to India. Quotas were imposed, resulting in a fall in exports.
- 4 Wickremasinghe, W. 2007. *Indo-Lanka Free Trade Agreement: A Survey of Progress and Lessons for the Future*. EU Sri Lanka Trade Development Project.
- 5 Kelegama and Mukherjee (2007). Note 2.

The evolving debate on

TRADE and CLIMATE CHANGE

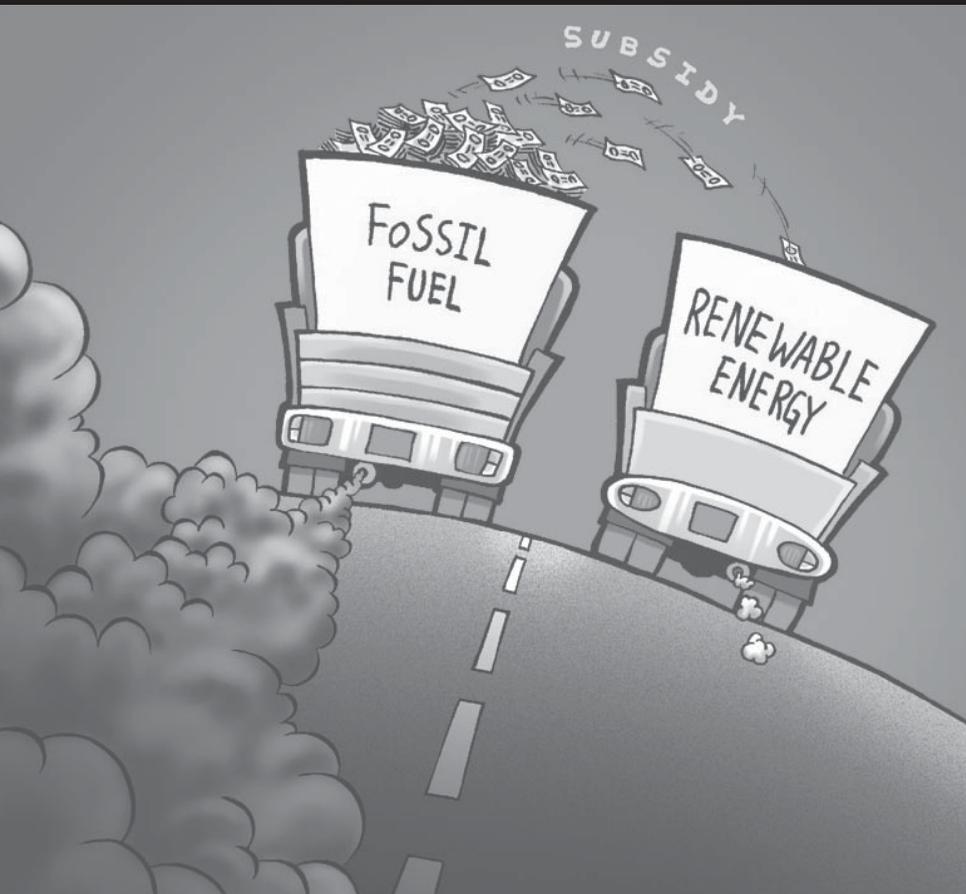
Economic and trade competitiveness concerns have been an inherent part of climate change discussions since the beginning and will likely remain a key determining factor in the success of any future climate change agreements.

■ Benjamin Simmons

Any lingering doubts about whether the Earth's climate system is warming have been put to rest. In its most recent assessment, the Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate science, noted the evidence of global warming is now "unequivocal". This stark reality and its potential economic, social and environmental implications have driven climate change to the top of the international political agenda. At the launch of the recent IPCC report, United Nations Secretary-General Ban Ki-moon aptly noted that the situation is "so desperately serious that any delay could push us past the tipping point, beyond which the ecological, financial and human costs would increase dramatically."¹

Since the warnings surrounding climate change were first raised, it has been clear that it is as much an economic challenge as an environmental one. Numerous studies have shown that a changing climate has serious implications for national economies and—perhaps most alarmingly for developing countries—dire consequences for critical economic sectors such as agriculture, forestry and fisheries. Addressing climate change also raises a number of economic concerns. Governments have long realized that responding to climate change challenges will require adjustments to national production patterns that could have major economic implications. There has, however, been a general reluctance to make these adjustments for fear of how this may impact industrial competitiveness at home and abroad.

Such economic and trade competitiveness concerns have been an inherent part of climate change discussions since the beginning and will likely remain a key determining factor in the success of any future climate change agreements. There has, however, recently been increased attention on a wholly different aspect of the climate change and trade relationship, namely how multilateral trade policy might be brought to bear in addressing climate change.



Of the many types of trade policies that could be employed, two areas hold particular promise given their importance for addressing climate change and relevance to the World Trade Organization (WTO). The first involves reducing trade barriers to climate-friendly technologies in order to stimulate the global flow of these technologies. The second involves strengthening WTO rules on subsidies that contribute to climate change and creating safeguards for those subsidies that support efforts to combat climate change. Before examining these issues, it is worth briefly exploring the development of the current international discourse on trade and climate change.

A decade of tension

Since the early 1990s, when discussions on developing an international response to climate change began, concerns about how such a response might impact international trade competitiveness have loomed large in the minds of climate negotiators. Countries contemplating limits on greenhouse gas emissions have voiced concern about how these limits might reduce the ability of their companies to compete at the global level with companies not subject to such limits. An additional fear has been that this loss in competitiveness will put pressure to shift production to countries without emission reduction commitments in order to remain competitive—the so-called “carbon leakage” effect. Such an outcome would not only have significant economic and labour consequences for the country adopting emissions limits, but would also frustrate the objective of the climate regime if overall global emissions remained constant or continued to increase.

Regardless of whether the competitiveness fears are justified—and on this subject the current literature remains divided—these concerns have nonetheless largely shaped the way climate change agreements have been negotiated and crafted. In fact, international competitiveness concerns were a driving force behind some of the most innovative measures found in the Kyoto Protocol—

the so-called “flexibility measures”. These include measures such as the development of an international emissions trading system, and the establishment of a “clean development mechanism”, which allows Annex I countries (countries with binding greenhouse gas commitments) to obtain credits for projects that reduce or remove greenhouse gas emissions in non-Annex I countries (largely developing countries). One of the key objectives of these measures is to reduce competitiveness concerns by providing countries with the flexibility to reach their emissions targets wherever they can be achieved at the lowest cost.

Despite these and other built-in Kyoto flexibilities, some countries, most notably the United States (US), have remained reluctant to partici-

Kyoto Protocol. Both European Commission President Jose Manuel Barroso and French President Nicolas Sarkozy have called for the possibility of imposing border tax measures on imports from countries that have not signed on to emission reduction commitments. Some developing countries have argued that to the extent these measures would be applied to them, it wilfully ignores the agreement of developed countries in Kyoto to bear the costs of emission reductions given their historical responsibility for greenhouse gas emissions.

Shifting debate

While trade competitiveness concerns remain a key challenge for future action within the climate change regime, recent international attention

Areas where the WTO can address climate change

REDUCING trade barriers to climate-friendly technologies in order to stimulate the global flow of such technologies

STRENGTHENING trade rules on subsidies that contribute to climate change and creating safeguards for those that support climate change

pate in the international climate change accord largely because of continued concerns about trade competitiveness. These concerns led the US Senate, by a vote of 95-0, to pass a resolution just prior to the signing of the Kyoto Protocol forbidding the US government to enter into any climate agreements that would mandate greenhouse gas emission reductions unless commensurate measures were undertaken by developing countries. Furthermore, these concerns contributed to US President George W. Bush’s decision to reject the Kyoto Protocol in 2001, arguing that complying with the Protocol would cause serious harm to the US economy.

Trade competitiveness concerns remain today even in countries that have enthusiastically adopted the

has also focused on the trade regime and how multilateral trade policy might be employed to contribute to climate change mitigation and adaptation efforts. This new focus has been largely stimulated by heightened awareness of the economic, environmental and social threats posed by climate change, and increased political attention and commitment to addressing these threats.

The Stern Review, the most comprehensive economic review of climate change to date, referred to climate change as the greatest market failure the world has ever seen. The review went on to argue that failing to take action on climate change will result in costs and risks equivalent to losing at least 5 percent of global gross domestic product each year.² These estimates are supported by

findings in the most recent IPCC assessment report, which noted that climate change presents a profound risk to the productive base in agriculture, forestry and fisheries in many countries.³

These recent assessments are not only important from economic, social and environmental perspectives, they are also important from a trade perspective given the impact climate change will have on the natural resource base on which international trade in many products depends. Taken together, these and other equally grim assessments of the impact of climate change have sounded an international alarm, and governments have begun to listen.

There is currently a rush by governments and civil society alike to explore all potential policy options that might be brought to bear in responding to climate change. Trade policy is no exception and is now the focus of international attention, given the influence trade policies have over production and consumption decisions. The potential for trade policies to contribute to action on climate change was also underscored at a high-level meeting of trade ministers that took place alongside the climate change negotiations in Bali.

Trade policy opportunities

There are a number of areas where multilateral trade policies may significantly contribute to climate change mitigation and adaptation. The areas of technology and subsidies, however, hold particular promise, given their importance for addressing climate change and relevance to current WTO rules.

Technology liberalization

Technology will play a critical role, if not *the* critical role, in any successful response to climate change. In setting forth a future strategy on climate change, negotiators in Bali agreed on a "Bali Action Plan", which, among others, called for the removal of legislative and market obstacles to the development and transfer of technology.⁴ Trade policies arguably have an important role to play in this regard. As noted by

WTO Director-General Pascal Lamy, while addressing Trade Ministers in Bali, "there is no doubt that an immediate contribution that the WTO can make to the fight against climate change is to indeed open markets to clean technology and services."⁵

As part of the WTO Doha Round of negotiations, trade delegates are currently engaged in talks aimed at reducing tariff and non-tariff barriers for environmental goods and services. These negotiations hold the potential for increasing the international flow of climate-friendly technologies. However, there is disagreement among Members about how these technologies should be liberalized and whether liberalization itself will increase the use of these technologies if it is not accompanied by a transfer of know-how and the building of local capacity. That being said, a recent World Bank study considered tariff and non-tariff barrier liberalization for a number of clean energy technologies and concluded that this could result in a 7–13 percent increase in trade volumes in these technologies.⁶

Based largely on the results of this study, the European Union (EU) and the US recently made a joint proposal in the WTO. The proposal calls for eliminating tariff and non-tariff barriers in over 40 climate-friendly technologies, and then for the eventual negotiation of a more elaborate Environmental Goods and Services Agreement (EGSA), which would include further commitments to eliminate trade barriers in a range of other environmental technologies such as wind turbine components, hydrogen fuel cells and solar collectors. The proposal also calls for facilitating trade in a number of environmental services that could help achieve climate change objectives, including air pollution and climate change control services, services to optimize environmental performance of energy facilities and services related to the design and construction of energy-efficient buildings.

A number of developing countries, however, have been critical of the proposal. They argue that the proposal includes goods almost ex-

clusively produced in developed countries, and point to its failure to include goods of export interest to developing countries such as biofuels, biofuel manufacturing equipment, and organic agriculture. They also note that without basic tariff protections, their infant industries producing environmental goods may struggle to compete against established developed country producers. Finally, some countries, including Brazil, have argued that the current proposal is overly rigid and suggested that an alternative "request-offer" approach, where countries request specific liberalization commitments from each other, would be preferable. Despite this considerable criticism, liberalizing trade in climate-friendly technologies and services remains the most plausible area where current WTO negotiations will be able to contribute to climate change action in the short term.

Subsidies

Another potential area where the WTO could contribute to combating climate change is subsidies. Government subsidies have both positive and negative implications for climate change. On the one hand, they represent a powerful tool for promoting alternative energy sources, supporting energy research and development, and stimulating climate mitigation and adaptation efforts. On the other, certain subsidies may frustrate climate change efforts by promoting excessive consumption levels, encouraging a disproportionate use of fossil fuels, and discouraging a move to cleaner fuels and renewable sources. The recent IPCC assessment confirms that reducing fossil fuel subsidies and supporting incentives for renewable energy are viable policy instruments for mitigating climate change.⁷

The combustion of fossil fuels is the primary anthropogenic cause of climate change, and yet many countries around the world continue to heavily subsidize its production, processing, transportation and consumption. Fossil fuels represent the most subsidized energy source, with

global subsidies estimated at between US\$180–200 billion annually as compared to an estimated US\$10 billion for renewable energy, US\$16 billion for nuclear energy, and US\$6 billion for biofuels.⁸ It is widely recognized that eliminating fossil fuel subsidies could dramatically decrease global greenhouse gas emissions. A study by the Organisation for Economic Co-operation and Development (OECD) found that removing all fossil fuel subsidies could lower global emissions of carbon dioxide, the most prevalent greenhouse gas, by 6.2 percent.⁹ Governments considering such action, however, often face strong political resistance and difficult economic, social and environmental trade-offs. In this context, the WTO may have a beneficial role to play.

The Agreement on Subsidies and Countervailing Measures (SCM) is the principal WTO agreement controlling the use of subsidies. It allows for most types of subsidies except those that are found to be trade distorting. Although fossil fuel subsidies are covered under the SCM Agreement, its singular focus on trade distortion makes it inadequate when considering the control of fossil fuel subsidies based on their contribution to climate change. Thus, the SCM Agreement needs to be reformed.

Although this may sound like a radical proposition, there is precedent for this in the current WTO Doha Round of negotiations. Trade delegates in Geneva are actively working on the development of new disciplines for fisheries subsidies, including the prohibition of certain forms of fisheries subsidies based on their contribution to overcapacity and over-fishing. The inclusion of prohibitions based on environmental impacts is a profound departure from the SCM Agreement's traditional trade-distortion analysis. Such a departure opens the door for considering disciplines on other environmentally damaging subsidies, such as fossil fuel subsidies, in the WTO.

Even if agreement for such reform existed, creating new WTO disciplines on fossil fuel subsidies would

be particularly challenging. One of the principal challenges is simply a lack of data on the scope and geographic distribution of fossil fuel subsidies. In addition, for many countries, particularly developing countries, fossil fuel subsidies play a key role in national industrial and development strategies. Given this, WTO provisions limiting the use of fossil fuel subsidies would need to be accompanied by flanking measures to mitigate any negative social and development impacts. Finally, fossil fuel subsidy issues are often country-specific and reforming these subsidies would require flexible mechanisms that allow for individual country commitments and timetables.

Of course, as noted above, not all energy subsidies contribute to climate change. A number of countries are currently using subsidies to stimulate the development and use of renewable energy and energy-efficient technologies. The WTO may also have a role in protecting the use of these subsidies. Under the current SCM Agreement, all subsidies are considered either "prohibited" or "actionable", and as such, are subject to challenge. Therefore, a safeguard provision that affords protection for certain subsidies focused on climate change mitigation and adaptation may be appropriate. A previous version of the SCM Agreement included such a safeguard, referred to as "non-actionable" subsidies, but this safeguard lapsed several years ago. One way the WTO might serve climate change goals would be to reinstate this category of subsidies with the aim of climate change mitigation and adaptation. However, this needs to be applied carefully to ensure these "good" subsidies do not have adverse economic, social and environmental impacts.

Conclusion

Increasing consensus on the evidence of climate change and its associated risks has created a new political will for action in a number of policy areas, including trade. There now exists a real possibility that multilateral trade policies will be employed to respond to climate

change. In this particular context of the WTO, liberalizing trade in climate-friendly technologies and addressing subsidies both hold the promise of achieving win-win outcomes—contributing to action on climate change and reducing trade distortions. These policies, however, must be undertaken with a careful eye to how they impact other economic, social and environmental objectives to ensure that the benefits from the policies are fully realized. ■

The author is a Legal Officer, United Nations Environment Programme, Economics and Trade Branch, Geneva, Switzerland. Views expressed are personal and not of the United Nations.

Notes

- ¹ Speech at the Twenty-Seventh Session of the Intergovernmental Panel on Climate Change, Valencia, Spain, 12–17 November 2007.
- ² Stern Review: The Economics of Climate Change, Executive Summary, available at http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm.
- ³ Intergovernmental Panel on Climate Change, Fourth Assessment Report, Climate Change 2007: Synthesis Report, Summary for Policymakers, 10.
- ⁴ UNFCCC, Conference of Parties, Decision -/CP.13, Bali Action Plan, paragraph 1(d)(i).
- ⁵ Pascal Lamy, "Doha Could Deliver a Double-win for Environment and Trade", Informal Trade Ministers' Dialogue on Climate Change, Bali, Indonesia, 8–9 December 2007.
- ⁶ World Bank. 2007. Warming Up to Trade: Harnessing International Trade to Support Climate Change Objectives. Washington, D.C.: The World Bank.
- ⁷ IPCC Summary for Policymakers of the Synthesis Report of the IPCC Fourth Assessment Report, 2007.
- ⁸ Trevor Morgan. 2007. Energy Subsidies: Their Magnitude, How They Affect Energy Investment and Greenhouse Gas Emissions, and Prospects for Reform. 10 June. Bonn: UNFCCC Secretariat.
- ⁹ OECD. 2000. Environmental Effects of Liberalising Fossil Fuels Trade: Results from the OECD Green Model. OECD Doc. COM/TD/ENV(2000)38/FINAL. Paris: Organisation for Economic Co-operation and Development.

India's duty-free market access offer to LDCs

Will Bangladesh benefit?

The benefit for Bangladesh from India's market access offer to LDCs depends largely on India's initiatives to remove non- and para-tariff barriers, and downsize its negative list that affect Bangladesh's exports.

■ Selim Raihan

Least-developed countries (LDCs), due to their deficiencies in trade-related infrastructure, and production and cost effectiveness, are in a disadvantageous position in the international trade integration process. To be competitive, they need special and differential provisions in terms of quota facilities and/or preferential (lower) tariff rates that ensure market access in developed and developing countries for the products of their export interest. At the same time, they require these facilities to be non-reciprocal to protect their industries, to secure the government revenue from import duties and to exercise control over the economy during periods of crisis.

Findings from several studies suggest that enhanced market access in developed and developing countries, in terms of duty-free and quota-free market access provisions, will benefit LDCs substantially, leading to both improved terms of trade and allocative efficiency. Currently, India is considering to provide duty-free market access facility to the LDCs. This is likely to have important implications for Bangladesh, as well as other LDCs.

While examining Bangladesh's trade with its neighbouring countries, it should be kept in mind that the intra-regional trade among South Asian countries is very low (4.4 percent in 2002). Even with a low intra-regional trade, Bangladesh is the single largest importer in South Asia. In 2003, Bangladesh accounted for 36.4 percent of total intra-regional import. In contrast, in 2003, Bangladesh's exports to the region accounted for



only 2.3 percent of the total intra-regional exports.

Bangladesh's exports to Bhutan, Nepal and Sri Lanka are low (see table). The country's major export destinations are the United States and the European Union. In South Asia, India is the major trading partner of Bangladesh, followed by Pakistan. But trade with India is largely one-sided, as the volume of imports from India to Bangladesh is considerably very large, whereas the volume of exports from Bangladesh to India is very low (see figure). Bangladesh exports a minuscule (1 percent) share of India's imports, a negligible share (1 percent) of its own exports, and a small range of products (fertilizer and jute goods make up two thirds of exports). Though readymade garment (RMG) is the major export item for Bangladesh, its exports to India are insignificant.

Four LDCs in South Asia, namely Bangladesh, Bhutan, the Maldives and Nepal, have been provided with some special and differential treat-

ments (S&DTs) under the Agreement on South Asia Free Trade Area (SAFTA). Bangladesh and other LDCs are likely to secure some gains from these provisions. However, a critical examination of these provisions reveals that most of them are rather 'vague' in nature and thus require substantial clarification and revision so that Bangladesh and other LDC members of SAFTA can effectively take advantage of these provisions.

From the Bangladeshi perspective, one of the major questions related to the duty-free access to India is whether it would generate substantial exports from Bangladesh to India. Using the WITS/SMART model, we simulate the scenario where Bangladesh receives duty-free market access in India, and see what happens to Bangladesh's exports to India. This modelling exercise helps us identify the sectors in which Bangladesh's exports are likely to expand in the Indian market if Bangladesh is given duty-free market access.

It appears from the simulation results that Bangladesh's exports to the Indian market would rise by only an amount of US\$24 million. However, the top 30 products (at the 6-digit HS code) together account for 83 percent of the increase in export earnings. It thus appears that even if India provides duty-free market access, Bangladesh may not be able to expand its exports to the Indian market substantially.

The WITS/SMART simulation results also suggest that exports of 'other made up of textiles' (HS code 630492) from Bangladesh to India would increase only modestly under

such a scenario, though Bangladeshi exporters consider India to be a good market for Bangladesh's RMG. A critical question thus arises whether the model simulation results are correct or the exporters in Bangladesh have some wrong notions about their comparative advantage in RMG exports as far as the Indian market is concerned.

It should be mentioned here that since the aforementioned WITS/SMART partial equilibrium model is static in nature, it is not capable of capturing the dynamic impacts of the aforementioned trading arrangements. It is also important to note that when trade is restricted (whatever may be the reasons), both partial equilibrium and general equilibrium models cannot capture the 'new trade'. This is because, if the initial base of trade in any product is very low (or even zero), there would not be any substantial increase (or no increase in the case of zero base) in trade for that particular commodity as far as these model simulation results are concerned.

However, as evidences suggest, mutual tariff concessions can lead to trade in new items. In the case of the bilateral free trade agreement (FTA) between India and Sri Lanka, Sri Lanka benefited from exporting vanashpati oil to India (which was almost nil before the FTA) by taking advantage of this preferential trading arrangement.

Discussions with policy makers and business people in Bangladesh suggest that the benefit that Bangladesh foresees is substantial market access in India. However, concerns have been raised that non-tariff and para-tariff barriers in India far outweigh the benefits

TABLE
Share (%) of Bangladesh's exports

	1995	2000	2004
Bhutan	0.00	0.00	0.05
India	0.79	0.35	1.27
Nepal	0.03	0.00	0.01
Pakistan	1.03	0.91	0.57
Sri Lanka	0.41	0.10	0.12
South Asia total	2.26	1.36	2.02
Rest of the world	97.74	98.64	97.98

Source: Data from UN COMTRADE

of tariff concessions. There are a number of products which have significant export potential in the Indian market. These are plastic and melamine products, chemical products, toiletries, copper wire, betel nuts, raw jute, jute products and fertilizers.

A number of such products, i.e., plastic products, toiletries and betel nuts (included in other nuts: HS 080290), are, however, already included in India's negative list under SAFTA, which makes the expansion of exports of these products in the Indian market almost impossible. And it is not clear whether this negative list will be maintained even if India provides duty-free market access to Bangladesh and other LDCs. Therefore, it is very important to make the Indian

negative list as minimal as possible and exclude the products of export interest of the LDCs from that list. There are also concerns about rules of origin (ROO). In order to have a meaningful market access in India, ROO should be very liberal, simple, transparent, and remain the same for all products. Likewise, non- and para-tariff barriers should be eliminated.

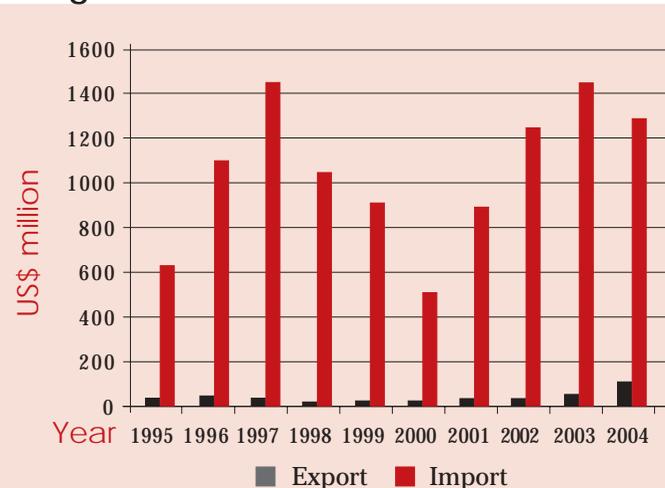
Thus, whether India would really undertake further bold initiatives to make decisions in favour of the LDCs is key to helping Bangladesh and other LDCs benefit from trade with India.

At the same time, Bangladesh should also note that there are several supply-side factors that have contributed to constraining its export response. For example, factors such as inadequate access to finance; weak physical infrastructure; inefficient ports and high transport costs; shortage of skilled workers; technological backwardness; lack of entrepreneurship and management skills; lack of information; and high costs of doing business limit Bangladesh's prospects to benefit from international trade, including trade with India. Thus, the country needs to address these constraints for stimulating its export response.

In addition, Bangladesh's export basket is also concentrated in a few items. Without the diversification of its export basket by enhancing export performances of non-RMG sectors, the country's scope to benefit from preferential access or any other trading opportunities will be limited. Effective development of a number of thrust sectors could serve this purpose. ■

The author is Associate Professor, Department of Economics, University of Dhaka, Bangladesh.

FIGURE
Bangladesh's trade with India



Rising Food Prices in South Asia

Cyclical or Permanent?

■ Nephil Matangi Maskay and Rojan Bajracharya

The recent sharp rise in global food prices is a serious concern. One should note that the importance of food to an individual nation's consumption basket varies, e.g., food items constitute a significantly higher proportion of the consumption basket of developing economies vis-à-vis that of developed countries. More important is the intra-country impact where nationals in the lower income quintiles have a greater share of income going to food expenditure and thus face a greater exposure to increasing food prices.

South Asia is home to more than 1.5 billion people, who represent one

fifth of the world's population, but it includes a disproportionate number of persons in poverty—it hosts half of the world's poor. The contribution of agricultural income to regional income is 25 percent and this sector employs over 60 percent of the region's labour force. In South Asian countries, food accounts for a major share in total consumption. Data suggest that the share of food consumption decreases with an upward movement from the lowest population quintile. For example, as per Nepal's National Living Standard Survey 2003/2004, the share of food stands at 73 percent in the lowest

quintile in contrast to 40 percent in the highest quintile; this composition of consumption is similarly reflected in other economies in the South Asian region too. Such a consumption pattern further exposes those in the bottom quintile to food price fluctuations, with an increase in food prices taking a disproportionate portion of their already meagre income.

Trends in global food price rise

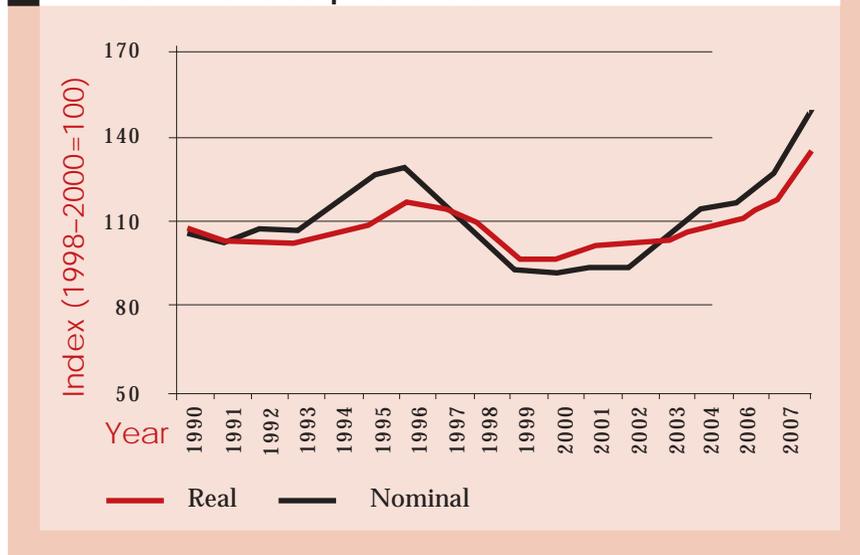
In the past, food prices moved in a cyclical pattern around a stable trend. However, since the start of the 21st century, food prices have been on an increasing trend¹ (see figure).

The World Food Price Index of the Food and Agriculture Organization of the United Nations (FAO) shows a gradual increase in real food prices since the beginning of 2000, but a sharp spurt from 2006. The average annual growth rate during 2000–2005 was 1.3 percent; this figure jumped more than fivefold to 7.4 percent in 2006 and 2007. For policy makers, it is important to clearly determine the nature of this movement in food prices so as to put forth appropriate remedies: is the increasing trend of food prices part of a cyclical phenomenon or does it reflect a permanent increase in food prices?

In the former case, resorting to actions such as building food depots is appropriate since it provides a cushion to food supply and will thus limit cyclical fluctuations in food prices. In the latter case, increasing expenditure on, say, research and development on cropping patterns, to raise productivity is appropriate since it leads to an outward shift in the supply of food and will mitigate the upward trend in food prices.

In general, volatility of food prices is a cyclical phenomenon: seasonal climatic changes (e.g., driven by vicissitudes of the weather) cause fluctuations in food supply, which, at times, may not fully meet the demand (e.g., driven by population growth rate), thus leading to volatile food prices. But it is felt that the driving factors behind the present price rise differ from those of the past since first, there is a strong inter-linkage between agricultural commodity markets and

FIGURE
Annual FAO food price index



Source: FAO. 2008. *Growing Demand on Agriculture and Rising Prices of Commodities*. Rome: Food and Agriculture Organization of the United Nations.

other markets, especially fuels, and second, there is a significant rise in the number of middle-class families, with a changed consumption pattern.

Soaring prices of petroleum products have induced a shift to alternative fuel, namely biofuel, which is made up of high-calorie cereals like maize, and cash crops like oil seeds. Likewise, high incomes have led growing middle-class families to increase their consumption of meat products, which in turn implies an increase in the demand for livestock feed like major cereals. These changing factors suggest that the ongoing global price rises are reflective of a permanent change rather than a cyclical (temporary) one (see table).

Food price rise in South Asia

Rising international food prices have a limited effect on South Asian food prices because the region's food market is less integrated with the international market due to high tariffs on food imports. Notwithstanding the low integration of South Asian economies with the international food market, it is interesting to note that many countries in the region are dependent on India for food.² Furthermore, there is a high incidence of informal trade between India and its neighbours in South Asia; this trade bypasses customs tariffs and other trade restrictions.

Besides, India is the only country in South Asia to have food surplus.³ Other nations in the region do not have regular food surplus and meet their respective food deficits through

trade with neighbouring countries, particularly India. This suggests that the situation in the Indian food market has an effect on the whole of South Asia, that is, food price trends in India are transmitted to the entire region.

Although South Asia is generally insulated from international food prices, in recent months, symmetric global shocks have led to an apparent "sympathetic" increase in regional food prices. The food price increase in South Asia is not driven by international factors but by a cyclical factor and changing consumption patterns, both of which have substantially reduced India's surplus production. The latter factor reflects a permanent adjustment in the trend of food prices in India. In response, the Government of India recently restricted the export of all staple food to maintain domestic supply. While the restriction may partly ameliorate the problems in India, it hurts the food situation in its South Asian neighbours due to their dependence on India for food. Thus, the food-related problems in India have a regional effect manifested in the form of rising regional food prices.

In South Asia, rising food prices are pushing up the respective levels of national inflation. This is most evident in India where inflation has breached the limit set by the Reserve Bank of India, the central bank, of 5–5.5 percent and is presently over 7 percent. The driver of the spike in price rise is felt to be partly the increase in food prices.⁴ As the region-

TABLE
Food price rise

Items	Growth rate
Wheat	8.3
Maize	26.3
Oil seed	18.1
Sugar	11.5

Note: Yearly forecast up to 2017
Source: IFPRI (2007). Note 1.

al rise in food prices is attributed to permanent shift factors, there should be more investment on research and development to enhance agricultural productivity.

There is also a secondary effect which is more predominant in South Asia due to the composition of consumption baskets. The effect is greater on the lowest quintile than on the upper quintiles. As food consumption at low income levels is generally price inelastic, increases in food prices cause food expenditure to take up a bigger chunk of total expenditure. This will increase income inequality and potentially fuel social tension. To counter this effect, it is important for national governments to identify and provide targeted support to the poor sections of society. ■

Dr. Maskay is Deputy Director, Nepal Rastra Bank, Kathmandu, Nepal; Mr. Bajracharya is Research Officer, Technical Review Group Pvt. Ltd., Kathmandu, Nepal

Notes

- 1 IFPRI. 2007. *The World Food Situation: New Driving Forces and Required Actions*. Washington, D.C.: International Food Policy Research Institute.
- 2 World Bank. 2007. *South Asia Growth and Regional Integration*. Washington, D.C.: The World Bank.
- 3 Babu, Suresh. 2005. Food Security in South Asia. http://www.southasianmedia.net/magazine/Journal/9-food_security_southasia.htm
- 4 Growth in inflation is due to increases in the prices of commodities such as petroleum and metals as well as agricultural products. There has not been an exercise to decompose their contributions.



AN ANALYSIS OF India's growth story

The increasing trend in the overall growth rate of the Indian economy is a reflection of increasing shares of high-growth sectors in GDP rather than increased sectoral growth rates.

■ Nitya Nanda

India is one of the fastest growing economies in the world. Interestingly, though India has apparently been experiencing high growth for about a quarter of a century, it remained almost unnoticed (see figure). It was only in the mid-1990s that the global community started taking in-

terest in India's economy, and it was discovered that India had become one of the fastest growing economies. Many economists, particularly the supporters of the economic reforms that started in India in 1991, were quick to attribute this growth to the economic reforms.¹ However, a group

of economists soon pointed out that India had been experiencing high growth since the early 1980s. They viewed that the growth of the 1980s came primarily due to fiscal expansion and external borrowing. However, such growth was not sustainable and hence caused the crisis of 1991. Thereafter, the growth of the 1990s was supported by the economic reforms that corrected the structural imbalances in the economy.²

It is also a rather dominant view now that in the first three decades since Independence, the performance of the Indian economy has been quite poor. Obviously, the economic policies followed since the beginning of the planned era, namely dominance of the public sector, industrial licensing and high trade barriers were blamed for this "unsatisfactory" performance. Recently, however, it has been argued that even the first three decades of planning had not been all that bad for India.

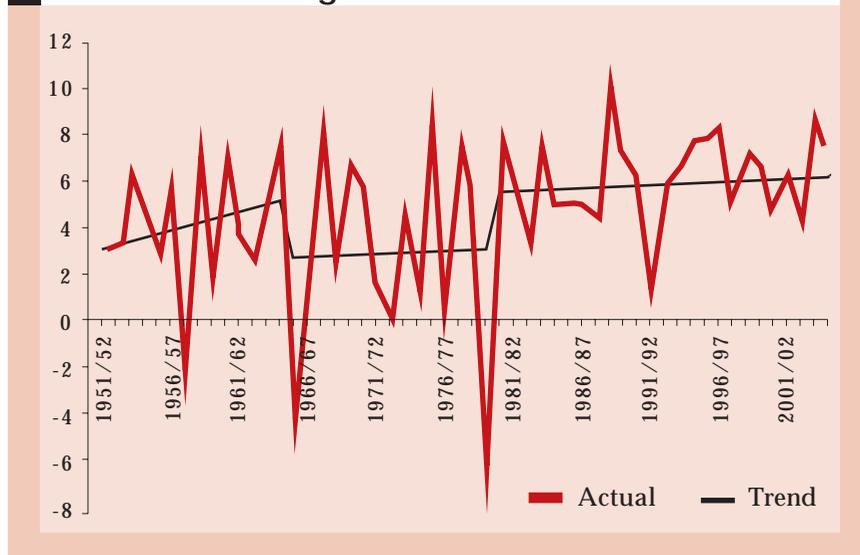
The three phases of reforms

In the post-1950 growth experience of India, there were two structural breaks. The first structural break came around 1964, while the second, around 1980. Immediately after the beginning of the planned era, the economy embarked on a growth path of 4.06 percent which continued till about 1964. However, the growth slowed down thereafter, and remained at an average rate of less than 3 percent per annum. The growth rate picked up again in the early 1980s and continued to grow at about 5.83 percent till 2005. This trend holds not only for the gross domestic product (GDP) growth rates, but also for the growth rates of all the three sectors—agriculture, industry and services. Considering this, the Indian growth experience since the 1950s can be divided into three phases: the first phase (1950–1965), the second phase (1965–1979) and the third phase (post-1980).

Comparing the 1950–1964 and 1980–2005 periods, in agriculture and industry, the growth rates were similar. While the first period had an edge in industry, the latter period had a slightly higher growth rate in agri-

FIGURE

Actual and trend growth rates in GDP



Source: National Accounts Statistics of India, Central Statistical Organisation, Government of India.

culture. It was only in services that the latter period had a distinct edge. If one compares 1950–1964 with 1991–2005 (i.e., 15 years of adoption of the planned growth model with 15 years of introduction of economic reforms), one finds that the former had higher growth in both agriculture and industry, and the latter had higher growth only in services.

Another noteworthy observation is that throughout the period, industry and services had higher growth rates than in agriculture. This, in the process, led to higher relative shares of industry and services in the GDP and a lower share of agriculture. This means that even if each of the sectors continued to show similar performance, due to the increasing shares of high-growth sectors, the overall growth would become higher and higher. Lower share of agriculture also means that bad monsoons, which affected agriculture adversely several years in the past and lowered the average growth rate, are no longer so important.

To understand the issue better, assume that in 1980, the economic structure (shares of different sectors in GDP) was the same as that in 1950. Taking the actual growth rates of different sectors for the period 1980–2005, along with this assumption, the “estimated GDP growth rate” will become $(3.36 \times 57.11 + 6.26 \times 14.62 + 7.26 \times 28.26) / 100 = 4.89$ percent.

Similarly, if we superimpose the sectoral growth rates of 1991–2005 on the economic structure of 1950, the estimated growth rate will be even lower at 4.53 percent. These are not too high compared to the 4.06 percent growth rate of 1950–1964. Considering the fact that India in 1950 had very low literacy and savings rates as well as low indigenous technological capabilities and did not have a well-developed information technology sector, the growth performance during 1950–1964 seems to be more impressive compared to that of the 1980s and 1990s.³

Among the initial conditions, the issue of savings rate needs special mention. In fact, in all East Asian countries, high growth rates have been accompanied by high savings

In the post-1950 growth experience of India, there were two structural breaks. The first structural break came around 1964, while the second, around 1980.

rates. Foreign direct investment (FDI) can play some role in this regard. However, it can only complement domestic savings rather than substitute them.⁴ In India, the domestic savings rate was only 9.97 percent of GDP in the 1950s. It increased to 17.51 percent in the 1970s, 19.41 percent in the 1980s and 23.13 percent in the 1990s. Obviously, the savings rate cannot be increased overnight, particularly when there is widespread poverty in the country. It may be noted here that with a savings rate of about 10 percent, a growth rate of 4 percent could be achieved in the 1950s, while in the 1980s and 1990s, even with a savings rate of about 20 percent or even higher, the growth rate could not exceed 6 percent.

It is, however, noteworthy that when growth rates in agriculture as well as industry tend to decline and the overall growth rate is maintained due to acceleration in the growth rate of services, all may not be well. This is because of the peculiarity of the sector, especially in a developing country. A significant part of the income generated in the sector may be “derived income” without making any addition to the quantity of real goods and services generated in the economy. For example, if a family decides to dine outside instead of cooking at home, an additional income is generated though the quantity of goods and services produced in the economy remains the same.

A part of the services sector growth since 1997 was “spurious” as it reflected the revaluation of the value added in the sub-sector ‘Pub-

lic Administration and Defence’ because of higher pay scales for government employees. Moreover, the growth in services, in part, may also come from growth in unproductive services. For example, production of unproductive services occurs when criminal activities increase, leading people to demand more security services.

The period of crises

One may ask: why couldn't the growth momentum of the first phase be sustained? The 1960s and 1970s were quite disastrous for the country as it went from crisis to crisis, both economic and political. In 1962, it had a war with China, which led India to increase its defence spending, though the economy was facing a serious crisis.

It also had a war with Pakistan in 1965 which coincided with two successive droughts in Fiscal Years 1965/66 and 1966/67. As if these were not enough, India saw the death of two serving prime ministers within a period of less than two years—Jawaharlal Nehru in 1964 and Lal Bahadur Shastri in 1966. Political instability continued even as Indira Gandhi took over as the prime minister, due to infighting within the Congress Party. The period also saw the emergence of the Naxalite movement that badly affected West Bengal, then a major industrial state, for many years.

The 1970s were no better. It started with the Bangladesh War along with a huge influx of refugees into India. This was followed by monsoon failures in 1972 and 1974, and the first oil shock in 1973. To make matters worse, Indira Gandhi declared a state of emergency in 1975 and a period of political unrest and instability started. Even after the emergency was lifted and the Janata Party came into power, political instability did not end due to infighting within the ruling party till 1980 when Indira Gandhi returned to power. Meanwhile, the country had to experience another economic crisis in 1979 due to the combined effects of a severe drought, considered to be the worst in the century, and

the second oil shock.

Though the poor performance during this period was primarily due to external and internal shocks, some argue that it was partly due to misguided policies as well. As per the Industrial Policy Resolution of 1956, the public sector was supposed to be present only in some core areas. However, it was in this period that the public sector extended itself into non-core areas, and grew in a haphazard manner. Sick private industrial units were nationalized, with a view to protecting employment. It may, however, be noted that the recovery of the 1980s was achieved without any major changes in policies.

Another important move, the nationalization of banks, is often criticized. However, post-nationalization, the banks not only became professional with modern management, but also spread rapidly into rural areas. This not only led to the growth of the sector, but also promoted savings.⁵

The recovery and the 1991 crisis

It is difficult to accept that the faster growth of the 1980s was entirely due to fiscal expansion. The way a large part of the fiscal expansion was used is unlikely to have promoted much

The reform measures undertaken by India in 1991, by and large, have not impacted the growth performance of the country, neither positively nor negatively.

growth in the economy. During the 1980s, India embarked upon an unprecedented spree of acquiring conventional weapons from abroad. Between 1983 and 1987, its defence budget increased by 50 percent. In 1987, one fifth of the arms exported to Third World countries were sold to India. Obviously, when the additional fiscal resources are used to import weapons from abroad, it is unlikely to impact economic growth positively.

The first signs of the huge defence import became visible when the gap between the import figures published by the Reserve Bank and those of the

Commerce Ministry ballooned. From US\$500 million a year in the first half of the 1980s, the gap increased to US\$4 billion in 1990, which also contributed to the balance-of-payments (BoP) crisis.⁶ The Gulf crisis of 1990–1991 also aggravated the problem.

One important aspect of the growth in the 1980s was that agriculture registered a record growth rate of 4.34 percent and much of it came from several states that are not considered to be green revolution states.⁷

The 1991 reforms

The reforms, by and large, have not impacted the growth performance, neither positively nor negatively. The growth in manufacturing and agriculture has slowed down, while the growth in services has accelerated keeping the overall growth at the same level. Productivity growth in the manufacturing sector also slowed down in the post-reform period.⁸

Does it mean that the 1991 reforms were not necessary? Reforms are always desirable as long as they are to make positive changes. The Monopolies and Restrictive Trade Practices Act 1969, particularly its approach to “monopolies”, was damaging to efficiency in the economy. When In-



dia adopted its plan model, its savings rate was less than 10 percent of GDP, which was quite low. By 1991, the savings rate crossed 20 percent of GDP, which itself was almost five times higher than the 1951 level (of GDP).

What about trade barriers? The Indian industry had come a long way since 1950. Even if some protection was still needed, the question was how much. In some goods, tariffs were absurdly high. Moreover, there was a fair indication as to the direction in which the Uruguay Round of multi-lateral trade negotiations was heading. It was quite clear that India would be forced to bring down many of the tariff and non-tariff barriers within a few years. Hence, it made sense to introduce some trade liberalization measures gradually rather than reducing them at one stroke upon obtaining the membership of the World Trade Organization (WTO).

It was also necessary to rein in the public sector, including retreat from non-priority areas. However, the reforms, to some extent, also threw the baby out with the bath-water. The Industrial Policy Statement of 24 July 1991 mentioned: "Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure." However, in reality, the government ignored the infrastructural needs with the hope that the private sector would fulfil them, which never happened. There is, at present, a large gap between the demand for and the supply of infrastructure. Consequently, these basic infrastructure services have emerged as the major impediments to a higher, sustainable growth path.⁹

The decline in public investment is perhaps best captured in the precipitous fall in the growth of electricity generation capacity from 8–10 percent per year in the 1980s to 4–6 percent in the 1990s.¹⁰ As a result, electricity generation (excluding captive units) grew at the rate of only 5.7 percent per year during 1992/93 to 2003/04, as compared to 9 percent during the 1980s.

This is also a factor behind the current crisis in agriculture. The govern-

Since the growth process in post-1991 has been unbalanced, its sustainability is an issue of concern, which is now also reflected in India's merchandise trade deficit.

ment has embarked on a strategy to upgrade infrastructure services, including an increase in public investment in infrastructure but precious time has already been lost.

Conclusion

India embarked on a high-growth path in the early 1950s. However, due to some internal and external shocks, the economy slowed down from the mid-1960s till about 1980. Industry and services have throughout grown at higher rates compared to agriculture whose share in GDP has fallen from almost 60 percent in 1950 to about 20 percent presently.

Thus, the increasing trend in the overall growth rate is a reflection of increasing shares of high-growth sectors in GDP rather than increased sectoral growth rates. Considering that the initial conditions were much more favourable in the 1980s and 1990s, the growth performance of the 1950s may even be considered to be more impressive. Since the growth process in the post-1991 period has been rather unbalanced, its sustainability can be an issue of concern that is now reflected in India's merchandise trade deficit which has reached an alarming level, almost 7 percent of GDP. ■

The author is Fellow, Centre for Global Agreements, Legislation and Trade, The Energy and Resources Institute (TERI), New Delhi, India. Comments from Anamika Barua and Nidhi Srivastava are thankfully acknowledged. Views are personal.

Notes

- ¹ Ahluwalia, Montek S. 2002. Economic Reforms in India since 1991: Has Gradualism Worked? *Journal of Economic Perspectives* 16 (7): 67–88; Srinivasan, T. N. and Suresh Tendulkar. 2003. Reintegrating India with the World Economy. Washington, D.C.: Institute for International Economics.
- ² Panagariya, Arvind. 2004. Growth and Reforms during 1980s and 1990s. *Economic and Political Weekly* 39 (25): 2581–2594.
- ³ For example, literacy rate in 1951 was 18.33 percent, which went up to 52.21 percent in 1991.
- ⁴ The Approach Paper to the Eleventh Five Year Plan of India recognizes that FDI at more than 3 percent of GDP can be potentially destabilizing.
- ⁵ To illustrate in more concrete terms, the commercial banks at the time of nationalization in 1969 had in the aggregate less than 5,000 branches and had mobilized total deposits of IRs. 53 billion for the entire banking system. After nationalization, the bank branches swelled to over 50,000 in the 1990s, with a considerable spread in rural and semi-urban centres, and deposits crossed IRs. 5,000 billion and further doubled to IRs. 10,000 billion in 2000.
- ⁶ Kaushal, Neeraj. 1995. India's Defense Budget: Can It be Reduced? ACDIS Occasional Paper, University of Illinois at Urbana-Champaign. (It was only in 1993 that the Reserve Bank Governor, C. Rangarajan, in a report on BoP placed part of the onus of the foreign exchange crisis on the arms imports during the second half of the 1980s.)
- ⁷ Chand, Ramesh and Sonia Chauhan. 1999. Are Disparities in Indian Agriculture Growing? New Delhi: National Centre for Agricultural Economics and Policy Research. www.ncap.res.in/upload_files/policy_brief/pb8.pdf.
- ⁸ Goldar, Biswanath. 2004. Indian Manufacturing: Productivity Trends in Pre- and Post-Reform Periods. *Economic and Political Weekly*, 20 November: 5033–5042.
- ⁹ Srinivasan T. N. 2006. China, India and the World Economy. *Economic and Political Weekly* 41 (34): 3716–3727. (The decline in public investment is perhaps best captured in the precipitous fall in the growth of electricity generation capacity from 8–10 percent per year in the 1980s to 4–6 percent in the 1990s (See Nagaraj, R. 2003. Industrial Policy and Performance since 1980: Which Way Now? *Economic and Political Weekly* 38 (35), 30 August: 3707–3715.). As a result, electricity generation (excluding captive units) grew at the rate of only 5.7 percent per year during 1992/93 to 2003/04, as compared to 9 percent during the 1980s.)
- ¹⁰ Nagaraj (2003). Note 9.

Paris Declaration as a Framework for Analyzing the Effectiveness of Aid for Trade

A radical transformation in the attitude and practice of donors and partner countries is essential to make “aid for trade” work for better integration of developing and least-developed countries into the global economy.

■ **Ratnakar Adhikari**

Following the Hong Kong Ministerial Declaration, adopted by World Trade Organization (WTO) Members in 2005, aid for trade (AfT) assumed growing importance in most donors’ programmes. Such enhanced profile of AfT is likely to be maintained, possibly even expanded over the medium term.¹ A number of developing and least-developed countries are hoping that the initiative will help them better integrate their economies into the global economy.

One of the major concerns looming large with regard to the implementation of AfT is that it could suffer from aid effectiveness problems encountered by development aid in general. This has also been visualized by the Task Force on AfT, which emphasizes the need for AfT to be guided by the Paris Declaration on Aid Effectiveness (PDAE).² This article attempts to measure the potential effectiveness of AfT by applying the criteria of aid effectiveness outlined by PDAE.

Paris Declaration

To reduce the yawning gap between promises and actual delivery of aid, more than 100 countries and donor organizations endorsed PDAE in March 2005. The Declaration is grounded in five mutually reinforcing principles (see box). PDAE defines a number of commitments on the part of donors and partner countries, and a set of indicators to measure progress towards 2010 targets.

Through the Declaration, donors and partner countries also committed to monitoring their progress in

improving aid effectiveness against 56 specific actions, from which 12 indicators were established and targets set for 2010.³

Aid for trade

A number of studies and advocacy documents published during the run-up to the Hong Kong Ministerial, highlighting the moral imperative to compensate losers as well as help weaker nations overcome their supply-side constraints, led developed countries as well as multilateral organizations to support the AfT initiative.⁴ Some developed countries even made a pledge during the Hong Kong Ministerial to increase AfT. The Ministerial eventually agreed to initiate the AfT programme.⁵

The Task Force on AfT established by the Director-General of the WTO, as mandated by the Ministerial Declaration, submitted its recommendations in July 2006, which were accepted by the General Council in

October 2006. After this, three regional review meetings of AfT were organized in Lima, Manila and Dar es Salaam, followed by a global review meeting in November 2007.

Effectiveness of aid for trade

Since the AfT initiative is new and no formal disbursement has been made as part of this initiative, it is not so straightforward to test its effectiveness. Therefore, the analysis conducted in this article is purely based on the effectiveness of other trade-related technical assistance programmes implemented by multilateral as well as bilateral donors, taking the Paris Principles as a framework of analysis. Such initiatives include Integrated Framework for Trade-Related Technical Assistance (IF), Joint Integrated Technical Assistance Programme (JITAP), and post-Doha trade-related capacity building and technical assistance programmes.

BOX

Five principles of Paris Declaration on Aid Effectiveness

- **Ownership:** Partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.
- **Alignment:** Donors base their overall support on partner countries’ national development strategies, institutions, and procedures.
- **Harmonization:** Donors’ actions are more harmonized, transparent, and collectively effective.
- **Managing for results:** Managing resources and improving decision making for development results.
- **Mutual accountability:** Donors and partners are accountable for development results.

Source: www.aidharmonisation.org, accessed 22 May 2008.

Ownership

Country ownership and national dialogues are two critical elements in the integration process of countries into the multilateral trading system.⁶ However, the operation of the IF programme provides a classic example of ineffective ownership even among governmental institutions, let alone other stakeholders such as private sector and civil society organizations. The assistance “needs” were predominantly identified by the trade ministries (or in some cases, trade missions based in Geneva) with little or no consultation with other ministries or departments.⁷

In relation to trade-related aid, the private sector has a critical role to play, not least because they need to exploit existing and emerging trading opportunities and are negatively affected by binding supply-side constraints at the domestic level. Among the scope of AfT identified by the Task Force⁸, the role of the private sector is crucial in utilizing aid for trade and development, in particular through public-private partnership.

Similarly, there is a growing recognition that non-governmental organizations are increasingly playing a constructive role in the economic as well as policy-making arena.⁹ However, this realization has not been fully translated into practical strategy and action on the part of governments and donors. For example, even in the much-hyped IF process, consultation with all the stakeholders and seeking inputs from them are not mandatory while preparing Diagnostic Trade Integration Study (DTIS).¹⁰ This could be the reason why “insufficient ownership” has been highlighted as a major problem by the independent review of IF.¹¹

Another element of ownership is the use of local resources—human, technical or material—for the delivery of trade-related aid, but donors have consistently performed poorly on this front. In fact, “very few donors have used local institutions and country systems for their programmes”¹², thereby impeding the prospects of strengthening local capacities.

Among the scope of AfT identified by the Task Force, the role of the private sector is crucial in utilizing aid for trade and development, in particular public-private partnership.

Alignment

Challenging the traditional practices, PDAE mandates donors to increasingly support partner countries’ strategies and not to impose what the former feel is “necessary”. This means that partner countries should have a well-documented development strategy such as the Poverty Reduction Strategy Paper (PRSP), which is prepared in consultation with all the important domestic stakeholders in line with the country’s needs and priorities. This should form the basis for donor support.

Based on the design and implementation of PRSP and the way some of the earlier versions of the trade-related aid programmes (such as IF) are implemented, the AfT initiative is unlikely to meet this requirement unless corrective measures are taken well in advance. This is primarily because the PRSP process itself is being criticized for the lack of adequate consultation among stakeholders and for its failure in achieving its major objective, i.e., poverty reduction.¹³

Moreover, trade is neither regarded as a priority by most developing-country governments nor does it figure prominently in most PRSPs. A systematic analysis of the content of 17 PRSPs and associated concessional loan documents¹⁴ found the extent and depth of coverage of trade issues to be limited, both in the diagnostic treatment of the profile and causes of poverty and in the discussion of policy priorities for the future¹⁵. In relation to trade-related capacity development programmes too, the lack of alignment coupled with weak project management has been a serious factor impeding their effectiveness.¹⁶

Harmonization

In a narrower sense, harmonization is understood as devising a mechanism for the harmonization of donors’ code of practices and reporting requirements so as to reduce the burden on the incapacitated bureaucracy in partner countries. However, a broader interpretation of the harmonization principle encompasses harmonization of donor priorities and functioning, including facilitating coordinated responses to the development challenges faced by partner countries. Indeed, multi-donor programmes such as IF and JI-TAP were designed, at least in theory, to overcome the latter challenge. However, in practice, “donors have had little success in designing and implementing complementary trade-related interventions through an integrated approach”.¹⁷

Donors are known not only for their indifference towards the activities of other donors, but also for ignoring plans prepared by partner governments, thereby “overwhelming the bureaucracy with paperwork and negotiations”.¹⁸ For example, Vietnam received over 70 projects related to its WTO accession from over 20 donors, without much coordination among each other. It is worth noting that multiplicity of donor activities is not unique to trade assistance but is a characteristic of the aid industry as a whole.¹⁹

Managing for results

Result-based management calls for putting in place a mechanism that enables both donors and partner countries to achieve development results. However, in the case of JI-TAP and IF, donors themselves failed to ensure that result-based management underpinned their own programmes and they were often found constrained by the lack of “clear and measurable (multi-year) objectives and indicators”.²⁰ The problem is further compounded by the lack of information regarding the costs, timing or target per activity.²¹

The mandated review of the first phase of IF, for example, showed that the programme failed to apply result-based management, as is evident

from the “unclear definition of policy objectives, weak administration and coordination as well as lack of monitoring capability”.²² The problem of coordination at the country, agency as well as donor level has been amply demonstrated in the case of IF.²³ However, in the case of trade-related technical assistance and capacity-building programmes, it is the donors and agencies, not the beneficiaries, that have consistently applauded the approaches taken and achievements made.²⁴

Mutual accountability

As discussed above, if the partner countries are not even accountable to the private sector and civil society organizations, and their involvement is not mandatory in executing trade-related aid programmes such as IF, it would be a mistake to assume that the AfT initiative would ensure mutual accountability at the domestic level.

Instituting an independent evaluation mechanism could be one way of auditing the extent to which mutual accountability is practised by the partner countries. However, so far trade-related aid has not been subjected to such a review at the country level. This could be due to the small amount of support provided by the donors mainly for “software” such as studies, training, capacity building and exchange visits rather than “hardware” such as building infrastructure or improving trade facilitation measures. The involvement of civil society organizations and parliamentarians as well as Southern donors in aid-related discussions has traditionally been very low. This problem may continue in the AfT initiative if corrective measures are not taken.

Conclusion

The above discussion lends credence to the assumption that AfT could suffer from aid effectiveness problems. The mere mention of PDAE as a guiding principle for the delivery of AfT by the Task Force is not likely to correct this malaise. Therefore, a radical transformation in the attitude and practice of donors

Instituting an independent evaluation mechanism could be one way of auditing the extent to which mutual accountability is practised by the partner countries.

and partner countries is required to make AfT a valuable means for helping marginalized countries integrate themselves into the global economy, which is the litmus test to measure the effectiveness of the AfT initiative. Further research may be required to ascertain the modalities for achieving this objective. ■

The author is President, SAWTEE.

Notes

- 1 OECD and WTO. 2007. *Aid for Trade at A Glance 2007: 1st Global Review*. Paris and Geneva: Organisation for Economic Co-operation and Development and World Trade Organization.
- 2 WTO. 2006. *Recommendation of the Task Force on Aid for Trade*. Geneva: World Trade Organization.
- 3 OECD. 2007. *Aid Effectiveness: 2006 Survey on Monitoring the Paris Declaration*. Overview of the Results, Paris: Organisation for Economic Co-operation and Development.
- 4 Puri, Lakshmi. 2005. *Towards a New Trade “Marshall Plan” for the Least Developed Countries*. UNCTAD Trade, Poverty and Cross-Cutting Development Issues Study Series No.1, New York and Geneva: United Nations; United Nations Millennium Project. 2005. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. New York: United Nations; Prowse, Susan. 2005. “Aid for Trade”: Increasing Support for Trade Adjustment and Integration—A Proposal. Mimeo.
- 5 WTO. 2005. Doha Work Programme: Draft Ministerial Decision (para 47). *Ministerial Conference, Sixth Session*. December 13–18, Hong Kong.
- 6 OECD. 2006. *Aid for Trade: Making it Effective*. Preliminary Version. Paris: Organisation for Economic Co-operation and Development.

- 7 Prowse, Susan. 2006. Mega Coherence: The Integrated Framework. In Sheila Page and David Booth (eds.). *Aid and Trade: Partners or Rivals in Development Policy?* London: Cameron May.
- 8 See WTO (2006). Note 2 for the categories of support identified by the Task Force.
- 9 Higgott, Richard. 1999. *Coming to Terms with Globalisation: Non State Actors and Agenda for Justice and Governance in the Next Century*. GHC Working Paper 99/3. Ontario: McMaster University.
- 10 See UNCTAD. 2005. *An IF Manual: Integrating LDCs into the International Trading System*. New York and Geneva: United Nations.
- 11 Agrawal, Manmohan and Jozefina Cutura. 2004. *Case Study: Integrated Framework for Trade-Related Technical Assistance for Addressing Challenges of Globalisation: An Independent Evaluation of the World Bank’s Approach to Global Programmes*. Washington, D.C.: The World Bank.
- 12 See OECD (2006). Note 6.
- 13 See, for example, Braathen, Einar. 2006. *A Participatory Pathbreaker? Experiences with Poverty Reduction Strategy Papers from Four African Countries*. Working Paper No. 2006:112, Oslo: Norwegian Institute for Urban and Regional Research (NIBR).
- 14 Hewitt, Adrian and Ian Gillson. 2003. *A Review of the Trade and Poverty Content in PRSPs and Loan-Related Documents*. London: Overseas Development Institute.
- 15 Booth, David. 2006. Is the new aid agenda anti-trade. In Sheila Page and David Booth (eds.). *Aid and Trade: Partners or Rivals in Development Policy?* London: Cameron May.
- 16 See OECD (2006). Note 6.
- 17 See OECD (2006). Note 6.
- 18 See Prowse (2006). Note 7.
- 19 For example, Tanzania produced an average of 2,400 reports a year for external donors and was visited by some 1,000 donor missions. This leaves little time for the business of governing the country. See Mallaby, Sebastian. 2004. *The World’s Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations*. New York: Penguin Press. Cited in Prowse (2006). Note 7.
- 20 See OECD (2006). Note 6.
- 21 *ibid.*
- 22 *ibid.*
- 23 See Prowse (2006). Note 7.
- 24 Saner, Raymond and Laura Paez. 2006. Technical Assistance to Least-Developed Countries in the Context of the Doha Development Round: High Risk of Failure. *Journal of World Trade* 40 (3): 467–494.

Gains for South Asia from SAFTA Implementation

Despite prevailing constraints, gains from SAFTA could be enormous for South Asian countries, both regionally and nationally.

A study, jointly conducted by the Asian Development Bank (ADB) and the United Nations Conference on Trade and Development (UNCTAD), India, quantifying the benefits from the implementation of the Agreement on South Asian Free Trade Area (SAFTA), shows that the Agreement will contribute to stronger economic growth in the region. Indicating positive results from SAFTA implementation, the study shows that gains are much higher if measures to establish more efficient regional transportation and infrastructure networks are simultaneously undertaken, and services trade is also liberalized.

The study uses economic modelling to assess the quantitative impacts of SAFTA. The impact analysis is preceded by an analysis of changing competitiveness and complementarities between SAFTA members, using revealed comparative advantage (RCA) index and complementarity index, respectively. The change in inter-industry and intra-industry trade over time between the members is examined using the Grubel Lloyd index.

The study also tries to measure the effective additional market access (EAMA) that members could obtain courtesy of SAFTA. The impact of various SAFTA scenarios is simulated on variables such as prices, income and welfare at the regional level as well as at the country level through gravity model estimations; SMART simulations; and general

equilibrium (CGE) modelling using the latest version (6.02) of Global Trade Analysis Project (GTAP), which includes Pakistan, the second largest economy in the region, as a separate entity.

The study also examines the impact of the deepening of SAFTA by including investment cooperation and trade in services. This is done by analyzing the impact of SAFTA on inward foreign direct investment (FDI) flows into the region and the possibility of a rise in intra-regional FDI flows.

A benefit-cost analysis is carried out to quantify the benefits that would accrue from transport and trade facilitation under four identified infrastructure projects (road, air, rail, and port enhancement) for the region. The major results of the study are presented below.

Competitiveness and complementarities

- The RCAs indices are estimated for two time periods, i.e., 1991 and 2004, for four major trading members of the South Asian Association for Regional Cooperation (SAARC), i.e., Bangladesh, India, Pakistan and Sri Lanka at Standard International Trade Classification's (SITC) 5-digit level. The results show that the competitive basket (where a country is more competitive ($RCA > 1$) with respect to the other three) has changed substantially over time. The number of products that each

country has a competitive edge in the region has increased over time. This indicates the possibility of increased intra-regional trade.

- Using three-year averages of the periods 1991–1993 and 2003–2005, the complementarity index has improved considerably over time for Bangladesh, India and Sri Lanka while it has declined for Pakistan. This implies that for these countries, the products that they export are to a greater extent now being imported by the region as a whole. The improved complementarity indices indicate strong possibilities of higher intra-regional trade.
- Intra-industry trade has been found to have increased drastically in sectors like agriculture raw materials, chemicals and textiles. Within textiles, intra-industry trade has increased in some of the sub-sectors between the four major trading partners. This indicates that even within textiles, countries specialize in products at different stages of production or in differentiated products.

Effective market access

EAMA arising from SAFTA is determined through three measures:

- The global value of imports of non-sensitive items for which EAMA is created as a proportion of the total global value of imports of the concession giver.
- The value of bilateral imports of

non-sensitive items for which EAMA is created as a proportion of the total bilateral imports of concession giver from concession receiver.

- The value of global exports of non-sensitive items for which EAMA is created as a proportion of the total global exports of concession receiver.

The third measure is more comprehensive than the first two, because it captures the trade specialization of the concession-receiving country and determines whether it receives access (to the concession giver's market) in products which constitute most of its (the concession receiver's) global exports.

In the case of India and Bangladesh, the negative list of India has the effect of allowing EAMA to Bangladesh in items that constitute only about 18 percent of its global exports. This is largely because India's negative list for least-developed countries (LDCs) impedes EAMA in several garment products, which actually do form the bulk of Bangladesh's global exports.

The concessions which Pakistan and the Maldives receive in the market of India vis-à-vis each of their global exports are higher, at 57 percent and 60 percent, respectively. EAMA in India for Bhutan, the Maldives and Nepal is zero as India has already nearly completely liberalized imports from them.

India provides only four percent of EAMA to Sri Lanka since under the Indo-Lanka Free Trade Agreement, India is already providing sub-

stantial concessions to Sri Lanka (see table).

CGE analysis

CGE modelling results point to net welfare gains for the region as a whole and suggest SAFTA will be trade creating. According to this analysis, the implementation of SAFTA could produce the following results for the countries in the South Asian region.

Bangladesh

Bangladesh's welfare gains appear to be the highest, with a 4.31 percent increase in global exports. The gains are larger in the second phase of SAFTA implementation (2009–2016). SAFTA induces a relocalization of output, with production increases of 5.5 percent in wearing apparel and 3 percent in leather. Output of chemicals, rubber and plastics also rises by about 2 percent, while global exports rise by 10 percent. This is a validation of indications that Bangladesh is an emerging competitive producer of chemicals like pharma, plastics and ceramics.

Afghanistan, Bhutan, Maldives and Nepal

There are gains in primary commodities with complete liberalization. With the removal of sensitive lists in the full liberalization scenario, there is good export growth in agriculture products and primary commodities for these four countries. Given that the agriculture and forestry sectors in these countries account for over 50 percent of do-

mestic output, and given that these sectors are employment intensive, a full implementation of SAFTA is beneficial.

However, the manufacturing sectors, being by and large uncompetitive, suffer output and employment losses in these countries. Hence, these countries may want to preserve the sensitive list flexibility for a longer time, especially in employment-intensive sectors like apparel.

India

India's export gains from SAFTA are expected to be limited to a few agriculture sectors and the auto sector, where it has relative comparative advantage. There are two agricultural sectors where India does gain significantly from SAFTA—poultry and sugar. In fact, its highest output gain is in the poultry sector, where output in “other meat products” shows an increase of over 100 percent, indicative of the high level of demand for poultry and high level of protection of the same in the region. There is a 1.33 percent increase in output in sugar. India's auto sector is expected to grow by 1–4 percent with a 10–40 percent increase in its regional exports. Global wearing apparel imports are expected to increase by 7 percent and its output to decline by 2.5 percent, which is attributable to the increased competitiveness of Bangladesh in the sector.

Pakistan

Pakistan, like India, will be able to double its exports to the region. Pakistan also sees good results for im-

TABLE

EAMA created by SAFTA (Concession receivers' global exports)

	India	Bangladesh	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
India		18%	57%	4%	0%	0%	60%
Bangladesh	51%		44%	33%	44%	10%	5%
Pakistan	70%	23%		28%	44%	62%	80%
Sri Lanka	2%	92%	50%		63%	66%	34%
Nepal	0%	15%	23%	21%		26%	40%
Bhutan	0%	10%	23%	33%	37%		26%
Maldives		78%	82%	74%	82%	75%	

portant employment-intensive agriculture sectors like wheat, horticulture, meat products (mainly poultry) and other food products. The textiles sector, which is important to Pakistan's economy, sees an output expansion of about 0.5 percent. Like India, Pakistan, however, tends to lose in both wearing apparel and leather products sectors. It also witnesses losses in the sugar sector, perhaps on account of its increased imports of this product from India.

Sri Lanka

Sri Lanka's gains in the first phase of liberalization are almost zero for two main reasons: first, the country already has free access to the Indian market, and second, LDCs as well as developing countries have not committed to substantial liberalization vis-à-vis Sri Lanka in the first phase. But the situation improves in the second phase when textiles see a growth of about 4 percent. Negative employment and output effects are seen for wearing apparel and some agricultural products.

Trade potential

A gravity modelling analysis shows that the potential trade between SAFTA members is 120 percent more than the actual trade. It is found that even if tariffs are removed, the gap between potential and actual intra-regional trade exists. Increase in trade which can be directly attributed to removal of tariffs under SAFTA is 80 percent of the actual intra-regional trade, implying that apart from tariffs, there exist other barriers to trade. Intra-regional trade may rise by an additional 40 percent if other factors affecting trade, such as non-tariff barriers and political constraints, are addressed.

Revenue, welfare and trade effects

The results of SMART simulations indicate that there will be revenue losses for all members. However, in most members, trade creation appears to compensate for the revenue loss, except for Bangladesh and Nepal. Welfare and trade effects are found to be positive in all members.

Revenue losses to Bangladesh, India, Pakistan, Sri Lanka, Nepal, Bhutan and the Maldives are estimated at US\$0.9 billion, US\$0.12 billion, US\$0.055 billion, US\$0.1 billion, US\$0.053 billion, US\$7.3 million and US\$0.016 billion, respectively.

Impact on inward FDI

The results show that the economic fundamentals of a SAFTA member have a significant impact on inward FDI. Domestic market size, low cost of labour and availability of skills attract FDI from outside the region. Higher trade openness attracts higher FDI. Tariffs with respect to other SAFTA members have a negative impact, which indicates that lowering of tariffs will attract FDI from outside the region into the region. The impact will be significant, i.e., 30 percent of the rise in inward FDI may be due to the lowering of intra-regional tariffs.

This indicates that SAFTA may encourage FDI inflows into individual members and consequently into the region as a whole. Likewise, it is found that higher the probability of importing intermediate goods into the host country, the more attractive will be the destination for inward FDI. SAFTA may, therefore, encourage vertically-integrated FDI.

Benefits from trade and transport facilitation

The benefit-cost analysis of four

trade and transport facilitation projects—upgrading of the Kolkata-Petrapole/Benapole corridor and customs facilities; development of Bagdogra Airport as a regional gateway and hub; improvement of railway between Lahore and Wagah; and Colombo port expansion—shows that the projects have high economic rates of return under various scenarios. Cost and time savings and increased exports from enhanced connectivity bring in the highest returns.

Estimates show that the projects are immensely beneficial for the country undertaking them and the benefits are many times higher if the projects are jointly undertaken. However, the importance of a supportive overall policy framework for the promotion of transport, trade, and tourism cannot be undermined.

Trade in services

The study analyses five services sectors—construction and related services, higher education services, telecommunications services, health services, and tourism and travel related services—in India, Pakistan, Sri Lanka, Bangladesh, Nepal, the Maldives, and Bhutan.

The study argues that all seven countries—besides undertaking liberal commitments under the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO)—should also be willing to undertake wider and deeper commitments at the regional level in order to reap the full benefits of services liberalization. The study advances two arguments in this regard.

First, as SAFTA membership is small as compared to WTO membership, there is a higher probability of an “early harvest”, thereby benefiting from liberalization fairly quickly. Second, the real or perceived risk of opening up of the services sector would be drastically reduced at the regional level as compared with that at the multilateral level. This scenario will be more conducive particularly for small countries and LDCs which are otherwise quite reluctant to open up their services sector under GATS. ■

It has been found that higher the probability of importing intermediate goods into the host country, the more attractive will be the destination for inward foreign direct investment.

LDC issues in the

Doha Round

■ Paras Kharel

tent of cuts in tariffs and subsidies, and the flexibilities they want to protect certain products from the full force of tariff reductions. The least-developed countries (LDCs) are not required to make any reduction commitments but they do have much at stake. In order to safeguard their interests, LDC trade ministers met in Maseru, Lesotho on 27-29 February 2008 and outlined their concerns and priorities.

Out of 50 LDCs, 32 are WTO Members, with 10 more in accession process. The share of LDCs in global

their draft commitment schedules, and to remove duties and quotas on them by the end of the Doha Round implementation period. Additionally, it asks "a larger number" of developing countries "declaring themselves in a position to do so" to provide similar access. The Declaration is spot-on when it stresses that effective unrestricted market access requires simplified rules of origin and asks WTO Members to base them on LDCs' own proposals. This is a burning issue as LDCs' access to EU markets under the "Everything But Arms" initiative has been severely constrained by stringent rules of origin.

The LDCs have been seeking "trade solutions" to address preference erosion. In particular, they want the US and the EU to be allowed to phase in tariff cuts on certain products, mostly textiles and clothing, over 15 years. However, non-LDC competitive exporters may not be amenable to this proposal.

In agriculture, rich countries' cotton subsidies have become a rallying point of sorts for the LDCs. The LDC meet in Maseru called for rapid, deep cuts to rich-country cotton subsidies along with assistance to cotton farmers in the LDCs. However, the issue of reduction of subsidies, domestic and export, is a "double-edged" sword. On the one hand, it provides a level playing field. On the other, it poses the risk of a rise in international prices and, thus, higher import bills—a matter of grave concern for net-food importing countries such as Bangladesh and Nepal. The LDCs should, therefore, carefully weigh the benefits against the costs. Besides, given the special and differential treatment they are entitled to, they must be allowed to retain marketing and transport subsidies, and granted permission to provide export credits. They also need to ensure that the subsidies in infrastructure development as well as land reform are not taken out of the "green box" and there is no cap on such "green-box" subsidies (subsidies deemed to be non-trade distorting) for them.

The issue of the agricultural special safeguard mechanism (SSM) is also crucial for the LDCs, to help shield them from the negative effects of import surges and declining in-

trade is less than 1 percent, despite a plethora of preferential schemes in major markets, notably the United States (US) and the EU. Worse, whatever little market access they are enjoying courtesy of such preferences are under threat from most-favoured-nation (MFN) tariff reductions.

The 2005 WTO Ministerial in Hong Kong called for duty-free and quota-free (DFQF) market access for at least 97 percent of LDC tariff lines. However, as LDC exports are concentrated in a few items, the exclusion of 3 percent of tariff lines will enable other countries to maintain MFN tariffs on all major LDC exports.

Against this backdrop, the Maseru Declaration calls on rich countries to grant "commercially meaningful" unrestricted market access to at least 97 percent of LDC products by 2008. It also urges developed countries to identify the remaining 3 percent in



Launched in 2001, the "Doha Development Round" that promises to lift millions out of poverty by redressing the imbalances in global trade is yet to produce a "modalities text" on agriculture and non-agricultural market access (NAMA), necessary for a "horizontal process" involving trade-offs across the two sectors. The response to the revised agricultural and NAMA draft texts, issued in May, does not augur a breakthrough anytime soon. Reports emanating from Geneva indicate some World Trade Organization (WTO) Members, most prominently the European Union (EU), are pushing for a deal by year-end, while others, mostly developing Members, are against a deal-at-any-cost approach with unrealistic deadlines.

The negotiations are dominated by developed and developing Members, which are haggling over the ex-

ternational prices, and thereby achieve their food security, livelihood security and rural development goals. The Maseru Declaration demands that all the LDCs be given “full access” to SSM and, contrary to the potential options set out in the May draft deal issued by the chair of the agriculture negotiating committee, opposes any cap on the level of additional tariffs that the LDCs are allowed to levy in order to arrest import surges. It is in the interest of LDCs that SSM is activated automatically, with a price- as well as volume-based trigger, and is available to all agricultural products, and that applicable remedies include quantitative restrictions. However, in order to ensure predictable market access for the LDCs, there must be some re-

straints on the use of SSM against LDC exports.

The LDCs must also press for an amendment to Article 27.3 (b) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) for making it compatible with the United Nations Convention on Biological Diversity. In a positive development, in a 13 March meeting of the “Council for TRIPS”, Uganda, on behalf of the LDCs, joined developing countries, including Brazil, India, Pakistan and Venezuela, in calling for requiring patent applicants to disclose the origin of any biological resources or associated traditional knowledge used, along with the evidence of prior informed consent and fair and equitable benefit sharing—with threat

of revocation if disclosure requirement is not met—in order to prevent biopiracy.

Faced with crippling supply-side constraints, the LDCs stand to benefit from an effective operationalization of the “aid for trade” initiative. They must, however, be on their guard to ensure that such aid constitutes an additional net inflow, over and above what they are already receiving.

Last but not least, technical barriers to trade and sanitary and phytosanitary measures are emerging as pernicious export barriers for not just LDCs but also developing countries. LDCs can make common cause with developing countries and negotiate accordingly during trade negotiations to have such barriers removed by the developed countries. ■

Doing a service for LDCs

Letter to the Editor, 23 April 2008, The Wall Street Journal Asia

I read with great interest the opinion piece by Australian Trade Minister Simon Crean and United States (US) Trade Representative Susan Schwab (“Doha Deal-breaker,” op-ed, April 11). Both are right on the spot with their emphasis on the emerging role of trade in services and the critical input the services negotiations can provide in shaping the final outcome of the Doha Round. An overwhelming number of World Trade Organization (WTO) Members maintain that while remaining engaged in locating the fine balance between concessions on agricultural and industrial goods, we need to have greater clarity in other areas of negotiation, like services, given that the final outcome will be a “single undertaking”.

However, I was singularly struck by the fact that the trade ministers have found it convenient to remain oblivious about one of the major elements of the stalled negotiations on services: the special priority mechanism for providing market access to the Least Developed Countries (LDCs). Out of 50 LDCs, 32 are WTO Members and another 10 are in the accession process. These countries together account for less than 0.5 percent of global trade in services, whereas the services sector contributes around 50 percent of their gross domestic product. These figures indicate the inability of the LDCs to make good use of their potential as global providers of services. As the most vulnerable group in the WTO, the LDCs need special and differential treatment to facilitate the effective integration of their service sectors in the multilateral trading system.

With a view to providing preferential market access to modes of delivery and sectors of export interests to the LDCs, WTO Members agreed in 2003 to what is

known as the “LDC Modalities.” In the 2005 Hong Kong meeting, the trade ministers committed themselves to design a “special priority mechanism” for the LDCs, before the submission of the revised offers of market opening in services. Curiously, Mr. Crean and Ms. Schwab, while arguing for an ambitious outcome in services negotiations, have remained conspicuously silent about their lack in delivering on a time-bound commitment to the weakest section of WTO membership. It will be interesting to observe how trade ministers would deliver on this issue in their meetings.

To provide a boost to services negotiations, a so-called signalling conference is being contemplated. The proposed conference may remain limited to the plurilateral or group offer-request process of market opening. It is now to be seen whether the proposed conference on services considers the “collective request” submitted by the LDC Group in 2006 for opening up certain sectors for Mode 4, i.e. temporary movement of service providers with priority access for the LDCs. It will be further interesting to observe what “signal” the signalling conference on services sends in this respect to the most marginalized section of global service providers. At this stage of Doha talks, the services sector has to be inclusive in nature with demonstrated sensitivities to the interests of the LDC Members. One can only hope for leadership from the Australian and US trade ministers in this regard. ■

Debapriya Bhattacharya, Ambassador and Permanent Representative, Permanent Mission of Bangladesh to the WTO and UN Offices, Geneva. The letter has been edited for the purpose of this publication.

UNCTAD

and its role in the multilateral trading system

How the WTO and UNCTAD pursue collaborative work in the future is of importance for the developing and least-developed countries.

■ Shivendra Thapa

The roles played by multilateral institutions are increasingly under international scrutiny and the United Nations Conference on Trade and Development (UNCTAD) is no exception. Since its inception in 1964, UNCTAD's function has been to promote the integration of developing countries into the world economy.

The emergence of newly independent states took place in the politically charged atmosphere of the Cold War, but although they were often split between East and West in their political alliances, most developing countries headed towards an economic agenda that had two underlying thrusts: rapid development and global redistribution of wealth.

Moreover, growing concerns in the early 1960s regarding the challenges faced by developing countries in international trade led many of these countries to "call for the convening of a full-fledged UN conference specifically dedicated to tackling these problems and identifying appropriate international actions."

Known for his contribution to "structuralist economics", in particular the Prebisch-Singer hypothesis, Raúl Prebisch, an Argentine economist, served as the founding Secretary-General of UNCTAD from 1964 to 1969. Much of UNCTAD's work was built around his vision and influence.

His approach to development was trade-focused; advocating preferential access for developing and least-developed countries to the markets of developed countries, and effective regional integration for the



collective benefit of the individual and world economy.

UNCTAD's role

From then on, UNCTAD advanced a global economic reform strategy with a three-pronged approach. The first was commodity price stabilization. The second was a scheme of preferential tariffs, which are now known as the Generalized System of Preferences (GSP). The third was an expansion and acceleration of foreign assistance, not as "charity" but "compensation" to developing countries.

During the late 1980s and 1990s, UNCTAD managed to perform crucial tasks for developing countries. Among other things, UNCTAD's research and analyses showed that structural adjustment programmes of the World Bank and the International Monetary Fund were leading to stagnation instead of promised growth, and highlighted much-needed empirical evidence about economic globalization along with the United Nations Development Programme's Human Development Report. Such research and analyses were

also responsible for the successful negotiations on the Global System of Trade Preferences besides GSP.

Despite these achievements, the North-South rift over the functioning of UNCTAD is undermining the strength of this institution. Since its formation, developed countries have been pushing to confine UNCTAD's role to analyses, consensus building on some trade-related issues and technical assistance.

Developing countries, on the other hand, perceive UNCTAD's role to be an advocate of their developmental objectives and, thus, look to further strengthen the basis upon which the institution was initially conceived.

UNCTAD XII

Amidst the ongoing global food crisis and the uncertainty looming over the Doha Round of multilateral trade negotiations, UNCTAD held its 12th session—UNCTAD XII—during 20–25 April 2008 in Accra, Ghana. *Addressing the opportunities and challenges of globalization for development* was the main theme of UNCTAD XII. The

food crisis provoked by surging prices for basic food items dominated the session, with UNCTAD Secretary-General Supachai Panitchpakdi vowing to strengthen the organization's work on commodities, including agriculture. UNCTAD's contribution has been primarily felt in medium- and long-term measures that help avoid the recurrence of such crises by improving agricultural performance in developing countries.

Accra Declaration

At the end of the session, the Accra Declaration was adopted by UNCTAD's 193 member states. It highlights the challenges facing many developing countries as they strive to integrate successfully into the international economic and financial system and sets out a detailed agenda for progress in economic and social development spanning areas ranging from commodities, trade and debt to investment and new technologies.

The Declaration includes commitments to the UNCTAD process by resolving to "redouble efforts towards an expeditious conclusion of the Doha Round of trade negotiations". Regarding "Aid for Trade", the Declaration "calls for stronger national action and international support to help build domestic productive and competitive export supply capabilities as well as trade-supportive logistics for developing countries". Other key aspects of the Declaration include the commitment to find integrated solutions to achieving the Millennium Development Goals.

The Declaration also points to the North-South rift by stating that "the potentials of South-South cooperation should be fully harnessed as a real complement to, and not a substitute for, North-South cooperation." The Declaration's essence lies in re-emphasizing UNCTAD's original role: strengthening multilateral trade and development institutions.

UNCTAD and the WTO

What role should UNCTAD play is more relevant now than ever, not least because of the rapidly acceler-

ating economic globalization process and the implications that trade can have for development. UNCTAD was created to bring about positive changes and corrective measures in the trade and development policies to allow and enable developing and least-developed countries to participate more actively in and benefit from their integration into the world economy. However, looking at the current trade negotiation trend and the performance of such countries in the world economy, one can conclude that much still remains to be done.

Some trade scholars want UNCTAD to be more proactive and vocal, and play a crucial role in "influencing" WTO negotiations in favour of developing and least-developed countries.

In the light of these, the need for a dynamic collaborative effort between UNCTAD and national, regional and, more importantly, other global institutions, such as the World Trade Organization (WTO), has increased manifold.

UNCTAD and the WTO are already in a strategic partnership for implementing the Doha Development Agenda (DDA). The two organizations also have a Memorandum of Understanding (MoU), signed on 16 April 2003. The MoU provides a legal framework to identify their areas of cooperation and facilitates their joint activities. Examples of such partnership initiatives are the Integrated Framework for Trade-Related Technical Assistance (IF) and the Joint Integrated Technical Assistance Programme (JITAP).

However, in view of the persistent North-South rift in the Doha Round of multilateral trade negotiations, and the limited initiatives undertaken within the WTO system to make trade rules development-

friendly, how the UNCTAD and the WTO pursue collaborative work in the future is pertinent for developing and least-developed countries. Some trade scholars have already started to argue for a clearer mandate for UNCTAD, not least to move beyond assistance and capacity building activities, and research and analyses that identify trade constraints of these countries.

They want UNCTAD to be more proactive and vocal, and play a crucial role in "influencing" WTO negotiations in favour of developing and least-developed countries. This is obviously important but one should also consider that if UNCTAD finds any influential role to play within the WTO, it might also work against this purpose. This could also lead institutions like the World Bank and the International Monetary Fund to have direct roles in influencing multilateral trade negotiations, which, obviously, many Southern governments as well as stakeholders do not want.

UNCTAD's role in global trade

The importance of partnership between the WTO and UNCTAD is overwhelmingly evident. However, the drive to diminish UNCTAD's original role continues. This could be a reason for the lack of resources within UNCTAD, as compared to other global bodies, including within the United Nations; and the absence of direct institutional presence of UNCTAD in developing and least-developed countries.

Developed countries should understand that UNCTAD is not merely a need of Southern countries. Northern countries also need this agency, as UNCTAD and its work can play a significant role in bridging the North-South gap prevalent at the WTO. Trade deals are best suited to be negotiated and implemented under the multilateral trading system. However, the crucial role that UNCTAD can play in assisting the WTO to become "inclusive and development-friendly" should not be underestimated, but strengthened and supported by all, Northern and Southern countries alike. ■

Multilateral trade rules and climate change

WTO Members have the obligation as well as right to protect the environment, and contribute to address climate change challenges that the world is facing.

Climate change has emerged as a serious challenge to the global community. The World Trade Organization (WTO), a rules-based multilateral trade regime, does not have any rules specific to climate change, and the issue of climate change, *per se*, is not part of the WTO's ongoing work programme. Yet the WTO is relevant to climate change. The preamble to the Marrakesh Agreement Establishing the World Trade Organization, signed in 1994, establishes a clear link between sustainable development and disciplined trade liberalization—in order to ensure that market opening goes hand in hand with environmental and social objectives (Box 1).

In fact, WTO rules concerning trade in goods and services as well as intellectual property rights have significant linkages with environmental concerns and issues. They provide scope for environmental objectives to be followed and for necessary trade-related measures to be adopted. The rules of the multilateral trading system try to set up an appropriate balance between the right of Members to take regulatory measures, including trade restrictions, to achieve legitimate policy objectives (e.g., protection of human, animal or plant life or health, and natural resources) and the rights of other Members under basic trade disciplines.

Trade in goods under GATT

WTO Members have the right to adopt trade-related measures to protect the environment and even to be exempted from the basic provisions of the General Agreement on Tariffs and Trade (GATT) as long as the measures are justified under Article XX on General Exceptions, which lay out a number of specific instances in

which WTO Members may be exempted from GATT rules. This right has been affirmed by panels and the Appellate Body, in the course of dispute settlement, time and again. Two exceptions are of particular relevance to environmental and human health protection: Articles XX (b) and (g), which allow Members to justify GATT-inconsistent measures if these are necessary to protect human, animal or plant life, or if the measures relate to the conservation of exhaustible natural resources, respectively (Box 2).

Thus, for a GATT-inconsistent environmental measure to be justified under Article XX, a Member must perform a two-tier analysis proving:

- first, that its measure falls under at least one of the exceptions (e.g., paragraphs (b) and (g), two of the 10 exceptions under Article XX) and,
- second, that the measure satisfies the requirements of the “chapeau” of Article XX, i.e., it is not applied in a manner which would constitute “a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail”, and is not a “disguised restriction on international trade”.

Trade in services under GATS

The General Agreement on Trade in Services (GATS) contains a “general exceptions” clause, Article XIV, similar to GATT Article XX. Addressing environmental concerns, Article XIV (b) of GATS allows Members to adopt policy measures that would normally be inconsistent with GATS if this is “necessary to protect human, animal or plant life or health” (identical to GATT Article XX (b)). As under GATT, this must not result in arbitrary or unjustifiable discrimination and must not constitute protectionism in disguise.

Technical barriers under TBT

The Agreement on Technical Barriers to Trade (TBT) seeks to ensure that product specifications, whether mandatory or voluntary (known as technical regulations and standards), as well as procedures to assess compliance with those specifications (known as conformity assessment procedures), do not create unnecessary obstacles to trade. In its preamble, the Agreement recognizes Members' rights to adopt such measures to the extent they consider appropriate—for example, to protect human, animal or plant life or health, or the environment. Moreover, Members are allowed to take measures to

BOX 1

Preamble to the Marrakesh Agreement

WTO Members recognize: “that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living... , while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.”

ensure that their standards of protection are met.

In recent years, a number of product standards and labelling requirements targeted at energy efficiency or emissions control have been notified. The climate change-related technical regulations discussed in the TBT Committee so far appear to principally deal with product requirements. Examples of regulations discussed include: fuel economy standards for cars; eco-design requirements for energy-using products; energy efficiency programmes for consumer products; and emission limit values for diesel engines.

Sanitary and phytosanitary measures under SPS

The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), which complements the TBT Agreement, deals with food safety, and human, animal and plant health and safety regulations. It recognizes Members' rights to adopt SPS measures but stipulates that they must be based on a risk assessment, should not create unnecessary obstacles to trade, and should not arbitrarily or unjustifiably discriminate between Members where similar conditions prevail. The Agreement encourages Members to adapt their SPS measures to the areas (regions, countries or parts of countries) that supply their imports. It also allows Members to adopt SPS measures for environmental purposes, but subject to such requirements as risk assessment, non-discrimination and transparency.

Intellectual property rights

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) refers explicitly to the environment in Section 5, which deals with patents. The Agreement allows Members to refuse to patent inventions that may endanger the environment (provided their commercial exploitation is prohibited as a necessary condition for the protection of the environment).

Articles 27.2 and 27.3 contain provisions that address the environmental concerns related to intellec-

BOX 2

GATT Article XX

"Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement [the GATT] shall be construed to prevent the adoption or enforcement by any contracting party of measures: ...

(b) necessary to protect human, animal or plant life or health;...

(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption. ..."

tual property protection. They state that Members can make certain inventions ineligible for patenting.

- *Article 27.2:* To protect human, animal or plant life or health, and to avoid serious harm to the environment, a Member can exclude an invention from patentability if it believes the invention has to be prevented (within its territory) for these and certain other objectives.
- *Article 27.3:* Micro-organisms have to be eligible for patenting. So do non-biological and microbiological processes for the production of plants or animals. Invented plant varieties have to be also eligible for protection either by patenting, or by an effective system specially created for the purpose ("sui generis"), or a combination of the two. Otherwise, plants and animals do not have to be eligible for patenting.

Agriculture trade under AoA

In its preamble, the Agreement on Agriculture (AoA) reiterates Members' commitment to reform agriculture in a manner that protects the environment. Under AoA, domestic support measures considered to have minimal impact on trade (known as "green box" policies) are allowed and are excluded from reduction commitments. Such measures are listed in Annex 2 of the Agreement. Among them are expenditures under environmental programmes, provided that they meet certain conditions. The exemption is expected to enable governments to capture "positive environmental externalities".

Doha Round of negotiations

In the Doha Round, for the first time in the history of multilateral trade negotiations, environmental issues have featured explicitly and the overarching objective is to enhance the mutual supportiveness of trade and environment. Members are working to reduce and/or eliminate barriers to trade in environment-friendly goods and services (e.g., cleaning of exhaust gases and landscape protection services). They are also discussing ways to ensure a harmonious coexistence between WTO rules and specific trade obligations in various multilateral environment agreements. It has been increasingly realized that any outcome of agriculture and non-agriculture trade negotiations will significantly impact the biofuel sector, which has emerged in response to the challenge of climate change.

Way forward

Based on a brief review of these multilateral trade rules, and their nature, scope and objectives in relation to environmental concerns, it can be seen that the outcomes of the ongoing WTO negotiations and the implementation of trade rules could have both positive and negative implications for climate change. This makes it essential for WTO Members to bring to the forefront the agenda of environmental concerns in their efforts to promote international trade and facilitate the economic globalization process. ■

This article is based on information available at www.wto.org.

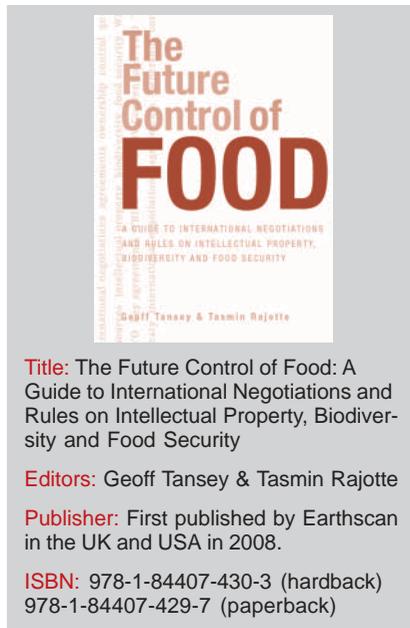
Future Control of Food

■ Shivendra Thapa

With the growing application of biotechnology in the agricultural sector, the way agricultural output is produced, managed, protected, supplied, distributed and accessed has transformed the entire chain of the global “food system”. There are concerns that since the 1990s, international rules that affect the “food system” have left millions vulnerable in the hands of a few. As such, the impact of international rules on intellectual property (IP), biodiversity and food security, and negotiations that shape them are now more fervently debated than ever. At a time when food prices have been rising globally, who will control the food system in the future and how will different global as well as national and local institutions respond to this issue has emerged as a major concern for all, particularly so for developing and least-developed countries.

The Future Control of Food: A Guide to International Negotiations and Rules on Intellectual Property, Biodiversity and Food Security, co-edited by Geoff Tansey and Tasmin Rajotte, is a well-timed endeavour in this regard. Published by earthscan, the book is said to be “the first wide-ranging guide to the key issues of intellectual property and ownership, genetics, biodiversity and food security”, seeking “to inform a wider audience than negotiators so that civil society, researchers and academics, as well as those leading peasant and farmers’ groups, small businesses and government officials, can take a more informed and active part in the complex process of negotiations that lead to international agreements”.

The book is divided into three parts comprising 10 chapters. In his introductory chapter, Geoff Tansey traces the origins of IP in the “food system”, including highlighting the debate raging over the rules concerning the use of intellectual property



Title: The Future Control of Food: A Guide to International Negotiations and Rules on Intellectual Property, Biodiversity and Food Security

Editors: Geoff Tansey & Tasmin Rajotte

Publisher: First published by Earthscan in the UK and USA in 2008.

ISBN: 978-1-84407-430-3 (hardback)
978-1-84407-429-7 (paperback)

rights (IPRs) at bilateral, regional and multilateral levels. The chapter unravels the gist of succeeding parts of the book by highlighting the positions of developed and developing countries on IPR protection.

The overview and analysis of all key global agreements that deal with IPRs such as patents and plant variety protection; biodiversity conservation; community rights, and access regime are contained in part 2 of this book. Such agreements include the International Union for the Protection of New Varieties of Plants (UPOV); Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); Convention on Biological Diversity (CBD); and International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA). The chapters provide a comprehensive assessment of these international instruments, including their history, interrelationship and current negotiating positions of their contracting parties and member countries.

The concluding part of the book separated into three chapters exam-

ines the increasingly complex linkages between international negotiations in trade, environment, agriculture and IP that govern the ownership and control of resources and the “food system”.

Overall, it is a good, comprehensive guide to international negotiations and rules. While going through the contents, one may realize two things: first, the book demands from readers at least a certain level of prior but clear understanding of the nature, scope, objectives and functioning of international bodies and agreements such as the World Trade Organization, TRIPS, WIPO, UPOV, CBD and ITPGRFA, and the basic concepts of scientific, agricultural issues such as those related to breeding, genetic engineering, biotechnology and IPRs. Second, the book deals with and owns mainly the ideas and concerns of Southern stakeholders (rightholders), and thus most governments and private entities of the Northern world may not appreciate it. The book could have included some chapters, for example, of and from seed companies, or other relevant private sector stakeholders, who defend IPRs or company-controlled food system, to encourage a wide range of other stakeholders to read this guide and better establish arguments based on two contrasting positions or views. Perhaps, the guide could have also used the examples of success stories of negotiations from Southern countries (e.g., Nepal, Malaysia and Thailand) such as in relation to efforts to fend off UPOV pressure or TRIPS-plus conditions in bilateral and multilateral negotiations.

Nevertheless, given that the chapters in this book are written by various authors with varying styles, the editors have made considerable efforts in devising a coherent structure as well as simplicity in its content. ■

CUTS Geneva Resource Centre

CONSUMER Unity & Trust Society (CUTS) will officially launch the CUTS Geneva Resource Centre on 16 July 2008 along with its three-year project titled 'Fostering Equity and Accountability in the Trading System (FEATS)'. An Inception Meeting of the project will also be held on the same day.

The Resource Centre intends to connect Geneva-based developing country negotiators with the capitals on the one hand, and the negotiators and policymakers with the civil society and academia, on the other. It intends to work closely with Geneva-based developing country negotiators and their policy makers and civil society representatives. The FEATS project will focus on three countries in East Africa—Kenya, Tanzania and Uganda—and two in Southern Africa—Malawi and Zambia. The project includes three inter-

linked streams of activities—policy research, advocacy and networking.

Policy research will identify and fill in the analytical gaps in the trade policy-making mechanisms at the national, regional and international levels. The project's advocacy-related activities will aim to seek changes at the national and international levels, which are necessary to promote equity and accountability in the multilateral trading system. This will be achieved through dialogues in the project countries involving multiple stakeholders—government officials, civil society organizations, representatives of the media and international organizations, and donors. Issue-specific dialogues will also be organized in Geneva with trade negotiators from project countries, other World Trade Organization Members and experts from other Geneva-based organizations. ■

Trade-Poverty Nexus in South Asia



THE Institute of Policy Studies of Sri Lanka (IPS) in collaboration with Friedrich Ebert Stiftung, Colombo, organized an international conference on 'Trade-Poverty Nexus in South Asia' in Colombo, Sri Lanka during 28–29 May 2008. The conference aimed at examining the relationship between trade and poverty in the South Asian region. It brought together experts on the subject from the academia, government, private sector, and civil society. Papers on the trade-poverty nexus from all South Asian countries, including Afghanistan, were presented and discussed during the two-day conference.

While trade and poverty have been widely studied in isolation to one another, the link between the two has been a subject of much scholarly debate and policy attention. The papers presented at the conference critically analyzed this relationship for the eight South Asian countries and the region as a whole. While some papers focused on explaining the nexus using econometric analysis others took a more qualitative approach in establishing the linkages.

During the conference, the main channels through which trade could affect poverty such as through generation of employment, firm-level price responses, household-level

ADB-UNCTAD study on

SAFTA

A seminar titled 'ADB-UNCTAD Study on Regional Cooperation in South Asia: Benefits from SAFTA and the Way Ahead' was held on 2 May 2008 in Kathmandu, Nepal. Over 60 stakeholders participated in the seminar organized by SAWTEE in partnership with the Asian Development Bank (ADB) and the United Nations Conference on Trade and Development (UNCTAD), India.

The objective of the seminar was to disseminate and discuss the findings of the first draft of the study that provides an in-depth assessment of the likely impact of the Agreement on the South Asian Free Trade Area (SAFTA) on South Asian countries.

The study shows that SAFTA, if implemented fully, creates substantial effective additional market access, that is, market access exclusively due to SAFTA implementation. According to the study, SAFTA member countries have become more competitive vis-à-vis the rest of the world and among each other. The basket of goods in which they have comparative advantage has diversified and complementarities among members have increased. ■

See the major findings of the study on pages 29–31.

price shocks, and revenue were identified. While some authors illustrated that trade could help alleviate poverty, others suggested that the relationship between trade and poverty is weak. A general consensus was reached on the importance of having complementary policies accompanying trade policies, which could have a substantial impact on reducing poverty in the region. It was also highlighted that these accompanying policies should focus on macroeconomic policy stability, labour market conditions, and foreign direct investment. ■



Briefing Paper: South Asia: Towards a Viable Free Trade Area
Author: Deshal de Mel
Publisher: SAWTEE



Issue Paper: SAFTA: Issues for Weaker Economies
Author: Mohammad A. Razzaque
Publisher: SAWTEE



Research Brief: Cases of Access and Benefit Sharing: Lessons for South Asian Governments
Author: Bharath Jairaj
Publisher: SAWTEE



South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

www.sawtee.org