A dialogue on trade and development in South Asia

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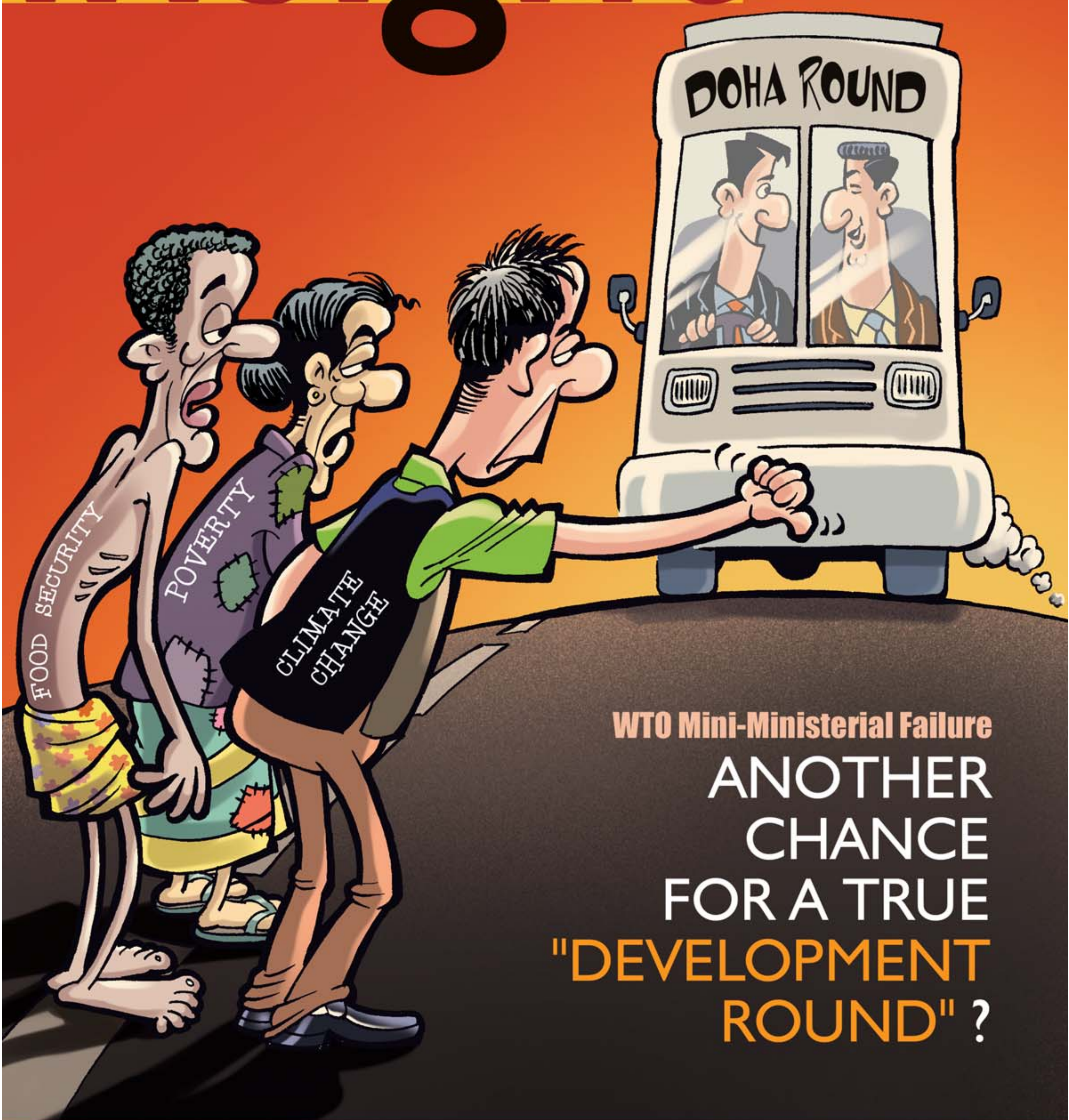
TRADE insight



WTO Mini-Ministerial Failure

ANOTHER CHANCE FOR A TRUE "DEVELOPMENT ROUND" ?

SAARC SUMMIT | NEPAL-INDIA TRADE | GENDER AND TRADE | ENERGY SECURITY | SAARC SEED BANK

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editors' note

A true Development Round

AS the world was grappling with rising oil and food prices, the World Trade Organization (WTO) mini-ministerial in July-end broke down—the third summer in a row that a push for a Doha deal failed. The collapse of the talks over the special safeguard mechanism (SSM), a tool that would allow developing countries to protect their farmers from import surges or price declines, has a strong political significance, illustrating a clash of ideologies—the "neoliberal free-market paradigm" vs the "development-oriented fair-trade paradigm".

The talks, despite their failure, were significant for the emergence of major developing countries as coequal partners that modified negotiation dynamics. The firm stance taken by China and India in favour of an effective SSM, withstanding tremendous pressure from developed countries, the United States in particular, is commendable and gives a message loud and clear: it is not as easy as before for the rich world to bulldoze their way, riding roughshod over the spirit of the multilateral trading system, as developing countries are now ready to protect their interests.

At a time when international trade is growingly becoming a major source of development for many countries, including developing ones, the collapse of the mini-ministerial should be taken as a breather to rethink the functioning of the multilateral trading system.

Should the system be allowed to continue to be dominated by business interests, guided by a narrow mercantilist trade-negotiating approach? Or, should it be transformed into a fair, just and development-friendly system capable of addressing the interrelated and complex challenges facing the world in the form of food insecurity, poverty, and energy, climate and financial crises?

The latter concerns are increasingly emerging as major challenges for multilateral trade negotiations, and on an optimistic note, the July debacle could be a blessing in disguise for those who really want another shot at a true Development Round.

In addition to these, from the perspective of five South Asian least-developed countries (LDCs), a significant step towards a true Development Round would be to fulfil the promise made to LDCs in the Hong Kong Ministerial Declaration in 2005—the promise of duty-free and quota-free (DFQF) market access for LDC products "by 2008 or no later than the start of the implementation period". Clearly, the Hong Kong commitment remains valid but a mere commitment on 97 percent of tariff lines might not help LDCs. Importantly, in addition to developed countries, advanced developing countries, including those in the region, should also pledge meaningful DFQF market access.

Besides seeking a beneficial integration into the global economy, South Asian countries need to also give a much-needed momentum to regional cooperation, especially economic integration. The Declaration of the 15th South Asian Association for Regional Cooperation (SAARC) Summit, concluded in Colombo this August, seeks to expedite the economic integration process along with commitments to addressing a range of trade and development issues. The proof of the Declaration is, however, in the implementation, and the track record in it is dismal. In order to make SAARC work for the collective interest of South Asian countries, the governments, in consultation with the private sector and civil society groups, need to re-examine and revamp SAARC institutions and processes so as to shift their focus towards an inclusive, gender-sensitive, pro-poor as well as demand-driven and action-oriented agenda. ■

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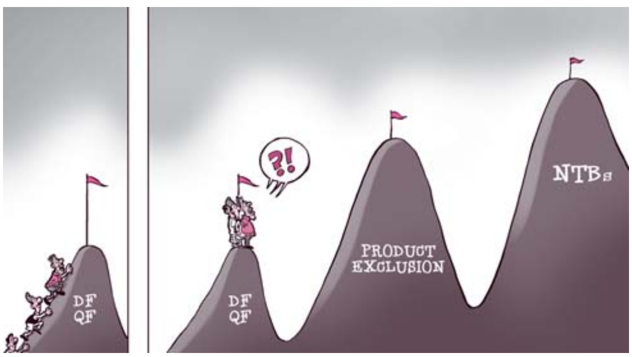

Can LDCs benefit from DFQF market access without a meaningful offer from advanced developing countries?

15th SAARC Summit Emerging Issues

The summit came out with commitments on a range of trade and development issues but will South Asian governments be able to implement them?

Views expressed in *Trade Insight* are of the authors and editors and do not necessarily reflect the official position of SAWTEE or its member institutions.

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TRADE AND DEVELOPMENT REPORT

gloomy outlook, interesting trends

The world economy is expected to grow by around 3 percent in 2008, almost 1 percentage point less than in 2007.

The United Nations Conference on Trade and Development (UNCTAD) has offered a gloomy outlook on the world economy. The Trade and Development Report, 2008, the annual flagship publication of UNCTAD, states: "Overall, the financial turmoil, the commodity price hikes and the huge exchange-rate swings are having an enormous impact on the global economy and are casting a shadow on the outlook for 2009."

According to the report, the world economy is expected to grow by around 3 percent in 2008, almost 1 percentage point less than in 2007. In developed countries, growth is likely to be around 1.5 percent. In contrast, due to the stable dynamics of domestic demands in large developing countries, growth in developing countries is expected to remain robust at around 6 percent.

Nonetheless, the report cautions that restrictive monetary policies caused by high commodity prices could slow the growth of developed and developing countries alike. To reduce vulnerability to commodity price shocks—especially for developing countries that depend on primary commodity prices—the report suggests that the best strategy is greater diversification and industrial development.

An interesting trend featured in the report is that a significant amount of capital has been flowing from developing nations to developed ones. Forty-two of 113 developing and transition economies were net exporters of capital during the period 2002–2006. Many of them, particularly a number of fast growing exporters of manufactures, owe this situation to their successful global integration and to a reorientation of their macroeconomic policies towards a greater focus on competitive exchange rates. In other countries, substantially increased earnings from primary commodity exports have also led to stronger current-account positions.

This tendency contrasts with mainstream economic expectations that capital, attracted by higher rates of return, transfers from rich to poor nations in the open capital markets. What is even more surprising in the light of mainstream theory is that, on an average, developing countries that are net exporters of capital also tend to grow faster and have a higher investment ratio than developing countries that receive net-capital inflows. Indeed, many developing countries, particularly in Latin America, failed to achieve higher productive investment under the mainstream approach because the monetary and financial policies that attracted waves of capital inflows also led to high domestic financing costs and currency appreciation. This implies that higher rates of investment for diversification and structural change do not always require current account deficits. The report argues that these trends are not puzzling if one recognizes the limitations of the underlying theories: the savings gap model and the neoclassical growth model.

> An interesting trend is that a significant amount of capital has been flowing from developing nations to developed ones.

Drawing on the works of Schumpeter and Keynes, UNCTAD argues that an increase in household savings, which is difficult or even impossible because of low per capita incomes in developing countries, is not necessary to raise investment. Rather, from the perspective of firms, financing of investment depends primarily on savings from corporate profits and the possibility of the banking system to create credit. The report, therefore, recommends measures that increase the liquidity of firms and encourage the retention of profits, and encourage banks to make loans more easily available for investment. Suggested measures include a range of fiscal incentives and disincentives, such as preferential tax treatment for reinvested or retained profits, special depreciation allowances, and high taxation of income from speculative activities.

However, the report admits that foreign resources can play a critical role in investment financing at certain times and for certain countries—for instance, to finance imports of capital goods when there are structural impediments to increasing export earnings. While suggesting avoidance of dependence on foreign capital inflow, the report calls for an increase in official development assistance to help poor commodity-dependent countries meet the Millennium Development Goals by 2015 as well as help generate higher per capita income growth and employment for sustained development beyond the MDG deadline. ■

Brazil wins cotton dispute with US

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IN a ruling in June, the World Trade Organization (WTO)'s Appellate Body upheld Brazil's complaint that subsidies provided by the United States (US) to its upland cotton producers violate the country's world trade obligations.

The ruling, which confirmed Brazil's view after several years of disputes and appeals, marked the first time that a developed country's agricultural policy has been successfully challenged at the WTO. Brazil had maintained that the US payments suppressed global cotton prices and allowed US cotton producers to control a disproportionate share of the market.

The cotton dispute had been running since 2002, when Brazil first sought consultation. The Appellate Body ruling allows Brazil to retaliate by imposing more than US$1 billion worth of sanctions on US imports each year. The WTO has suggested that this could take the form of a suspension of intellectual property rights.

To get the process moving, on 25 August, Brazil formally asked the chair of the Dispute Settlement Body panel to resume consultations with the US on the amount of compensation to which Brazil is entitled. But even after a retaliatory amount is fixed, Brazil will still have to face the potential political repercussions of imposing sanctions against its primary trading partner. Brazilian industry, which depends heavily on US supplies, is particularly vulnerable to worsening trade relations between the two countries. Thus, some speculate that, instead of imposing measures that would cut off the flow of goods between the two countries, Brazil will "cross retaliate" through the suspension of intellectual property protection obligations (in copyrights, trademarks, patents, the protection of undisclosed information, etc.), as well as through the suspension of concessions in several services sectors *(ictsd.net/i/news, accessed 06.09.08; Bridges Trade BioRes, 05.09.08).* ■

Consensus eludes G-7 on SSM

CAPITAL-based officials from seven major trading powers failed in a last-ditch attempt on 17–20 September to hammer out their differences on the special safeguard mechanism (SSM), a controversial trade tool that triggered the collapse of World Trade Organization (WTO) talks in Geneva at the end of July 2008.

The talks among the G-7—Australia, Brazil, China, the European Union (EU), India, Japan and the United States (US)—ended abruptly when India reportedly refused to sign off on a compromise deal on the SSM that all of the other G-7 members had indicated they could accept. The G-7 aimed to reach a consensus on outstanding issues in the talks, which they then planned to present to the broader WTO membership.

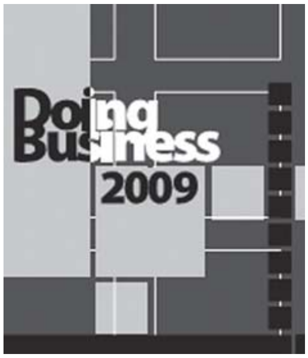
Some trade officials from the G-33, a group of food-importing developing countries, lamented the absence of Indonesia and other developing-country group coordinators from the invitation-only talks. The G-7's failure to find consensus means that it is now highly unlikely that WTO Director-General Pascal Lamy will summon trade ministers back to Geneva this autumn, a move that he had indicated he was ready to take if the G-7 consultations proved fruitful.

A modified EU proposal from July 2008 reportedly framed the exchanges on the SSM at the G-7 talks. The proposal included additional provisions for a cross-checking mechanism, a year-long "holiday" provision, and a proposal to calculate time periods in calendar years, as opposed to 12-month rolling intervals. The US is said to have insisted on the cross-checking component, which would ensure that, before a volume-based surge could trigger the mechanism, the additional imports would have to have an identifiable impact on prices. The so-called "holiday" provision would make the SSM applicable at varying periods, meaning that the remedies could not be applied continuously, without interruption. The EU proposal used a "tiered" approach, meaning that countries would be allowed to impose greater duties in the event of larger import surges. Exporters were keen to include a provision to ensure that "natural" trade growth would not trigger an imposition of protective tariffs under the SSM *(Bridges Weekly Trade News Digest, 24.09.08).* ■

Sri Lanka top South Asian reformer

REGULATORY reforms in South Asia continued in 2007–2008, according to *Doing Business 2009*—the sixth in an annual series of reports published by the International Finance Corporation and the World Bank—with Sri Lanka emerging as the top reformer in the region. The report records five reforms that eased the regulatory burden of doing business in four of the region's countries—Bangladesh, Bhutan, India and Sri Lanka—between June 2007 and June 2008.

Sri Lanka strengthened



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the legal rights of creditors and enhanced the availability of credit information. Bangladesh reduced the time for registering property by almost half and simplified business start-up. Bhutan made contract enforcement through the courts easier. India continued to make import and export procedures easier.

Doing Business ranks economies based on 10 indicators of business regulations that track the time and cost to meet government requirements in starting and operating a business, trading across borders, paying taxes, and closing a business. The top 10 economies for reforms of business regulations are, in order, Azerbaijan, Albania, the Kyrgyz Republic, Belarus, Senegal, Burkina Faso, Botswana, Colombia, the Dominican Republic, and Egypt. Singapore leads the global rankings (among 181 economies) on the overall regulatory ease of doing business for a third consecutive year. New Zealand is runner-up, and the United States third. The ranks of South Asian countries are: the Maldives (69), Pakistan (77), Sri Lanka (102), Bangladesh (110), Nepal (121), India (122), Bhutan (124) and Afghanistan (162) (*www.worldbank.lk, accessed 24.09.08*). ■

FREE TRADE DEAL SPREE IN ASIA-PACIFIC

THE Association of Southeast Asian Nations (ASEAN) concluded a free trade agreement (FTA) on goods with India, its seventh-largest trading partner, covering billions of dollars in trade, a market of 1.7 billion people and a combined gross domestic product of US$2.3 trillion. According to Indian Commerce Minister Kamal Nath, ASEAN and India have set a target for total trade to reach US$50 billion by 2010 from US$38 billion currently. The FTA, concluded on 28 August in a meeting of ASEAN economic ministers in Singapore, will be signed in ASEAN's Bangkok summit in December.

As per the FTA, India and ASEAN—which groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam—will have to eliminate import duties on 71 percent of the products by 31 December 2012, with another 9 percent of the product range to be covered by 2015. The import tariff on sensitive items, now in the range of 8–10 percent, would be lowered to 5 percent by 2015.

ASEAN and India also agreed to start new negotiations—to be completed by 2009-end—to expand the trade pact to include services and investments. India's trade with ASEAN is 9.6 percent of its global trade, while trade with India is only 2 percent of ASEAN's global trade.

With a population of about 550 million people, ASEAN is already a free trade area with 90 percent of goods traded having tariffs between 0 percent and 5 percent. It aims to achieve a single market and manufacturing base by 2015. ASEAN also concluded free trade deals with Australia and New Zealand in August. Following the latest pacts, the Southeast Asian bloc has now completed trade ties with all its key Asia-Pacific trading partners. ASEAN has already agreed to gradually tear down barriers to trade in goods and services with China and South Korea, and has signed a wide-ranging economic partnership deal with Japan, which also covers investments.

In another development, after 12 rounds of negotiations lasting two and a half years, India and South Korea on 26 September reached an FTA on goods and services, which they plan to sign by the end of 2008. The FTA on goods requires India to open up 85 percent of its market to South Korea, which in turn will give India access to 95 percent of its market at either zero duty or at concessional rates. South Korea has already forged FTAs with Chile, Singapore and the European Free Trade Association comprising Switzerland, Norway, Iceland and Liechtenstein, besides a partial pact with ASEAN members. A trade agreement signed by Seoul and Washington last year awaits approval by legislatures in both countries (*Agence France-Presse, 24.08.08; The Hindu, 29.08.08*). ■

Biofuels and access to food

A report by Olivier De Schutter, the United Nations (UN) Special Rapporteur on the Right to Food, has concluded that the world's poor are not going hungry because there is not enough food to go around; rather, they are left empty-handed because the food that is available is too expensive for them to buy due to, among other things, increased production of plant-derived transport fuels.

The report, commissioned at the UN Special Session on the Global Food Crisis in May, was presented to the UN's Human Rights Council in Geneva on 10 September.

While several factors, such as population growth, speculation in commodities markets and changing dietary habits worldwide, have contributed to the recent rise in prices, the report notes, increased production of plant-derived transport fuels has helped make food more expensive by causing a significant amount of arable land to be shifted from food production to the production of bioethanol and biodiesel.

Focusing on the issue of biofuels, the report warns that increased production of and trade in biofuels could have serious human rights implications beyond the negative impact on access to food. The shift in production away from food crops has also driven up the price of farmland, in some cases so much so as to make it unaffordable for small-scale producers.

In extreme cases, the report warns, the push to create new mega-plantations could drive indigenous people off their land and erode agricultural working conditions in the developing world. The report also finds that biofuels production could widen the gap between the rich and the poor.

The report recommends that the Human Rights Council begin looking at the food crisis—and biofuels production—from a human rights perspective, a framework which it says would allow a consideration of the trade-offs between the consumer costs and producer gains associated with high food prices *(Bridges Trade BioRes, 19.09.08).* ■

Biotech Inc. under fire for seeking patents on climate-resistant crops

ENVIRONMENTAL activists are speaking out against agricultural biotechnology companies, claiming their patenting of genetically engineered climate-resistant crops is tantamount to biopiracy. The charges come as a reaction to a June 2008 report by Ottawa-based Action Group on Erosion, Technology and Concentration (ETC Group) that draws attention to a recent spike in patent applications for "climate-ready" seeds in the past four years.

Biotech companies say that these new crops will be able to withstand the harsh environmental conditions of a future planet affected by climate change. But activists argue that the industry is simply looking to profit from long-established traditional knowledge.

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) does not require patent applications to disclose the origin of biological resources or associated traditional knowledge. Following the decision made at the Doha Ministerial in 2001 for an examination of the relationship between TRIPS and the Convention on Biological Diversity, developing countries are negotiating for an amendment to TRIPS to require patent applicants to acknowledge origins and to provide evidence of prior informed consent from the origin country and of benefit sharing.

www.current.com/items

According to the ETC Group report, over 530 applications for so-called climate-ready genes have already been submitted around the world. The organization asserts that the deluge of patent applications reveals a new strategy by the biotech industry to profit from climate change. "Biotech companies see a silver lining in climate change: An opportunity to assert that agriculture cannot win the war against climate change without genetic engineering," the report reads. *(Bridges Trade BioRes, 19.08.08).* ■

Energy Security through Regional Cooperation in South Asia

Although most South Asian countries are energy deficit, there is a significant scope for trade in and cooperation on energy resources.

■ Nitya Nanda

Among the many challenges that the South Asian region faces today, ensuring adequate supply of energy is a prominent one. The region has among the lowest per capita incomes as well as the lowest per capita energy consumption in the world. Not only does South Asia need to augment its energy supply for its huge population, its high growth in recent years also means that its energy consumption is going to grow substantially. Unfortunately, the region is poorly endowed with energy resources. South Asia accounts for more than one fifth of the world's population, but its share of global oil reserves is about 0.6 percent and global natural gas reserves about 1.4 percent. At 10 percent of the global total, its share of coal reserves is relatively better. Likewise, the region's hydroelectric generation potential is about 8 percent of the global potential.

In 2004, South Asia accounted for about 6 percent of global energy consumption. In the same year, the region's total primary energy supply (TPES) was about 688.51 Mtoe (million tonne oil equivalent), of which only about 557.5 Mtoe (80.97 percent) was produced in the region (Table 1). About 38 percent of this energy, however, was harnessed from non-commercial sources like wood, animal waste and other biomass which came almost entirely from within the region. Thus, external dependence of the region for commercial energy was much higher, at about 31.7 percent.[1]

The issue of energy cooperation in South Asia, therefore, has to be seen in the context of efficiency in management and use of such resources as well as enhancement of supplies. Experts are often sceptical about the prospects of regional energy cooperation in South Asia, since the region as a whole is not comfortably endowed with energy resources. However, accessing energy from a neighbouring country is often more economical and efficient than getting it from a distant location within the country. This is the reason several countries, including the United States, Canada, France, Germany and Switzerland, are among the top exporters as well as importers of electricity.[2] Thus, it may well be the case that even though most countries in South Asia are energy deficit, there can be a significant scope for trade in and cooperation on energy resources.

Oil and gas

All the countries in the region are heavily dependent on outside countries for their oil requirements. It is quite obvious that there is hardly any scope for trade in crude oil within the region. The situation, however, is quite different if one looks at the production and consumption of refined petroleum products. All countries in the region except India consume much more than their refining capacity. India, by contrast, has become a significant exporter of refined petroleum products, with exports in 2007 exceeding 30 Mt (metric tonne).[3]

Pakistan imports about one third of its petroleum product consumption while Bangladesh imports about two thirds. However, none of them are importing petroleum products from India in any significant quantity. Nevertheless, they might already be importing from India indirectly via the United Arab Emirates (UAE) and Singapore, which are the major sources of petroleum products for Pakistan and Bangladesh, respectively, and also happen to be the two most important export destinations of Indian petroleum products. Nepal and Bhutan, however, import almost their entire requirements of petroleum products from India. Sri Lanka also sources about half of its imports of petroleum products from India. Obviously, there is much more scope for increased trade in petroleum products within the region.

Similarly, a network of gas pipelines connecting all the countries in the region can promote the use of natural gas. As of now, Nepal, Bhutan and Sri Lanka are not using natural gas. Though both Nepal and Bhutan have substantial hydroelectric capabilities, they might prefer gas as a cleaner fuel to run vehicles and for other uses. The region may not have enough natural gas reserves, but the same may be accessed from West Asia, particularly Iran, Central Asia and Myanmar, if an integrated network is developed. Both India and Pakistan have been exploring the possibility of importing natural gas through cross-border pipelines. However, though Pakistan has made some progress in terms of working out some arrangements for Iran-Pakistan and Turkmenistan-Afghanistan-Pakistan pipelines, India is yet to make any progress. India's difficulties as well as apprehen-

TABLE 1

Energy balance in South Asia - 2005

	Energy production Mtoe	Net energy imports Mtoe	Consumption (TPES) Mtoe	TPES per capita (toe)	Oil reserve (Mtoe)	Gas reserve (BCM)	Coal reserve (Million tonne)
Afghanistan	—	—	—	—	14	142	73
Bangladesh	19.31	4.58	24.19	0.17	1	434	2,500
Bhutan	—	—	—	—	—	—	2
India	419.04	121.60	537.31	0.49	1,130	1,100	91,631
Nepal	8.15	1.02	9.17	0.34	—	—	—
Pakistan	61.27	15.54	76.33	0.49	39	795	3,100
Sri Lanka	5.25	4.32	9.37	0.48	—	—	—
South Asia[a]	557.48	151.10	688.51		1,184	2,471	97,306
World[a]	11,213.42	4,352.72	11,223.28	1.78	178,090	173,074	1,000,000
SA's share in world (%)	4.97	3.47	6.14		0.6	1.4	9.7

[a] 2004 data; Mtoe – Million tonne oil equivalent; toe – tonne oil equivalent; BCM – Billion Cubic Metre.
Source: IEA. 2007. Key Energy Statistics 2007. Paris: International Energy Agency; and International Energy Agency Database (www.iea.org).

sions in getting gas pipelines through Pakistan may get mitigated to some extent if India looks for a regional network, including Nepal, Bhutan and Sri Lanka, rather than entering into bilateral arrangements.

Electricity

An integrated regional electricity grid with trading arrangements among the countries can improve efficiency in the entire region. Even if most countries in the region have excess demand for electricity, there can still be trade in it. Trade occurs even in such a situation because it reduces the distance between the points of production and consumption, and thereby reduces transmission losses. Seasonality in power supply and demand can also be a source of complementarity and cooperation among South Asian countries.[4]

Fossil fuel powers about 82 percent of electricity generation in the region though the fuel mix varies from country to country.[5] Although the region is not well-endowed with fossil fuel reserves, it is far better endowed in terms of hydroelectric potential. However, the region has been able to create an installed hydroelectric capacity of only 44,847 MW (Mega Watt), which is just about 10.3 percent of the potential capacity (Table 2).

Among the South Asian countries, Sri Lanka has almost exhausted its potential capacity. The potential capacity in Bangladesh is quite low. Thus, much of the additional capacity would come from other countries with the largest share coming from India. However, tapping the unutilized potential would be relatively easier in Nepal, Bhutan and Afghanistan. These are also the countries in the region that can generate surplus electricity only through hydropower. For example, the current installed capacity in Bhutan is less than 1,000 MW as against the potential of about 30,000 MW of electricity. Yet Bhutan is the only country in the region to have a substantial surplus in capacity and generation. Similarly, Nepal's installed capacity is less than 2 percent of its potential of 44,000 MW and it is a net importer of electricity.

India, on the other hand, has almost half of the potential hydroelectric capacity of the region, yet the total potential cannot even satisfy the current level of demand in the country. Pakistan is in a better situation but its potential is not enough to satisfy its entire demand in the long run. Thus, it appears that Afghanistan, Bhutan and Nepal can have substantial surplus electricity generated from hydropower alone that can be exported to the other countries in the region.

Bhutan has a substantial surplus capacity that has been developed largely with outside support, particularly from India. Hydropower contributes more than 13 percent of gross domestic product and about 80 percent of export earnings. No wonder, King Wangchuck of Bhutan once said, "Water is to us what oil is to the Arabs." The Bhutanese success story can easily be replicated particularly in Afghanistan and Nepal.[6]

Renewable energy

South Asia has a reasonably good potential in other renewable energy sources like solar and wind power.

TABLE 2

Hydroelectric potentials and their use

	Potential capacity MW	Installed capacity (2006) MW	Installed capacity as percentage of potential	Annual generation potential TWh/Yr	Actual generation (2004)TWh	Actual generation as percentage of annual potential
Afghanistan	18,400	392	2.1	55	1	1.8
Bangladesh	775	230	29.7	2	1	50.0
Bhutan	30,000	978	3.3	70	3	4.3
India	301,000	34,391	11.4	660	85	12.9
Nepal	44,000	590	1.3	158	2	1.3
Pakistan	40,000	6,494	16.2	130	26	20.0
Sri Lanka	2,000	1,772	88.6	8	3	37.5
South Asia	436,175	44,847	10.3	1,083	121	11.2

MW – Mega Watt; TWh/Yr – Trillion Watt-hour per year.
Source: HDIP. 2005. Pakistan Energy Yearbook 2005. Islamabad: Hydrocarbon Development Institute of Pakistan; SARI/Energy Program. Regional Energy Security For South Asia: Regional Report. Energy For South Asia. Cited in Thapa, Bishal, Amit Sharma and Rashika Gupta. 2007. Prospects for Energy Integration. Himal South Asian, April.

The potential for wind power in South Asia is estimated to be in the range of 150,000–200,000 MW[7], mainly in India, Pakistan and Sri Lanka. Only a fraction of this is being utilized, that too mostly in India. India has also developed a good manufacturing capability in wind power generators and is exporting them to several countries.

Similarly, South Asia's potential in solar energy is estimated to be more than 300,000 MW.[8] Apart from India and Pakistan, Afghanistan and Nepal also have a good potential. India is much ahead of its neighbours in solar power generation and development of solar-power technology and products. Other South Asian countries can benefit by collaborating with India on such technologies.

Another energy source that can be an area of cooperation is biomass. Though this source is getting stretched due to increasing energy demand in rural areas, it will remain easily available in significant quantities and may remain the most economic and feasible alternative in rural and remote areas. However, the way it is used in South Asia is quite inefficient and hence causes high emissions. India has worked to make this source more efficient and cleaner. Today, India is the pioneer in the field, particularly in biogas, gassifier and cookstove. India can share this technology with its neighbours, which will find it useful.

Conclusion

It is often argued that when the region has not been able to progress much in terms of trade integration, talking of energy cooperation may be premature. However, it may not be necessary for regional integration to be unidirectional. In fact, even in Europe, countries agreed to cooperate on energy first, before they went ahead with general trade integration. The European Coal and Steel Community (ECSC) was established in 1952, much before the European Economic Community (EEC) was established in 1958. South Asia would do well to learn from the European experience.■

The author is Fellow at the Centre for Global Agreements, Legislation and Trade (GALT) of The Energy and Resources Institute (TERI), New Delhi, India.

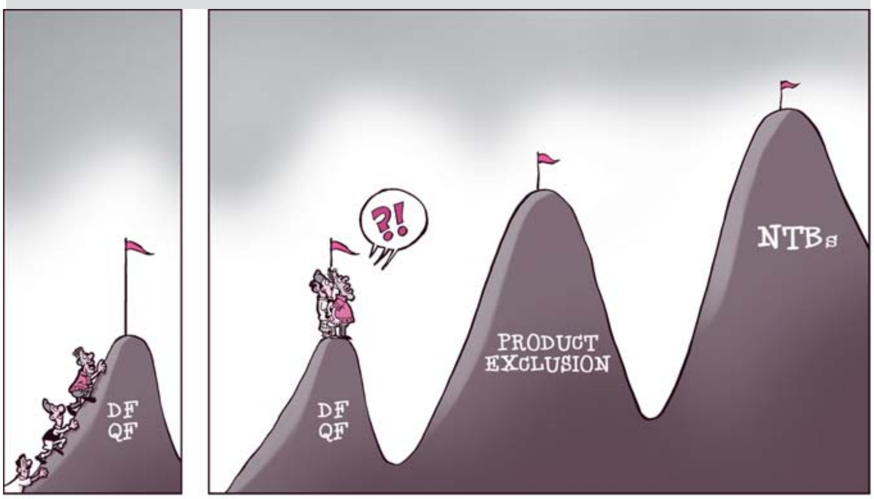
Notes

1. International Energy Agency Database (www.iea.org).
2. IEA. 2007. *Key Energy Statistics 2007*. Paris: International Energy Agency.
3. Department of Commerce, Government of India.
4. Lama, Mahendra P. 2004. Energy Cooperation in South Asia. SAFMA Regional Conference, 20–21 August, Dhaka.
5. See note 2.
6. Weiss, Stanley A. 2005. The Untapped Might of the Himalayas. *International Herald Tribune*, 11 May.
7. These estimates are drawn from different sources, namely Alternative Energy Development Board, Government of Pakistan (http://www.aedb.org/currentstat_ solarthermal.php); Asia Cleantech (http://asiacleantech.wordpress.com); Ministry of New and Renewable Energy of India (http://mnes.nic.in); Schillings, Christoph, Richard Meyer and Franz Trieb. 2004. Solar and Wind Energy Resource Assessment (SWERA), High Resolution Solar Radiation Assessment for Nepal Project. Paris: UNEP/GEF; and United Nations Environment Programme (http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=430&ArticleID=4771&l=en).
8. ibid.

Towards a Meaningful DFQF Market Access

Developing countries that are rapidly growing and offer tremendous market access potential for LDCs should be the next logical target for market opening.

■ Ratnakar Adhikari



Despite the continued trade growth in the recent past, the recently published *Least Developed Countries Report* of the United Nations Conference on Trade and Development (UNCTAD) asserts that least-developed countries' (LDCs') "marginalization, as measured by their level of participation in world trade, remains significant".[1] On an average, their trade as a percentage of international trade has witnessed a healthy growth in the past decade or so. However, if we look at the disaggregated figures categorizing LDCs into three broad classifications based on their export performance, i.e., oil exporters (6); exporters of manufacturers—mainly readymade garment (RMG) (8); and exporters of commodities (36), the picture is different.[2]

Even within a particular classification there is a marked difference in their export performance. For example, 64 percent of the total increase in LDC merchandise exports from 2004 to 2006 was attributable to oil exporters, and a further 12 percent to mineral exporters.[3]

Among the manufactures-exporting LDCs, the impressive export performance of Bangladesh and Cambodia is not shared by others. While Lao PDR and Haiti have seen modest growth in RMG exports even after the abolition of textiles and clothing quotas since 1 January 2005, other RMG exporters have seen their exports plummet to a record low level. Of late, commodity exporters have also witnessed export surge due to a rise in commodity prices.

However, even among commodity exporters, agriculture-exporting countries have not gained as much as exporters of minerals, ores and metals, because between 2005 and 2006, the price index of agricultural raw materials increased by 15 percent and that of minerals, ores and metals by 60 percent.[4]

Indeed, none of the three factors that have contributed to the seemingly healthy growth of LDCs' trade (mainly export trade) can be considered sustainable. While the oil price boom has produced some beneficial effects, in the short run, for some LDCs, the recent downward trend in oil prices shows that it is not likely to provide them a sustained source of export income. Similarly, the increase in RMG exports from Bangladesh, Cambodia, Lao PDR and Haiti may not continue once the United States (US) withdraws the temporary safeguards imposed on China beginning 1 January 2009. Finally, the rise in commodity prices, being a cyclical phenomenon, may not provide a lasting advantage to commodity-exporting LDCs. Therefore, it is very much likely that LDCs, which have witnessed their share in world trade tumble from around 2.5 percent in the early 1960s to around 0.5 percent in 2000 and again rising to around 0.7 percent at present, might see this share fall once again.

Although LDCs have been granted generous market access opportunities in a number of developed-country markets, notably in Canada and the European Union (EU), and are able to take advantage of these preferential opportunities to some extent, they are likely to encounter substantial preference erosion if and when the Doha Development Agenda (DDA) concludes. Moreover, the collapse of the World Trade Organization (WTO) mini-ministerial in July 2008 has not sent the right signal for the conclusion of the Doha Round. Still, trade ministers have expressed a general desire to somehow capture the progress that was made during the ill-fated mini-ministerial.[5]

In order to avoid this cyclical pattern, it is indispensable to initiate efforts on both the demand side and the supply side. However, the focus of this article is on a demand side issue—duty-free and quota-free (DFQF) market access. The article also touches upon two important non-tariff barriers (NTBs)—rules of origin (ROO) and product standards that affect LDC exports.

Genesis of DFQF

The proposal on DFQF market access was so germane to LDCs' participation in the global economy that this issue was first tabled in 1992 during UNCTAD VIII held in Cartagena. The Cartagena Commitment urged that LDC exports be guaranteed duty-free access to major markets, but the idea was stillborn.

Traversing through the First WTO Ministerial (Singapore, December 1996), to UNCTAD XI (Bangkok, February 2000), United Nations Millennium Summit (New York, September 2000), and the Third United Nations Conference on LDCs (Brussels, May 2001), the proposal received a major fillip during the Fourth WTO Ministerial (Doha, November 2001) when trade ministers committed themselves to the objective of DFQF market access for products originating from LDCs as part of the DDA.[6]

Due to the much-hyped promises of "early harvest" on the DDA for LDCs, they were hopeful of a major breakthrough during the Sixth WTO Ministerial held at Hong Kong in December 2005. However, due to the decision of the Ministerial to allow developed countries to exclude 3 percent of their tariff lines from the duty-free market access, LDCs find themselves in a difficult position.

Current state of play

Although, as noted above, the DDA has been in limbo since the collapse of the Geneva mini-ministerial talks, the Hong Kong commitment to provide DFQF "by 2008 or no later than the start of the implementation period"[7] remains valid. LDCs have been raising their voice for commercially meaningful DFQF market access by the end of 2008 and progressive elimination of tariffs on the remaining 3 percent tariff lines "at an earlier date, but not later than the end of the implementation period of the Doha Round"[8]; however, this issue has not received the attention it deserves from the majority of WTO Members.

Due to the limited range of LDC exports—including oil and gas; mineral products such as iron ore, diamond, copper and zinc; agricultural products such as cotton and cocoa; and manufactured products such as textiles and clothing—a 3 percent exclusion of tariff lines at the six-digit level of the Harmonized Commodities Description and Coding System (HS) covers between 90 percent and 98 percent of LDC exports.[9]

The major targets of the DFQF initiative are the US and Japan, which still maintain high tariffs on LDC exports. The US imposes high tariffs on 44 percent of LDC exports while Japan provides duty-free treatment to only 45 percent of LDC exports.[10] However, given that the US intends to exclude textiles and clothing from its "covered list" and Japan is likely to exclude its sensitive agricultural products such as rice and fish, in which the country maintains tariff peaks, many LDCs will not obtain substantial market access gains, unless a "development test" is applied to judge the success of the DFQF initiative.

As per the spirit of the Hong Kong Ministerial, LDCs are also demanding a commitment by a larger number of developing countries declaring themselves in a position to do so to progressively provide DFQF access.[11] This is a crucial tactical strategy of LDCs because certain developing countries, which are rapidly growing and offer tremendous market access potential for LDCs, should be the next logical target for market opening.

Such developing countries may argue that they are under no obligation to provide DFQF facility to LDCs because of the non-binding ("should" as opposed to "shall") language contained in the Hong Kong text. But there are four primary reasons why such developing countries should extend the DFQF treatment to LDCs.

First, developing countries are likely to gain significant incremental market access opportunities in developed countries as a result of the ongoing agricultural and non-agriculture market access (NAMA) negotiations. As noted above, it has been proven beyond doubt that LDCs are going to encounter significant preference erosion due to multilateral (most-favoured-nation) tariff liberalization, while developing countries would be in a position to expand their exports to developed countries even at the expense of LDCs. Therefore, this provides a strong case for developing countries to provide DFQF to LDCs. According to a computable general equilibrium-based simulation done by Laborde (2008), full implementation of DFQF market access in five major emerging economies (Brazil, China, India, Mexico and South Korea) would result in an incremental export of US$5.6 billion for LDCs.[12] Among these, the DFQF market access in India alone is estimated to provide an incremental export gain of US$4.9 billion for LDCs. Although India announced a DFQF scheme for LDCs on 8 April 2008 coinciding with the India-Africa Summit, the scheme covers only 94 percent of India's total tariff lines.[13] Clearly, this is not going to be enough if India is serious about providing meaningful market access to LDCs.

Second, since developing countries do not impose significant NTBs (for example, in the form of sanitary and phytosanitary requirements or technical barriers), LDCs would be in a position to take immediate advantage of these market access opportunities[14], without having to make investment in upgrading their standard-testing infrastructure.

Third, although the figures are not available as yet, it is likely that developing countries' losses—for example, in terms of the implications for import-competing sectors—are likely to be limited. Given that such developing countries have huge and expanding markets, imports from LDCs may simply increase the availability of goods for the consumers of these countries.

Fourth, it would be in the collective interest of developing countries to contribute to the economic development of LDCs, which could become a market for the goods and services produced by the former in the future. Islands of prosperity and pockets of deprivation do not auger well for global stability. This is something the policy markers as well as trade negotiators of the developing countries are also aware of.

Making DFQF meaningful

Besides the coverage and the need to focus as much on developing-country markets as on developed-country markets, the following three important issues need to be addressed to make the DFQF initiative meaningful.

First, it is necessary to make the commitment, whether 97 percent or a higher figure (depending on the country), binding at the WTO so as to make it possible for LDCs to make long-term investment in those products that offer market potential. Another approach proposed by Raihan *et al*. (2007) is for LDCs to ask for the elimination of tariff on products subject to relatively higher duty (say more than 6 percent *ad valorem*).[15]

Second, as mentioned in the Hong Kong Ministerial and as reinforced by the Maseru Declaration, ROO should be made simple and transparent. Developed countries are known for imposing notoriously difficult ROO to prevent LDC exports from entering their markets as well as using the preference-receiving countries as their captive markets.[16] However, this does not mean that developing countries are highly liberal on this front. For example, the Nepal-India Trade Treaty requires Nepalese products to fulfil two criteria, namely a minimum value addition of 30 percent and a change in tariff classification at the HS four-digit level, to be eligible for duty-free entry into the Indian market. Therefore, one simple ROO should be followed as per the spirit of the Hong Kong Ministerial Declaration. Canadian ROO for LDCs, which provides for a simple value addition criterion with a liberal cumulation policy, could be a model worth adopting for this purpose.[17]

Third, in order to help LDCs meet increasingly complicated standards, particularly on agricultural exports, it is necessary to provide them technical assistance. There is a well-justified legal basis for LDCs to demand such assistance. Article 9 of the Agreement on Sanitary and Phytosanitary (SPS) Measures and Article 11 of the Agreement on Technical Barriers to Trade (TBT) provide for such an arrangement. Moreover, the "aid for trade" commitment made during the Hong Kong Ministerial, which has already reached the stage of implementation, should be utilized to help LDCs enhance their standard-related infrastructure.

Despite a growing volume of international trade, the threat of LDCs' marginalization from the global trading system looks real, primarily due to the continued protectionist undercurrent prevalent in their target markets.

Conclusion

Despite a growing volume of international trade, the threat of LDCs' marginalization from the global trading system looks real. This is primarily due to the continued protectionist undercurrent prevalent in their target markets—both in developed and developing countries. LDCs and some international organizations such as UNCTAD have been campaigning for providing them their rightful place in the global economy for at least the past 16 years, but without much success.

The DFQF initiative, agreed at Hong Kong, too has not moved beyond rhetoric as the proposed exclusion lists of some of the major trading partners of LDCs show. In order to make this initiative meaningful, three important issues need to be tackled with utmost priority. First, developed countries should provide DFQF to products of export interest to LDCs, in particular those products which attract higher tariffs. Second, advanced developing countries should provide a similar facility to LDCs with a clear timeline for phasing it in. Third, NTBs, particularly in the form of ROO and technical standards, should no longer be used as an excuse to frustrate market openings. ■

Notes

1 UNCTAD. 2008. *The Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership*, p 22. New York and Geneva: United Nations.

2 This classification is largely based on WTO. 2006. Market Access Issues Related to Products of Export Interest Originating from Least-Developed Countries – Notes by the Secretariat. WT/COMTD/LDC/W/38, TN/MA/S/19, 22 February, Sub-Committee on Least-Developed Countries – Negotiating Group on Market Access. Geneva: World Trade Organization.

3 See note 1, p 12.

4 See note 1, p 15.

5 Adhikari, R., Y. Yamamoto and K. Dourng. 2008. *Trade Negotiations Issues and Strategies for Asian LDCs: Experiences from Bangladesh, Cambodia, Lao PDR and Nepal*. Joint Policy Brief. Issue 3, August. Phnom Penh and Colombo: Economic Institute of Cambodia and UNDP Asia Pacific Regional Centre in Colombo.

6 Adhikari, R. 2006. LDCs Should Stay the Course. *The Kathmandu Post*, 20 and 21 January.

7 WTO. 2005. Doha Work Programme: Draft Ministerial Decision. Ministerial Conference, Sixth Session, 13–18 December, Hong Kong.

8 Maseru Declaration. Issued at LDCs Trade Ministers' Meeting, 27–29 February 2008. Available at: http://www.acici.org/downloads/Maseru%20Declaration%20-%20%20Final%20Version.pdf (accessed 22 July 2008).

9 Laborde, D. 2008. *Looking for a Meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda*. Issue Paper No.4, p 5. Geneva: International Centre for Trade and Sustainable Development (ICTSD).

10 ibid.

11 See note 8.

12 See note 9.

13 Sharma, A. B. 2008. India for Duty-Free Access to African LDCs. *The Financial Express*. http://www.financialexpress.com/news/India-for-dutyfree-access-to-African-LDCs/294075/ (accessed 29 July 2008).

14 See note 9.

15 Raihan, S., R. Adhikari and K. Adhikari. 2007. *Export Diversification for Human Development in the Post-ATC Era: Perspectives from Asian LDCs*. Colombo: UNDP Asia Pacific Regional Centre.

16 Adhikari, R. 2008. The Local Content Paradox at the WTO: A Minor Lapse or Organised Hypocrisy? *BRIDGE Monthly Review 12 (4)*. Geneva: International Centre for Trade and Sustainable Development (ICTSD).

17 See note 5.

ANOTHER Chance for a True Development Round?

Is it still timely to call for further trade liberalization or should the focus rather shift towards levelling the playing field?

■ Steffen Grammling

Pascal Lamy, Director-General of the World Trade Organization (WTO), could not hide his disappointment when he announced on 29 July 2008 the breakdown of the mini-ministerial with the following words: "It is no use beating around the bush. This meeting has collapsed." It marked the end of a nine-day negotiating marathon—the longest in WTO history.

Although a breakthrough had never been closer, the mini-ministerial finally collapsed due to differences between the United States (US) and India on the special safeguard mechanism (SSM). It was a major blow to the WTO's Doha Round, a political debacle for the WTO and a huge disappointment for Lamy personally. He had taken a great risk by convening this meeting, having earlier estimated the chances for its success at only "over 50 percent", given that the technical work had not been finalized yet and key players, such as the US and India, were facing difficult political moments. Thus, more remarkable than the failure itself was the fact that major developing countries had emerged as coequal partners and changed the negotiation dynamics at the WTO irrevocably.

The meeting also revealed a deep political trench between alleged promoters of "free trade" and advocates of "fair and development-conducive trade". This clash put into question the main objective of the WTO, i.e., global trade liberalization, together with its neoliberal ideological foundations.

Key elements

The clear objective of the mini-ministerial was to establish modalities in agriculture and non-agricultural market access (NAMA), long considered a precondition for the conclusion of the Doha Round. In order not to overload the agenda, Lamy identified key elements for both areas, but made clear at the same time that there was no such thing as "partial modalities". Moreover, he reaffirmed the "Single Undertaking" principle, which means that nothing is agreed until all issues of the Doha Round are finally agreed upon. Thus, two other issues of explicit interest, i.e. services and certain areas of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), were also included.

As Chairperson of the Trade Negotiations Committee (TNC), Lamy influenced the whole process from the outset. He countered the long-time criticism of a lack of "transparency" and "inclusiveness" by an approach of "concentric circles". The most exclusive inner circle was the new G-7, composed of the former G-6 [Australia, Brazil, the European Union (EU), India, Japan and the US] plus China. The discussions in the G-7 were usually followed by "Green Room" meetings with approximately 30 ministers and informal TNC meetings with the whole membership. Although the criticism of the process continued, Lamy seemed to have found an adequate balance between operability and effectiveness on the one hand, and inclusiveness and transparency on the other.

Agriculture: Irreconcilable political divide

Agriculture had been at the heart of the Doha Round and became the most technical, difficult and politically sensitive area, given the vital importance of this sector for the majority of developing countries. The global food crisis had revealed huge structural problems, which were partly caused by the trade-distorting practices of developed countries, and further increased the pressure during the negotiations.

Lamy identified the following six key areas: overall trade-distorting domestic support (OTDS); cotton; market access formula; sensitive products; special products; and SSM. Interestingly, negotiations had started already before the meeting, after US Trade Representative Susan Schwab announced an OTDS cap at US$15 billion (down from US$21 billion). However, this would have still allowed the US to double its currently applied OTDS of an estimated US$7–8 billion. Thus, India was unimpressed and Brazil warned that it was "a myth" that an agreement on agriculture was at hand.

Since the negotiations on the key numbers were moving ahead slowly during the first few days, on 25 July, Lamy offered the G-7 a "package of compromise numbers". These included a 70 percent OTDS cut for the US (equivalent to a final cap at US$14.5 billion), an 80 percent OTDS cut for the EU, and a 70 percent cut to tariffs of the highest tier. All these figures were in the middle range of the 10 July draft modalities issued by the agriculture negotiations chair, and were no big surprise. While the US and the EU favoured the proposal, India strongly rejected some of the key numbers, later supported by China and other members of the G-33. Despite these mixed reactions, the majority of WTO membership accepted the proposal as a basis for further negotiations. Thus, it was quite a surprise that the talks finally broke down due to major differences between the US and India over the specifics of SSM.

SSM is an instrument that allows developing countries to raise tariffs temporarily to counter sudden or large import surges and price falls. While it had already been agreed that developing countries should be granted such a mechanism, the tricky question was, whether tariffs could be raised above the pre-Doha Round bound rates and which conditions need to be fulfilled ("triggers"). On the one hand, India, supported by other G-33 members, favoured a low trigger to secure effectively the livelihoods of its around 650 million small farmers. From a development point of view, this is self-evident and justified; from an economic perspective, it is reasonable, given that developed countries would be able to even raise their applied levels of OTDS according to the proposals. On the other hand, the US and other major food-exporting countries, including Thailand and Uruguay, favoured a high trigger in order not to harm their export interests. Although different compromise proposals had been discussed in the G-7, the US rejected them and finally ended the talks.

> The collapse over SSM has a strong symbolic and political significance in that it was an explicit development issue and illustrated a clash of ideologies.

Given this setback, the critical negotiations on cotton had not even started, which caused major disappointment among the African countries, in particular the Cotton-4 (Benin, Burkina Faso, Niger and Chad). Observers argued that it would have been very difficult for the US to offer faster and deeper cuts for cotton than for its overall OTDS (as required in the draft modalities). Thus, they speculated that cotton was the real deal-breaker and that the US just wanted to avoid being blamed.

Apart from the technical difficulties, the collapse over SSM has a strong symbolic and political significance. It was an explicit "development issue" and illustrated the clash of ideologies, i.e., the promotion of mercantilist export interests ("free trade") vs the protection of development concerns ("fair trade"). Chairman of the Agriculture Negotiating Group Crawford Falconer reaffirmed this in his report: "[…] the impasse was not technical. It was political."[1]

NAMA: Potential deal-breaker

The NAMA negotiations had long been sidelined since the logic was that they should follow agriculture. However, since last year it became clear that they contain a number of issues that could become potential deal-breakers. Don Stephenson, the outgoing Chairman of the NAMA Negotiating Group, had even suspended talks in June 2008 due to the deadlocked positions.

Lamy identified three key elements for NAMA. First, coefficients of the tariff-cutting formula ("Swiss formula") and the flexibilities that developing countries would be granted to protect certain sectors from the full force of tariff reductions. Second, the recently proposed "anti-concentration clause", which would prevent developing countries from shielding an entire sector from tariff cuts by using flexibilities. Third, the (voluntary) sectoral initiative, which aims at reducing tariffs to zero or close to zero in specific sectors.

European Trade Commissioner Peter Mandelson made clear from the outset that the political bottom line would be "some new market access *in practice*". Major developing countries had long resisted these calls for cuts to their applied rates, arguing that this was incompatible with the Doha Development Agenda and would constrain the policy space they needed for their industrial development. Moreover, developing countries criticized the "last-minute" anti-concentration clause, indicating that it would constrain the "flexibility of the flexibilities". They also opposed the attempt to reward developing countries that are engaged in sectoral negotiations with additional flexibilities, which would take away their voluntary character.

Lamy suggested in his "package of compromise numbers" a coefficient of 8 for developed countries and a coefficient of 20, 22 or 25 for developing countries (depending on the level of the chosen flexibilities). The NAMA-11 grouping had long opposed these numbers and Argentina and South Africa in particular reiterated their strong reservations over the proposal. In fact, the average tariff percentage cuts for developed countries would only be about half the ones for developing countries, reversing the "less-than-full-reciprocity" principle. Trade unions from developing countries opposed the deal vehemently, warning of massive job losses, shrinking tariff revenues and constrained possibilities for industrial development. Although the NAMA negotiations did not become the deal-breaker this time, they still have a lot of explosive potential. This became even more obvious when countries such as the US and Argentina questioned the wording of Stephenson's report.[2]

Services: Encouraging but non-binding signals

The services negotiations had advanced only sluggishly in the last few years. Countries had been reluctant to offer new concessions without knowing the level of ambition in agriculture and NAMA. Thus, ministers and senior officials from around 30 countries entered the Services Signalling Conference on 26 July with high expectations. The main objective was to increase comfort among the main demandeurs by inviting members to give indications ("signals") on their planned market access commitments in a non-binding manner. Indeed, offers were made in almost all services sectors. The EU reportedly proposed to replace its burdensome economic needs and labour market tests with a quota of 80,000 professionals per year. This would gradually open the door for contractual service providers and independent professionals from developing countries, such as India, which welcomed the offer. The US was more careful and promised to discuss additional concessions for skilled foreign workers with the US Congress. India in turn offered more commitments in Mode 3 ("commercial presence") by indicating to open up its telecom, courier and financial services.[3] It was the first time that such a high-level ministerial meeting on services took place and the mood was overwhelmingly positive. Therefore, the outcome of the conference could have played a strong facilitating role for the overall negotiations. However, given the failure of the mini-ministerial, it is now unclear if and when the "signals" will translate into concrete offers.

> While a successful deal would have created some global economic benefits, it seems vastly exaggerated that it would have lifted millions of poor out of poverty or been the solution to the global food, energy and financial crises.

TRIPS: No solution to highly controversial issues

Since 2001, three topics had been at the core of the negotiations on the TRIPS Agreement: the multilateral register for geographical indications ("GI") of wines and spirits; the extension of the higher level of protection beyond wines and spirits ("GI extension"); and the relationship between the TRIPS Agreement and the United Nations Convention on Biological Diversity (CBD). Norwegian Foreign Minister Jonas Gahr Støre was entrusted with chairing the consultations on these issues and facilitating a solution. The EU has strong interests to move ahead with the first two issues, which were opposed by the US in particular. Developing countries, such as Brazil, India and Peru, wanted to see progress on the third issue. They wanted to prevent "biopiracy" by requiring the patent applicant to disclose the source and origin of the genetic and biological materials and traditional knowledge used in the inventions. The US again expressed strong reservations and reportedly negotiated possible concessions against a "peace clause" for US farm subsidies. Since those discussions could not be finalized, it is difficult to foresee any progress on the TRIPS issues.

What does the failure mean?

The failure of the mini-ministerial did not affect global trade flows, which are expected to continue growing. International stock markets did not even take note of it. On the other hand, while a successful deal would have created some global economic benefits, it seems vastly exaggerated that it would have lifted millions of poor out of poverty or been the solution to the global food, energy and financial crises, as sometimes argued. So what does the failure really mean?

Members missed another opportunity to show that they were willing to put into practice their lip service to a "Global Partnership for Development" as envisaged in Millennium Development Goal 8. Developed countries failed to show the necessary political commitment and leadership to compromise in favour of the long-term objective of a fair, just and development-friendly multilateral trading system.

Reactions from the membership ranged from disbelief and disappointment to calls for capturing what is on the table. Remarkably, there was not much of the typical acrimonious blame game, but rather a reflective mood. India's Minister of Commerce and Industry Kamal Nath lamented that no consensus could be reached on an issue concerning the livelihood security of millions of poor farmers in a round that was supposed to be a "Development Round". While the US affirmed that its offers would remain on the table, the EU refused to guarantee the same for its offers. While the proposal for breaking up the "Single Undertaking" principle did not get much support, the one for an "early harvest" of issues favouring LDCs was advocated by major developing countries. Civil society organizations repeated their warnings that the overall balance of the Doha package was negative for the majority of developing countries.

This sounds like "business as usual"; but there was a significant change: Major developing countries emerged as coequal partners and irrevocably modified negotiation dynamics. This "emancipation process", which had started in 2003 by the formation of the G-20 alliance of developing countries, gained momentum by the dominant role of China, India and Brazil in the most important negotiation circle, the G-7. Remarkably, developed countries explicitly acknowledged this shared leadership.

What does the failure of the mini-ministerial mean?

Members missed another opportunity to show that they were willing to put into practice their lip service to a "Global Partnership for Development" as envisaged in Millennium Development Goal 8.	Developed countries failed to show the necessary political commitment and leadership to compromise in favour of the long-term objective of a fair, just and development-friendly multilateral trading system.

The way forward: Reclaiming the "development" dimension

Although major developing countries made clear that they will not accept any deal against their development interests, the basic rules of the game did not change. The WTO remains committed to its principal objective of trade liberalization, and trade negotiations continue to be business-dominated. However, this very orientation and its underlying ideological foundations were questioned once again. The clash between the "neo-liberal free-market" paradigm and the "development-oriented fair trade" paradigm became evident, illustrated by the dispute over SSM.

WTO Members should take a step back and use the time for reflection to reconsider the main objective of the multilateral trading system. Given the global food insecurity, poverty, and energy, climate and financial crises, the narrow mercantilist trade-negotiating approach seems to be old-fashioned and has proven inadequate. A major shift seems inevitable, triggered by the understanding of a shared global responsibility, and directed at the creation of a fair, just and development-friendly multilateral trading system. This is an ambitious task, but more than ever needed. The United Nations Conference on Trade and Development (UNCTAD), buried in oblivion and insignificance, could make a valuable contribution by defining what such a multilateral trading system constitutes and by identifying ways to achieve the same.

The Doha Round can only become a true Development Round if developed countries refrain from their brinkmanship and show true political leadership. In the long term, the WTO and WTO Members will have to answer the following question: Is it still timely to call for further trade liberalization or should the focus rather shift towards levelling the playing field, i.e., regulating global trade in a way that allows sustainable human development for all Members? WTO's legitimacy and role in the global economic governance system will probably be measured against the fulfilment of the latter. ■

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Notes

[1] WTO. 2008. Report to the Trade Negotiations Committee by the Chairman of the Special Session of the Committee on Agriculture, Ambassador Crawford Falconer – JOB(08)/95, 11 August.

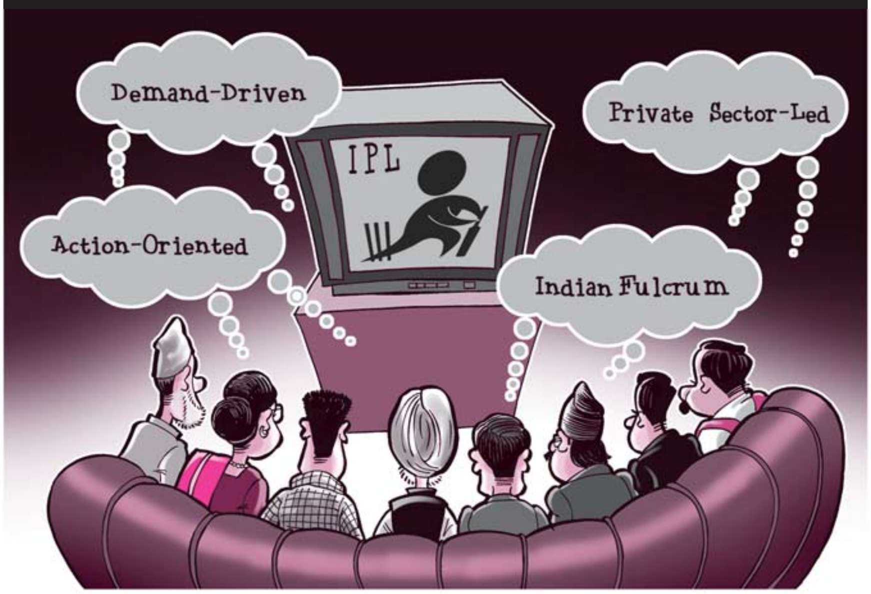
[2] For the report, see WTO. 2008. Market Access for Non-agricultural Products. Report by the Chairman, Ambassador Don Stephenson, to the Trade Negotiations Committee – JOB(08)/96, 12 August.

[3] WTO. 2008. Services Signalling Conference. Report by the Committee of the TNC – JOB(08)/93, 30 July.

Bringing the IPL spirit to SAARC

It is high time SAARC was rejuvenated along the lines of the Indian Premier League that with its 'Twenty 20' format gave a fresh lease of life to cricket.

■ **Deshal de Mel**



The Indian Premier League (IPL) is a new phenomenon in cricket that took the world by storm in May 2008. Breaking the traditional mould of five- and one-day cricket, the IPL adopted the 'Twenty 20' format, where a game can be completed in just about three action-packed hours. Teams were not defined by national boundaries but in a franchise system resulting in a truly international representation of the best players in the world competing with one another. Contrary to expectations, the IPL was a resounding success—capturing the imagination of an already cricket-mad sub-continent, and enthralling a whole new brand of spectators. Before the IPL, cricket was undergoing a crisis of confidence. A disastrous 2007 World Cup, waning popularity, a surplus of one dimensional monotonous games and numerous threats to the spirit of the game in the recent past had threatened the sport's long-term viability. The South Asian Association for Regional Cooperation (SAARC) too has been undergoing a similar crisis. Limited efficacy of programmes, weak economic integration, and trade and bilateral problems within the region have plagued the regional body in recent times. The IPL provided a breath of fresh air to cricket, and it provides numerous lessons for SAARC in terms of doing the same for South Asian regional cooperation.

Demand-driven

The most important lesson that SAARC can draw from the IPL is about being demand-driven. Following the 2007 World Cup in the Caribbean, the public was weary of cricket—the tournament had dragged on for some 60 days, most of the games were one-sided and static, resulting in spectacularly poor crowd attendance throughout the tournament. In this generation of instant messaging, Blackberry and speed dating, the public could not spend an entire day (let alone five) watching a cricket match. Something had to give. Twenty 20 cricket in the IPL provided the ideal ointment. Games were short and action-packed, and teams were evenly matched. The very first game saw a record-breaking performance by Brendan McCullum, unthinkable in any other format of the game. From that moment, the crowds were hooked. They flocked to the stadiums to support their adopted teams and the IPL saw cricket evolve to meet the demands of the spectators.

SAARC needs to do the same. The most recent SAARC Summit held in Colombo in August 2008 resulted in an expenditure of over US$25 million. The public in Sri Lanka began to ask questions. Will the benefits of SAARC be greater than US$25 million? Will these benefits be tangible to the people of the country and the rest of SAARC? At the moment it is difficult to answer these questions in a positive manner. Therefore, it is essential that SAARC institutions and processes are re-examined and re-engineered to shift their focus towards a demand-driven, result-oriented agenda. SAARC encompasses numerous projects and programmes, many of which simply fall by the wayside. If results are not delivered soon, it is unlikely that the public will continue to tolerate continued expenditure on Summits and the like. Accountability is essential. In the IPL, if a team fails, it is accountable to the franchise owner. The same cannot be said about a poverty alleviation programme that is neglected in SAARC. SAARC leaders need to find a way to respond to the demands of the greater South Asian community.

Action-oriented

One of the demands of the cricket-loving public was more action in a shorter period of time. The same can be said about the general South Asian public in response to governments in general and SAARC in particular. How did the IPL respond? Various new innovations were introduced. Powerplays, for instance, guaranteed four action-packed overs at the start of each innings. New dimensions were brought into cricket—music, cheer leaders and fresh elements such as the rule of having at least one under-19 player at each time. All these added spice and vigour to an old game. SAARC can do the same. Take the Agreement on South Asian Free Trade Area (SAFTA), for example. A major criticism is the fact that the free trade area will not be fully in place until 2016. However, it is possible to create a fast track for key products traded in the region that would provide some tangible results to the respective economies. New elements in the Agreement should include the speedy implementation of trade in services, investment liberalization and some genuine trade facilitation. These will provide some much-needed action in SAFTA, without which the Agreement would surely stagnate and be overtaken by bilateral agreements already in place and by those that are in the pipeline.

Private sector-led

Another dimension of the IPL is that it is largely driven by non-state entities. The major stakeholders in the IPL (other than the public) were big private sector companies, Bollywood

> Taking a leaf out of the experience of the Indian Premier League, South Asian governments should gear SAARC activities towards attracting the interest of the private sector, which is crucial for deepening regional cooperation.

personalities and businesspeople. Conversely, SAARC is largely state-driven with limited interest from the private sector and the real drivers of the region. In the IPL, the Indian cricket board just set the rules and conditions; the private sector took the ball and ran with it. This resulted in packed stadiums and huge public interest—a stark contrast to the Asia Cup that was organized by the Asian Cricket Council in a traditional manner and played in front of empty stadiums with little impact except for the emergence of Ajantha Mendis in the final. The key to attracting the interest of the private sector is for SAARC to focus on issues that are of interest to the private sector. This is where the governments will need to set an action-oriented agenda, which would automatically result in private sector interest in SAARC and its institutions. Another approach would be to have greater private sector and civil society engagement with decision makers in SAARC at the Summit level.

Indian fulcrum

The IPL clearly reflected reality—both regional and global. India is a regional power and an emerging global economic power as well. Naturally, this creates opportunities and threats for other countries in the region, but in terms of progress, it is essential to consider the opportunities seriously. The IPL saw India provide the bulk of the resources. The infrastructure, the marketing, the organization—these were all provided by India, and the other countries joined the party and enjoyed the benefits. In terms of regional cooperation, the story could be similar. India has the resources and the capability to provide leadership to cooperation in South Asia. The other countries should consider this as an opportunity and piggyback on India's successes, while of course contributing in their own ways as well. The IPL provides an example of this as well in that it was truly international. A year ago it would have been near-impossible to imagine Shoaib Akthar, Sourav Ganguly and Ajantha Mendis all playing for the same team—the Kolkata Knightriders. Regional cooperation also needs to be all-inclusive. Everyone needs to chip in according to their capabilities and the results need to be enjoyed by all the countries.

Conclusion

Cricket has enjoyed a substantial revival since the revolution in the form of Twenty 20 cricket. Many have been sceptical about this new format, particularly the possibility of erosion of traditions in the purest form of the game—test cricket. While this concern is valid, it is important to realize that Twenty 20 is not a change for the sake of change. It is a response to a demand from the public. What is heartening to note is that it has resulted in a renewed interest in cricket overall, test cricket included. This is surely a good thing. The same is needed in SAARC. Change is required not for the sake of change, but to meet the demands of a populace that has some valid criticisms of the process as it stands now. Cricket successfully evolved in response to a changing world. It remains to be seen whether SAARC will do the same. ■

The author is associated with the Institute of Policy Studies (IPS), Colombo, Sri Lanka. The article draws on a session of the same title in the 1st South Asia Economic Summit, held in Colombo from 28–30 August 2008.

SAARC Seed Bank

a viable mechanism to ensure food security in South Asia

Kamalesh Adhikari

IN 1996, a report published by the International Food Policy Research Institute indicated that in the next 25 years, food requirements in South Asia—which houses 21 percent of the world's population and more than 40 percent of the world's poor—would double, putting a shrinking natural resource base of the region under further severe pressure. A testimony to this problem is the rapidly deepening problem of food insecurity in the region, further exacerbated by the recent global rise in food prices.

In an effort to respond to the food crisis, South Asian countries have endeavoured to operationalize a regional food bank. In the first week of November 2008, the region's Agriculture Ministers are meeting to identify and find mechanisms to implement people-centred short- to medium-term regional strategy and collaborative projects that address food insecurity and help the region in achieving a long-term sustainable agricultural growth.

As a long-term approach to enhance the productivity of the agricultural sector and address the region's food insecurity and widespread poverty, a suggestion has been made in this article to develop a community-centred regional strategy and collaborative project to bring into implementation a "SAARC Seed Bank". The operationalization of such a bank in the region will create an effective long-term mechanism of production, exchange and use of community- and environment-friendly improved seeds that are in the domain of private and public sector organizations as well as farmers.

Global response to food crisis

For the first time since 1973 when the global economy witnessed the "First Oil Crisis", countries—as the World Bank states—are being hit with a combination of record oil and food prices, threatening to drive over 100 million people into extreme poverty. Recently, while oil prices have started to retreat from their record levels, the Food and Agriculture Organization of the United Nations (FAO) predicts that the pressure on food prices will, however, remain in the longer term, mainly due to continuing economic and population growth in developing countries, the negative impact of climate change on food production in many areas, and the growing demand for biofuels.

Governments, global institutions such as the FAO and the World Bank, and civil society groups have already started to reorient their work, making a call for collaborative policy and institutional actions to address the price rise and food insecurity. For example, a "New Deal on Global Food Policy" has been endorsed by 150 countries, with commitments to short-, medium- and long-term responses; "Safety Net" programmes such as distributing food in schools have been implemented; "Food for Work" initiatives have been strengthened; etc.

In addition, governments have also undertaken several policy measures to address the multi-faceted problems caused by the food price rise and shortage. For example, Asian governments implemented measures such as—export bans (Bangladesh, China, India, Nepal, Vietnam); imposition of export duties (Kyrgyzstan); elimination of value added tax (Azerbaijan); reduction or elimination of import duties (China, Iran, Pakistan); subsidies for wheat production (Azerbaijan), fertilizer import (Indonesia), and rice import (Malaysia); maintenance of emergency food reserves/stocks (Bangladesh, Nepal); etc.

Besides, together with the FAO, the World Bank and various other global institutions, these governments have also expressed their commitments to extending support to increase investment in agricultural research, agribusiness, and supply of seeds and fertilizers. And, already they have commissioned several projects to identify mechanisms that address the unprecedented challenges caused by the rise in food prices and growing food insecurity.

SAARC response to food crisis

In the 15th Summit of the South Asian Association for Regional Cooperation (SAARC), held on 28 July–3 August 2008 in Colombo, the heads of state or government of South Asia—in view of the emerging global situation of reduced food availability and worldwide rise in food prices—issued a separate "Colombo Declaration on Food Security".

In the statement, they directed that an Extra-ordinary Meeting of the Agriculture Ministers of the SAARC Member States be held in New Delhi, India in November 2008. The purpose of the meeting is to identify and implement people-centred short- to medium-term regional strategies and collaborative projects that would, among others, lead to: increase in food production; investment in agriculture and agro-based industries; agriculture research; development and sharing of agricultural technologies; sharing of best practices in procurement and distribution; and management of the climatic and disease-related risks in agriculture.

In order to identify a clear roadmap for agriculture development and food security in the region, the heads of state or government have also called for the drawing up of SAARC Agriculture Perspective 2020. In addition, they have directed that the SAARC Food Bank—an improved idea of the food reserve system that was first conceptualized in the Third SAARC Summit in November 1987 in Kathmandu—be urgently operationalized.

SAARC food bank

An "Agreement on Establishing the SAARC Food Bank" has already been finalized, aiming to maintain a regional food reserve of 2 million tons of rice and wheat. All the eight countries of the region will have to contribute to the reserve, as committed in the annex attached to the Agreement. The objectives of the Bank are to: act as a regional food security reserve for the SAARC countries during food shortages and emergencies; provide regional support to national food security efforts; foster intercountry partnerships and regional integration; and solve regional food shortages through collective action.

This effort by South Asian countries is commendable but SAARC governments as well as other actors and agencies should realize that even if there is effective implementation of such a food reserve system, it is only a relief programme to address food demand during emergencies. Moreover, even if the SAARC Food Bank is operationalized, there is no guarantee that it would automatically ensure regional food security, particularly when it comes to addressing the food shortage at the household level and in areas which are remote and inaccessible. The success of the Food Bank, therefore, depends on the ease of people's access to this reserve and the distribution system, including the cost of distribution. Moreover, since most South Asian countries are resource poor and already in a situation of food deficit, and since most of the region's people have low purchasing power, it is not clear how much cost the governments (and their capacities vary greatly) will be able and prepared to bear.

And more importantly, particularly when there is already a limited use of improved seeds in the region, talk-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ing about maintaining a reserve of enough food so as to facilitate access to and distribution of food might not be that much relevant. Thus, there is a need to identify some important innovative mechanisms that also address the problem and offer long-term solutions, for example, through the establishment and extension of community- and national-level seed banks that store and facilitate the use and exchange of high quality seeds, and through the creation of a regional network of such a bank in the region.

In this connection, the establishment of a regional seed bank could be very important for South Asia as such a system facilitates and advances the production, use and exchange of seeds that have high yields. However, before making decisions, relevant issues must be brought into discussion at a wider level, and issues relating to the strengthening of cooperation in this area need to be identified and addressed through adequate policies and institutional arrangements.

Cooperation towards a gene bank

Given the growing importance of the application of biotechnology in agriculture, and similarities within the region in terms of technological needs, climatic and environmental conditions, socio-economic features, and cultural factors, including food consumption trends and habits, there could be two approaches for South Asia to pursue and advance cooperation on food security at the regional level.

First, promote the use of traditional knowledge, systems and technologies that help in improving agriculture productivity—for example—through the implementation of policy and institutional mechanisms that facilitate farmers to develop, use and exchange improved seeds of major food crops. However, in this process, policy makers must be aware of the importance of implementing safety mechanisms and promotional measures concerning seed development, certification, ownership, use, exchange, etc.—particularly due to the growing possibility of the misuse (or piracy) of traditional knowledge and plant genetic resources. Effective implementation of programmes such as "Community-based Biodiversity Management (CBM)" that also promotes the implementation and extension of "Community Seed Bank", "Community Biodiversity Register" and "Participatory Plant Breeding" projects could be useful in this process.

Second, devise regional strategies to harness the potential of biotechnology for more production of food. However, in this process, they must be aware of the importance of using biosafety policies as well as making the outcomes community- and environment-friendly—for example—through the implementation of *sui generis* intellectual property right (IPR) and access and benefit sharing (ABS) laws that protect farmers' rights to genetic resources (seeds) and associated traditional knowledge.

It is not that the potential for cooperation on some of these areas has not yet been realized by South Asian governments. In the Fifth SAARC Summit, held in Male in November 1990, the heads of state or government, "noting the vital importance of biotechnology for the long-term food security…, decided that cooperation should be extended to this field and, in particular, to the exchange of expertise in genetic conservation and maintenance of germplasm banks." Encouragingly, in this connection, they had also welcomed India's offer of training facilities and agreed that cooperation in the cataloguing of genetic resources stored in different SAARC countries would be mutually beneficial. Besides, in the same summit, they had also expressed their consent to support the proposal made by the Group of Fifteen Developing Countries (G15) for the establishment of a gene bank for developing countries.

SAARC Seed Bank

While the idea of a gene bank at the regional level could be considered to be an important initiative for biodiversity conservation and the facilitation of the use of genetic resources among countries, a suggestion has been made here to develop a community-centred regional strategy and collaborative project to bring into implementation a "SAARC Seed Bank". The operationalization of such a bank will create an effective long-term mechanism of production, exchange and use of community- and environment-friendly improved seeds that are in the domain of private and public sector as well as farmers.

In South Asia, access to improved seeds supplied by the formal sector is very limited—for example, less than 7 percent of farmers in Nepal have access to formal sector seeds; the rest depend on informal seed systems through their own production, saving, farmer-to-farmer exchange and informal purchase for plantation. In Bangladesh, India and Pakistan also, a majority of farmers depend on informal seed systems, though there have been continued efforts by formal sector institutions, such as public sector agriculture research institutions and private seed companies, to supply improved seeds to farmers.

Such trends have affected agricultural commercialization and due to low production and productivity, in most rural areas, food shortage has been a recurrent problem, within households as well as the region. Thus, the SAARC Forum and the SAARC Seed Bank can serve a very useful purpose, helping the region ensure and expand access to improved seeds that have high yields. There are three strategies that could be adopted to ensure and expand farmers' access to such seeds through the SAARC Seed Bank.

First, through the implementation of policy and institutional support measures to strengthen community systems of seed supply. The Agriculture Ministers of the region must take into consideration the initiatives some communities in the region have been taking to conserve seeds in community seed banks, which not only serve the purpose of quality seed supply on a regular basis but also demonstrate a community-led (on-farm) system to conserve agricultural biodiversity. In countries like Bangladesh, India and Nepal, some non-

Rationale for the SAARC Seed Bank

The rationale for the establishment of the SAARC Seed Bank is not merely linked with the need to increase the productivity of the agricultural sector, but also relates with the growing significance of conserving agricultural biodiversity and fostering their use in the interest of the region's local, indigenous and farming communities; and above all, tackling the challenges posed by climate change, biopiracy, haphazard and unjust use of biotechnology, and IPRs (such as patents) that are being strengthened through the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (also known as WTO/TRIPS), as well as several bilateral and regional trade arrangements. In addition, this initiative is also important because in recent years, exchange of genetic resources between countries, including South Asian, for research and development of new plant varieties is growingly becoming complicated, reducing a greater scope of biodiversity research in the region—due to the growing conflict between the corporations and community-interest groups over the issue of ABS and IPR rules.

governmental organizations and community groups have mobilized these systems across a number of rural settlements and communities. The Agriculture Ministers can implement an effective mechanism within the SAARC Seed Bank to mobilize and strengthen community seed banks so as to make quality seeds available to all the farmers in the region. In this process, one of the most important strategies would be to create a strong link for effective collaboration and cooperation among community, national and regional seed banks.

Second, through the establishment and promotion of cooperation with regional private seed companies and public sector agriculture research institutions. These enterprises and institutions have already been able to develop a number of improved seeds that ensure better production. The SAARC Seed Bank can make a collection of those seeds and facilitate their use and exchange in the interest of the region's farmers. And, in cases when those seeds—or even seeds in the public domain or farmers' domain—need further improvement, governments in the region can promote the exchange of regional expertise and sharing of technologies so as to produce and expand the use and exchange of more quality seeds. Cooperation from India could be instrumental in this regard, due to its growing capacity in technical and financial areas. The advancement in the field of biotechnology at the regional level must also feature as a major strategy in this process.

Third, through assistance from international seed banks and companies. SAARC countries can devise regional mechanisms to collaborate with international seed banks and private sector seed companies for facilitating access to plant genetic resources for food and agriculture (PGRFA). For instance, most South Asian countries have already ratified the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) that maintains a multilateral system to facilitate access to PGRFA, recognizing farmers' rights to save, exchange, reuse and sell farm-saved seeds; and benefit sharing arising from the utilization of PGRFA; among others. The SAARC Seed Bank cannot merely seek opportunities to collect and store the important PGRFA within its portfolio from the ITPGRFA mechanism so that improved seeds could be developed and made available in the region, but can also seek assistance from international seeds banks and private seed companies—though this is difficult in the latter case due to the conflicting positions of countries on ABS and IPR rules—to improve access to quality seeds.

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The South Asian Agriculture Ministers can implement an effective mechanism within the SAARC Seed Bank to mobilize and strengthen community seed banks so as to make quality seeds available to all the farmers in the region

Besides these strategies, as far as the *modus operandi* of the regional seed bank is concerned, ideas and experiences could be gathered from consultations with community and international seed banks, as well as those which have been working in the similar field. For instance, whether to establish a centralized regional seed bank located in a particular country or operationalize decentralized national-level seed banks that could operate regionally through joint decisions and under a set of guidelines could be a major issue of consideration for the operationalization of the SAARC Seed Bank. Since initiatives for the effective operationalization of national gene banks in South Asia are already gaining growing significance, many of the ideas regarding the nature and the modalities of the SAARC Seed Bank could also be generated from the policy and institutional mechanisms that are under implementation (or proposed) for national gene banks.

Challenges

The implementation of all these strategies is not without complications, and there are various national- and regional-level policy, institutional and practical challenges that must be addressed to successfully implement the SAARC Seed Bank. The Bank must have a clear mechanism of facilitating the process of "access to seeds" that deals with, for instance, mutually agreed terms, covering, among others, ABS rules, prior informed consent procedures; seed development, certification and marketing rules; IPR rules and exemptions; and farmers' rights. Besides, as mentioned earlier, careful consideration of biosafety policies and the application of biotechnology in a judicious and community- and eco-friendly manner are also important.

If the Agriculture Ministers make decisions in New Delhi to advance negotiations in these areas and develop an action plan to establish the SAARC Seed Bank, it will serve a very useful purpose of SAARC, i.e., the promotion of "regional and sub-regional collective self-reliance with respect to food security". And, in particular, the Bank will help the region advance the interests of farmers in the globalized era, as it will also increase their possibilities to benefit from the region's growing integration into the world economy. ■

Remove the barriers

Removing barriers to Nepalese exports is critical for arresting Nepal's ever-worsening trade balance with India.

■ **Paras Kharel**

India is Nepal's largest trading partner, with bilateral trade accounting for over 60 percent of Nepal's total foreign trade. The Nepal-India Treaty of Trade, last renewed for five years in March 2007, is the official agreement governing formal trade between the two countries. Nepal has had trade relations with India since time immemorial, but its trade dependence on its southern neighbour has accelerated over the last decade.[1] Of more immediate concern for Nepalese policy makers is the ever-widening trade deficit Nepal has been incurring vis-à-vis India: trade deficit has increased by over 120 percent in the last five years. With export-import ratio vis-à-vis India as low as 27 percent, Nepal is having to pay for an increasing portion of its imports from India in hard currency.[2]

While domestic conflict, political instability and labour unrest, which intensified with the onset of the new millennium, have no doubt put a damper on Nepal's overall export performance, the nature of the current Nepal-India Treaty of Trade, together with the way it is being implemented, also explains the lopsided trade relations between the two countries.

Trade treaty and impacts

The three main features of the Trade Treaty are: exemption from basic customs duty as well as quantitative restrictions on imports of primary products from each other on a reciprocal basis; access for Nepalese manufacturing exports to the Indian market free of basic custom duties and quantitative restrictions on the basis of non-reciprocity; and preferential entry of manufactured goods from India to the Nepalese market without any quantitative restrictions.

The current Treaty is a renewal of the 2002 Treaty, which imposed onerous rules of origin (ROO) as well as quantitative restrictions on key export items of Nepal, replacing a more liberal Treaty signed in 1996. The 1996 Treaty was liberal than previous agreements on two main grounds. First, it provided improved duty-free access for Nepalese exports to Indian market by removing the former 50 percent ROO condition as long as there is some local value added in manufacturing. Second, the negative list was relatively small.[3]

The 1996 renewal was followed by a sharp increase in bilateral trade, both in absolute and relative terms. The share of trade with India in Nepal's total foreign trade increased from 29 percent in 1995/96 to 55 percent in 2001/02. Exports grew from NRs. 3.68 billion[4] in 1995/96 to NRs. 27.95 billion in 2001/02 while imports grew, at a much slower rate, from NRs. 24.39 billion in 1995/96 to NRs. 56.62 billion in 2001/02. There was a marked shift in the composition of exports, away from primary goods to manufactured goods. From 30.5 percent in 1996/97, the share of manufacture exports surged to 42.7 percent in 2001/02 (and to 62.25 percent in 2004/05). While Nepal started exporting noodles, toothpaste and polyster yarn to India in significant amounts from 1994/95, its basket of manufacture exports to India diversified further from 1997/98 to include items like vegetable ghee, soap, ayurvedic products (*chawanprash* and *hazmola*), pashmina, thread, copper wire rod, M.S. pipe, plastic goods, zinc sheet, G.I. pipe, textiles, juice and chemicals.

When the Treaty was renewed in 2002, India re-introduced the value addition requirement for Nepalese manufactured goods to qualify for duty-free access. The ROO required a change in tariff heading (CTH) at the four-digit level of the Harmonized Commodities Description and Coding System (HS) as well as a 30 percent domestic value addition.[5] The ostensible grounds for imposing ROO way beyond the capacity of a least-developed country with a weak industrial base and serious supply-side constraints—the steep value addition requirement being not achievable even for Indian industries—were to "promote genuine industrialization" and "provide clarity and transparency" to the preferential scheme. In practice, however, ROO is used as a means of hidden protection. Moreover, global experience shows there is no evidence that strict ROO has helped

beneficiary countries create a viable industrial base.[6]

In addition, citing what it called a surge in exports from Nepal, hurting domestic producers, India slapped quantitative restrictions on Nepalese exports of vegetable ghee (a tariff-rate quota of 100,000 Mt. per year), acrylic yarn (10,000 Mt.), copper products under Chapters 74 and Heading 85.44 of the HS Code (7,500 Mt.), and zinc oxide (2,500 Mt.). Exports up to the set quota would get preferential access while exports in excess of the quota would attract most-favoured-nation tariff.

Another restrictive condition was the requirement that Nepal provide to India *on an annual basis* information regarding the basis of calculation (of CTH and domestic value addition) for the grant of Certificates of Origin to the manufacturing facilities in Nepal for preferential access to the Indian market.

Furthermore, the safeguard provision was made more specific. It allowed "remedial measures" in the event of a "substantial" increase in imports from one party causing or threatening to cause injury to the domestic industry in the importing country. India has frequently resorted to such measures against Nepalese products.

The constraining provisions introduced in the 2002 renewal of the Treaty—which were retained in the latest renewal—dealt a severe blow to Nepalese exports to India. On the one hand, manufacture items exhibiting promising export growth were targeted. On the other, the insuperable ROO, besides hurting existing exports, erected a barrier to emergent and potential exportable goods. Vegetable ghee exports—Nepal's biggest exports to India—which peaked to NRs. 7.08 billion in 2001/02 from NRs. 1.58 billion in 1997/98 plunged after the 2002 renewal and were NRs. 2.1 billion in 2007/08. Exports of copper wire rod, which had increased from NRs. 631.5 million in 1999/2000 to NRs. 2.62 billion in 2001/02, also declined after the 2002 renewal before picking up again in 2007/08 but are still below the 1999/2000 level. The impact of the Treaty on zinc oxide exports was so crippling that such exports came to a grinding halt from 2005/06.

The effects of the restrictive nature of the Treaty are thus evident. During 2000/01–2007/08, the annual compound import growth rate (14.8 percent) was more than double the export growth rate (5.8 percent) and, as a result, Nepal's normalized trade balance with India worsened by 22 percentage points to 57.8 percent.

Other non-tariff barriers

Besides quantitative restrictions and unreasonable ROO, other non-tariff barriers (NTBs) also serve as a serious impediment to Nepalese exports. Food exports, including vegetable ghee, are subjected to mandatory laboratory tests under the Indian Food Act. The nearest food-testing laboratory, in Kolkotta (India), is almost 1,000 kilometers away from the main customs point at Birgunj (Nepal). Apart from raising cost, this affects the quality of exports as exporters have to wait for weeks for the test results to arrive.

Nepal's export of agricultural and forest products to India requires quarantine certification. However, India has a quarantine facility only at the Panitanki checkpoint, bordering Kakarbhitta in far eastern Nepal. So traders in west Nepal who want to export agricultural and forest products to the western part of India are compelled to take a circuitous, costly route—from west Nepal to far eastern Nepal and then back to the western part of India. Setting up more quarantine checkpoints in different parts of the border would help avoid unnecessary transaction costs. Moreover, there is no predictability in the way quarantine-related rules are applied. There are instances of them being applied all of a sudden while some types of quarantine checking are possible only in New Delhi.

More recently, according to media reports, India introduced a provision requiring readymade garment (RMG) meant for exports to be subject to a lab test in New Delhi. This has a potential to reverse the inroads made by Nepalese RMG in the Indian market in the years since the expiry of the Agreement on Textiles and Clothing (ATC) of the World Trade Organization (WTO) that saw Nepal lose a substantial market share in the United States (US), the largest market for its RMG exports.

Another NTB is the administration of the import quota for vegetable ghee through a state trading agency, the Central Warehousing Company (CWC). The agency charges a service fee, which is an additional financial burden to Nepalese exporters. This extra transaction cost could have been avoided if private India traders were allowed to import the quota amount of vegetable ghee from Nepal.

Other issues

The competitiveness of Nepalese exports is also being eroded by the imposition of an array of duties, often out of the blue. The Treaty mentions just two kinds of import duty: basic customs duty and additional duty. The latter, usually referred to as "countervailing duty" in India, is imposed at a rate equivalent to the excise duty levied on like goods produced or manufactured in India. The Treaty exempts Nepalese goods fulfilling the ROO from basic customs duty and quantitative restrictions (except for the four above-mentioned products, which are subject to tariff-rate quota) when imported into India. It also provides for extending relief on additional duty on articles manufactured in small-scale units in Nepal on a par with relief granted in the application of excise duty to similar products manufactured in India. However, the Treaty allows India to levy additional duty on imports of products manufactured in medium- and large-scale units in Nepal.

So, can India impose other import taxes such as surcharge and special additional duty on Nepalese products without violating the Treaty? While it is true that there is no mention of waiver of these taxes in the Treaty, imposing them on imports from Nepal defeats the objective of promoting, facilitating, expanding and diversifying trade between the two countries as stated in Article I of the Treaty. They amount to a burden that dilutes the waiver of basic customs duty: giving with one hand and taking with another. Moreover, the unpredictability of the imposition of such duties is undermining investors' confidence in Nepal.

There are instances of India imposing extra duties under pressure from domestic industrialists complaining of losses due to imports from Nepal. Of course, the Treaty provides for remedial measures in the event imports cause or threaten to cause injury to the domestic industry. It states that the importing country *may* request for consultations in the Joint Committee set up by the two governments for this purpose with a view to taking appropriate measures. However, in practice requests for consultations are rarely made before taking measures to counteract the injury or threat of injury. Perhaps this is because the word 'may' renders consultation requests optional.

As a land-locked country, the issue of transit is of paramount importance to Nepal. Hemmed in on three sides by India, Nepal carries out most of its overseas trade through Indian territory. Currently, Nepal is entitled to use Kolkotta and Haldiya ports located in West Bengal. Access to other Indian ports as well as ports in Bangladesh would substantially reduce transport costs for Nepalese overseas exports. This would contribute to Nepal's efforts at trade diversification and, through a potential boost in overseas exports, help correct its deteriorating trade balance, 64 percent of it being accounted for by trade with India.

> ROO should be simplified, quantitative restrictions lifted, NTBs dismantled, the practice of imposing various duties and charges discontinued, and mutual recognition of tests and standards established.

Use of Jawaharlal Nehru port in Mumbai, India is estimated to result in a saving of US$200 in transport costs on every container of goods destined for the US and Europe because of a shorter, more direct trading route. Likewise, unfettered access to the Banglabandh dry port in Bangladesh would also help expand Nepal's third-country exports. At present, Nepalese containers are transported under Indian security escort and the cargo has to be unloaded 500 metres ahead of the Banglabadh port.

Conclusion

At a time when a more comprehensive trade treaty is being proposed between Nepal and India, encompassing services and investment, among others, it is important to revisit the existing Treaty and rectify the imbalances. In particular, the ROO should be simplified, quantitative restrictions lifted, other NTBs dismantled, the practice of imposing various duties and charges in violation of the Treaty discontinued, mutual recognition of quarantine checking and standards established, and other trade facilitation measures taken. Both countries must strive to remove any unpredictability in the conduct of trade. After all, successful implementation of an agreement on goods trade that addresses the concerns of the vulnerable party is a litmus test for the ability to implement a more complex treaty, presumably mutually beneficial. ■

Notes

1 India's share in Nepal's total foreign trade increased from 30 percent in 1995/96 to 63.8 percent in 2007/08. India's share in Nepal's total exports and imports averaged 65 percent and 60.4 percent, respectively, over the last five years.

2 The proportion of imports from India against US$ payment was 12 percent, 15.3 percent and 22.2 percent in 2005/06, 2006/07 and 2007/08, respectively.

3 Items on the sensitive list were: alcoholic liquors/beverages and their concentrates except industrial spirits; perfumes and cosmetics with non-Nepalese/non-Indian brand names; and cigarettes and tobacco. Under the previous Treaty, there were seven sensitive products.

4 US$1 equalled about NRs. 74 on 21.09.08.

5 The domestic value addition requirement was set at 25 percent of ex-factory prices from 6 March 2002 to 5 March 2003, after which the 30 percent requirement would kick in. Nepalese articles not fulfilling the CTH condition but fulfilling the domestic value addition condition are eligible for preferential access on a case-by-case basis, provided they have undergone a sufficient manufacturing process within Nepal.

6 See WTO. 2005. Options for Least-Developed Countries to Improve Their Competitiveness in The Textiles and Clothing Business. WT/COMTD/LDC/W/37. 28 June. Geneva: World Trade Organization.

Trade in South Asia and Dynamics of Gender Inequality

Gender analysis is essential for the formulation of trade policies that enhance gender equality, necessary for inclusive long-term growth and development.

■ **Purnima Purohit**

Trade has been an important source of growth in South Asia. And it has been fast recognized that social dimensions could also help or harm the prospects and reach of growth anticipated via trade.

South Asia has a high degree of social stratification along class and caste lines and is believed to be one of the most gender-insensitive regions in the world.[1] This makes the relationship of trade or trade liberalization policies with gender inequality quite complex and multi-dimensional. Gender-based inequalities render differential effects of trade liberalization because of women's and men's differential access to and control over resources and because of their different roles in both market economy and the household. It is expected that as the region is moving from inward-looking growth polices towards more open and liberal market-oriented economic reforms, trade expansion is having some influence on gender inequalities. Thus emerges the question of the gender impact of trade liberalization on the countries in the region.

The interest in the gender effects of trade liberalization has a recent origin. In fact, if one looks at mainstream economics literature, it is mostly found to be either gender-blind or gender-neutral in assessing the relationship between trade, inequality and poverty. It has not considered gender as a separate relevant category of analysis. It has been insisted that the expansion of markets out of trade liberalization would eventually translate into higher incomes for all groups in the society, including the poor and women. Only over the last two decades have there been micro-level studies and macroeconomic analyses arguing that gender-based inequality (in education, training, health, etc.) directly and indirectly constrains productivity and hinders economic growth/ trade performance, and that men and women are affected differently by trade policies and performances. While gender-based wage inequality can create a competitive advantage for some semi-industrialized countries and seems to impact positively on their growth, if this strategy is adopted by all of these countries, it may result in a slow but steady deterioration in their terms of trade vis-à-vis industrialized countries.[2]

Because of structural gender inequalities in property rights and ownership in South Asia, trade liberalization could neither considerably improve women's access to credit nor provide more entrepreneurial opportunities. This indicates that gender-based inequalities not only hinder women's ability to take advantage of new opportunities created by trade liberalization but also constrain the output response and thus the export capacity of the whole economy. This article, therefore, argues that gender analysis is essential for the formulation of trade policies that enhance rather than hinder gender equality for the sake of long-term growth and development in South Asian countries. While it is acknowledged that gender inequality will not be eliminated solely through more gender-aware trade policies, it is also true that an understanding of the relationship between gender inequality and trade policy can help policy makers understand why the expected results from trade liberalization may not come about.

Inequalities

South Asia being labour-abundant, the rise of labour-intensive industries has led to an increase in the number of women obtaining paid employment. Parallel to export orientation and trade liberalization in South Asian countries, there has been gender-based segregation of industries and occupation where certain types of work have been linked to a specific gender. Textiles, apparel and footwear, food processing and toy production are some examples of industries that tend to employ women because the work is seen to resemble the kind of work women are expected to do. Also, the design of such kind of labour-in-


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tensive employment has taken place because women's rights over their own labour are less constrained than their rights over land and natural resources.

Various country-based studies of the region show that export orientation in some of these countries have developed concurrently with the increase in women's share of paid employment in labour-intensive firms/occupations. However, many things mediate the effects of trade liberalization on women labour and are important in determining the final outcomes.

Data show that a significant increase in women's employment occurred in the booming labour-intensive and low-paid manufacturing sectors such as textiles, apparel and leather goods and in domestic services, which are generally notorious for poor payment and exploitative working conditions. Besides, labour-intensive firms prefer female labour from the informal sector that can be easily hired or laid off depending on demand conditions. For instance, in Bangladesh, female employment in manufacturing remains concentrated in a single industry—readymade garments—largely offering low-skilled and low-wage jobs, while other textile sub-sectors in the country are still predominantly male. Similarly, 93 percent of working women in India work in the unorganized sector and women make up only 17.5 percent of non-agricultural wage labourers.[3] Likewise, in Sri Lanka, the share of women employed in export processing zones (EPZs) is the highest, touching around 85 percent. However, work in EPZs is characterized by insecure employment owing to exemption from local labour laws.

Also, while there are clear income gains for women in the informal sector from trade expansion, the share of women in modern and well-paid sectors has remained minimal. In the export-oriented manufacturing sector, vertical segregation/sex compartmentalization has been persistent, and within sectors, hierarchies have become more pronounced. A case in point is Bangladesh[4] where women are increasingly occupying lower-ranking occupations and men are taking up supervisory roles. The instance of feminization of the electronics industry of late is cited in the literature for employing a large proportion of women although electronics and associated machinery are often thought of as male-dominant products and relatively better paying than the apparel or leather industry. However, even in this industry, women's involvement in production has been largely confined to assembly, testing and quality control. Disappointingly, women serve between end-users and engineer-designers who are predominantly male in the industry.

These trends in the region suggest the character of the interplay between gender roles and labour-intensive employment-generating industries. While the overall expansion of women's paid work in the region due to trade expansion may be viewed as potentially contributing to women empowerment as well as the economic growth of the country, this also spells out another problem: of attaining gender equity in wages via trade liberalization. Trade and liberalization processes seem to offer incentives to the region to maintain gender inequality by suppressing women's wage to stay competitive. But the fact is that gender equality and equity *per se* is important for the region to keep its terms of trade of the production sector favourable to ensure sustainable growth in the long run.

Trade expansion and employment opportunities

Table 1 gives the status of women's employment in select Asian countries, including three South Asian ones. It suggests that women are less likely to be wage and salaried workers and mainly contribute as unpaid family workers. The share of wage and salaried female workers in the labour force is the highest in Sri Lanka (59 percent) and the lowest in Bangladesh (8.3 percent). Table 2 captures the women's share of total employment by sector in South Asia where women have a higher share in agricultural employment. Though, contrary to global trends,

TABLE 1

Status of women's employment in select Asian economies

Country	Year of data availability	Wage and salaried workers (% of labour force)		Contributing family workers (% of labour force)		Self-employed workers (% of labour force)	
		Female	Male	Female	Male	Female	Male
Bangladesh	2000	8.3	15.2	73.2	10.1	11.0	49.8
Pakistan	2002	37.1	40.3	46.9	16.4	16.0	43.3
Sri Lanka	2003	59.6	58.5	20.9	4.2	19.5	38.4
Cambodia	2001	13.6	19.1	53.3	31.6	33.0	49.3
Thailand	2003	40.2	40.9	35.2	16.0	24.7	43.2

Source: KILM, 4th edition 2006/National Productivity Council, New Delhi.

TABLE 2

Regional estimates of female share of total employment by sector (%)

Regions	1994			2000			2004		
	A	I	S	A	I	S	A	I	S
World	**40.7**	**31.6**	**43.5**	**40.5**	**30.4**	**44.0**	**40.3**	**30.4**	**44.7**
Developed Economies and the EU	35.9	25.6	51.0	34.6	24.5	51.9	33.6	22.8	52.4
Central and the Eastern Europe (non-EU) and CIS	43.4	35.8	52.0	44.8	32.9	51.1	45.0	32.2	52.7
East Asia	47.9	40.2	41.0	47.7	39.7	42.3	47.5	39.4	42.2
South-East Asia and the Pacific	41.3	34.9	44.2	41.2	35.8	44.8	39.4	36.3	47.5
South Asia	**32.0**	**22.6**	**24.9**	**31.9**	**21.9**	**24.2**	**32.8**	**25.6**	**24.1**
Latin America and the Caribbean	21.1	24.9	46.6	20.5	25.6	48.0	18.7	24.3	49.6
Middle East and North Africa	22.4	13.7	22.7	25.3	14.0	24.6	25.5	14.7	27.0
Sub-Saharan Africa	46.3	27.2	43.0	45.3	26.8	45.2	44.4	25.8	45.6

Note: A = female share of total employment in Agriculture, I = female share of total employment in Industry, S = female share of total employment in services.
Source: KILM, 4th edition 2006/National Productivity Council, New Delhi.

women's share of total employment in industry has been growing during the last decade in the region, evidence-based literature suggests that most of these jobs are in the manufacturing sector and do not appear to provide secure or lasting employment opportunities.[5] The percentage of women in trade-related jobs with temporary status and no benefits greatly exceeds over time. This trend would not ensure improvement in the economic security and well-being of women.

Notably with regard to the impact of trade on wage gap, there are instances of narrowing of the gap in female-male wage differentials over time. Evidence from Bangladesh suggests that wage discrimination against women in the garment export industry had declined in its early stages. There was a narrowing of the gap from 1983 to 1990, but a widening of the same from 1990 to 1997. This phenomenon is attributed to a higher proportion of men taking up high-skilled jobs and an increase in the number of female temporary workers.[6]

On this basis, gender experts insist that the wage disparity in the region is due to gender educational gaps, an abundant supply of women labour force and a structurally weaker bargaining power of women as compared to men.[7] Societal gender inequality also prevents women from benefiting from upgrading and the shift of production towards skill-intensive goods and services sectors. On account of social stratification and a strong gender bias in the region, it is often asserted that firms continue to prefer investing in training/inducting male workers on a permanent/longer-term basis because they consider men more reliable in that they are less likely to leave paid work because of family obligations.[8]

It is, therefore, important to identify the constraints on gender equality in the region. For, gender inequality reproduces poverty, affecting one generation after another, and directly and indirectly impacts the growth performance of a country in a substantial manner. ■

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Note

1 Mukhopadhyay, S. and M. Sudarshan. 2003. *Tracking Gender Equity Under Economic Reforms: Continuity and Change in South Asia*. Ottawa: International Development Research Center (IDRC).

2 Çaðatay, N. 2001. Trade, Gender and Poverty. *Social Development Group, Bureau for Development Policy*. New York: United Nations Development Programme (UNDP).

3 Social Watch. 2006. *Social Watch Report 2006: A Citizens' Global Progress Report on Poverty Eradication and Gender Equity*. Montevideo: Social Watch.

4 Paul-Majumder, P. and A. Begum. 2000. *The Gender Imbalances in the Export Oriented Garment Industry in Bangladesh*. Gender and Development Working Paper Series 12. Washington, D.C.: The World Bank; and Fontana, Maria. 2008. The Gender Effects of Trade Liberalisation in Developing Countries: A Review of the Literature. Paper presented at Moving Towards Gender Sensitisation of Trade Policy, February, New Delhi.

5 Fontana (2008). See note 4.

6 Paul-Majumder and Begum (2000). See note 4.

7 Sunny, K. P. and A. Chattopadhyay. 2004. Impact of Trade and Globalisation on Gender in India. New Delhi: UNCTAD-Government of India, DFID Project.

8 Seguino and Grown (2007), quoted in Fontana (2008); See note 4.

Trade and investment linkages

Lessons from Bangladesh, Nepal and Sri Lanka

Trade and investment policies need to be made more coherent to achieve a more sustainable and inclusive growth.

Asia has undoubtedly benefited greatly from globalization, with many countries of the region relying to a significant extent on international trade and investment as their main engine of economic growth and development. As the economies of the region continue to grow at the fastest pace in the world, however, some have begun to question how well the gains are shared within the countries themselves. Indeed, there is some evidence that higher economic growth has led to increases in inequality in the countries of the region. This in turn has led to the realization that trade, investment and related domestic policies, which are *de facto* developed and implemented independently by various government bodies, need to be made more coherent if one is to achieve a more sustainable and inclusive growth, as well to maintain a country's or a region's competitiveness in the global economy. This article deals with measures to be taken for improved trade and investment policy coordination and coherence on the basis of empirical evidence from three South Asian countries, namely Bangladesh, Nepal and Sri Lanka.[1]

Importance of trade policies

Both trade and tax policies play a crucial role in influencing investors' decision to continue to invest (Table). Infrastructure and financial sector development as well as public governance are also perceived as very important by investors in Bangladesh, Nepal and Sri Lanka, followed by human resource development policies. In contrast, competition policies, corporate governance policies and responsible business conduct policies are ranked as relatively less important investment-related policies by investors in the three countries. The difference in importance between the first four policy areas that may affect investors is not large, suggesting that investors on average value an integrated and balanced approach to the de-

TABLE

Importance of select policies for investors in three South Asian countries

Policies	Bangladesh	Nepal	Sri Lanka	Overall rank
Trade policy	1	1	2	1
Tax policy	2	2	1	2
Infrastructure and financial sector development	2	3	4	3
Public governance	4	4	2	3
Human resource development policies	4	4	4	5
Competition policy	7	8	4	6
Corporate governance policy	7	4	7	6
Responsible business conduct policies	4	7	8	6

Source: ARTNeT pilot surveys, 2007.

velopment of a favourable investment environment.

However, the priority and the importance of the various components of a holistic/comprehensive policy framework are likely to vary substantially across stakeholder groups, including among investors themselves. For example, in Bangladesh, foreign investors put the same emphasis on trade and tax policies, while domestic investors emphasize mainly trade policy. Non-exporting domestic producers also stress the importance of tax policy relative to trade policy, in contrast to exporters. Interestingly, multi-national corporations seemed to perceive all policy areas as equally important, while other private stakeholders' ranking of the importance of policies varies much more substantially. The absolute ranking of the importance of the policies remains similar, however.

Complementarity

The complementarity between trade and investment is substantiated by business sector stakeholders in the three South Asian countries, an overwhelming majority of whom agree that policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting productivity and rates of return on investment. Econometric analyses also yield similar results.[2]

Satisfaction with trade policy measures for investment

While business sector stakeholders overwhelmingly recognize the importance of the trade and investment linkage, they generally indicate that they are only "somewhat satisfied" with trade policy measures (TPMs) taken by their governments and which may affect investment.[3] *Uncertainty and unpredictability of trade policy and regulations* (TPM1) may be more of an issue in Bangladesh, while the *mechanisms in place to consult investors on planned changes to trade policy* (TPM2) appear to be of most concern in Nepal and Sri Lanka. *Customs, regulatory and administrative procedures at the border* (TPM3) is the trade policy/regulatory area with which the Nepalese business sector seems to be least satisfied.

> Business representatives in Bangladesh, Nepal and Sri Lanka view that investment opportunities through market-expanding international trade agreements should receive a low priority relative to other trade policy measures.

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Government efforts to enter into market-expanding international trade agreements (TPM4) is the area in which the highest level of satisfaction is reached in Sri Lanka. Businesses also seem to be relatively more satisfied with *government measures seeking to support overall trading activities* (TPM5), potentially suggesting that they find that these specific trade support measures (e.g., government-backed trade finance) may not significantly affect investment, as opposed to tackling broader systemic issues.

Stakeholders' satisfaction with policies appears to also depend on the sector in which they operate. In particular, companies or representatives of traditional manufacturing sectors appear to be relatively more satisfied than companies operating in fast-growing services sectors. For example, in Sri Lanka, 78 percent of services companies agree that government tends to be unpredictable and discourages further investment, while government policy is only seen as a problem by 35 percent of the textiles and clothing manufacturing companies.

Priority trade policy measures for investment

The priorities identified by the business sectors generally reflect quite directly their levels of satisfaction discussed earlier. The highest priority identified in both Nepal and Bangladesh is to reduce compliance costs of regulatory and administrative procedures. Reducing trade policy uncertainty and consulting investors and other interested parties also receive high priority.

Priority rankings in Sri Lanka are different, reflecting in part its higher level of economic development. Reducing regulatory compliance costs only comes fourth in terms of policy priority. Increasing trade policy predictability appears to be the highest priority, with 90 percent of the business sector representatives wanting this issue to be tackled as part of a national policy framework on investment. Implementation of trade policy measures that address sectoral weaknesses in the country is also seen as high priority, followed by the need to consult investors on planned trade policy changes.

Interestingly, the opinion of investors in all three countries indicates that *increasing investment opportunities through market-expanding international trade agreements* should receive a low priority relative to other TPMs (i.e., TPM1, 2, 3 and 5). This is striking given the time and resources governments in the region have allocated in recent years to the negotiation of trade agreements, particularly and increasingly at the bilateral level, and calls into question the effectiveness and need for these agreements.

Conclusion and implications

On the basis of the perception of business sector stakeholders in the three South Asian countries, a number of inferences can be drawn for improving trade and investment policy frameworks in developing Asian countries in general and South Asian ones in particular.

Reduce uncertainty/increase predictability

This can be achieved by increasing lead time and information provided to stakeholders before a policy change is made and making sure that policy changes do not occur too frequently. Simplification of trade policies, for example by simplifying tariff schedules, may be helpful in this regard. More effective use of the World Trade Organization (WTO) could also be made as a means to lend predictability and irreversibility to trade policy making and trade policy reforms.

Review and revise the existing institutional mechanisms

The mechanisms should, to the extent possible, engage all relevant stakeholder groups in developing policies regularly and consistently. Efforts to identify individuals and organizations truly representative of the private sector or consumers seem particularly important. Relying on independent research institutions to identify private sector and consum-

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er interest may be necessary given the difficulty associated with identifying representative samples. In the context of identifying consumers' interest, regional and comparative analysis of consumers' well-being (purchasing power in various sectors) may be highly relevant and could be facilitated by governments.

Allocate resources to strengthening policy implementation

For example reducing human and capital resources spent on the negotiation of bilateral agreements and increasing resources that go into border trade management and facilitation may be considered in many developing countries.

Build capacity and develop institutional mechanisms

While many governments have significant experience in regulating the agricultural and manufacturing sectors that were gradually opening, many have much less experience dealing with fast-growing and sometimes fast-opening national services sectors. Services sectors (e.g., health, transport, finance and telecommunications) often involve ministries and agencies that have not been routinely or closely involved in international trade and investment policy issues, leading to a lack of coherence and policy predictability in these sectors.

> Emphasis should be laid on allocating resources to strengthening policy implementation and enforcement, as opposed to developing new policies.

Take a holistic approach

As business representatives perceive that many non-trade policy and non-investment policy issues affect their ability and willingness to trade and/or invest, focusing more on developing business facilitation and competitiveness policies—regardless of whether the businesses are domestic or foreign-owned—may actually be more effective in increasing trade and generating investment. ■

Notes

[1] The Asia-Pacific Research and Training Network on Trade (ARTNeT) conducted small-scale exploratory surveys of private sector stakeholders in Bangladesh, Nepal and Sri Lanka in 2007. The purpose of the pilot surveys was to identify the needs and priorities for improved trade and investment policy coordination and coherence in these countries. This article has been prepared drawing on the findings of the surveys.

[2] E.g., see Chaisrisawatsuk, S. and W. Chaisrisawatsuk. 2007. Imports, Exports and Foreign Direct Investment Interactions and Their Effects. pp. 97–115, Chapter IV in ESCAP. *Towards Coherent Policy Frameworks: Understanding Trade and Investment Linkages*. Trade and Investment Studies No. 62. New York: United Nations. While Lee and Lee (2007) also find exports and foreign direct investment (FDI) to be generally complementary, they find the relationship between exports and FDI of Korean multinational firms to be more complementary when their affiliates are located in a less developed country—as opposed to in a developed country (Lee, Hongshik and Joon Hyung Lee. 2007. *An Empirical Assessment of a Tradeoff between FDI and Exports*. KIEP Working Paper 07-05. Korea Institute of Economic Policy, www.kiep.go.kr.).

[3] Duval, Yann. 2008. Trade and Investment Linkages and Policy Coordination: Lessons from Case Studies in Asian Developing Countries. OECD Global Forum on International Investment, 27–28 March, www.oecd.org/investment/gfi-7.

15th SAARC Summit
Emerging Issues

It is essential to effectively implement all SAARC programmes and mechanisms by rationalization and performance evaluation on a regular basis, and for it, there is a need to generate a new spirit for South Asian cooperation.

■ **Saman Kelegama**


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The 15th SAARC Summit was successfully completed in Colombo in early August 2008. The theme for the Summit was 'Partnership for Growth for Our People'. This was basically a follow-up of the theme—'Towards Greater Connectivity'—of the 14th SAARC Summit. The 15th SAARC Summit Declaration made references to environment, water resources, poverty alleviation, transport, information and communication technology (ICT), science and technology, culture, SAARC Social Charter, women and children, education, and combating terrorism, among others. SAARC declarations usually feature a gamut of issues but only a handful of them constitute the main agenda of the SAARC annual activities. From an economic integration point of view, five issues are noteworthy, viz., desire to strengthen the Agreement on South Asian Free Trade Area (SAFTA) and trade facilitation; initiative to incorporate trade in services into SAFTA; initiatives for promoting regional tourism; renewed emphasis on cooperation in energy; and defining the role of the Observers. Each of them needs to be looked at in detail to shed some light on the current challenges before SAARC.

The Declaration made reference to SAFTA and trade facilitation. In regard to SAFTA, it was stated that the "sensitive list" should be revised, and non-tariff barriers (NTBs) and para tariffs should be removed expeditiously to enhance trade. In the context of trade facilitation, the signing of the agreement on the establishment of a South Asian Regional Standards Organization was a positive step. However, what is relevant here

Declaration highlights

Regional projects

Need for SAARC to further strengthen its focus on developing and implementing regional and sub-regional projects in the agreed areas on a priority basis. Each Member State may consider taking up at least one regional/sub-regional SAARC project as the lead country.

Energy

Recommendations of the Energy Dialogue to be implemented through an appropriate work plan.

Environment

Call for an in-depth study on 'Climate Justice: The Human Dimension of Climate Change,' to come up with a rights-based approach that would highlight the human impact when responding to the impacts of climate change. A Natural Disaster Rapid Response Mechanism to be created to adopt a coordinated and planned approach to meet emergencies under the aegis of the SAARC Disaster Management Centre.

is reducing the "sensitive list" and removing NTBs within a specific timeframe, and this was not mentioned in the Declaration. Neither were specific measures on trade facilitation mentioned. A few areas in trade facilitation should have been identified—where cooperation is easy and where benefits are large and tangible in the short- to medium-term—and binding commitments established.

Time and again lip service has been paid in SAARC declarations to NTB removal. The same applies to trade facilitation. Most often, trade facilitation measures can be more effective than preferential tariffs in moving trade. Trade facilitation will also reduce the high levels of informal trade taking place in the region and encourage trade via legal routes. It is in this context that trade facilitation measures need more serious attention, in particular, the ones related to simplifying procedures at ports and customs.

The Declaration welcomed a study on trade in services in the region conducted by the Research and Information System for Developing Countries (RIS) and requested the member states to commence negotiations on the Framework Agreement on Trade in Services. It may be noted that the barriers to intra-regional trade are more restrictive in services than in goods, resulting in missed opportunities for mutually beneficial trade. Previous studies have shown that there are more complementarities in services than in goods in the SAARC region. The RIS study shows that trade in services within the region is more balanced with smaller and less developed economies generally enjoying a surplus with the larger economies, thus helping to bridge the asymmetries that exist in goods trade in the region. Thus, it is all the more important that the Framework Agreement is made available for ratification at the 16th SAARC Summit in Male so that liberalization in services could commence thereafter. Some argue that SAFTA should be fully operational with duty-free movement of goods before services come in for liberalization, but this argument is misplaced because services liberalization (and trade facilitation) support trade in goods and in fact will further strengthen SAFTA to deliver a larger output.

The Declaration emphasized promoting regional tourism and agreed to implement a comprehensive action plan which includes "facilitating the movement of people through improved travel infrastructure and air, sea, and land connectivity among the SAARC countries... and promotion of SAARC as a common destination through public-private partnerships and joint campaigns". In this regard, what is most relevant is improving air connectivity by further liberalization of air space, and reducing visa issuance procedures. In regard to the former, Member States should offer 5th freedom right to a few designated airlines in the region. India has, so

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SAARC Social Charter

Member States directed to complete the National Plans of Action with a perspective of seeking to transform current challenges into opportunities.

Women

Member States directed to work for a regional cooperation for the elimination of all forms of discrimination and abuse against women in general and widows in particular and guarantee their rights to live in the society in a dignified manner.

Connectivity

SAARC mechanisms to continue to embody in their programmes and projects a strong focus on better connectivity not only within South Asia, but also between the region and the rest of the world. Fast-tracking projects for improving intra-regional connectivity and facilitating economic, social and people-to-people contacts.

ICT

Arrangements needed to implement the proposed collaborative tele-projects such as those for health care and education to be expedited.

Transport

Early implementation in a gradual and phased manner of the proposals of the SAARC Regional Multimodal Transport Study. Work on Motor Vehicle Agreement, Regional Transport and Transit Agreement and Regional Multilateral Railway Agreement to be expedited.

SAFTA and trade facilitation

- Early revision of sensitive

far, offered 5th freedom right to designated airlines from South Asia on a reciprocal basis; however, to make use of this offer, the other Member States should offer the same to improve air connectivity. Sri Lanka and the Maldives have a visa at arrival policy and Nepal too has a liberal policy for issuance of visas but not the other Member States. This area also needs reform to facilitate movement of people.

The time is ripe for SAARC to consider the "ASEAN Air Pass systems" under which travelling to one Association of Southeast Asian Nations (ASEAN) country qualifies the traveller to visit the other ASEAN countries at a concessionary air fare, and the ASEAN Hotel Pass (Hip-Hop Pass) with a similar incentive. Twinning of cities programme in the SAARC region, publication of an Annual South Asian Tourism Events Directory, promoting tour circuits such as the Ramayana Trail and Buddhist circuit under private-public partnership should be initiated to promote intra-regional tourist flows.

The Declaration gave renewed emphasis on cooperation on energy and also to engage in energy trade. It stressed "…the urgent need to develop the regional hydro potential, grid connectivity and gas pipelines…" and the "possibility of evolving an appropriate regional inter-governmental framework may be explored to facilitate such endeavour". It may be noted that there are complementary energy resource endowments in the region: Bangladesh and Pakistan – natural gas; Nepal and Bhutan – hydropower; and India – coal and petroleum products. This provides a basis for regional energy cooperation. Energy trade is already taking place between Bhutan and India. Negotiations are under way for the construction of an undersea cable to connect the national grids of Sri Lanka and India. In the current setting, the suggested inter-governmental framework should be discussed at the Third Meeting of SAARC Energy Ministers in Colombo during early 2009, and the ways and means of improving energy connectivity in the region explored.

The guidelines for the seven Observers (China, Japan, South Korea, Iran, Mauritius, the United States and the European Union) for cooperation were approved at the 15th SAARC Summit. In accordance with the SAARC Charter, the Observers can now contribute to cooperation and development in the region. For instance, some Observers could contribute to the SAARC Development Fund (SDF) that was signed during the Summit. The SDF Secretariat will be located in Bhutan and contributions from Observer states to mutually acceptable projects will be welcome. Already projects under the Social Window of the SDF—women's empowerment, maternal and child health––are being launched with the available funds, including the generous contribution from the government of India.

The Colombo Declaration stated that the SAARC region should forge greater cooperation with the international community to ensure food availability and nutrition security in the region. In this case too, the Observers can closely coordinate with SAARC Member States at multilateral forums to fulfil SAARC objectives.

Way forward

While declarations are good on paper, what matters is implementation, and in this regard SAARC's track record is far from satisfactory. The declaration stated that it is essential to "ensure effective implementation of all SAARC programmes and mechanisms by rationalization and performance evaluation on a regular basis". If this is to become a reality, the current SAARC Chair, Sri Lanka, has to take the lead and be pro-active in driving the contemporary SAARC issues with the support of the SAARC Secretariat. It is most likely that the others will then follow and give "implementation" a chance. This will give the much needed fresh face to the SAARC process and generate a new spirit for South Asian cooperation. ■

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lists, with special consideration to LDCs
- Resolve the issue of non-tariff measures and para tariff measures to facilitate and enhance trade.
- Improve trade facilitation through mutual recognition of standards, adoption of common tariff nomenclatures, and harmonization of customs procedures.
- Recognition of the importance of development of communication system and transport infrastructure and transit facilities especially for landlocked countries to promote intra-regional trade.
- Towards achieving further economic integration, Draft Agreement on Investment Promotion and Protection to be finalized early and the SAARC Arbitration Council to be operationalized.

Trade in services

Member States welcomed the decision of SAFTA Ministerial Council to commence negotiation on the Framework Agreement on Trade in Services.

Colombo Statement on Food Security

- Resolution to ensure region-wide food security and make South Asia, once again, the granary of the world.
- An Extraordinary Meeting of the Agriculture Ministers of the SAARC Member States to be convened in New Delhi, India in November 2008, to evolve and implement people-centred short- to medium-term regional strategies and collaborative projects.
- SAARC Food Bank to be urgently operationalized.
- Early drawing up of the SAARC Agriculture Perspective 2020.

Demystifying

special safeguard mechanism

The significance of the trigger for SSM remedies would depend on whether the bound tariff is high or low, and whether the applied tariff is closed to the bound rate or much lower.

The breakdown of the July 2008 mini-ministerial of the World Trade Organization (WTO) in Geneva brought to the fore the issue of the special safeguard mechanism (SSM), which was until then overshadowed by non-agricultural market access and agricultural subsidies as key negotiation issues. The talks are said to have collapsed over SSM.

So what is SSM and what is the problem? Simply put, SSM would allow developing countries to raise tariffs temporarily to deal with import surges and price falls. The blockage in the July talks was only about import surges, and a particular instance of that: the level of import surges that would serve as a trigger for hiking tariffs above commitments countries made in the 1986–1994 Uruguay Round, i.e. the "pre-Doha Round bound rates", and how high the tariff rise should be in general.

Three types of safeguard

Safeguards are contingency restrictions on imports taken temporarily to deal with special circumstances such as a surge in imports. In the WTO, generally, actions can be taken against any other trading partner only when they are decided through the Dispute Settlement Body. However, being trade remedy measures (like anti-dumping and countervailing measures), safeguards can be applied unilaterally. But the aggrieved party does have a right to challenge the decision to impose safeguard measures at the WTO. SSM is a proposed agricultural safeguard for developing countries. There are two safeguards, gen-

TABLE

Safeguard measures

	GATT safeguard	**Special Agricultural Safeguard (SSG)**	**Special Safeguard Mechanism (SSM)** (details still being negotiated)
Which products?	All, including agricultural	Agricultural, if "tariffied"	Agricultural
Which countries?	All	Developed and developing, but only if "tariffied"	Only developing
Trigger	Import surge with price fall	Import surge or price fall	Import surge or price fall
Remedy	Quantity restriction, tariff increase	Tariff increase	Tariff increase
Constraint/ condition	Show injury or threat of injury, negotiate compensation	Only products "tariffied" in the Uruguay Round (where comfort needed for liberalization)	For import surge: • limit on % of products in a year • ceiling on tariff at or above pre-Doha rate • minimum surge for tariff exceeding pre-Doha rate
Expiry of mechanism?	Permanent	Expires or reduced post-Doha	Different views

Source: www.wto.org

eral as well as agriculture-specific, already in existence in the WTO. They are the General Agreement on Tariffs and Trade (GATT) safeguard and the special agricultural safeguard (SSG) (Table).

GATT Article XIX and the Uruguay Round Safeguards Agreement

This provides for temporary action to restrict imports of a product if the country's domestic industry is injured or threatened with injury caused by a surge in imports (accompanied by a price fall, but not a price fall on its own). It covers all products, including agricultural. The restriction can be quantitative (such as a quota) or an increase in tariffs above the bound rate. It requires test of injury, and negotiations for compensation. The most notorious example of this safeguard is the steel safeguard imposed by the United States (US), which was later ruled illegal by the WTO.

Special Agricultural Safeguard (SSG)

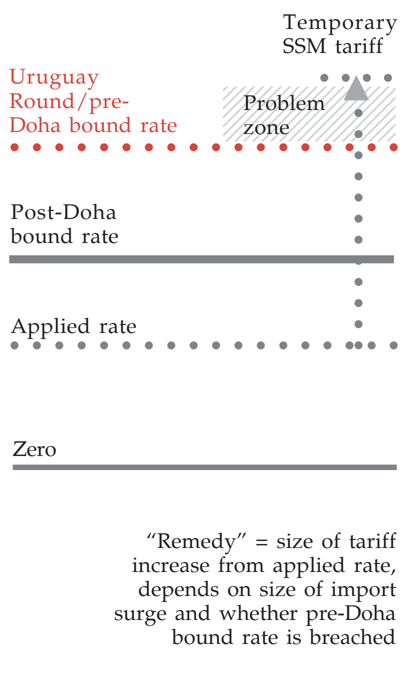
Provided for in the Agreement on Agriculture, this safeguard raises tariffs and can be triggered by import surges or price falls, virtually automatically, i.e., without any need to test injury or to negotiate compensation. The SSG safeguard can only be used on products that were "tariffied" (e.g., quantitative restrictions converted to equivalent tariffs, and then cut). They cannot be used on imports within tariff quotas. They can only be used if the government reserved the right to do so in its lists or "schedules" of commitments on agriculture.

Many developing countries chose not to "tariffy". They preferred to set "ceiling bindings" that were not cut. As a result, they forfeited the right to use the SSG safeguard.

Countries able to use SSG and the number of products ("tariff lines", which are not defined in the same way in all countries) are: Australia (10), Barbados (37), Botswana (161), Bulgaria (21), Canada (150), Colombia (56), Costa Rica (87), Czech Republic (236), Ecuador (7), El Salvador (84), the EU (539), Guatemala (107), Hungary (117), Iceland (462), Indonesia (13), Israel (41), Japan (121), Korea (111), Malaysia (72), Mexico (293), Morocco (374), Namibia (166), New Zealand (4), Nicaragua (21), Norway (581), Panama (6), the Philippines (118), Poland (144), Romania (175), Slovak Republic (114), South Africa (166), Swaziland (166), Switzerland-Liechtenstein (961), Chinese Taipei (84), Thailand (52), Tunisia (32), the US (189), Uruguay (2) and Venezuela (76).

In the Doha Round, the debate has been about whether to eliminate SSG, or reduce and constrain it

Tariff issues under SSM



Source: www.wto.org

Special Safeguard Mechanism (SSM)

This is a new safeguard the Doha Round seeks to introduce. The objective is to have something like SSG, for developing countries, particularly those that do not have SSG. Like SSG, it could be triggered simply if the import surge or price fall is big enough, without any need to test injury or to negotiate. But each developing country could use it on any product. There is no equivalent to SSG's tariffication condition. However, it cannot be used on a product if one of the other types of safeguard is being used on that product.

Negotiations on SSM

In the small group of seven delegations (G-7) trying to reach an initial settlement in the mini-ministerial—Australia, Brazil, China, the European Union (EU), India, Japan and the US—China and India, representing over 100 developing countries, pressed for an SSM that is freer and easier to use, with smaller triggers and bigger tariff increases than those proposed in the draft package tabled by WTO Director-General Pascal Lamy. On the other hand, the US, representing the interests of exporters, took the position that the SSM's use should be more restricted and backed the Lamy proposal for allowing SSM remedies to exceed pre-Doha bound rates by up to 15 percent (or percentage points, whichever is higher), but only if import volumes rise by 40 percent, and limited to 2.5 percent of tariff lines.

In practice, the significance of the trigger would depend on the situation of a particular product in a particular country—whether the bound tariff is high or low, and whether the actual duty charged (the applied rate) is close to the bound tariff or much lower.

In some cases, the pre-Doha legally bound maximum could be 100 percent but the actual tariff charged could be 20 percent. In order to be raised into the disputed zone (to go above the pre-Doha rate), the applied tariff would have to be multiplied by five or rise by 80 percentage points, and to hit a proposed ceiling of about 15 percent above the pre-Doha bound rate, it would have to rise even more. If, on the other hand, both the pre-Doha bound rate and the applied rate are 20 percent, any increase in the tariff would immediately take the tariff into the disputed zone (Figure).

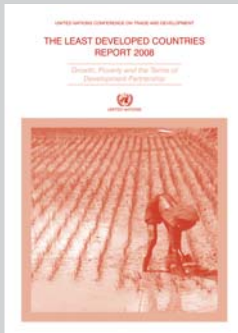
Many developing countries have large gaps between their bound maximum tariffs on agricultural products and the tariffs they apply. Some do not. Countries that recently joined the WTO tend to have small or no gaps. ■

Least-Developed Countries

on unsustainable growth path

The 50 least-developed countries (LDCs) as a group achieved the strongest growth performance in 30 years in 2005 and 2006, with the average growth rate surpassing the 7 percent target set by the Brussels Programme of Action for the LDCs for the decade 2001–2010. But how sustainable is this growth? How much is the growth contributing to poverty reduction and progress towards the Millennium Development Goals (MDGs)? And, given their dependence on foreign aid, what is the progress towards country-owned development strategies and what is the role of recipient-led aid management policies at the country level as a practical policy mechanism to strengthen country ownership? These are the issues that the United Nations Conference on Trade and Development (UNCTAD) takes up in its *Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership*.

The report finds that there are major downside risks to the sustainability of rapid growth. The record rates of growth were underpinned by a record level of exports—which was particularly associated with high commodity prices for oil and minerals—and record levels of capital inflows, particularly aid. Primary commodities increased from 59 percent of total merchandise exports in 2000–2002 to 77 percent in 2005–2006. Despite the record rates of economic growth, LDCs remain highly dependent on external finance due to low domestic savings—in 2006, only one third of the LDCs had gross domestic savings rates above 15 percent of gross domestic product (GDP). Fifteen LDCs had negative rates, meaning they were relying on foreign savings not only to finance domestic investment but also their domestic consumption.



Title: The Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership

Publisher: United Nations

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Official development assistance (ODA) is mainly directed towards social sector development rather than building economic infrastructures and productive capacities. The report argues that though the allocation of ODA to health, education and other social purposes is important, and in itself makes a partial contribution to building productive capacities, the key to strengthening the resilience of LDC economies is to build the capabilities of domestic producers and to diversify and strengthen linkages.

The report argues that the recent period of rapid economic growth in LDCs has been associated with a slow rate of poverty reduction and progress towards the MDGs because of the type of economic growth that is occurring and the development model in place in the LDCs: private consumption has been growing at a lower rate than total GDP; the population has been growing faster than in any other large groups of countries; economic growth has mostly been led by the expansion of exports; "deagrarianization"; and income inequality.

The report points out that while some LDCs are making significant progress towards achieving some specific MDGs, there are a very few that are making progress on more than three targets. More progress is being made on targets which depend primarily on the level of public service provision than on household incomes. Rapidly rising global food prices will also have negative impacts on progress towards MDGs.

Amid such challenges, the report calls for a paradigm shift in development policy. It advocates three elements in the nature of the paradigm shift: policy should focus on production, productivity and productive capacities rather than global integration and international trade *per se*; policy should recognize the primary importance of productive employment as the basis for substantial poverty reduction; and there is a need for a better balance between states and markets in promoting development and reducing poverty.

Regarding country ownership, the report shows that although progress is being made in the context of the drive to improve aid effectiveness, there is a continuing problem of poor alignment and harmonization of aid with government plans, budgets and processes. Some LDCs are caught in a "low ownership trap", where there is low capacity in government and where donors fear aid will be mismanaged and so set up parallel systems, which in turn undermine government capacity. The report recommends, as a first step towards improving country ownership, adopting aid management policies within LDCs. ■

First South Asia Economic Summit

SOUTH Asian academicians, private sector and civil society representatives, and policy makers debated and discussed regional development issues from 28–30 August in the '1st South Asia Economic Summit' (SAES) in Colombo, held as a follow-up to the 15th South Asian Association for Regional Cooperation (SAARC) Summit.

The 1st SAES was organized by the Institute of Policy Studies (IPS) of Sri Lanka and the Federation of Chambers of Commerce and Industry of Sri Lanka in partnership with Research and Information System for Developing Countries (RIS), India; South Asia Centre for Policy Studies (SACEPS), Nepal; South Asia Watch on Trade, Economics & Environment (SAWTEE), Nepal; the World Bank; Commonwealth Secretariat; UNDP Regional Centre in Colombo; and the Asian Development Bank.

Participants viewed that despite progress in regional economic growth, poverty remains a challenge in South Asia, particularly in rural and border areas. The importance of regional market integration to achieve higher growth leading to poverty alleviation in South Asia was stressed throughout the Summit. Increased market integration and inclusive, sustainable growth were highlighted as being critical to accelerating economic development, creating jobs, reducing poverty, and promoting peace and stability in the region.

The Summit issued a communiqué aimed at building regional capacity, deepening the understanding of regional development issues, promoting networking among policy makers, academics, private sector and civil society, and supporting the implementation of regional cooperation and development agenda. The goals identified by the communiqué as being of high priority are: managing the current food crisis; enhancing intra-regional trade in goods and services; improving electricity, transport and trade facilitation; promoting regional energy cooperation and trade; improving regional information and communications technology network; facilitating regional remittance flows and management; improving regional cooperation in disaster management and climate change; and promoting cross-border flow of investments. Participants agreed to give continuity to the Summit by holding the event every year. The next Summit will be held in 2009 in New Delhi and will be hosted by RIS. ■

Global Partnership for Development

CUTS International and Federation of Indian Chambers of Commerce and Industry organized an international conference 'Global Partnership for Development: Where do We Stand and Where to Go?' on 12–13 August 2008 in New Delhi. The conference was attended by eminent personalities, including Pascal Lamy, Director-General of the World Trade Organization (WTO), Kamal Nath, Commerce and Industry Minister of India, and Supachai Panitchpakdi, Secretary General of the United Nations Conference on Trade and Development (UNCTAD).

The conference was conceived as a step in the quest for growth across the developing world through genuine partnerships and sincere cooperation. The conference provided a historic opportunity and responsibility for the trade community at large because it was held against the backdrop of the Doha Round mini-ministerial talks in Geneva in July 2008.

The need for a just and equitable framework for trading relations was recognized as an imperative under the Millennium Development Goal 8. The conference recommended the creation of such a framework through the development of features such as donors living up to their commitments to the provision of additional and unconditional aid; countries themselves structuring their domestic and international policies to be mutually compatible and in sync with international trading rules; minimization of privately installed non-tariff barriers; and inter-governmental organizations working coherently to achieve these features.

These measures would serve as a crucial step towards mainstreaming trade into development and vice-versa. As the deliberations in the conference unfolded, all fears about multilateralism or even the Doha Round dying an untimely death were totally dispelled. This was evident in the spirited speeches and interventions of delegates, and the expression of their resolve to support multilateralism as a medium for honing international trading relations. It gradually became clear that the flop was but another "bump" on the road which would not mark the demise of multilateralism but its resurrection in a new, better suited and more resolute avatar. ■

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.

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