A dialogue on trade and development in South Asia
Vol. 5, No. 1, 2009

TRADE insight

FOOD SECURITY AGENDA FOR SOUTH ASIA

AGRICULTURE TRADE AND FOOD SECURITY | SEED LAWS AND FARMERS' RIGHTS | POWER DYNAMICS IN THE WTO

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editors' note

The ever-deepening food crisis

Food insecurity has always been a serious concern for South Asia. The region accounts for 23 percent of the world's population but generates hardly 2 percent of the global income. And, housing 40 percent of the world's poor and 35 percent of the world's undernourished people, it has the highest concentration of poverty and hunger. It is a misfortune for the region that in the present context, it is not climate change alone that threatens its agriculture sector and food security situation.

Soaring fuel and food prices that battered the region until recently pushed millions back into poverty. Though prices have relented in recent months, the possibility of a surge in prices cannot be ruled out, and specifically, the downward pressures on food prices have not translated into lower prices in the region. Compounding South Asian woes, the global financial crisis, with its severe implications for the region's economic growth, including agricultural, poses additional threats to food security in the form of, among others, unemployment, reduction in purchasing power, and reduced aid flows.

The performance of the agriculture sector has an important bearing on food security, nationally as well as regionally. Though agriculture is a source of most people's livelihood in South Asian Association for Regional Cooperation (SAARC) countries, productivity is low and the average South Asian household is ever food insecure. The travesty of markets in the world's least-integrated region is such that even the unprecedented rise in food prices did not translate into increased incomes for most farmers.

Responding to food insecurity amid changing regional and global paradigms, therefore, calls for the reorientation of the existing policy and institutional strategies at national and regional levels. Improving effective investment in agriculture, including in infrastructure, and farmers' access to inputs, credit and technologies is key to enhancing productivity, market access and livelihood options. However, increased production alone does not guarantee food security. Even when national food production is sufficient, low purchasing power of the poor coupled with weak and inefficient public distribution systems result in perpetual food insecurity for millions. This demands, for example, adequate and effective public distribution systems and social safety nets, as well as employment- and income-generating programmes. Also required is the integration of food security and conflict management strategies, as most countries are mired in protracted conflicts, fuelled partly by poverty and hunger.

Given the growing interdependence among South Asian countries and their increasing integration into the global economy, cohesive regional strategies complementing national initiatives for food security are essential. The decision to effectively operationalize the SAARC Food Bank and the adoption of the SAARC Declaration on Food Security in November 2008 are a welcome step. While effective operationalization of the SAARC Food Bank would be a positive step, removing restrictions on agriculture trade through the Agreement on South Asian Free Trade Area (SAFTA), and development and effective implementation of regional plans, guidelines and programmes on climate change adaptation and mitigation, energy cooperation, biodiversity management, farmers' rights over seeds, and application of biotechnology and intellectual property rights are essential to address food insecurity and other development challenges.

Overall, the success of a regional approach to food security depends on the region's ability to assess challenges and identify opportunities, and importantly, to integrate food security strategies with overall development strategies. ■

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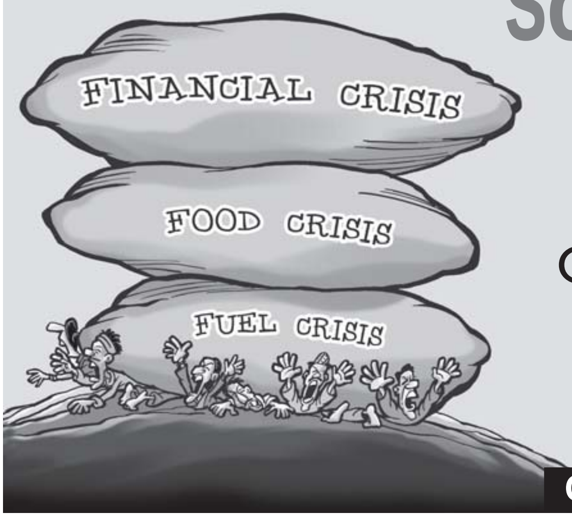

Food Security Agenda for South Asia amid Regional Challenges and Global Crises

Can Pakistan manage the Food Crisis?

It may be difficult for Pakistan to effectively manage the fuel, frontier and financial crises, but there are indications that it can manage the food crisis.

Services in SAFTA

Opportunities aplenty, challenges galore

There is compelling rationale for liberalizing services trade under South Asia's regional trading arrangement. But will South Asian governments be able to address the associated challenges?

SAWTEE NETWORK

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

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

NEPAL
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2. Forum for Protection of Public Interest (Pro Public), Kathmandu

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

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

GLOBAL ECONOMIC CRISIS RAISES spectre of protectionism

In the wake of the global economic crisis, the fear of developed countries aggressively exploring new avenues of protection has borne out.

As the global economic crisis triggered by the financial crisis worsens, affecting country after country and sector after sector, there are fears of a new wave of protectionism in international trade. Such fears are not unfounded, there being historical antecedents to nourish them.

It is widely held that the beggar-thy-neighbour economic policies resorted to by countries as a knee-jerk reaction to the financial turmoil of 1929 precipitated and prolonged the Great Depression from which the world as a whole took over a decade to recover. As countries started looking inwards, with the motto "each country to itself", and erected barriers to trade flows, effective demand became a casualty and the domino effect was set in motion, with the crisis claiming one country after another.

Eighty years ago, world economies in general and national financial systems in particular were not as integrated as they are today. Should the same kind of panic-driven shortsighted protectionism be embraced now, the effects could be even more devastating than back then. One can but hope that this very interdependence among economies will be a deterrent to opting for such a suicidal option, even if it is seemingly politically attractive.

The implications of the current crisis are serious enough for the developing world. Increased protectionism is bound to aggravate the same. As per United Nations Conference on Trade and Development (UNCTAD) estimates, a 10 percent reduction in demand for vehicles, electronics, and textiles and clothing in the North could reduce developing-country exports by US$95 billion, almost as much as annual official development assistance flows. According to another UNCTAD estimate, aid to developing countries could decline by 20–40 percent as a result of the financial crisis. And, the International Labour Organization has estimated that the financial crisis alone will cause global unemployment to increase by 20 million, and extreme poverty to rise by 40 million.

> The new US trade agenda vows to incorporate stricter labour and environment standards in pending and future US trade deals.

Attempts have been made at international and regional forums to allay fears of protectionism. The G20 meet in Washington in November 2008 pledged to oppose protectionism and refrain from adopting trade-restricting measures for the next 12 months. A summit of the Asia-Pacific Economic Cooperation in Peru that followed the G20 meet made a similar vow. Both meetings also called for a speedy conclusion of the World Trade Organization's Doha Round of trade negotiations.

Despite the commitments to refraining from protectionism as well as to the completion of the Doha Round, early signs do not bode well. The threat of increased protectionism is real. Since the G20's November meet, Russia has increased car tariffs, and India has increased import duties on a range of steel products. Worse still, in February, the Obama administration in the United States (US) signed into law a US$787 billion stimulus bill with a controversial "buy American" provision. This makes it mandatory for the spending bill-funded projects to purchase US-made iron, steel and manufactured goods. Although the law also has a provision that requires the US to abide by its international trade obligations, there is no assurance that its major trading partners will not suffer.

Moreover, the US trade agenda released in March vows to incorporate stricter labour and environment standards in pending and future trade deals. In yet another sign the Doha Round stalemate may continue, the US agenda calls for correcting the "imbalance" in WTO negotiations in which "what the United States would be expected to give is well-known and easily calculable, whereas the broad flexibilities available to others leaves [sic] unclear the value of new opportunities for our workers, farmers, ranchers, and businesses". If the US move invites tit-for-tat responses, it will be an open invitation to a deeper, longer and nastier economic slump. ■

www.undp.org

More funds needed to combat hunger

THE High-Level Meeting on Food Security for All in Madrid on 26–27 January 2009 concluded with a call for better coordination to combat hunger. United Nations (UN) Secretary-General Ban Ki-moon urged the whole world to come together to fight hunger and poverty. Echoing Ban's call for joint efforts against hunger, Spanish President Jose Luis Zapatero promised that he would raise his government's foreign aid to 0.7 percent of the country's gross domestic product in three years from the current 0.5 percent, and his government would donate 200 million euros each year in the coming five years.

Josette Sheeran, Executive Director of the World Food Programme (WFP), said that the WFP needs US$5.2 billion in 2009 to provide food and nutrition assistance, and safety-net support to almost 100 million people, including smallholder farmers and 20 million children in school feeding programmes.

Jacques Diouf, Vice-Chairman of the Secretary-General's High-Level Task Force on the Global Food Security Crisis and Director-General of the Food and Agriculture Organization of the United Nations, said that with an expected increase of 40 million in 2008, the number of malnourished people in the world has reached 963 million. Diouf called for an investment of US$30 billion per year in agriculture in developing countries to double food production by 2050 and ensure the basic right to food for all people. The meeting was a follow-up to the Rome meeting in June 2008 *(Xinhua; www.fao.org; us.oneworld.net, accessed 10.02.09).* ■

emerging economies at G20

LEADERS of the G20 grouping of major industrialized and developing countries, meeting in Washington on 14–15 November 2008, promised continued monetary and fiscal measures to stimulate their economies, to resist protectionism in trade and investment, and to cooperate on financial market stabilization and regulatory reform in the face of the global financial crisis. Issuing a five-page declaration, the leaders pledged to "strive to reach agreement" on a framework for concluding the Doha Round of World Trade Organization (WTO) negotiations, and to expand the voice of developing countries in the World Bank and the International Monetary Fund (IMF).

The first-ever G20 meet at the head-of-state level was noteworthy for the central role given to developing countries in shaping future financial reforms. The meet called for the expansion of Financial Stability Forum, set up in 1999 to improve financial information sharing and surveillance in the wake of the Asian financial crisis, by March 2009 to include "a broader membership of emerging economies". It also called for reforms within the IMF and the World Bank so that they adequately reflect changing economic weights in the world economy and be more responsive to future challenges.

The G20 leaders agreed to meet again by April 2009. G20 includes the group of seven most powerful countries (G7) as well as developing countries such as Brazil, China, India, Indonesia, Mexico, South Africa, South Korea and Turkey (*Bridges Weekly Trade News Digest, Vol. 12, No. 39; http://indiapost.com, accessed 23.11.08*). ■

WTO impasse

SINCE the failure of the World Trade Organization (WTO) mini-ministerial in July 2008, there has been no headway in the Doha Round of trade negotiations. Despite commitments to concluding it by 2008 by world leaders, no breakthrough has been made.

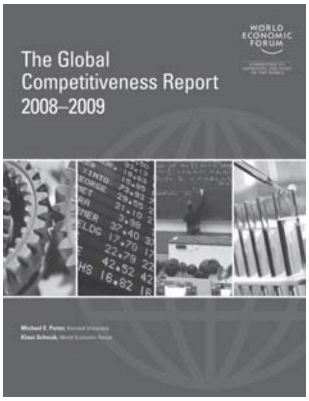
The revised texts issued on 6 December on non-agriculture market access (NAMA) and agriculture do not constitute any major departure from the previous texts except that ranges of tariff-cut figures have been replaced with single numbers. Under NAMA, developed and developing countries are still divided over sector-specific liberalization. The United States, Canada, and Japan want major markets like China, Brazil, and India to participate in sectoral liberalization. Developing countries counter that participation in such initiatives is voluntary, as specified by the negotiating mandate. The "anti-concentration" clause, designed to constrain developing countries from focusing their tariff-reduction "flexibilities" on a limited number of industrial sectors, is another source of friction between them. In agriculture, the special safeguard mechanism still remains unresolved, with differences as to the size of flexibilities.

Clearly, WTO members must make dramatic moves to strengthen multilateralism, not least due to the ever-growing challenges arising from the global economic crisis *(www.wto.org, accessed 02.03.09).* ■

South Asia's competitiveness erodes

WHILE the United States has once again topped the list as the most competitive country, followed by Switzerland, Denmark and Sweden, the performance of South Asian countries has worsened.

According to the Global Competitiveness Report 2008–2009 of the World Economic Forum, India dropped one position to take the 50th place; Nepal showed the worst performance, with its rank slipping from 114th to 126th; Sri Lanka ranked 77th, down seven places; Pakistan's rank plunged from 92nd to 101st while Bangladesh's fell from 107th to 111th.



European countries continued their domination of the top 10, with Finland, Germany and the Netherlands also on the list. The United Kingdom, however, dropped three places and exited from the top 10 due to its weakened financial markets. China, up four positions from the previous year, took the 30th place, well ahead of other emerging economies. Overall, Asia had a good showing, with Hong Kong, Japan, Korea and Taiwan all in the top 20.

The Global Competitiveness Index is based on 12 pillars of competitiveness: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation.

The rankings cover 134 countries that account for 98 percent of the world economy *(www.weforum.org, accessed 10.12.08)*. ■

Call for debt moratorium

THE South Asian Association for Regional Cooperation (SAARC) Ministers' Council, which met on 27–28 February 2009 in Colombo, called on multilateral lending agencies and development partners to consider a moratorium on repayment of debts to help the region cushion the impact of the economic crisis. However, the quantum of the region's collective debts is to be worked out in the months ahead when SAARC Finance Ministers meet. Some of the immediate measures envisaged include a high-level meeting among academics, policy makers and business leaders to explore practical regional and global options for dealing with the crisis. In a joint statement, the South Asian ministers said a major cause of current concern is the drying up of credit and the contraction of financial markets, necessitating special stimulus packages to avoid the adverse impacts of the crisis *(The Sunday Times, 01.03.09; Asian Tribune, 02.03.09)*. ■

SAARC Declaration on Food Security

AN Extraordinary Meeting of Agriculture Ministers of the South Asian Association for Regional Cooperation (SAARC) in early November 2008—held as per the directive of the 15th SAARC Summit in its Colombo Statement on Food Security—adopted the SAARC Declaration on Food Security. The Declaration represents a collective regional commitment to ensuring food security in South Asia.

Among others, the Declaration on Food Security expresses the commitment by SAARC Agriculture Ministers to sharing best practices for enhancing agriculture production without compromising the availability and quality of natural resources; and to sharing as well as promoting suitable technologies and capabilities for seed production and quality testing.

Recognizing that climate change is a global challenge, as well as being aware of the region's vulnerabilities, limited means and finite capacities, the Agriculture Ministers also expressed their commitment to regional cooperation and collaboration for promoting strategies to mitigate the risks associated with climate change.

The Ministers also committed "to cooperate and collaborate within the region in the required training, human resource development, and capacity building" in areas such as integrated nutrient management, biotechnology and bio-resource management. In view of the importance and potential adverse effects of trans-boundary movement of diseases of plants, livestock, poultry and fish, they also made a commitment to developing a harmonized network for safe movement of agriculture commodities in the region.

In the Extraordinary Meeting of the Agriculture Ministers, the "SAARC Declaration on UG99" was also adopted to address the epidemic of stem rust on wheat production caused by a fungus called UG99. ■

Seizure of generic drugs flayed

WORLD Trade Organization (WTO) ambassadors from Brazil and India charged on 3 February 2009 that other WTO members had no grounds to block legitimate shipping of generic medicines on the basis of potential intellectual property right conflicts in the transit country.

They said that recent cases of doing so in the Netherlands call into question WTO rules. The concern was supported by 17 other developing countries at the WTO General Council meeting. They were Argentina, Bolivia, Burkina Faso, China, Costa Rica, Cuba, Ecuador, Egypt, Indonesia, Israel, Nigeria, Pakistan, Paraguay, Peru, South Africa, Thailand and Venezuela.

On 4 December 2008, Dutch customs authorities seized a Brazil-bound air shipment of generic medicines sent by generics producer Dr Reddy's in India, and held it for 36 days allegedly on suspicion of being counterfeit. The cargo was 500 kilos of losartan potassium, an active ingredient used in manufacturing medicines for arterial hypertension, a shipment the European Union (EU) valued at 55,000 euros. The action was taken on the request of a company which holds the patent in the Netherlands, the EU said. In the end, the drug shipment was released back to the Indian owner, which decided at that point to return the shipment to India (*www.ip-watch.org, accessed 25.02.09*). ■

SAARC Summit

DEFERRAL LIKELY

THE 16th Summit of the South Asian Association for Regional Cooperation (SAARC) is likely to be deferred to at least the first quarter of 2010. The Maldives has expressed its inability to host the gathering in 2009.

At the SAARC Council of Ministers' Meeting in February 2009, the Maldives was requested to host the Summit before October 2009. However, Maldivian Foreign Minister Ahmed Shaheed expressed the inability of the Maldives to host the Summit, as the country is seriously affected by the economic crisis (*IANS, 06.03.09*). ■

Divisions dog climate change talks

THE climate change talks held from 1–13 December 2008 in Poznan achieved little in terms of chalking out a real negotiating text for a successor pact to the Kyoto Protocol, set to expire in 2012. Environmentalists complain that the Poznan conference was hamstrung by delays and low ambitions.

The saving grace for the talks among the ministers and officials from 189 countries at the 14th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) was some headway in the operationalization of the Adaptation Fund. But the US$80 million United Nations (UN) Adaptation Fund is considered paltry in the light of a UN estimate that adaptation to climate change in developing countries requires US$86 billion in funding each year. The conference agreed to provide the Adaptation Fund board with the capacity to grant developing countries access to funds earmarked for climate change adaptation.

www.climatemediapartnership.org

At the conference, concern was expressed over developed countries making no specific proposal for financing technology transfer. A group of developing countries, represented by G77, and China called on the industrialized nations to divert as much as 1 percent of their gross national product to help finance emissions-reducing technology projects in the developing world.

In addition, long-standing divergence between developed and developing countries remained on intellectual property right (IPR) issues. Developing countries stressed the need to depart from a business-as-usual approach in the treatment of IPRs in addressing the climate change emergency.

The conference came midway between COP-13 in Bali, which saw the launch of negotiations on strengthened international action on climate change, and COP-15 Copenhagen—to be held in December 2009—at which the negotiations are set to conclude (*www.ens-newswire.com, accessed 04.01.09; TWN Info Service on Climate Change (Dec08/03); Bridges Weekly Trade News Digest, Vol. 12, No. 43*). ■

Causes and pathways out of food insecurity in South Asia

National governments are generally responsible for improving access to food and utilization, but there is a tremendous scope for regional efforts towards sharing best practices and knowledge.

Upali Wickramasinghe

South Asia has been fortunate for over six decades not to witness another famine like the 1943 Bengal famine that killed an estimated 3 million people. This fortune owes much to democratic governance; Green Revolution and technological advances in farm production; informal social safety nets; safety nets created by governments; and continued vigilance by the media over possible flashpoints. However, it is not that hunger and malnutrition do not exist in South Asia. The region still has the highest concentration of hungry and poor populations in the world.

If we take into account recent global events, the trend of rising food prices, beginning in late 2005 and culminating in 2008, pushed an estimated 41 million people in Asia and the Pacific back into hunger and poverty in 2007/08.[1] This case also applies to South Asia where low-income people, constituting the majority of the population, have been forced to pay significantly more to consume food. In recent months, there has been a sharp decline in global food prices. But the food crisis continues to affect South Asia, not least because domesitc prices have settled at a higher level than the prices that prevailed before the crisis.

Against the backdrop of the ever-growing challenges to food security in the region, this article discusses the underlying causes of food insecurity and the possible pathways out of it.

Current status

According to the Food and Agriculture Organization of the United Nations (FAO), 35 percent of the people in Bangladesh, 25 percent in Sri Lanka and 20 percent each in India and Nepal are estimated to be undernourished.[2] Notably, malnutrition among women and children in South Asia is very high compared to other impoverished regions of the world. For instance, India has the highest incidence of child malnutrition, with 53 percent of under-fives below the minimum acceptable weight-for-age ratio.[3]

Some progress has been recorded in the past few years. For example, the proportion of children under five who are underweight declined from 54 percent in 1990 to 46 percent in 2006. But at this rate, it will take a minimum of 20 years for the region to halve the number of undernourished people.[4]

It is indeed a concern that not a single South Asian country is on track to meet the international food-security target set under the first Millennium Development Goal (MDG), i.e., halving the proportion of people suffering from hunger by 2015. In fact, according to a FAO projection, South Asia will still have 203 million undernourished people in 2015 against the MDG target of reducing the number to 146 million.[5]

Causes and pathways

FAO identifies four dimensions of food security: availability, access, utilization and vulnerability. Within this broad framework, the causes of food insecurity in South Asia as well as the pathways to address it can be analysed.

Availability

Ensuring food availability, regardless of whether the concern is about households or localities, would require a combination of three things: production, trade and assistance. Households or countries combine these three elements in different degrees to meet their requirements, depending on their choices as well as circumstances.

In the case of food production in South Asia, the region has been able to increase it tremendously, due to the use of new seeds under the Green Revolution, combined with effective water management and extension services. However, the

www.flickr.com

full productivity potential remains unutilized, as is evident from the cereal yield gap in the region. For example, India faced a cereal yield gap of 2,474 ka/ha in 2006.[6]

While high population growth in almost all countries of the region is constantly keeping per capita food production low, to worsen the situation, various supply-side factors such as high dependency on weather and natural disasters are making it nearly impossible for some of the countries to maintain stable food production.

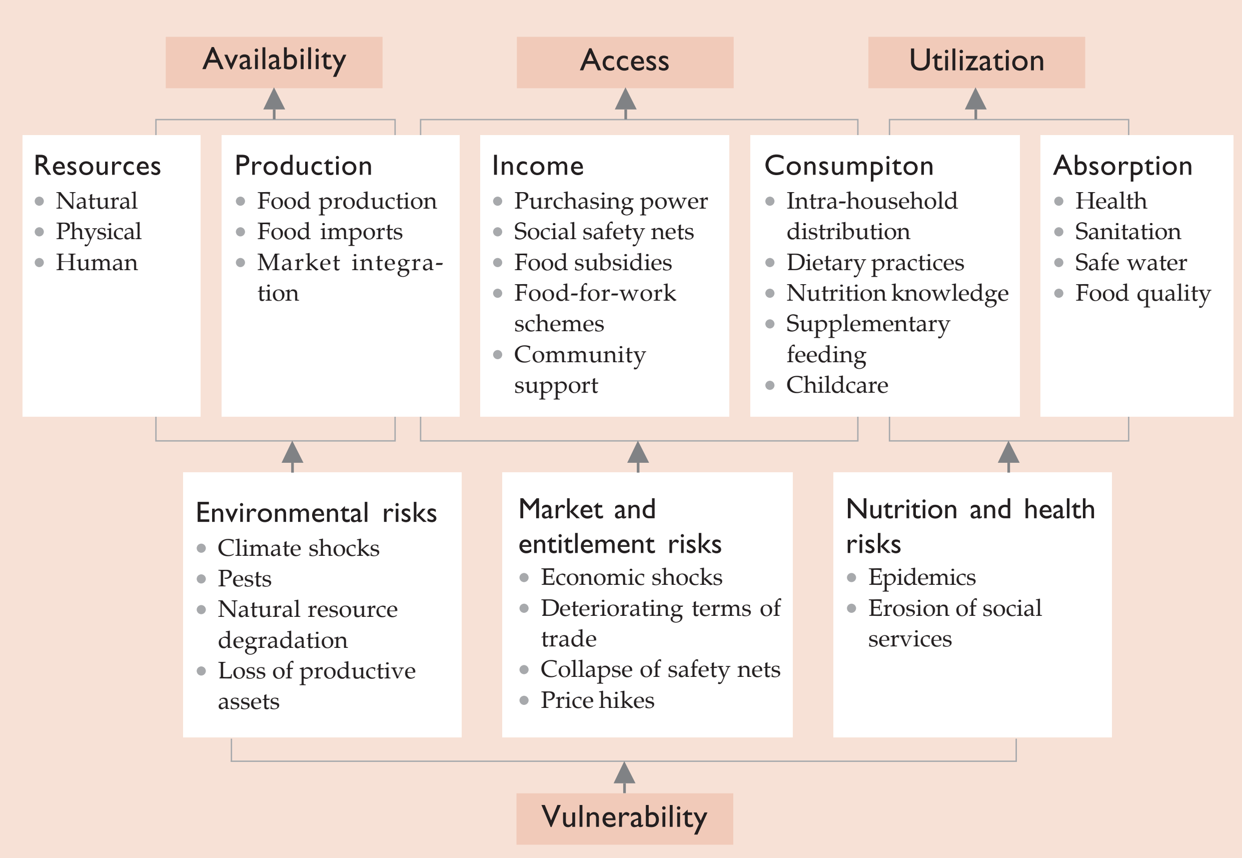
It is well recognized that neither households nor countries can be self-sufficient in food. The degree of self-sufficiency depends on the deliberate choices that households and countries make, contingent on their resource endowments (land, agriculture inputs, etc.), strategic and political considerations, and food market stability. Any kind of slackness in self-sufficiency, in fact, generates a stronger case for countries to think of market alternatives, and in this regard, pursue agriculture trade options.

Being an agrarian region, South Asia has a tremendous potential in intra-regional trade. With the exception of Pakistan, intra-regional agriculture trade has also increased over the years, for example, between 1995 and 2004, its share in the region's total trade reached 22 percent (India alone accounted for 80 percent of such trade).[7] This achievement is mostly due to unilateral liberalization and bilateral preferential trade arrangements.

South Asia has experimented with different types of policies, and many countries seem to have narrowed down their policy choices to a policy of domestic cereal self-sufficiency in production regardless of the opportunity costs combined with the flexible use of markets for importing other food commodities. The food-price hikes and subsequent instability of global food markets have further galvanized this view, not just in in the region but also across Asia and beyond. Despite an avowed policy to achieve cereal self-sufficiency, South Asia still relies heavily on foreign trade for filling the gap between production and consumption.

South Asia has large complementarities in food production owing to divergent production cycles in different countries and the possibility

Dimensions of food insecurity



Source: FAO. 2008. Regional Strategies and Programme for Food Security in the SAARC Member States. Final Report, August. Prepared by Food and Agriculture Organization of the United Nations in collaboration with South Asian Association for Regional Cooperation (SAARC).

to produce different commodities based on climatic variations. If these are tapped, all the countries can benefit economically through low import and export costs; reduced delivery time and low storage costs; and increased capacity to purchase food.

Intra-regional trade can further be enhanced if countries develop a cohesive strategy for regional trade cooperation and go beyond the current process that relies on bureaucratic manoeuvring. The mechanisms such as the SAARC Food Reserve and the newly constituted SAARC Food Bank are unlikely to make much contribution towards this direction. Only would a pragmatic and cohesive trading mechanism giving primacy to the market mechanism, perhaps coordinated by SAARC, further intra-SAARC food and agriculture trade.

It should be noted that food aid also plays a key role in food security, particularly in areas that are affected by internal conflicts and natural disasters. But a sole reliance on food aid for an extended period of time may also lead to dependency and poor agriculture performance at both government and farm levels.

Access

Access to food is determined by income. It is the combined family income that determines household food security, which is contingent on access to resources and distribution of wealth. Though the concept recognizes the possibility of having food self-sufficiency at the national level, access to food has much to do with households.

For instance, India has reached the per capita food availability requirement to meet the country's recommended level of 512 gm/capita/day, also increasing the per capita dietary energy supply from 2,370 kcal/day in 1990–1992 to 2,440 kcal/day in 2001–2003. However, over the same period, the prevalence of undernourishment in the total population decreased by just five percentage points, from 25 percent to 20 percent. The number of pre-school children suffering from vitamin A deficiency is actually higher in India (at nearly 57 percent) than in sub-Saharan Africa (41 percent), and significantly higher than in China (16 percent).[8] The case is similar for other South Asian countries.

An unfortunate truth about income and poverty is that there are no short-cuts. A sustained effort towards economic growth accompanied by a mechanism that creates wealth among the poor is the only solution. It should be recognized that transferring "new wealth" to the poor is not charity; it actually makes sense as their capacity to purchase goods and commodities can fuel economic growth through multiplier effects, and take them out of poverty while achieving economic growth objectives.

> A concerted effort to improve small farmers' market access and to offer them due market rates for their produce is the most effective and economical way to handle the food crisis.

Small farmers' poor access to food is an irony that illustrates the travesty of food markets in South Asia. Partly it is because of their subsistence agriculture. Mostly it is due to the prevailing market structure that offers them low farm-gate prices to what they produce but forces them to pay higher prices for commodities they purchase from the market. Financial constraints and continued dependence on money lenders for agriculture activities put them in such a precarious condition that they seem to have no escape routes out of poverty and hunger. Unfortunately, this even leads some farmers to commit suicide in desperation.

A concerted effort to improve their market access and to offer them due market rates for their produce is the most effective and economical way to handle the food crisis. This would require a substantial increase in and allocation of resources for rural roads, communication facilities and other infrastructure. These are important as they increase small farmers' productivity while also increasing their bargaining power in food markets.

Notwithstanding the good intensions, food aid delivered to them through channels that consume most of the resources before they are actually delivered to the target groups is highly inefficient and will not lead to any long-term solution.

Food utilization

Food utilization refers to how food is handled and biologically absorbed into the body. Thus, it is essentially an issue of individuals, but has far-reaching implications for society, people's wellbeing and economic growth. Even when food availability and access are guaranteed, a person may be highly undernourished if s/he is incapable of absorbing food, or the cultural and other practices are such that most of the food nutrients are destroyed in the process of cooking or processing. This also can be worsened by poor health conditions.

The high proportion of malnutrition among children, even among the rich, in South Asia is mainly due to poor habits of food preparation and a lack of sufficient knowledge of health and nutrition. High illiteracy among women, who take the prime responsibility of child care, is considered a major cause of poor nutrition among children. Unfortunately, cultural and religious practices circumvent the potential to raise literacy among women. Just as transferring income to the poor is not charity, educating girls is not charity but an economic necessity for South Asia to come out of poverty and food insecurity.

Vulnerability

Vulnerability can be defined and analysed at individual and household levels or for a specific location. In the context of South Asia, vulnerability specifically has much to do with spatial characteristics and is often of transitory nature. For example, it is possible to identify some countries as being more vulnerable to natural disasters (e.g., Bangladesh for more cyclones and floods). If there are effective mechanisms to deal with such calamities across space, the vulnerability arising from these disasters can be effectively mitigated through the help of other regions.

Transitory food insecurity (vulnerability over time) can affect any region or individual and household. It can be mitigated through the use of time-dependent mechanisms such as stock management or a combination of wealth management and trade. Farmers and households in many parts of South Asia are quite adapted to such vulnerabilities and have developed a multitude of coping mechanisms to deal with food insecurity, combining both space and time dimensions.

Climate change has made these disasters more intense in terms of their impact and frequency, and the traditional coping mechanisms seem to have lost their effectiveness in mitigating the impact. Changes in weather patterns have made farming decisions more difficult. Some effects such as increasing salinity that makes land infertile have more structural impacts, and many parts of South Asia have begun to experience such changes.

South Asia experiences a number of vulnerabilities related to crop yields, production and buffer stocks, livestock and fishery, difficulties in imports, and environmental hazards. India being a large country is able to manage weather risks and other calamities with relative ease, while small countries find it difficult to cope with such disasters.

Vulnerability requires effective coping mechanisms. Often the traditional coping mechanisms, both at individual and household levels, are evolved to cope with the natural level of disaster intensity and they function fairly effectively.[9] It is only when disasters are so large in magnitude beyond the experience of the community that external assistance is needed. Country-level coping mechanisms often depend on political and economic structures. Regional mechanisms to deal with these disasters should carry some components that link South Asia with the rest of the world, for example, like in re-insurance schemes.

An agenda for South Asia

Food security programmes in South Asia should deal with all the food-security dimensions. Solving South Asia's food insecurity is tantamount to solving the question of hunger among one fifth of humanity. Regardless of the position taken by countries in terms of their choices over self-sufficiency in food, South Asia still needs to increase its food production capacity.

Given the scarcity of resources, particularly land, policies towards productivity enhancement must play a leading role. While the Green Revolution and associated interventions have significantly increased productivity, further advancement would greatly depend on the use and transfer of technologies that enhance the quality of seeds as well as the intensity of farming.

However, agriculture in dry areas, despite its significant contribution to the basket of commodities being produced, received only marginal benefits from the Green Revolution and new technology. The potential of agriculture in such areas has only been sparingly utilized, and its full utilization hinges on the development of appropriate technologies and the use of seeds and fertilizers that are particularly designed for such areas.

These efforts should accompany the efforts to minimize huge losses that are taking place in the value chain process and at consumption points. While post-harvest technologies often deal with the losses at production and distribution, so far, no credible effort has been taken to minimize the losses at the consumption level.

National governments are generally responsible for improving access to food and utilization. In this regard, regional efforts can be directed towards sharing best practices and knowledge. Vulnerability can neither be predicted nor completely eliminated. There are specific roles that individuals, households, countries and larger regions can play to mitigate them. While allowing markets to play their roles and households to cope with low-intensity vulnerabilities, national governments and regional organizations can design mechanisms that would help to cope with relatively large calamities that are beyond the capacity of households to deal with. Indigenous regional efforts towards this end in South Asia are yet to emerge. ■

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NORWEGIAN PLANT VARIETY PROTECTION AND SEED LAWS

Lessons for South Asian Countries

Failure to protect farmers' rights in plant variety protection and seed laws is a recipe for disaster for food security and biodiversity management.

Regine Andersen

A central condition for food security in most developing countries is the access to seeds and propagating materials from plant varieties that are adapted to the growing conditions in often marginal areas. Crop genetic diversity is thus a key, as farmers need multiple production options to cope with the risks of crop failure due to pests, diseases, and not least climate change. However, such diversity is decreasing at a fast pace and in many countries, the legal space for farmers to conserve, use, develop, exchange and sell farm-saved seeds is being increasingly difficult, mainly due to plant variety protection (PVP) and seed laws.

PVP and food security

PVP has been developed to enable the global breeding industry to cover its production costs and earn profits through royalties to be paid by farmers upon the purchase of new seeds. Since 1961, there is an institutionalized international cooperation to globally enforce the PVP system through the International Union for the Protection of New Varieties of Plants (UPOV). This Union has developed certain standards for PVP, which its members implement for expanding protected seed trade across country borders and for ensuring certain royalties to plant breeders. At the outset, PVP conditions were quite liberal in UPOV, but new amendments made them steadily stricter. The UPOV Acts of 1978 and 1991 represent the latest two amendments. UPOV 1991 is much stricter than UPOV 1978 *(see Box)*. It does not allow farmers to exchange seeds of protected varieties, but only provides exemptions to use farm-saved seeds of such varieties under strict conditions. Under UPOV 1978, it was possible to exchange and reuse seeds, but not to sell them.

Whereas UPOV started out as an institution of Organisation for Economic Cooperation and Development (OECD) countries, it is now increasingly expanding its developing-country membership. This has been possible particularly due to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO). The Agreement requires WTO members to protect plant varieties either by patents, or an effective *sui generis* system (a national system that recognizes local needs and priorities) or a combination of both. Whereas there is no mention of UPOV in the entire TRIPS Agreement, and the provisions are minimum standards, some WTO members are exerting pressure on developing countries to join UPOV 1991. Membership based on the 1978 Act was closed in 1998.

It is indeed a contradictory practice that while OECD countries can still continue as members of UPOV 1978 (if they have not already joined UPOV 1991), developing countries that joined UPOV after 1998 or are being pressurized to join it must adapt the stricter version—UPOV 1991. It means that such developing countries would be forced to deprive their farmers of exchanging seeds of protected varieties, and using farm-saved seeds of such varieties would only be allowed for small-scale farmers. In many countries, this exemption has been implemented with the condition for farmers to pay a certain amount for licence, even if they reuse the seeds. In some countries, 80 percent of the full licence fee should be paid by farmers if they use farm-saved seeds from protected varieties. In a way, it means shifting from the purchase of seeds to leasing them to farmers.

The effects of these PVP provisions for most developing-country farmers are threefold. First, seeds from commercial varieties will become more expensive. Second, farmers will be prevented from exchanging seeds with their neighbours, if the neighbours start using protected seeds. This will also reduce the scope of access to seeds and propagating materials, and plant genetic diversity as such. Third, in countries where farmers have to pay for a licence to use farm-saved seeds from protected varieties, they will not maintain this practice and thus will not also be in a position to maintain their traditional knowledge related to selection of seeds.

Seed laws and food security

Seed laws have been developed to maintain plant health and to ensure the quality of marketed seeds. Such laws not only cover seeds from protected varieties, but normally also deal with all seeds and propagating materials of food crops in the market. As in the case of UPOV, seed laws have also become stricter in many countries, particularly in the North, over the years.

For example, farmers in the European Union (EU) are not allowed to sell or exchange seeds, as this is only to be done by authorized seed shops. In addition, only varieties that are accepted in the official lists of crop varieties can be sold. This means that varieties with greater genetic diversity will not be allowed for sale, as the admission criteria are strict and require genetic homogeneity. Moreover, there are strict requirements for seed certifications. A new directive on conservation varieties should lift this, but that does not help much, as explained below. In other words, farmers engaged in diversity farming are deprived of maintaining crop diversity in their fields because they will not have access to most of the seeds they need, and sooner or later, their production system that is based on traditional varieties will not be viable.

As such laws concern all varieties of crops, and not only varieties protected with intellectual property rights (IPRs), their impact on the maintenance of crop genetic diversity in the fields is even more dramatic than the effects of the PVP regime. As these types of laws are in the coming also in developing countries, it is crucial for them to be aware of the potential effects they would bring for farmers and rural food security.

Experiences from Norway

As most countries in the world seem to have developed PVP rules and seed laws in the direction described above, a central question is whether there are other possible development paths. The experience of Norway may suggest a different direction.

Norway is in a promising situation with regard to the realization of farmers' rights over seeds. It has a strong farmers' movement and the seed industry is rooted in the cooperative movement. Norway has less than 45,000 farms and there is no multinational corporation due to two main reasons: first, the very particular growing conditions for plants so far North, where the combination of light and temperature requires very special plant varieties, and second, a small market for seeds.

As many other countries, Norway is a member of UPOV 1978. In 2004, a new bill was proposed for introducing stricter plant breeders' rights and a suggestion was made for Norway to join UPOV 1991. The background was that the largest breeding organization had been privatized, and thus it was expected that it would earn its income from sales and not through state support. After extensive hearings and consultations, and the election of a new government, the bill was rejected in

Effects of the UPOV Acts of 1978 and 1991 on farmers

Provisions	UPOV 1978	UPOV 1991
Protection coverage	Plant varieties of nationally defined species or genera	Plant varieties of all genera and species
Requirements	Novelty (new varieties), distinctness, uniformity, stability and variety denomination	Novelty (including discovering and developing varieties), uniformity, stability and variety denomination
Protection scope	Producing for purposes of commercial marketing, offering for sale and marketing of propagating material of the variety	Producing, conditioning, offering for sale, selling or other marketing, exporting, importing and stocking for above purposes
Farmers' exemption	Farmers are implicitly free to use their harvested materials for any purpose (except for marketing on a commercial basis) when they stem from a protected variety.	National governments are entitled to decide whether small-scale farmers shall be allowed to reuse the harvest of protected varieties on their own land holdings. Exchange among farmers is prohibited.

Source: Andersen, R. 2008. Governing Agrobiodiversity – Plant Genetics and Developing Countries. Aldershot: Ashgate.

2005 on the grounds that it would distort the balance between farmers' and breeders' rights, which has been maintained by the country capitalizing on the flexibilities available under UPOV 1978.

So how is plant breeding doing in Norway after this decision? It is seen partly as a state responsibility. The major plant breeding company is organized as a stockholding firm, where the state and farmers' cooperatives are main shareholders. However, since it is not able to finance its activities only with incomes from production and royalties, it also depends on state support. There are suggestions that state support is not a reliable source due to fluctuating political winds and that Norway should join UPOV 1991. But this will not help much for three reasons.

First, the increased income from royalties will still not be enough to cover the costs. Second, the state will expect the company to manage all its financial needs from the market. Third, the company will not be in a position to monitor implementation, or that will be too expensive. A solution that is currently being discussed is an endowment fund of a size that could be used to enable the breeding company to finance its activities from the interests of that fund—together with the royalties and other incomes it receives.

Similarly, there is another concern in Norway. Due to the low level of royalties, foreign plant breeders are not willing to market their materials in the country without compensating measures. However, this has not been a serious problem. Though for potatoes and strawberries it has generated some problems, Norway has found different ways to compensate foreign breeders. An endowment fund could continue compensating for such costs.

The biggest issue today is, however, the seed legislation. Due to its ratification of the European Economic Agreement, Norway, along with four other European countries, has become an associated member of the EU. This basically means that it has to implement many of the EU directives, including on seed. Thus, exchange and sale of seeds among farmers, even to give them away, have been prohibited. This was implemented in Norway in 2004, but the rules have not been enforced in practice, as there is no legitimacy for such a regulation in Norway.

In the meantime, the EU has adopted a directive on conservation varieties and Norwegian authorities are now struggling to implement it at the country level. They are heavily delayed, as they realize that it is not possible to implement this regulation without being in conflict with the International Treaty on Plant Genetic Resources for Food and Agriculture as well as the diverse needs and priorities of farmers. Even if the authorities manage to create the greatest legal space possible within the framework of the new EU directive, three barriers remain:

> The EU has adopted a directive on conservation varieties and Norwegian authorities are now struggling to implement it at the country level.

- Most of the varieties maintained and further developed by Norwegian farmers would not be accepted, and could not be exchanged anymore. They would disappear from on-farm conservation and sustainable use, sooner or later.
- The plant genetic diversity of Norway is "frozen" at the current stage, as farmers are not allowed to further develop the materials as conservation varieties. Thus, farmers would not be allowed to use their traditional knowledge in the further development of their potentials.
- It would still remain prohibited for farmers to exchange seeds, unless they manage to register them and sell through authorized seed shops.

Thus, a central question in Norway now is whether it is necessary to apply for an exemption from the EU directive, and then to develop a *sui generis* system on this in Norway. A *sui generis* system should ensure that basic requirements with regard to phytosanitary and seed quality issues are fulfilled. For example, an organization for farmers could be established, where members can exchange and sell seeds. Here they also agree to comply with seed exchange and sale requirements, developed in cooperation between farmers and the Food Safety Authority. This can enable farmers to freely exchange and sell seeds within the organization. In addition, the organization can voice farmers' views and guarantee benefits for its members. A voluntary registry for varieties is also suggested.

Lessons for South Asia

The first lesson is that South Asian countries are not required to join UPOV 1991 or even develop UPOV 1991-compatible PVP laws to comply with TRIPS. They may develop laws compatible with UPOV 1978 or other *sui generis* laws that meet the minimum requirements of TRIPS. India with its *sui generis* system (Plant Variety Protection and Farmers' Rights Act of 2001) *(see related article on pages 15–16)* and Nepal with its "No to UPOV" commitment at the WTO level have already shown that such paths are possible for South Asia as a whole. The second lesson is that seed laws must be developed allowing farmers to maintain crop diversity in their fields. This means that they must have the legal space to save, grow, develop, exchange and sell seeds. Finally, South Asian countries need to realize that farmers' rights are not only about ensuring the legal space for farmers to continue as custodians and innovators of crop diversity. They are also about how farmers can be recognized, rewarded and supported for their vital and continuing contributions to the global pool of genetic resources. ■

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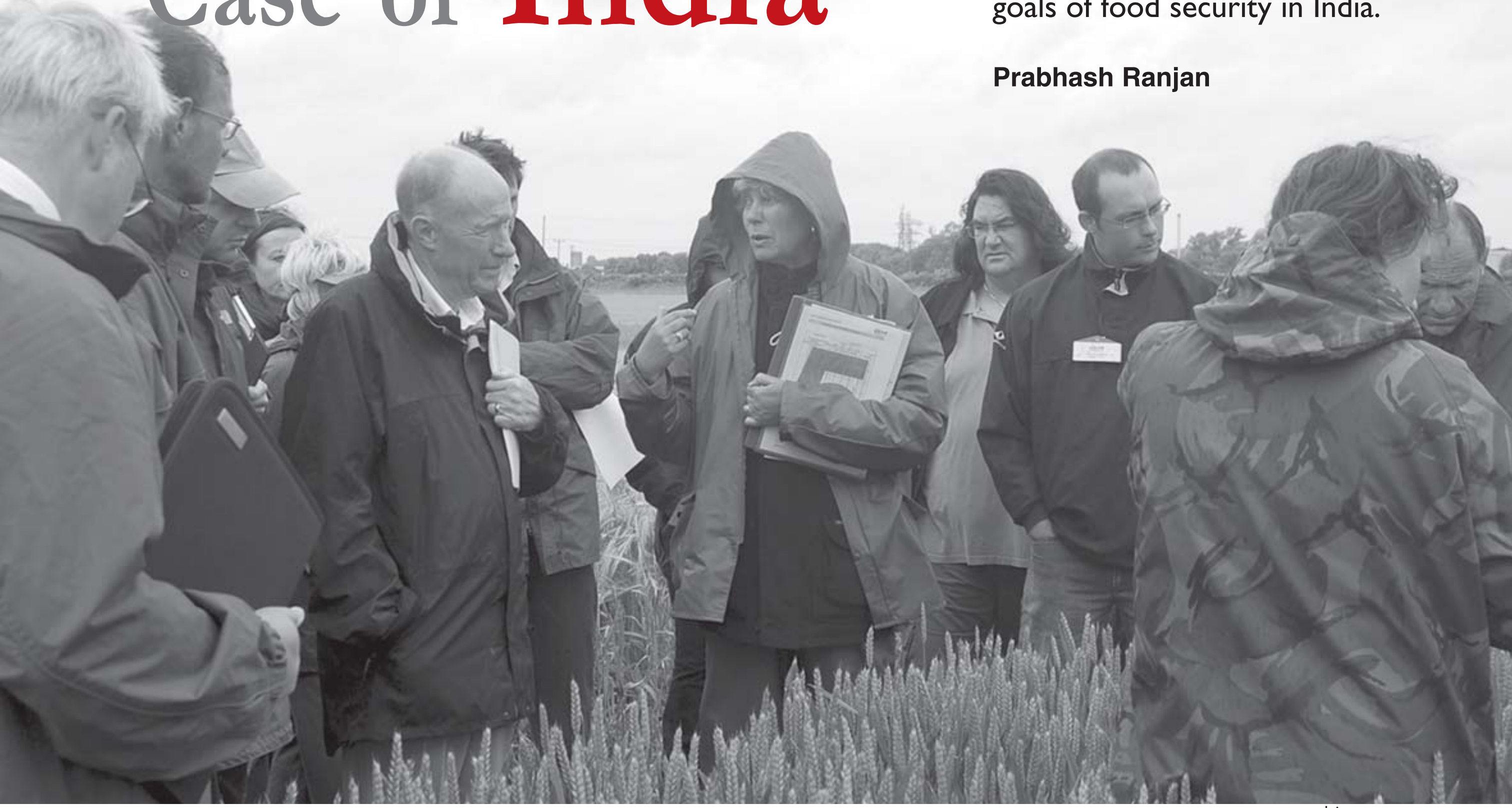
Farmers' control over seeds
Case of India

Legal protection of farmers' rights to sell, reuse and exchange seeds is critical to the realization of the long-term goals of food security in India.

Prabhash Ranjan



www.googleimage.com

Control over seeds has become ever more important in an era of intellectual property rights (IPRs) in agriculture. IPRs such as patents and plant breeders' rights (PBRs) are the exclusive rights granted to IPR holders for a certain period of time, for example, for the production, use, reuse and sale of new varieties that have been developed. Thus, the issue of food security is directly linked to IPRs because a very strong IPR regime may reduce farmers' access to seeds. Such a regime may also push resource-poor developing-country farmers to the market each time they want to buy seeds and impede their age-old practices of saving, reusing, exchanging, breeding and selling seeds.

Historically, farmers have played an important role in not just sowing seeds and growing crops, but also in exchanging, reusing, supplying and selling seeds to other farmers. In this sense, farmers also play a critical role as seed suppliers. However, with the growth of biotechnology and the increased application of IPRs, the private sector has started to play an important role in the seed sector. For instance, in India, the private sector's involvement in the sector is assuming growing importance though the public sector still has a strong presence in the organized formal seed sector, especially for food crops.

Against the backdrop of these developments, it remains important for developing countries, including those in South Asia which have traditional farming systems, to look at the possibilities of protecting farmers' rights to seeds and develop mechanisms to safeguard their rights that are likely to be affected by the IPR regime. The case of India offers them an opportunity to review their legislation and develop pro-farmer legal and institutional mechanisms.

India, South Asia's largest economy, developed a plant variety protection (PVP) law in order to comply with Article 27.3 (b) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO). Article 27.3 (b) imposes an obligation on all WTO members to provide "effective" IPR protection over plant varieties either through a patent system, or a *sui generis* (domestic) regime or a combination of both. The fact that the term "effective" has not been defined in Article 27.3 (b) gives countries a wide degree of discretion in interpreting the term. For example, this provides them with the flexibility to develop a *sui generis* PVP law that not only recognizes effective PBRs, but also protects the rights of farmers such as in relation to access to and control over seeds.

PVP law and farmers' rights

Capitalizing on this flexibility, India explored the *sui generis* system and enacted a PVP law in 2001—Plant

Variety Protection and Farmers' Rights (PVPFR) Act. This Act recognizes the rights of farmers to save, use, sow, resow, exchange, share or sell their farm produce, including seeds of a protected variety, in the same manner as farmers were entitled before.

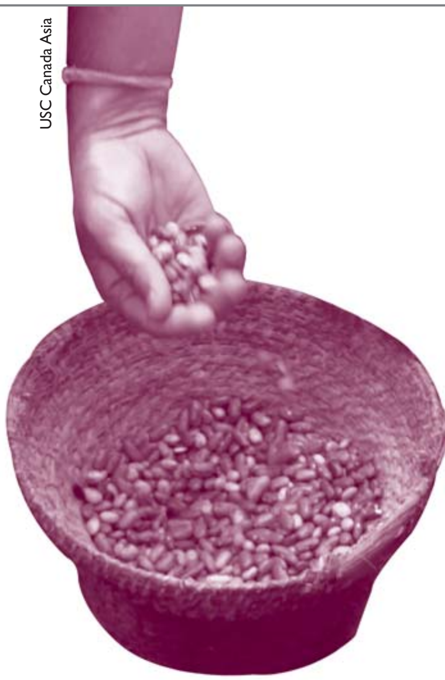
It should be noted that a previous draft of the PVP law did not recognize farmers' rights over the seeds of crops they grow. This led to huge protests and, as a result of a strong campaign launched by the civil society, the legislation finally recognized farmers' right to sell seeds in the same manner as before.

Farmers' right to sell seeds is of fundamental importance in a country like India where the farming community provides more than 80 percent of the country's annual requirements of seeds. A farmer not having the right to sell seeds implies that each time the farmer wishes to grow a new crop, s/he has to turn to the market to procure seeds. Such reliance on market for seeds is not economically feasible for many poor farmers in India and hence will have livelihood repercussions. Further, if farmers do not have the right to sell seeds, it will weaken the overall seed market in India since there will be less competition for private seed companies.

It is, therefore, widely held that control over seeds by farmers is a crucial element in ensuring food security. Notably, one commentator has argued that even the right of farmers to sell seeds or to have control over seeds does not guarantee self-reliance in seeds for farmers, especially when some processing is required to convert harvested materials into seeds. Hence, farmers will have to turn to the market in such cases. Notwithstanding this argument, the significance of farmers having control over seeds cannot be ruled out, especially in those circumstances where harvested materials can be used as seeds, without any kind of processing.

Seed bill and farmers' rights

In the process of understanding the control over seeds, it is important to look at another aspect that may completely undermine the control Indian farmers have over seeds. This is related to the Seeds Bill of 2004, which was subsequently referred to a Parliamentary Standing Committee that gave its report in 2006. Although there has not been any progress on this, it is important to see how the provisions of the Bill may undermine the control of farmers over seeds.


USC Canada Asia

The Seeds Bill provides for mandatory registration of all seeds. Clause 13 of the Seeds Bill states "no seed of any kind or variety shall, for the purpose of sowing or planting by any group, be sold unless such seed is registered". This is a sweeping provision not recognizing any exception and covers even farmers' varieties since the definition of the term "variety", in Clause 13, includes farmers' varieties. Arguably, such mandatory registration of farmers' varieties, as against the voluntary registration option in the PVPFR Act, obstructs farmers' ability to sell or barter seeds because many illiterate and poor farmers in India will not be aware of the complexities associated with the registration procedure. Such a mandatory registration of all seeds, including farmers' varieties, will also directly affect farmers' rights that are protected by the PVPFR Act.

The other onerous obligation imposed on farmers in the Seeds Bill is by virtue of Clause 43, which imposes the requirement to sell seeds that conform to the minimum limit of germination, physical purity and genetic purity. This is an onerous obligation when understood in the context in which most farmers operate in India. Since many farmers are poor and illiterate, they do not possess the technical information related to genetic purity and the minimum limit of germination of a seed.

Therefore, it will be difficult for farmers to find out whether their seeds satisfy these requirements or not. In fact, the parliamentary Committee, constituted to review the Seeds Bill 2004, has also stated that most of the farmers in India do not follow these scientific and technical terms and hence may not conform to these standards while selling or bartering their seeds. Recognizing that mandatory imposition of such onerous obligations indirectly restricts the right of farmers to sell or barter seeds, the Committee has recommended the removal of this requirement.

Conclusion

It is extremely important for India to develop a legal regime that allows farmers to have control over seeds and does not affect their rights to sell, reuse, exchange or barter their seeds with other farmers. The possession of such right is critical to the realization of the larger and long-term goals of food security. Since most other countries in South Asia have similar farming conditions and development objectives, it will be in their interest to review and analyse India's status in enforcing laws related to farmers' control over seeds. ■

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Can Pakistan manage the Food Crisis?

Abid Qaiyum Suleri


www.whitebank.org

According to 2007 figures, Pakistan was the ninth largest wheat exporter, accounting for 1.5 percent of global wheat exports. So, should there be any logic in concluding that the fall in Australian wheat production or the increased use of maize for production of biofuels in the United States affected Pakistan's domestic wheat prices? The link is neither visible nor convincing.

Then, what is the reason for Pakistan facing an acute wheat crisis? Nobel laureate Amartya Sen observes, "there is no such thing as an apolitical food problem". While external factors and events may trigger a food crisis, history is replete with examples showing that political actions or inactions determine the severity of food insecurity and at worst, whether or not a famine will occur. If we consider the political actions leading to the wheat crisis in Pakistan, it becomes evident that the counry's double-digit food-price inflation has little to do with global trends, and more to do with the government's policies.

Wrong policies

Pakistan had a policy to export wheat below global market prices. But since it could not stop hoarding and smuggling of wheat as well as wheat flour, it started to import the same at global prices. On top of that, it did not announce the support price/procurement price (they are not synonyms but two different mechanisms) before the sowing season of 2007/08. Had the government taken the initiative to provide the support price, it would not only have helped farmers make an informed decision about their future cropping plans but also guaranteed incentives for more production.

Continuing its flawed policy, the government, through the Punjab Food Department, started supplying subsidized wheat to flour mills at Rs. 480 per 40 kg from 15 September 2007.[1] At that time, flour mills as well as the Food Department had the information that the minimum procurement price for the next crop would be higher than Rs. 480 per 40 kg. Later, the Interim Government announced the minimum procurement price of Rs. 510 per 40 kg, which was subsequently raised to Rs. 625 per 40 kg in February 2008 by the coalition government. The public procurement drive for the new wheat crop started on 15 April 2008.

One need not to be a genius to guess that flour mills would have made a fortune by buying subsidized wheat and selling it back to the Food Department without milling it. They made almost Rs. 350 per bag (of 100 kg). While various government agencies were claiming that they were releasing subsidized wheat to flour mills, a large part of that wheat was not being milled into wheat flour. Also, a large chunk of what was getting milled was being smuggled to Afghanistan. No wonder, Attock district, located in the northern border of the Punjab province, has 24 flour mills whereas Lahore, the capital of the Pakistani province of Punjab, has only 21.

In order to address the wheat crisis, the government of Pakistan decided to import 2.5 million tonnes of wheat at US$410 per metric tonnes. The government also started to spend at least US$1 billion on wheat imports. The imported wheat is meant to be provided at a subsidized rate to flour mills either through utility stores or through other mechanisms. It, however, remains to be seen whether this measure, taken with good intention, benefits the target groups in the face of pervasive corruption.

Better measures

The world at large is grappling with the adverse implications of the "3F" crisis—food, fuel, and financial. In the case of Pakistan, together with these crises, a fourth "f", i.e., frontier crisis, due to the war on terror in the North-Western Frontier Province, is making matters worse. While it may be difficult to effectively control the fuel, frontier and financial crises in the short to medium term, Pakistan can manage the food crisis. It is doing comparatively better on the production front. It is the world's sixth largest wheat producer, fifth largest dairy milk producer, fifth largest date producer, one of the largest producers of Basmati rice, and an important producer and exporter of mangoes and citrus (*kinos*).

So, what the country needs to do is to work towards sustaining this production and making it more affordable for consumers by reducing the cost of production. In fact, soaring food prices should be a wake-up call for Pakistan to make a long-term investment in the food-supply chain and make the country food sovereign. Mismanaging domestic production and then relying on food imports may lead the country to a situation where it would have to increase the prices of essential food commodities on a fortnightly basis as it is doing with fuel prices now—something that it can afford neither politically nor socio-economically. ■

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Note

1 US$1 equalled 80.03 Pakistani Rupee on 2 March 2009.

Food Security Agenda for South Asia

amid Regional Challenges and Global Crises

A regional approach for food security would support national efforts, but the political commitment from all South Asian countries to regional policy frameworks is a must. The next SAARC Summit would do well to address this and other emerging issues that affect regional food security.

Posh Raj Pandey and **Kamalesh Adhikari**

The Charter Establishing the South Asian Association for Regional Cooperation (SAARC) states that regional cooperation is mutually beneficial, desirable and necessary for South Asia to promote the welfare and improve the quality of life of its peoples. The areas identified for cooperation are not limited to economic sectors such as trade, transport, energy and finance, but also extend to social spheres. The SAARC Social Charter also makes provisions for poverty alleviation, improvement in health and education, human resource development, promotion of women's status, promotion of children's wellbeing, etc. The agenda of the Social Charter is further elaborated by setting out SAARC Development Goals and a Plan of Action on Poverty Alleviation.

In order to concretize efforts on poverty alleviation and food security in the region, the 12th SAARC Summit, held in 2004, expressed concern over the non-operationalization of the SAARC Food Security Reserve, established in 1988, and recommended the establishment of a Regional Food Bank. The Agreement on Establishing SAARC Food Bank was signed during the 14th SAARC Summit in April 2007, and the 15th SAARC Summit in August 2008 called for its early operationalization, issuing the Colombo Statement on Food Security. This is a positive step towards eradicating hunger, but is not sufficient to ensure regional food security and achieve livelihood-related goals.

Following this Summit, an Extraordinary Meeting of SAARC Agriculture Ministers was held in November 2008 in New Delhi, India. The Meeting not only made some major decisions to operationalize the Food Bank but also elaborated on the Colombo Statement on Food Security. Adopting the SAARC Declaration on Food Security, the Ministers also expressed their commitments in a wide range of areas such as agriculture production and natural resources; seed production and quality testing; climate change; integrated nutrient management; biotechnology; and bio-resource management.

In view of these developments, as well as the growing challenges emerging from climate change, conflicts, and the global food and financial crises, South Asian governments need to visualize and operationalize their national and regional policies, strategies and programmes in such a manner that they effectively contribute to the advancement of each component of food security.

Components of food security

Food security is a multi-faceted concept, variously defined and interpreted. Whether it is conceptualized as security at the global, national, household or individual levels; or comprehended from a food-first perspective or a livelihood perspective, or the state of affairs judged with objective indicators or subjective indicators; all the reflections boil down to the nature of the food problem as it is experienced by poor people. Thus, the right to food is not only a human right, it is also a moral and a social right.[1]

Its analytical framework needs to embrace the relationship between the politics and economics of poverty, hunger and malnutrition, and the complex dynamic strategies that poor households employ to secure their survival.[2] The argument is that the issue of food security is not limited to present "food entitlement" based on national food supply and prices, but also involves the complexities of livelihood strategies, perceived risks, and uncertainties.

There, however, exists a kind of consensus that food security encompasses the following multi-faceted and inter-related dimensions: food availability, stability, accessibility, sufficiency, autonomy, reliability, equitability and sustainability.[3]

State of food security

A vast majority of people in South Asia are engaged in agriculture. But the contribution of agriculture to total income is less than one fourth in the region, barring Afghanistan and Nepal. Most of the income is spent on food and yet more than 300 million people go to bed hungry, an alarming 20 percent of a 1.5 billion population. The depth of hunger is moderately high in Bangladesh, Pakistan and India.

The disturbing fact is that poor and vulnerable groups, particularly in rural and remote areas, are falling further behind. Moreover, not only the absolute number of hungry people has increased, per capita food production for most of the countries has also declined, and a vicious circle of malnutrition, which begins before birth and lasts until death, is in operation.

State of hunger in South Asia

Country	Proportion of population below poverty line			Prevalence of child malnutrition	Depth of hunger	Number of undernourished persons (millions)
	National	Rural	Urban			
Afghanistan	-	-	-	39.3	-	-
Bangladesh	49.8	53.0	36.6	47.5	290	40.1
Bhutan	-	-	-	18.7		230.5
India	28.6	24.7	30.2	42.5	260	0.0
Maldives	-	-	-	30.4	180	4.0
Nepal	30.9	34.6	9.6	38.6	220	35.0
Pakistan	32.6	35.9	24.2	37.8	280	4.0
Sri Lanka	22.7	-	-	29.4	250	-

Source : FAO. 2009. Food Security Data Set, www.fao.org.
- not available. Figures are for the latest year available.

Additional pressures

The new dimensions of climate change, conflicts, the global fuel and food crises (though global prices of fuel and food have fallen in recent months), and the recent global financial crisis leading to global recession are additional threats to food security in South Asia.

Climate change

As livelihoods and economic activities in the region are closely tied with the natural resource base, climate change has profound implications for agriculture productivity and, thereby, food security. It is expected to cause increased intensity of floods, worsen desertification, induce sea-level rises, and disrupt growing seasons. In addition, climate change may indirectly impact fresh water availability, biodiversity, soil moisture status, land-use pattern, and pest and disease incidence.[4]

As agriculture significantly relies on weather conditions and crops are grown close to temperature tolerance thresholds in South Asia, a combination of climate change factors adversely affects crop yield and productivity, as well as aquaculture and fish production. For example, in central India, wheat yields may drop by 2 percent in a pessimistic climate change scenario.[5] Similarly, in Pakistan, a 1 degree Celsius increase in temperature, is predicted to reduce wheat yields by 6–9 percent in humid, semi-arid and arid areas.[6] In Sri Lanka, while half a degree temperature rise may reduce rice output by 6 percent, increased dryness will adversely affect the yields of key products like tea, rubber and coconut.[7]

In Nepal and Bhutan, climate change will cause the cultivation zone to shift upwards to unsuitable steep slopes. In the process of climate change, the brunt of temperature rise will be borne by small-holder rainfed farmers without financial and technical capacity to adapt to climate variability and change.

Conflict

Conflict and food insecurity have a two-way relationship, reinforcing each other. Conflict causes food insecurity by reducing food production and entitlements to produce and gain access to food, as well as by affecting human welfare and capabilities through the destruction of the environment, health care, education and other social infrastructure.[8] Food insecurity—food shortage, lack of access to food, malnutrition, or some combination of these—may fuel further conflict. Since most South Asian countries have been mired in protracted internal conflicts, their impacts on food security should be factored in while devising strategies for food security at national and regional levels.

Food crisis

The world has been experiencing an unprecedented food crisis, mainly due to the rise in global food prices in 2007–2008, due to both adverse demand and supply situations. On the demand side, income and population growth, rising energy prices and subsidized biofuels production have contributed to surging consumption of agriculture products. On the supply side, productivity and output growth have been impaired by natural resource constraints, underinvestment in infrastructure and agricultural science, limited access to inputs, and weather disruptions.[9]

The global prices of almost all agriculture commodities increased sharply in the past two years. For example, in the second quarter of 2008, prices of wheat and maize were three times higher than at the beginning of 2003 whereas the price of rice was five times higher. Diary products, meat, palm oil and cassava also experienced sharp price hikes. These global food price changes have been transmitted in different degrees to South Asian countries owing to factors such as transportation costs, domestic policies, and market structures, but the general pattern of price change has been similar to the global trend.

Encouragingly, in the past few months, prices of major cereals have fallen by about 30–40 percent as a result of the economic slowdown and favourable weather conditions. But they remain still high and the short-term price relief is insufficient to ensure that the poor have access to adequate amounts of nutritious food. Despite the fall in global food prices, the Food and Agriculture Organization of the United Nations (FAO) stipulates that more than 32 countries in Asia and Africa are still facing the toughest time of food insecurity and are in need of policy and institutional support to address the challenge.

Financial crisis

Economic contraction increases unemployment and reduction in real wages. It also limits the funds available for food aid and social protection, which are essential for helping the most vulnerable people avoid malnourishment or even starvation. The financial crisis, beginning in the second half of 2008, is causing recessions in many economies with severe implications for the poor in developing and least-developed countries. According to FAO, the financial crisis may deepen the current economic slowdown, and agriculture sectors, including of developing and least-developed countries, will be affected negatively. It has been projected that declining purchasing power could lower demand and increase the risk of a drop in food intake, particularly of the poor in both urban and rural areas *(see related article on pages 29–31)*.

Food security agenda

National agenda

For reducing food insecurity, the most important starting point is national-level initiatives. A precondition for sustainable improvements in long-term food security is to bring about macro-level availability of food, sustained increases in the real incomes of the poor as well as improved production capacity to acquire food at the household level, and utilization of nutritious food. A broad-based, pro-poor development policy putting agriculture and rural development at the centre stage would play a catalytic role for sustained income increases.

This requires good governance in providing basic public goods to all citizens, ensuring internal peace, and upholding the rule of law. It also demands improvements in the assets position of the rural poor through land ownership of small producers and landless workers, and reforms in the functioning of land market. Making small-holder farming more competitive and sustainable—by increasing the quality and quantity of public investment; improving access to financial services; reducing exposure to uninsured risk; developing human capital; providing farm management training; applying technology in farms; enhancing the performance of producer organizations; and promoting innovation through science and technology—is also important.[10]

It is also crucial to engage farmers in seed development and use by protecting their traditional rights over seeds and related knowledge *(see related articles on pages 12–14 and 15–16)*, and to empower them to address climate change impacts, as well as manage biodiversity and make its sustainable use for agriculture development and food security.

In order to address short-term or transitory food insecurity situations, conditional cash transfers, school meals programmes, and programmes to support family agriculture along with interventions to reduce prices and ensure supply by maintaining food stocks would go a long way.

Empirical evidences show that the impact of globalization on food security is positive rather than negative, but the impact is fairly weak.[11] It may increase productivity and income by ensuring that investment goes into the right activities by promoting technological changes as well as matching the demand and supply situations. But the process of trade liberalization must be supported by the provision of an adequate legal framework, investments in public goods, such as research and development, public health, infrastructure, education, and basic safety nets to help poor households recover from shocks.

Policies to improve access to and affordability of food in isolation are not sufficient to cope with poverty, food insecurity, and chronic hunger. They should be an integral part of the overall development strategy, running through all sectoral strategies, including conflict management. They also need to be supported by education, making information available to households about the nutritional values of food, community access to sanitation, clean water supply, health facilities, and change in food habits and practices, especially those that impact food preferences and food preparation.

Regional agenda

Getting the domestic policy right must be viewed as a necessary step to ensure food security in South Asia. However, given the growing interdependence among the countries and integration of South Asia into the globalization process, a regional approach is imperative to address food insecurity. The following regional actions, in tandem with internal country-based policies and strategies, would help ensure food security.

- The endorsement by South Asian heads of state of comprehensive SAARC Development Goals comprising, among others, livelihood-related goals, is a welcome step. The region needs to move forward with a common understanding on the Plan of Action to achieve these goals. A regional approach to develop agriculture and a regional *modus operandi* to mobilize resources to finance these initiatives should also be devised.
- Enhanced regional trade in agriculture and food products could be a potent instrument to address food insecurity. The inclusion of almost all agriculture products under sensitive lists by SAARC members under the Agreement on South Asian Free Trade Area (SAFTA) could be a major impediment to agriculture development and food security *(see related article on pages 22–24)*. Thus, South Asian countries must commit to liberalize agriculture trade within the region.
- The SAARC Food Bank would effectively function if it is supported by SAARC Food Fund, created through financial contribution of members, and other interested countries and organizations, to stock food grain reserves. Moreover, the modalities on withdrawing food grains, procedures for release of food grains from the reserves, replenishment of the reserve and determination of prices also need to be clearly spelt out.
- SAARC countries need to formulate a regional policy on the conservation and use of genetic resources as well as application of biotechnology and intellectual property rights. While formulating such policy, members should capitalize on the equity principles of the Convention on Biological Diversity and the International Treaty on Plant Genetic Resources for Food and Agriculture. Among others, it is important to ensure that the region is able to make use of "compulsory licensing" in cases of inventions of greater importance to food and health security, as well as of an "access and benefit sharing" mechanism that protects farmers' rights to genetic resources and associated traditional knowledge.
- South Asian countries should come up with a regional plan and effective adaptation and mitigation strategies to protect the region from the adverse effects of climate change. For example, since with climate change, countries are likely to increasingly depend on genetic resources from other countries to adapt to changing agriculture patterns, they need to facilitate seed exchange and use systems at the regional level. This will help in expanding the options for the availability of genetic diversity the region needs for future generations to adapt to climate change and maintain food security. ■

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Notes

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Does SAFTA promote agro-trade ?

The growing threat of food insecurity calls for meaningful intra-regional agriculture trade, but protectionism hinders such trade in South Asia.

Paras Kharel

Over the last two years, soaring food prices have hit the developing world hard, South Asia being no exception. One of the consequences of the unprecedented food-price inflation witnessed since mid-2007, dubbed "agflation" by the media, is a clear and present danger of a reversal of the gains made in poverty reduction in recent times in South Asia, host to 40 percent of the world's poor. The price rise has also clearly highlighted the region's growing vulnerability to food insecurity.

As delineated by the Food and Agriculture Organization of the United Nations (FAO), food availability is a major component of food security. In the context of South Asia, food availability mainly depends on production, imports from outside the region and intra-regional trade.

Agriculture contributes over 21.5 percent of the gross domestic product of South Asia and the share of the agricultural population in the region is 52.2 percent.[1] In most countries, however, population growth outstrips agriculture growth. Only two countries have managed to expand per capita food production over the past decade or so, namely India (marginally) and Sri Lanka (significantly).

Food security and trade

The imposition of export restrictions by governments, including some of those in South Asia, is also believed to have exacerbated the food crisis. It is argued that export curbs are tantamount to national hoarding and have the very same effect—that is, price rise—as that of hoarding by merchants and traders at the domestic level. The importance of trade for stabilizing food prices cannot be overstated. For instance, international rice prices are subject to higher volatility than international wheat prices, as was witnessed during the food-price inflation of 2007–2008, because international trade in rice is very limited relative to production and consumption.[2]

According to FAO, the benefits of evolving a regional arrangement for food trade include the possibility of importing or exporting at less cost; receiving deliveries relatively quickly in case of calamity or in urgent situations to fill demand-supply gaps; and the ability to source food products round the year given the differences in seasonality of production.[3]

In this context, it is germane to consider the food crisis and the overall food security situation in South Asia from the trade angle. Freeing up trade in agriculture goods within South Asia, the least-integrated region of the world, is critically important. This article analyses where the Agreement on South Asian Free Trade Area (SAFTA) stands with respect to agriculture trade and its implications for regional food security.[4]

Intra-regional agro-trade

Two major reasons for South Asia's food insecurity are low agriculture productivity and proneness to natural disaster. Due to these, the aggregate regional food production has not been able to meet the growing regional food demand, compelling most countries to import food in most years. Barring India, all countries are more often than not net-food importers. However, intra-regional trade among South Asian countries is not large.

For most countries, the bulk of imported food is sourced from outside the region, though for the region as a whole, with the exception of Pakistan, intra-regional trade in agriculture products increased significantly during 1995–2004.[5] Less than 17 percent of South Asia's imports of basic food items[6] are sourced from within the region. In 2004, regional agriculture trade accounted for 22 percent of the total regional trade, which, in fact, was less than 5 percent of the region's total international trade. Noteworthy in this regard is India's lion's share of 80 percent in the region's total agriculture trade. Bangladesh and Sri Lanka are the main markets for India's agriculture products. Although not the main markets for India, three least-developed countries (LDCs) in the region—Bhutan, the Maldives and Nepal—are significantly dependent on India for their food supply.

Why is intra-regional trade in agriculture products in general and food products in particular low? One reason is low agriculture productivity and another—more relevant to this discussion—is that South Asian countries as a whole have pursued a policy, stated or otherwise, of self-sufficiency in food production, mainly cereal production. This is reflected in the sensitive lists that member states have maintained under SAFTA which include almost all agriculture products.

Sensitive lists

Under the SAFTA's Tariff Liberalization Programme (TLP), non-LDCs are required to cut their tariffs on products not in their sensitive lists to 0–5 percent by 2013. Sri Lanka is, however, given an extra one year to enforce such tariff cuts. They should cut tariffs to 20 percent within two years of the enforcement of the Agreement. On the other hand, the LDCs are required to effect tariff cuts in the same range by 2016. They should slash tariffs to 30 percent within two years of the enforcement of the Agreement. The TLP also requires non-LDCs to reduce tariffs to 0–5 percent on products exported from LDCs not included in the sensitive lists within three years of the enforcement of the Agreement, that is, by July 2009.

Since products on the sensitive lists are not subject to tariff liberalization, the presence of most food products—including cereals, vegetables, fruits, and poultry and dairy products—in such lists of member states means that even with the full implementation of the TLP, tariff barriers will remain an impediment to food trade in the region.

The Maldives is the only country in the region that does not have any cereal products in its sensitive list. Rice is common to all other sensitive lists.

However, despite the presence of agriculture products in the sensitive lists, the tariff barriers to agriculture trade—though high, as will be shown—are in practice less than what the sensitive lists would indicate. For, tariffs on agriculture products are as low as zero percent in bilateral preferential trade agreements (PTAs) between member states. For instance, India has zero tariffs for Nepal, Sri Lanka and Bhutan—countries with which it has bilateral PTAs. Nepal and Bhutan also reciprocate with zero tariffs on agriculture goods from India. Likewise, under a PTA, Pakistan and Sri Lanka apply lower tariffs on cereal products imported from each other than on imports from other SAARC member states with the exception of India, with which Sri Lanka has a more liberal PTA. Bangladesh, which does not have any bilateral PTA with any SAARC member state, neither gives nor receives tariff concessions to/from any member state on agriculture goods. The same is the case with the Maldives.

Tariff barriers

For the sake of simplicity, let's consider the tariffs[7] maintained by SAFTA member states on select cereal products (numbering 16) against one another.[8] India, the only country in South Asia that has consistently had surplus cereal production, levies an average tariff of 34 percent on the 16 cereal products for Bangladesh, the Maldives and Pakistan. In addition, for these three countries, India also maintains 80 percent tariff on rice in husk and broken rice, 70 percent on milled rice, and 50 percent on durum wheat, grain sorghum and millet. Imports of the products from Bhutan, Nepal and Sri Lanka enter duty free, however.

In the case of Sri Lanka, the average import tariff for such products is 27.36 percent for Bangladesh, Bhutan, the Maldives and Nepal, with which it does not have any PTA. In contrast, it imposes 9.23 percent tariff on such imports from Pakistan and 25.68 percent from India. Rice items attract the highest rates (as much as 83.68 percent).

Pakistan levies an average of 5.25 percent tariff on such imports from Bangladesh, Bhutan, the Maldives and Nepal. The average for India is 6 percent and for Sri Lanka is 2.06 percent. As wheat is not in its sensitive list, the 10 percent tariff on it is slated to fall to 0–5 percent by 2013. The tariff on millet, which is also not in the sensitive list, is zero, but the tariff can still be raised to up to 5 percent. Tariff on maize, another product not in the sensitive list, will have to be cut by at least 1 percentage point from the current 6 percent.

Bangladesh does not discriminate between South Asian countries in the application of tariffs on cereal imports, with an average tariff of 4.8 percent. While millet attracts the highest rate (12 percent), broken rice and husked rice (brown) attract just 5 percent. Rice in the husk (paddy or rough), though in the sensitive list, gets duty-free access—which is not possible in any other country in the region, except under some bilateral PTAs. As per the TLP, the 12 percent tariff on millet will have to be reduced to 0–5 percent. Maize attracts zero tariff but can be raised to up to 5 percent.

Nepal levies an average tariff of 9.44 percent on the cereals—at the same rate to all countries, except India, whose agriculture products enjoy duty-free access to the Nepali market as per a bilateral PTA. Rice, maize and wheat attract 10 percent tariff while millet attracts 9 percent tariff. As per the TLP, tariff on millet, which is not in the sensitive list, should be slashed to 0–5 percent.

The island state of the Maldives levies an average tariff of 12.89 percent. The same rates are maintained for all South Asian countries. Durum wheat and rice in the husk (paddy or rough) are subject to a 15 percent rate, and broken rice is subject to 13.5 percent. But milled rice enjoys duty-free access. As none of the cereal products are in the sensitive list, tariffs on them are slated to be cut to 0–5 percent by 2016 as per the SAFTA TLP.

On cereals imported from Bangladesh, Sri Lanka, Pakistan and the Maldives, Bhutan levies either 35 percent or 50 percent

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tariff. The average tariff for imports from Nepal is higher, 38.75 percent. Imports from India, with which Bhutan has a PTA, enter duty-free. Tariffs on wheat and millet, which are not in the sensitive list, have to be brought down to 0–5 percent by 2016.

The above analysis shows that tariffs are a barrier to trade in basic food grains in South Asia, with India, Sri Lanka, Bhutan and the Maldives in particular maintaining tariff peaks. Bangladesh and Pakistan have the lowest rates. But in the case of the Maldives, tariffs on cereals are scheduled to be slashed to 0–5 percent by 2016. It should be borne in mind that even if current tariffs on some individual products in the sensitive lists are low, there is room to hike the tariffs.[9]

In addition, if one analyses the import tariffs on other agriculture products in South Asia, vegetables, fruits, and poultry and dairy products are subjected to even higher tariffs in general. Also, the SAFTA Agreement does not have a mandatory provision for a time-bound trimming of sensitive lists as in the free trade agreement among Association of Southeast Asian Nations (ASEAN) members.

Non-tariff barriers

Countries South Asia are increasingly resorting to non-tariff barriers (NTBs) to discourage agriculture imports. Even between countries that have a bilateral PTA—with tariffs in some cases as low as zero—the reductions in tariffs are being nullified by the imposition of NTBs. Agriculture trade between Nepal and India is a case in point. Under the Nepal-India PTA, although agriculture products are exempt from basic customs duty, NTBs impede their exports, primarily from Nepal to India. NTBs also mar bilateral trade in agriculture products between other countries in the region. Additionally, even in cases where basic customs have been waived, para-tariff barriers impede trade in agriculture.

The SAFTA Agreement has a provision for the Committee of Experts (CoE) to "recommend the elimination or implementation" of non-tariff as well as para-tariff measures, which are required to be notified to the SAARC Secretariat on an annual basis, "in the least trade restrictive manner". However, the fact remains that the CoE's recommendations are not binding.

Export restraints

Barring India, all South Asian countries are substantial importers of food grains. Any supply or price shock to the Indian market is transmitted to most of its neighbouring economies, namely, Bangladesh, Bhutan, the Maldives, Nepal and Sri Lanka. The imposition of export curbs on some food grains by India in the summer of 2008 in an attempt to rein in rising food prices in its economy adversely impacted the food supply and price situation in countries such as Bangladesh and Nepal. Although India later lifted the export restraints, the original move did expose the vulnerability of the net-food importers of the region, especially the LDCs.

Way forward

With tariff as well as non-tariff barriers hindering trade in agriculture products in the region, which is reeling under food insecurity, it is imperative that efforts be initiated in earnest to liberalize agriculture trade under SAFTA as part of wider efforts to integrate food and agriculture markets in South Asia. As agriculture is a "sensitive issue" for all South Asian countries, where it is still the biggest employer, a relatively politically acceptable way of freeing intra-regional agriculture trade could be delisting agriculture goods from sensitive lists in phases, as suggested in the *Civil Society Statement on Food Security* issued in October 2008 (*see highlights of the statement on page 35*).

NTBs can be reduced considerably by operationalizing the SAARC body on standards and certification. There is a need for a regional initiative to bring the food safety standards of the region as a whole into conformity with international Sanitary and Phytosanitary (SPS) regime—which will not only ensure uniformity in the SPS regime in the region, but also enhance the prospects of securing increased market access for the region's agriculture products in the markets of advanced economies.

Learning from last year's experience, there is a need for member states to agree to refrain from imposing export restrictions on food grains within the region. In order to address the food security concerns of the net-food importers, the proposed SAARC Food Bank should be made effectively operational by relaxing conditions for withdrawal and replenishment at least for the LDCs.

In conclusion, it is worth emphasizing that while unimpeded trade is vital, increasing agriculture production through enhanced productivity remains a necessary condition for achieving food security in the region. For, in the final analysis, adequate production is a prerequisite for trade. ■

Notes

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7 Tariff data used in this article are drawn from Market Access Map, www.macmap.org (accessed 15.01.09). Tariffs applied by India, the Maldives and Pakistan are for the year 2008, and those applied by Bangladesh, Bhutan, Nepal, Sri Lanka for the year 2007.

8 Sixteen 6-digit HS code tariff lines are considered: 100110, 100190, 100200, 100300, 100400, 100510, 100590, 100610, 100620, 100630, 100640, 100700, 100810, 100820, 100830 and 100890.

9 Bound rates are as high as 200 percent on some products.

Evolving power dynamics in the multilateral trading system

Despite the rapidly changing power dynamics, democratic deficit exists in the multilateral trading system, which behooves WTO members to make constructive efforts to convert it into an inclusive global trade body.

Ratnakar Adhikari

Two recent, distinct but interrelated, events point towards a rapid, dynamic and historic evolution of power configuration in the global economic scene. The first relates to the July 2008 mini-ministerial of the World Trade Organization (WTO). In this gathering, developing countries—Brazil, China and India—played a crucial role in preserving "development sovereignty"[1], preventing the traditional powers from imposing their will on the rest of the WTO membership. The second concerns a more inclusive G20 meeting in Washington, D.C., in mid-November 2008, held with the realization that coordination among G7 countries alone is not sufficient to avert a global economic downturn.

While a follow-up G20 meeting is scheduled for April 2009 in London, *The Economist* has hailed the Washington event as a "decisive shift in the old order" and in the way we perceive global governance.[2] Echoing the same tone, Joschka Fischer asserts that because of the exclusivity coupled with the tendency to ignore emerging economic powers, G7/G8 "has lost its significance for good". He further suggests that "globalization has resulted in a lasting change in the distribution of power and opportunities, laying the groundwork for a new world order for the twenty-first century".[3] A recent column by Dani Rodrik titled "Let the Developing Nations Rule" also represents an authoritative statement about the global power dynamics the six-billion humanity faces at this epoch in human history.[4]

This article analyses the implications of the evolving power dynamics within the WTO, including for its decision-making process. At the outset, it must, however, be stressed that being a highly contested concept, it is impossible to find a universal definition of power, though there is some degree of consensus that power should be defined as the "ability to get others to do what they otherwise would not do".[5] In the context of international relations, power is derived not only from material capabilities (e.g., economic and military might), but also from ideas and knowledge, as well as quality of institutions.[6]

> Nation states tend to make use of their power to shape the outcomes of any international negotiations.

Given that nation states, no matter how cosmopolitan they claim themselves to be, "adhere to their mandate out of self-interest", they tend to make use of their power to shape the outcomes of any international negotiations. In the context of trade relations, particularly in the context of the multilateral trading system, the extent of power is shaped by: sovereign economic power, volume of trade, power of non-state actors and knowledge.

Power in the historical context

As is well known, the multilateral trading system was created to institutionalize the liberal trade regime espoused by the United States (US) after it abandoned protectionist trade policies that fuelled the Great Depression in the 1930s. Despite its ambivalence on the creation of a rules-based institution embodied in the International Trade Organization (ITO) to govern world trade due, in part, to the hostile Senate at the time, President Harry Truman's administration actively supported the idea of creating an *ad hoc* organization to give practical shape to the General Agreement on Tariffs and Trade (GATT).

As the theory of hegemonic stability would later predict, the US was merely playing a role of a stabilizer to provide stability to global trade, a role played by Britain during the late 19th century.[7] However, several criticisms of the hegemonic stability theory[8] led to its subsequent revision, until such time "neo-realists" stepped in to suggest that a hegemon promotes stability as long as it is in its own interest to do so, but would start to undermine the institution when it finds that the institution does not promote its interest anymore. This latter theory would probably sustain empirical scrutiny, as discussed below.

As a hegemon, the US did all in its power to impose its will on the rest of the world as far as global trade is concerned. It ensured that the GATT was no more than a mere codification of the aspects of the treaties it had negotiated with various countries after the enactment of its Reciprocal Trade Agreement Act of 1934.[9] Since the US wanted a liberal regime without upsetting its domestic social order, it followed a norm of "embedded liberalism" within the GATT, which was also followed by others.[10]

As the US also wanted to ensure that the "concessions provided" in the form of improved market access to foreign products are, at the very least, matched by "concessions obtained" from its trading partners, it instituted the principle of "reciprocity" for negotiating "concessions" in the GATT. Because the US was willing to make use of strong trade remedy measures in order to provide contingent protection to its sun-set industries, it managed to incorporate strong rules on anti-dumping, safeguards and countervailing measures, which remain virtually unchallenged till date.[11]

When the rules did not suit the US requirement, it had the power either to bend the rules in its favour or tinker with the rules where required with absolute impunity. This tendency is reflected in the manner in which the US compelled some Asian countries to impose voluntary restraints on their exports of products ranging from textiles and clothing to automobiles. Then, together with like-minded European countries, it went on to institutionalize the infamous Multifibre Arrangement (MFA), the remnants of which still bedevil the multilateral trading system. It also joined hands with a number of European countries to provide a notoriously high level of protection to the agriculture sector, contrary to the core principles of the GATT, abusing the various "exceptions" available under three GATT Articles, namely XI, XIV and XX.[12]

The 1970s, however, saw a gradual decline in the US power globally, prompting Robert Keohane to write a book titled *After Hegemony* to describe how the stability of the global financial, trading and energy system was maintained even after the fall of the hegemon.[13] This coincided with the emergence of the European Union (EU) as a major power within the GATT. The EU became a co-drafter of several agreements crafted in the subsequent years and decades, particularly during the Tokyo Round and the Uruguay Round (UR). This is natural given that the combined power of the EU and the US was enormous in the trade context, which can be measured by the fact that in 1994, i.e., at the time of the conclusion of the UR, their combined share in global merchandise import was 40 percent and they accounted for half of the world's gross domestic product (GDP).[14] An example of the EU wielding its power was clearly visible during the UR because it was not possible for the US to make the former agree to the final UR package without placating it on its utterly sensitive "agricultural" interests.[15]

> When the rules did not suit the US requirement, it had the power either to bend the rules in its favour or tinker with the rules where required with absolute impunity.

Uruguay Round and its aftermath

The power balance rapidly evolved in such a way that the UR was dominated by and most decisions were made through the coordination among the Quad (Canada, the EU, Japan and the US) and the same tradition was carried on in the initial years of the WTO.[16] Although the EU has been maintaining almost the same level of influence in the WTO as the US, its "success" in foisting the so-called Singapore Issues (competition, investment, transparency in government procurement and trade facilitation) on the Doha Round, ostensibly launched to help remedy the problem of asymmetry in the multilateral trading system, is a manifestation of the way it has used its power strategically. This is particularly so in the context of the EU making all WTO members agree to these conditions in return for it preparing to open its highly protected agriculture market—which had no reason to remain closed at the first place, to borrow the words of Indian Commerce Minister Kamal Nath.

The Cancun Ministerial Conference of the WTO is considered as a watershed in the history of the WTO, during which a group of 20 developing countries (that is, G20) came together to challenge much of the developed world's indefensible protectionism in agriculture. However, this group, which was an *ad hoc* formation, could not provide a sustained response to the challenges confronting developing countries in the multilateral trading system.

Since mid-2004, power dynamics seem to have taken a different turn with the emergence of a new informal group named five interested parties (FIPs)—Australia, Brazil, the EU, India and the US—which brokered the historic July Package that provided a fresh lease of life to a trembling Doha Development Agenda.[17] Various permutations and combinations of power configurations were visible in the post-July Package era, which finally led to seven major countries playing an active role in shaping the future of the Doha Round in the run-up to the July 2008 mini-ministerial. Australia, Brazil, China, the EU, India, Japan and the US are now considered important players in the multilateral trade negotiations.

Although the July 2008 mini-ministerial failed on a technical issue, which had to do with protecting the livelihood of the poor and marginal farmers of developing countries by allowing their countries to impose temporary safeguards in the event of an import surge or a price fall, this has sent a clear message.[18] The writing on the wall is that developing countries are now not merely passive observers of multilateral trade negotiations, but are also active players in and contributors to the process.

Decision making in the WTO

It is beyond doubt, as the current round of global negotiations has demonstrated, that "if rich nations want developing nations to cooperate, they will need to let them shape the rules of the game".[19] As developing countries start wielding their power at the negotiating table, the WTO decision making will inevitably become more complicated than in the past. When the number of players with entrenched positions increases, the decision-making process is bound to become arduous. Although this would unquestionably mean that the interests of developing countries are going to be reflected in WTO decisions, who are involved in the decision-making process does matter.

> The tendency within the WTO to sacrifice deliberative democracy at the altar of promoting efficiency in the decision-making process has put a question mark on its legitimacy.

As is well known, developing countries are not a homogeneous lot. Brazil, China and India, which have GDP as well as share in global trade much higher than those of many members of the Organisation for Economic Cooperation and Development (OECD), may not truly represent the interests of all developing countries. This is because every country is primarily guided by its national self-interest in international negotiations and when it comes to the crunch, might is almost always right.

Let us hypothetically assume that somehow the seven most powerful members of the WTO were able to achieve a breakthrough to set the Doha Round back on track. What would have that meant to other developing countries? For example, would that group have represented the interests of the developing countries of Africa, Caribbean and the Pacific which were not represented in the group at all? Besides, what would be the fate of the proposals made by the least-developed countries (LDCs), which too were not represented in the discussions leading to the deal.

A select group of countries and the WTO officials that promote this exclusive culture routinely argue that decisions made in smaller groups are eventually presented to the entire membership and those who have objections can present their own views. They also justify such a process on the ground of efficiency. These are very good theoretical justifications, but what happens in practice is entirely different. Can we expect a tiny nation like Tanzania to block the decision of seven major powers if the latter collectively decide that all countries are required to bind at least 90 percent[20] of their industrial tariff to fulfil the requirement of "substantial increase in binding coverage" as envisaged by the non-agriculture market access (NAMA) text agreed at the Hong Kong Ministerial? One could imagine the pressure—economic as well as diplomatic—that would be brought to bear on Tanzania if it decided to indeed block the decision.

In any case, the practice of providing seats on informal negotiating tables to select countries on the basis of their economic clout and institutionalizing the same through undemocratic processes such as "green room", "mini-ministerial" or "coalition of interested parties" makes a mockery of the concept of "sovereign equality", touted as one of the cornerstones of the multilateral trading order. The tendency within the WTO to sacrifice deliberative democracy at the altar of promoting efficiency in the decision-making process has not only put a question mark on its legitimacy, but provided fodder to anti-globalization groups. These practices within the WTO have led a commentator to surmise that the principles of "sovereign equality" and "consensus-based decision making process" are nothing more than "organized hypocrisy" in the procedural context.[21]

To add insult to injury, Pascal Lamy, Director-General of the WTO, has been projecting the WTO as a global public good, choosing to remain oblivious of the three crucial elements that make up public goods. According to Igne Kaul and her team, who have been working on global public goods for at least a decade now, there should be publicness in consumption, decision making, and sharing of net benefits for any good to resemble a public good.[22]

If Lamy is presenting his normative view that the WTO *ought to* become a global public good, there is no need to be critical of him. However, what is exasperating to note is that he is claiming that the WTO *is* a global public good, while even liberal internationalists like Robert Keohane and Josheph Nye, Jr., who are highly supportive of international organizations, including the WTO, feel that the organization operates like a "club good" where highly technical specialists from a few countries participate in and make decisions.[23]

In lieu of conclusion

Rodrik (2008) underscores the need for developing countries to use the newfound power responsibly, as "political and economic reality demands a more nuanced and cooperative approach".[24] He advises developing countries to be empathetic of the needs of their developed-country counterparts by resolving, among others, not to raise protectionist barriers and preventing a race to the bottom on labour and environmental standards.

This approach, although laudable, fails to remind developing countries of the need to behave responsibly while dealing with poor, marginalized and vulnerable countries—particularly LDCs—that need a completely different approach for their meaningful integration into the multilateral trading system.

It is time for developing countries to constructively use their power to make the multilateral trading system more inclusive so that it moves in the direction of becoming a truly global public good. However, we should remain mindful of the fact that lack of publicness in decision making can weaken the technical soundness of policy choices, undermine the legitimacy and credibility of organizations, and erode the sense of policy ownership so essential for effective follow-up to international agreements.[25]

Indeed, if the WTO is to become a truly global public good, its members should not only admit that democratic deficit exists in the system, but also make every possible effort to convert the system into an inclusive body—both in letter and spirit. ■

Developing countries need to constructively use their power to make the multilateral trading system more inclusive so that it moves in the direction of becoming a truly global public good.

Notes

1 See Gallagher, K. P. 2008. Understanding Developing Country Resistance to the Doha Round. *Review of International Political Economy* 15 (1): 62–85. Gallagher uses this terminology to describe what is traditionally called "policy space".

2 *The Economist*. 2008. Goodbye G7 Welcome G20, 20 November. http://www.economist.com/finance/displaystory.cfm?story_id=12652239 (accessed 26.11.08).

3 Fischer, J. 2008. Europe and the World Order. Project Syndicate Column, November. http://www.project-syndicate.org/commentary/fischer33 (accessed 08.12.08).

4 See Rodrik, D. 2008. Let the Developing Nations Rule. Project Syndicate Column, December. http://www.project-syndicate.org/commentary/rodrik26 (accessed 02.01.09).

5 Keohane, R. O. and J. S. Nye. 1977. *Power and Interdependence: World Politics in Transition.* Boston: Little Brown.

6 These attributes build on Cox, R. W. 1981. Social Forces, States and World Orders: Beyond International Relations Theory. *Millennium: Journal of International Studies* 10 (2): 126–55.

7 See Kindleberger, C. P. 1973. *The World in Depression, 1929–1939.* University of California Press: Berkeley; and Krasner, S. D. 1976. State Power and the Structure of International Trade. *World Politics* 28 (3): 317–43.

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9 See Barton, J. H., J. L. Goldstein, T. E. Josling and R. H. Steinberg. 2006. *The Evolution of the Trade Regime: Politics, Law and Economics of the GATT and the WTO*, p 34. Princeton and Oxfordshire: Princeton University Press.

10 See Ruggie, J. G. 1982. International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Orders. *International Organizations* 36: 379–415.

11 Adhikari, R. 2009. Multilateral Trading System: Economic, Legal and Political Analysis. *Global Governance Special Issue* (forthcoming).

12 ibid.

13 Cox, R. W. 1981. Note 6.

14 Steinberg, R. H. 2002. In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO. *International Organizations* 56 (2): 339–74.

15 On the eve of the conclusion of the UR negotiations, the New York Times ran a piece by Keith Bradsher (5 December 1993), which highlights the nature of the deal: "American trade and agricultural officials agreed with European officials on Thursday to pursue less sweeping changes in farm trade policies than previously planned."

16 Drahos, P. 2003. When the Weak Bargain with the Strong: Negotiations in the World Trade Organization. *International Negotiation* 8 (1): 79–109. http://ssrn.com/abstract=418480 (accessed 02.01.09).

17 See, for example, Wilkinson, R. 2006. The WTO in Hong Kong: What It Really Means for the Doha Development Agenda. *New Political Economy* 11 (2): 291–304, p 293; Wolfe, R. 2005. Decision Making and Transparency in the Medieval WTO: Does the Sutherland Report have the Right Prescription? *Journal of International Economic Law.* 8 (3): 631–45, pp. 639–40.

18 Adhikari, R. 2008. Geneva Debacle and its Aftermath. *The Kathmandu Post*, 4–5 August.

19 Rodrik, D. 2008. Note 4.

20 Tanzania has so far bound only 0.1 percent of its non-agricultural tariffs. See http://www.wto.org/english/tratop_e/tariffs_e/tariff_profiles_2008_e/tza_e.pdf (accessed 18.01.09).

21 Steinberg, R. H. 2002. Note 14: p 365.

22 Kaul, I., I. Grunberg and M. Stern. 1999. *Global Public Goods - International Cooperation in the 21st Century*. New York: Oxford University Press.

23 Keohane, R. O. and J. S. Nye, Jr. 2001. The Club Model of Multilateral Cooperation and Problems of Democratic Legitimacy. In *Efficiency, Equity and Legitimacy: The Multilateral Trading System at the Millennium*, ed. Roger Porter *et al.*, Washington, D.C.: Brookings Institution Press.

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GLOBAL FINANCIAL CRISIS

Implications for South Asia

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There are various channels through which the unfolding global crisis is likely to impact South Asia.

Ahmed Tariq Aziz

The world is passing through turbulent economic times. The economic crisis sparked by the global financial crisis worsens by the day and threatens to turn into the worst crisis since the Great Depression of the 1930s. Although the tipping point of the financial crisis was reached in the second half of 2008, when several of the world's largest financial institutions such as Lehman Brothers, Merrill Lynch and AIG collapsed pushing the world economy over the edge, the factors leading to it had been building up over a decade.

A principal cause of the crisis was the availability of cheap money to borrow from the developed world's financial markets. In particular, following a major stock market crash, the United States (US) Federal Reserve had cut interest rates to historic lows for stimulating its economy. This ushered in an era of sub-prime mortgages as US banks began to lower their credit standards and offered home loans to customers with subprime credit ratings.

Mixing up high-quality loans with low quality sub-prime loans, Wall Street investment bankers not only created a complicated financial instrument, the mortgage-backed security (MBS), but also globalized the US sub-prime debt. Ultimately, the financial turmoil that started with rising defaults on sub-prime mortgages in the US triggered the global financial crisis to such an extent that countries—both developed and developing—are finding it difficult to cope with the changing paradigms of external shocks.

As a result of such shocks, financial institutions across the world with a stake in the US sub-prime debt have been forced to write down billions of dollars worth of MBS-related assets, eroding investors' confidence and driving their stock prices down. The crisis has also quickly spread to the real sector, with developed countries, in particular, grappling with recession in the wake of shrinking consumption expenditures and rising business closures and unemployment.

The global economic situation has become so fluid and uncertain that growth projections for 2009 keep getting worse with every revision. According to the International Monetary Fund's 28 January *World Economic Outlook Update*, output in advanced economics is expected to contract by 2 percent in 2009, the first annual contraction since World War II. This, combined with a sharp dip in growth in emerging and developing economies from 6.3 percent in 2008 to a projected 3.3 percent in 2009, is expected to result in the lowest global economic growth in the post-war period, just 0.5 percent.

The severity of the financial crisis has prompted many governments to introduce rescue packages—amounting to US$2.4 trillion in the US, the European Union (EU) and Asia. But the crisis continues to deepen. Although the first-round impact of the crisis has been visibly greater in developed countries, there are ample indications of the crisis slowly but steadily engulfing developing and least-developed ones. According to the World Bank, "almost 40 percent of developing countries are highly exposed to the poverty effects of the crisis (with both declining growth rates and high poverty levels) and an additional 56 percent of countries are moderately exposed (they face either decelerating growth or high poverty levels)…"

The preliminary impacts of the global crisis are, in fact, already being felt in South Asia, and the region is bracing for further impacts. Alarm over the crisis is deepened by the fact that it comes on the back of an unprecedented rise in fuel and food prices—the fuel and food crises—that contributed to a huge deterioration in terms of trade in one of the poorest regions of the world. As per a World Bank analysis, Bangladesh, India and Pakistan are "highly exposed" while Nepal and Sri Lanka are "moderately exposed" to increased risk of poverty and hardship.

This article, discussing the preliminary impacts of the crisis, analyses the possible channels through which the unfolding global crisis is likely to impact select South Asian countries based on the structure of the economies and the level and nature of their global integration.

India

In the wake of the global economic slowdown, India lost half a million jobs in the last three months of 2008, according to the World Bank. South Asia's largest economy faces risks to both its financial and real sectors from the global crisis due to the depth of its integration with the global economy, both financial and real. Taking a broad measure of globalization, the ratio of total external transactions (gross current account flows plus gross capital flows) to gross domestic product (GDP) has more than doubled from 46.8 percent in 1997/98 to 117.4 percent in 2007/08.

As a direct impact of the crisis, foreign investors, seeking investment safety, pulled out US$11.1 billion (of which US$8.3 billion was withdrawn between 1 April and 16 October 2008) from Indian stock markets in 2008/09. This not only triggered a plunge in the key indices, but also impacted the entire growth and development prospects of the economy. Another impact through the financial channel has been the pressure on domestic money and credit markets due to substitution of overseas financing by domestic financing resulting from the global credit squeeze.

In addition, the downturn in the US, the EU and the Middle East, which account for three quarters of India's goods and services trade, poses a threat to Indian exports. The auto and textiles and clothing industries have already been hit by the global slowdown. However, it is possible that India's diversified export basket, both in terms of goods and markets, could help cushion the impact of the global slowdown. The depreciation of the Indian rupee may also work in favour of exports, though it will definitely create upward pressure on import payments.

Moreover, as the recession in the US deepens, the restructuring of financial services firms, traditionally large users of outsourcing services, could hit Indian outsourcing businesses. Remittance inflows from migrant workers too are likely to slow down as the Middle East adjusts to lower crude prices and advanced economies go into a recession. But there is also the possibility of a positive impact on India's services exports as US companies, looking to cut costs, could outsource more to India.

Pakistan

Pakistan's economy has been facing serious difficulties for a long time, well before the beginning of the financial crisis in the world arena. The economy was already sliding, with ever-increasing inflation, a weak currency, high fiscal deficits and low reserves. A fiscal surplus of around 4 percent of GDP in 2003 turned into a deficit of over 8 percent in 2008. The country's balance-of-payments position has deteriorated on account of the terms-of-trade shocks that have hit the entire region in the last few years. A rice exporter, Pakistan gained in the food account substantially due to the food-price hike. However, unlike its neighbours in South Asia, it has failed to take advantage of the recently declining food and fuel prices to reduce inflationary pressures due to poor demand management.

There is a serious concern that the financial crisis will aggravate the situation. It is feared that foreign capital flows will become even more expensive and this will eventually create downward pressure on the entire financial sector. But surprisingly enough, the pressure has solely passed on to commercial banks, which may not be able to lend as much as they have done previously. This could also dampen domestic investment substantially and thereby worsen economic growth, though such signs have not yet been observed.

Sri Lanka

Unlike India, Sri Lanka has not been directly affected by the financial crisis due to its lesser integration with the global financial institutions that have gotten into financial difficulties, particularly those in the US. A possible risk, however, comes from a reduction in foreign capital inflows, including foreign direct investment, which will create pressure on domestic financing.

At a time of high inflation and the resulting tight monetary policy, this could raise interest rates, shrink domestic investment and thereby slow down the economy. Pressure on exchange rate stability due to depletion of foreign exchange reserves is also a concern. Official reserves declined from a peak of US$2.7 billion in July 2008 to US$2 billion in November 2008—implying a reduction of coverage of imports from 3.2 months to 1.7 months.

Another concern relates to a contraction of the export sector due to the meltdown of US and European markets. Exports in the fourth quarter of 2008 totalled US$1.96 billion, which falls short of the figure for the corresponding period of 2007 by US$128 million. The US market accounts for 77 percent of the total revenue in the apparel sector. Falling commodity prices also could hurt the country's commodity-exporting sectors. The global slowdown also threatens to reduce remittances, which have so far been offsetting deteriorating trade balance.

Bangladesh

Bangladesh's national financial system is not much exposed to the global financial market. This leaves little room for the chain reaction of the global turmoil to markedly impact the country's financial system. The central bank has so far been able to keep the lending-deposit ratio of private banks within an acceptable limit through continuous monitoring.

This has lessened the incentive for domestic savings to migrate to other countries. Strict enforcement of existing regulations has prevented private citizens and corporations from investing legally in any foreign financial asset, thereby blocking most of the direct route of the global impact. One potential threat to the banking sector, however, is payment default by foreign buyers against export orders, especially of readymade garments, in the event of their going bankrupt.

As its liquidity problem is not so severe, it is also unlikely that Bangladesh will face a credit crunch. Likewise, since foreign capital inflows account for only about 5 percent of the traded volume in the stock markets, the likely slowdown in capital inflows will have a minimal effect.

Bangladesh has little foreign direct investment and most of it is long-term in nature. Although tighter global credit markets have raised the cost of capital in the international market and are likely to reduce foreign direct investment to developing countries, this may not be a matter of top concern for Bangladesh because increasing such investment to the country depends more on domestic factors.

As multilateral sources account for nearly 80 percent of the aid received by Bangladesh, aid inflows are not likely to drop in the short run, although promises of significant aid increases may not materialize. But bilateral aid may be affected as developed countries mobilize resources to tackle their domestic economic problems.

The major concern for Bangladesh, however, is the export sector, which is heavily dependent on the apparel sector that contributes more than 75 percent of its exports. The major destinations of Bangladesh's apparel products, the US and the EU, have suffered the most from the financial crisis. Apparel exports are widely feared to fall due to a substantial reduction in consumption spending on non-essentials in those countries. But this change in consumer behaviour can actually provide Bangladesh with a comparative edge as its export items have low price elasticity and are targeted at low-income groups. However, if the recession continues, there could be a large decline in the demand for apparels from developing countries, and it would be virtually impossible for Bangladesh to escape the heat.

Remittance, a major source of foreign currency, is another area of concern. Bangladeshis working in the service industry in the US and the United Kingdom account for at least 30 percent of the total remittance. They have been left vulnerable by the financial shock there. More importantly, as noted above, the Middle East, a major source of Bangladesh's remittance, is now facing the double whammy of collapsing oil prices and global credit squeeze. Construction activities are slowing down, threatening the future of most Bangladeshi workers.

> The economic downturn in the EU may affect aid flows, restricting Nepal's economic growth prospects, as much of the capital investment in the country is aid generated.

Nepal

Nepal has not felt any direct impact from the global financial crisis so far because its financial markets are not open to short-term portfolio investment from abroad. On the contrary, it has benefited from the drastic fall in global oil prices as the government was incurring huge losses from its subsidization of petroleum products.

Early and potential effects concern the real sector. The constant depreciation of the Nepali rupee, which is pegged to the Indian rupee, against other currencies will make imports from countries other than India expensive, which may call for adjustment to customs duties and value added tax causing further erosion of internal revenue and widening fiscal deficits. The depreciation of the Nepali rupee against the dollar will entrench Nepal's high trade dependence on India.

The economic downturn in the EU, a major donor of Nepal, may affect aid flows, restricting Nepal's economic growth and development prospects, as much of the capital investment in the country is aid generated. The impact on tourism, an important source of foreign exchange, is expected to be indirect, depending on tourist flows into India and Tibet, since high-revenue-yielding tourists are either China- or India-bound with Nepal as a stopover destination.

Nepal possesses an extremely narrow export basket and with foreign consumers experiencing a shift in their choice paradigm towards necessaries, its exports are in for a tough time. Remittances, the single-largest source of foreign exchange for the country, could be affected as lower oil prices induce a slowdown in construction activities in the Middle East, the top destination for Nepali migrant workers. Nepali workers have already started returning home after losing their jobs and the number of people going abroad for employment is declining. This has serious implications for poverty reduction efforts as well. ■

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Services in SAFTA

Opportunities aplenty, challenges galore

Concerted national and regional efforts to assess opportunities as well as challenges are crucial for the development of a comprehensive regional framework on services trade liberalization.

Deshal de Mel

With intra-regional trade at 5 per cent, South Asia remains one of the least-integrated economic regions in the world. Although the Agreement on South Asian Free Trade Area (SAFTA) came into operation in July 2006, tariff liberalization is scheduled to occur in a protracted manner, leading to the Agreement being fully implemented only in 2016. In addition, since the Agreement is limited to addressing trade in goods, investment and services have been excluded from the benefits of liberalization.

It is in this context that heads of state of the South Asian Association for Regional Cooperation (SAARC), during the 15th SAARC Summit, welcomed the decision of the Ministerial Council to commence negotiations on a framework agreement for trade in services under SAFTA. This is intended to expand the scope and deepen the extent of regional economic integration in South Asia. While it is important to expedite the negotiation process, there are several factors that need to be taken into account when developing a services liberalization agreement. This article dwells on some of the key issues that need to be addressed in the process of the inclusion of services in SAFTA.

What is trade in services?

Trade in services is in principle similar to trade in goods—increased foreign participation in the market for commercial services. This would result in increased competition for local suppliers, creating dynamism in these markets and, in theory, would lead to increased choices, lower prices and higher quality services for consumers. Trade in services occurs across four modes (Box 1). The liberalization of trade in services is simply the removal of barriers to trade in services that occur across these four modes between countries. This occurs, for example, through the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) at the multilateral level; the Indo-Lanka Comprehensive Economic Partnership Agreement, which is still under negotiation, at the bilateral level; and the proposed SAFTA services agreement at the regional level.

How are services liberalized?

Unlike trade in goods, barriers to trade in services exist behind the border through government regulations rather than tariffs. For instance, in terms of Mode 3, there may be limits on the level of equity that can be enjoyed by a foreign firm in the country, while in Mode 4, there are usually regulations governing the entry of foreign professionals to work in the country. The process of liberalization of services usually takes place

BOX 1

Four modes of services supply

Mode 1 **Cross-border services:** Where neither consumers nor suppliers of services leave their countries (e.g., business process outsourcing, international phone calls, etc.)

Mode 2 **Consumption abroad:** Where consumers travel to the country of services suppliers (e.g., travelling abroad for education, health services, etc.)

Mode 3 **Commercial presence**: Where services suppliers of one country establish commercial presence through foreign direct investment in another country (e.g banks, hospitals, etc.)

Mode 4 **Movement of natural persons**: Where services suppliers travel abroad on a *temporary* basis to work (e.g., doctors, accountants, etc.)

according to a positive list, request-offer approach. In negotiations, one country would request another country to remove certain barriers to trade in services across any of the modes of supply. The liberalizing country has the flexibility to choose the extent to which it would like to liberalize the requested sector. It can either commit no concessions or commit to complete removal of barriers or take a stance in between. A country can maintain any restrictions and regulations that it wishes to maintain as long as these are spelt out in the agreement and are accepted by the requesting country.

These commitments are reflected in a "schedule" which becomes publicly available, providing a transparent reflection of a country's services regime. If a country wishes to alter its schedule having signed the agreement, it will have to provide compensation to any parties that suffer monetary losses as a result. This system provides services suppliers with the confidence that market access can be guaranteed given the presence of a transparent regulatory regime, thereby encouraging the exchange of services between countries on a commercial basis.

Why to liberalize services within SAFTA?

Given the high and growing contribution of services to South Asian gross domestic product, and the growing share of trade in services in world trade, it is clear that encouraging intra-regional services trade should be strongly considered. Countries like Sri Lanka have already benefited from the liberalization of trade in services unilaterally (in telecommunications services, for instance), and for the following reasons, it makes sense to adopt a framework that could form the basis for services trade in South Asia.

Export diversification

Most South Asian countries have a concentrated export basket with a concentrated export market (generally garment exports to the United States and the European Union). In this context (particularly illustrated by the current turmoil in developed economies), it is important to diversify both export markets and export baskets, and given the cultural, geographic and linguistic proximity between South Asian countries, trade in services in the region becomes a viable and attractive option.

Dynamic effects in the economy

Increased trade in services and the resulting competition in the sector will ensure dynamism that is in several instances important for the overall functioning of the economy. For instance, vibrant financial, telecom, transport and construction markets provide essential services for the economy as a whole and facilitate business processes in other sectors. It would also provide potential benefits to consumers in terms of lower costs and greater variety.

Specialization

There are also substantial differentials in comparative advantages (information technology (IT) in India and port services in Sri Lanka) and natural resource endowments (hydroelectricity in Nepal and Bhutan) that provide scope for benefit through trade in services in the region. Furthermore, intra-industry trade in services may also be possible in sectors such as IT where different capacities and differential wage rates allow specialization across stages in the value chain by different countries in South Asia.

Capital flows

A regional services agreement could also have a positive impact on capital flows between countries to offset trade imbalances since much of the trade in services occurs through foreign direct investment.

Scope for greater cooperation

Despite differences in levels of development, developing and least-developed countries of South Asia are faced with common problems such as poverty, unemployment, food insecurity and supply-side constraints such as limited resources, underdeveloped markets and weak infrastructure. Services liberalization at the regional level provides a greater scope for harnessing the potential of addressing such common problems and constraints.

What are the challenges?

Notwithstanding the importance of promoting services trade regionally, the process of services trade liberalization is not without problems and challenges.

Lack of data

A major problem in South Asia is the lack of data on trade in services. As a result, it is difficult to identify sectors where liberalization would have positive impacts, and indeed to predict the results of liberalization at all. It is also difficult to produce effective schedules which strike a balance between beneficial liberalization and effective safeguards measures. The lack of data also limits the scope of determining the most efficient cap on the number of services providers allowed into the country in a particular sector since the data for that sector may be lacking. If a country is under negotiating pressure to make commitments, it may well end up using an arbitrary figure which would be detrimental to the country's interest. Therefore, an urgent requirement is to improve, maintain and disseminate data on services sectors to enable informed and comprehensive analyses of the potential impacts of liberalization of services in South Asia.

Lack of regulatory capacity

This is a major problem particularly for regulation of professional services. Many professional bodies in South Asia have limited regulatory capacity, and even if they do have capacity, some of them lack legislative authority to control the activities of members. For instance, in Sri Lanka, the Construction Industry Act is yet to be implemented and, therefore, the country is unable to make commitments in this sector. Moreover, as the lack of regulatory capacity is a problem even for domestic services regulation in certain sectors, countries are not in a position to extend it to foreign services suppliers as well. Furthermore, in a complex mode of services supply such as Mode 1, regulatory capacity is even weaker, making countries reluctant to make commitments in this mode given the inherent uncertainties. If services are liberalized without effective regulation, there could be serious problems in terms of ensuring quality of services delivery and health and safety standards, and in the coordination of rules (e.g., ensuring foreign suppliers understand and comply with national laws and regulations). A potential solution is increased cooperation between the respective regulatory bodies of the region to help formulate effective regulatory legislation, learning from existing capacities within South Asia. It would also be useful for these regulatory bodies to be in touch with their counterparts in other countries that have successfully signed services agreements addressing professional services, e.g., Association of Southeast Asian Nations (ASEAN) countries.

Lack of maturity of the services sector

A frequent misperception is that liberalization is equivalent to "opening the floodgates" which will result in large-scale job losses in the domestic services sector. While this is not true given the ability to temper liberalization through scheduling, there is a risk that scheduling itself may not be effective given data shortages and inaccuracies. Due to the lack of maturity of some services sectors in individual countries in South Asia, over-exposure to foreign competition could undermine the potential for domestic services suppliers to emerge as strong players in their own right. Therefore, in addition to the general precautions to be taken in scheduling, there is an argument for including a safeguards clause in the South Asian Framework Agreement on Services (SAFAS).

How to move ahead?

There are substantial potential benefits from services trade liberalization in South Asia through SAFAS, but due caution should be exercised. A major concern about regional services trade is that since three countries are developing and five are least-developed, there is a possibility of excessive caution in making commitments and thus the agreement may have little trade-creating value. In this respect, two steps can be recommended.

First, the SAFAS will be GATS plus but will take into account special and differential treatment for the least-developed countries—i.e., less than full reciprocity will be expected.

Second, a common sub-sector approach will be adopted. This is a method adopted by ASEAN where if at least four countries (including two least-developed) have made a commitment in a particular sector, all countries will make some commitment in that sector. This will provide incentives for countries to make commitments in sectors that are of trade interest. This will not be too *demanding* since there is flexibility in the extent to which the liberalizing country makes commitments. ■

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BOX 2

SAFTA: As it stands today

SAFTA came into force in July 2006. This Agreement covers trade in goods only. Its three main components are the tariff liberalization programme (TLP), the treatment of "sensitive" goods, and the rules of origin (ROO).

The TLP requires a top-down reduction of tariffs where non-LDC members are required to reduce tariffs to 20 percent in two years of implementation of the Agreement, and thereafter to further reduce tariffs to a range of 0–5 percent in the next five years. Sri Lanka is given an additional one year in recognition of its small vulnerable economy status. LDC members are required to reduce tariffs to 30 percent in two years and further ensure a reduction to a range of 0–5 percent in the next eight years. As it stands, SAFTA will be fully implemented by India and Pakistan in 2013, by Sri Lanka in 2014 and by the LDCs in 2016.

The Agreement allows members to maintain sensitive lists to exempt certain goods from the TLP. A sensitive list of 20 percent of HS 6-digit tariff lines has been retained for non-LDC members, and a close approximation of that for LDC members. All in all, almost 53 percent of total imports in South Asia are subject to sensitive lists. SAFTA ROO involves two criteria: domestic value addition (DVA) and change in tariff heading (CTH) at the HS four-digit level. A DVA of 40 percent is required for India and Pakistan, 35 percent for Sri Lanka and 30 percent for LDC members. However, derogation from the General Rule has been permitted as there are some products which may undergo substantial transformation and allow the DVA criteria to be met without CTH at 4-digit and vice versa. Besides the single-country ROO, there is also a provision for cumulative ROO with a minimum aggregate regional content of 50 percent, provided there is a minimum 20 percent input from the exporting member.

SAFTA has been criticized mainly for its slow pace of tariff liberalization, huge sensitive lists and limited coverage. In order to address these concerns and to deepen regional economic integration, SAARC member states are currently seeking to incorporate trade in services into the SAFTA Agreement.

Source: Weerakoon, D. and J. Tennakoon. 2006. SAFTA: Myth of Free Trade. Economic and Political Weekly, September; previous issues of Trade Insight.

Responding to Food Insecurity in South Asia

A South Asian Civil Society Forum on Food Insecurity was organized by SAWTEE, CUTS and Oxfam (novib) on 23–24 October 2008 in Kathmandu, Nepal. The forum was attended by 48 participants, representing the government, media and civil society organizations from six South Asian countries—Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka.

Experts from outside the region, and inter-governmental and multilateral agencies, including SAARC Secretariat, FAO Regional Office, Thailand, UNICEF, Nepal, UNESCAP, China, and the World Bank, Nepal also participated in the event. The forum issued a Civil Society Statement on Food Security. Below are highlights of the statement available at www.sawtee.org.

In order to operationalize the Food Bank, the Member States should make an institutional arrangement for periodic estimations of food demand and undertake measures to increase their storage capacity. The stringent withdrawal conditions and replenishment requirements should be relaxed, taking into account the individual capacity of the Member States.

Likewise, a SAARC Food Security Monitoring Committee, including civil society representatives, should be formed and tasked with the role of making arrangements for a regional mapping of vulnerable regions and populations, as well as preparing a vulnerability calendar for effective distribution of food and response systems. A Negotiation Committee must be set up for price determination and a Dispute Settlement Mechanism formed to resolve disputes.

In order to raise production and productivity, exchange and testing of varieties/seeds should be promoted. Bilateral and regional contracts/agreements should be implemented to facilitate the access to and exchange of seeds.

In this regard, a "SAARC Seed Bank" should be established, linking it with "national seed banks" as well as "community seed banks" for an effective long-term mechanism of production, exchange and use of quality seeds. The bank can also contribute to agriculture research (breeding) and promote the sharing of seeds and technologies that are critical for developing new varieties/seeds and promoting the conservation of agricultural biodiversity.

A Technical Working Group should be formed to: undertake a stocktaking exercise of bioenergy technologies and research capacities; prioritize and adapt available technologies for pilot projects on bioenergy; and develop short- and long-term research priorities for regional collaboration on the development and dissemination of bioenergy technologies, with a possibility of adding liquid biofuels in the long term.

A South Asian Climate Change Fund needs to be established. A regional agenda should be developed to advocate the reduction of subsidies, tariffs and other distortive trade measures on liquid biofuels at the WTO level. Time-bound commitments and actions from developed countries for transferring energy-efficient, low-carbon technologies through the Clean Development Mechanism should be sought.

Also needed are time-bound commitments and actions on transit and trade facilitation, the harmonization of customs rules/regulations as well as product standards/quality. Intra-regional farm trade should be promoted by de-listing some products from the negative list under the Agreement on South Asian Free Trade Area in a phase-wise manner or on a trial basis, and para- and non-tariff barriers should be removed. An agreement not to apply food export restraints to Member States should be established.

Community-based biodiversity management should be promoted for the protection of farmers' rights to seeds, genetic resources and associated traditional knowledge, and for the strengthening of tripartite partnership among public, private and community actors and agencies. Member States should recognize and implement programmes such as Participatory Plant Breeding, Community Seed Banks and Community Biodiversity Registers. A Regional Intellectual Property Expert Committee should be formed to look into IPR affairs and issues, and develop a Regional IPR Policy.

Assistance from SAARC Observer nations must be sought to develop strategic community-centred action plans to support regional strategies and collaborative projects of SAARC, as well as to draw up and implement Agriculture Perspective 2020, and also to provide concrete support to the effective operationalization of the Food Bank and an early warning system. More coordinated efforts should be made by developed countries, and institutions such as the ADB, the FAO, the UNCTAD, the World Bank and the WTO for financial, logistical and technical support, and technology transfer. The global financial crisis should not be used as an excuse by bilateral and multilateral donors and developed countries to withdraw commitments on the assistance required for food security. ■

Geographical Indications

A product's quality, reputation or other characteristics can be determined by where it comes from because of certain geographical, cultural, artistic or other similar qualities which are uniquely embodied in the product. Geographical indications (GIs) are place names (in some countries also words associated with a place) used to identify products that come from specific places and have characteristics specific to those places (e.g., "Champagne", "Tequila" or "Roquefort"). The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO) accords protection to GIs in two articles. Article 22 defines a *standard level of protection* and covers all products. It says GIs have to be protected in order to avoid misleading the public and to prevent unfair competition. Article 23 provides a *higher or enhanced level of protection* for GIs for wines and spirits. Subject to a number of exceptions, they have to be protected even if misuse would not cause the public to be misled.

img.alibaba.com

In some cases, however, GIs do not have to be protected or the protection can be limited. Article 24 provides for such exceptions, for example, when a name has become the common (or "generic") term (for example, "cheddar" now refers to a particular type of cheese not necessarily made in Cheddar, in the United Kingdom), and when a term has already been registered as a trademark.

Countries employ a wide variety of legal means to protect GIs, ranging from specific GI law to trademark law, consumer protection law, and common law.

Doha Round

Two contentious issues are debated in the ongoing WTO's Doha Round of trade negotiations, both related in different ways to the higher level of protection: creating a multilateral register for wines and spirits; and extending the higher (Article 23) level of protection beyond wines and spirits.

Multilateral register

This negotiation, which takes place in dedicated "special sessions" of the TRIPS Council, is about creating a multilateral system for notifying and registering GIs for wines and spirits. These are given a level of protection that is higher than for other GIs. The multilateral register is discussed separately from the question of "extension"—extending the higher level of protection to other products—although some countries consider the two to be related. The work began in 1997 under Article 23.4 of the TRIPS Agreement and now also comes under the Doha Agenda.

The Doha Declaration's deadline for completing the negotiations was the Fifth WTO Ministerial in Cancún in 2003. Since this was not achieved, the negotiations are now taking place within the overall timetable for the Round. Three sets of proposals have been submitted over the years, representing the two main lines of argument in the negotiations and some proposed compromises (*Box 1*).

BOX 1

Proposals on GI multilateral register

The EU's detailed proposal circulated in June 2005 calls for the TRIPS Agreement to be amended (by adding an annex to Article 23.4). The paper proposes that when a GI is registered, this would establish a "rebuttable presumption" that the term is to be protected in other WTO members—except in a country that has lodged a reservation within a specified period (for example, 18 months). A reservation would have to be on permitted grounds. These include when a term has become generic or when it does not fit the definition of a GI. If it does not make a reservation, a country would not be able to refuse protection on these grounds after the term has been registered.

A "joint proposal" was first submitted in 2005 and revised in 2008. Its sponsors include Argentina, Australia, Canada, Costa Rica, Ecuador, Japan, Korea, Mexico, New Zealand, Paraguay, South Africa and the United States. This group does not want to amend TRIPS. Instead, it proposes a decision by the TRIPS Council to set up a voluntary system where notified GIs would be registered in a database. Those governments choosing to participate in the system would have to consult the database when taking decisions on protection in their own countries. Non-participating members would be "encouraged" but "not obliged" to consult the database.

Hong Kong, China has proposed a compromise. Here, a registered term would enjoy a more limited "presumption" than under the EU proposal, and only in those countries choosing to participate in the system.

At the heart of the debate are a number of key questions. When a GI is registered in the system, what legal effect, if any, would that need to have within member countries, if the register is to serve the purpose of "facilitating protection" (the phrase used in Article 23.4)? And to what extent, if at all, should the effect apply to countries choosing not to participate in the system. There is also the question of the administrative and financial costs for individual governments and whether they would outweigh the possible benefits.

Extending higher level of protection

There is a debate as to whether to expand the higher level of protection (Article 23)—currently given to wines and spirits—to other products. Some countries want extension of higher level of protection to other products. Some others oppose the move, and the debate has included the question of whether the Doha Declaration provides a mandate for negotiations.

Some countries have said that progress in this aspect of GIs would make it easier for them to agree to a significant deal in agriculture. Others reject the view that the Doha Declaration makes this part of the balance of the negotiations. At the same time, the European Union (EU) has also proposed negotiating the protection of specific names of specific agriculture products as part of the agriculture negotiations.

The Doha Declaration notes in its paragraph 18 that the TRIPS Council will handle work on extension under the Declaration's paragraph 12 (which deals with implementation issues). Paragraph 12 says "negotiations on outstanding implementation issues shall be an integral part" of the Doha work programme, and that implementation issues "shall be addressed as a matter of priority by the relevant WTO bodies, which shall report to the Trade Negotiations Committee… by the end of 2002 for appropriate action".

Delegations interpret Paragraph 12 differently. Many developing and European countries argue that the so-called outstanding implementation issues are already part of the negotiation and its package of results (the "single undertaking"). Others argue that these issues can only become negotiating subjects if the Trade Negotiations Committee decides to include them in the talks—and so far it has not done so.

This difference of opinion over the mandates means that the discussions have had to be organized carefully. At first they continued in the TRIPS Council. More recently, they have been the subject of informal consultations chaired by the WTO Director-General or by one of his deputies. Members remain deeply divided (*Box 2*), with no agreement in sight, although they are ready to continue discussing the issue. ■

This article draws on materials available at www.wto.org.

BOX 2

Division over higher extension

Bulgaria, the EU, Guinea, India, Jamaica, Kenya, Madagascar, Mauritius, Morocco, Pakistan, Romania, Sri Lanka, Switzerland, Thailand, Tunisia and Turkey see the higher level of protection as a way to improve the marketing of their products by differentiating them more effectively from their competitors'; and they object to other countries "usurping" their terms. The latest proposal from the EU calls for the amendment of the TRIPS Agreement so that all products would be eligible for the higher level of protection in Article 23, and the exceptions in Article 24, together with the multilateral registration system currently being negotiated for wines and spirits.

Argentina, Australia, Canada, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, New Zealand, Panama, Paraguay, the Philippines, Chinese Taipei and the United States argue that the existing level of protection is adequate. They caution that providing enhanced protection would be a burden and would disrupt existing legitimate marketing practices. They also reject the "usurping" accusation particularly when migrants have taken the methods of making the products and the names with them to their new homes and have been using them in good faith.

Kiran Pandey

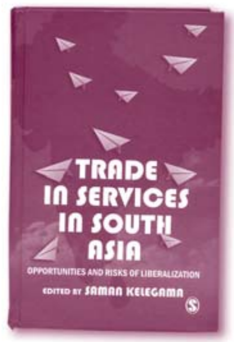
Beyond goods liberalization

With the rapid growth of the services sector and its trade, services liberalization is assuming growing importance across many countries. As services have a complex and dynamic relationship with other economic sectors coupled with far-reaching implications for human development, developing and least-developed countries need to assess the opportunities and risks of services liberalization, and accordingly, develop negotiating positions for bilateral, regional and multilateral negotiations.

In South Asia, where services have overtaken agriculture and industry as the top contributor to gross domestic product (GDP) in most countries and foreign trade in services is growing rapidly, services liberalization is a burning issue. Besides the fact that almost all South Asian countries, by virtue of being World Trade Organization (WTO) members, have to implement the General Agreement on Trade in Services (GATS), the perception that regional trade in services has more complementarities than regional trade in goods is driving efforts to include services in bilateral preferential trading arrangements as well as in the Agreement on South Asian Free Trade Area (SAFTA).

Saman Kelegama, of the Institute of Policy Studies of Sri Lanka (IPS), has a knack for coming up with timely publications on topical trade issues in South Asia. *Trade in Services in South Asia: Opportunities and Risks of Liberalization* is his latest offering. Edited by Kelegama, the book is a collection of essays exploring the opportunities and risks of services trade liberalization in South Asia.

The seven country chapters on India, Pakistan, Sri Lanka, Bangladesh, Nepal, the Maldives and Bhutan present the trends in the services sector and trade in these countries, level of protection and liberalization initiatives, competitive advantages and offensive and defensive interests in various sectors and GATS-defined modes of supply, and prospects for further liberalization at bilateral, regional and multilateral levels. These country chapters are followed by a chapter providing a "South Asian Perspective" on liberalizing trade in services and another providing an overview of the scope and nature of the GATS Domestic Regulation disciplines. The essays in the compilation throw light on the challenges that South Asian countries face while complying with GATS regulations, with their inadequate legal provisions and regulatory structures.



Title: Trade in Services in South Asia: Opportunities and Risks of Liberalization

Editor: Saman Kelegama

Publisher: First published in 2009 by SAGE Publications.

ISBN: 978-81-7829-937-2

Notwithstanding such insights, the book does not answer satisfactorily the critical question of addressing the possible negative implications for human development of liberalization of services such as health and education. South Asian countries opening up such services to their domestic private sector have witnessed deterioration in equity in access to the services. The arrival of foreign services providers, from within or outside the region, is no guarantee that domestic consumers will be charged competitive prices and the equity situation will improve or at least not deteriorate.

Another lacuna is that although almost all chapters note the fact that employment in services has failed to keep pace with services' increased contribution to GDP and the services trade growth, no attempt is made to analyse the problem in depth and suggest ways to make services trade more employment generating.

Not all country chapters comprehensively deal with the possibilities for regional cooperation on services liberalization, detailing what each country expects from others and what it can offer them in return. It would have been better if all the country chapters had followed the same format.

The chapter that provides South Asian perspectives on services liberalization, authored by Rashmi Banga, does not deal with issues of importance to all South Asian countries in a balanced manner. It focuses on India, Pakistan, Sri Lanka and Bangladesh and takes little account of Nepal, the Maldives and Bhutan. It is not clear how exactly these three small least-developed countries (LDCs) are going to benefit by opening up services regionally. Also unaddressed is the balance-of-payments concerns of LDCs.

Furthermore, the methodology behind analysing the competitiveness of individual countries in the four modes of supply is not clear. Banga erroneously concludes that for Nepal, Mode 2 assumes greater significance as compared to Mode 4. In fact, workers' remittances are Nepal's premier source of foreign exchange earnings, about seven times higher than tourism receipts.

These limitations notwithstanding, all in all, the book is a must-read for anyone interested in the changing paradigms of services trade, not least policy makers and researchers. ■

Mainstreaming international trade into national development

CONSUMER Unity and Trust Society (CUTS)-International and South Asian Network on Economic Modeling (SANEM) organized two regional conferences ”Mainstreaming International Trade into National Development” and “A Southern Agenda on Global Trade Conference: Some Views and Concerns from South Asia” in Dhaka on 1–2 February 2009.

The first regional conference covered three thematic sessions. The first session focused on globalization and the poor in the context of South Asia. The second dealt with the political economy of trade liberalization in South Asia. The final session was on the future work on globalization and the poor in South Asia.

In the second conference, participants deliberated on three themes: common South Asian positions on institutional reforms in the global trade regime, roles and responsibilities of South Asian countries in global trade governance; and future work on a Southern agenda on global trade governance. Speakers and participants in the two conferences included researchers, business and inter-governmental organization representatives, government officials, civil society members and students from Bangladesh, India, Nepal, Pakistan and Sri Lanka. ■

Financial crisis and Sri Lanka

THE Institute of Policy Studies of Sri Lanka (IPS) organized a seminar entitled “The Global Economic Crisis and Sri Lanka” on 18 February 2009 in Colombo. The seminar contributed to the debate on the impact of the current global economic crisis on Sri Lanka from a macroeconomic perspective.

Despite the optimism that has been expressed with regard to Sri Lanka’s limited exposure to the crisis, it was made clear that such optimism is misplaced given the continuing evolution of the crisis and the uncertain economic climate that prevails. The importance of tailoring solutions to country-specific conditions was highlighted, emphasizing the inapplicability of “cookie cutter” solutions based on the response of other countries. It was noted that the crisis has some positive aspects and offers some opportunities, for instance, the reduction in commodity prices, and the opportunity and rationale for reforms in key areas such as fiscal and monetary policy, factor markets and safety nets.

Resource persons from the public sector, private sector, academia and international organizations highlighted strategies and policies to overcome challenges faced by the Sri Lankan economy in the crucial months ahead. In addition, resource persons from Mumbai and Karachi participated in the discussions live, via video conferencing. ■

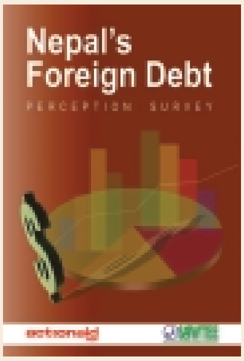
Research on Health Services

SAWTEE has launched a research titled “South Asian Export Potential in Traditional Health Services: A Case Study of Bhutan, India and Nepal”. The objectives of the study are to: examine the role of traditional health systems in Bhutan, Nepal and northeastern India; identify and estimate their individual and collective export potential in traditional health services via a case study methodology; and develop a basic framework which both facilitates traditional health services export and benefits/strengthens the domestic health system. The study is supported by South Asia Network of Economic Research Institutes society (SANEI), Pakistan. ■

National forums in Nepal

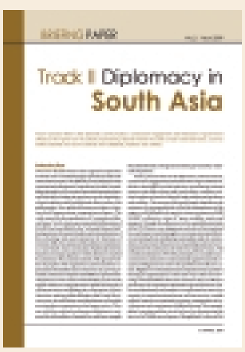
SAWTEE and Local Initiatives for Biodiversity, Research and Development (LI-BIRD), Nepal organized a national forum on “Food Security, Farmers’ Rights and Climate Change” in Kathmandu on 1 November 2008. About 55 participants deliberated on four themes: SAARC Initiatives and the Extraordinary Meeting of the SAARC Agriculture Ministers on Food Security; Food Security Policies and Institutional Mechanisms in the Regional and National Context; Farmers’ Rights to Seeds and Food Security in the Global and National Context; and Trade, Intellectual Property Rights and Climate Change.

Likewise, SAWTEE organized a forum on “Global Financial Crisis and Nepal” in Kathmandu on 17 November 2008. About 60 participants deliberated on the possible implications of the global financial crisis for Nepal and suggested various policy and institutional measures to mitigate the impacts of the crisis, including loss of foreign employment. ■



Book: Nepal's Foreign Debt: Perception Survey
Authors: Paras Kharel and Kapil Gautam
Publishers: SAWTEE and ActionAid Nepal

Briefing Paper: Services Trade in SAFTA
Author: Pranav Kumar
Publisher: SAWTEE



Briefing Paper: Track II Diplomacy in South Asia
Author: Dev Raj Dahal
Publisher: SAWTEE

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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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