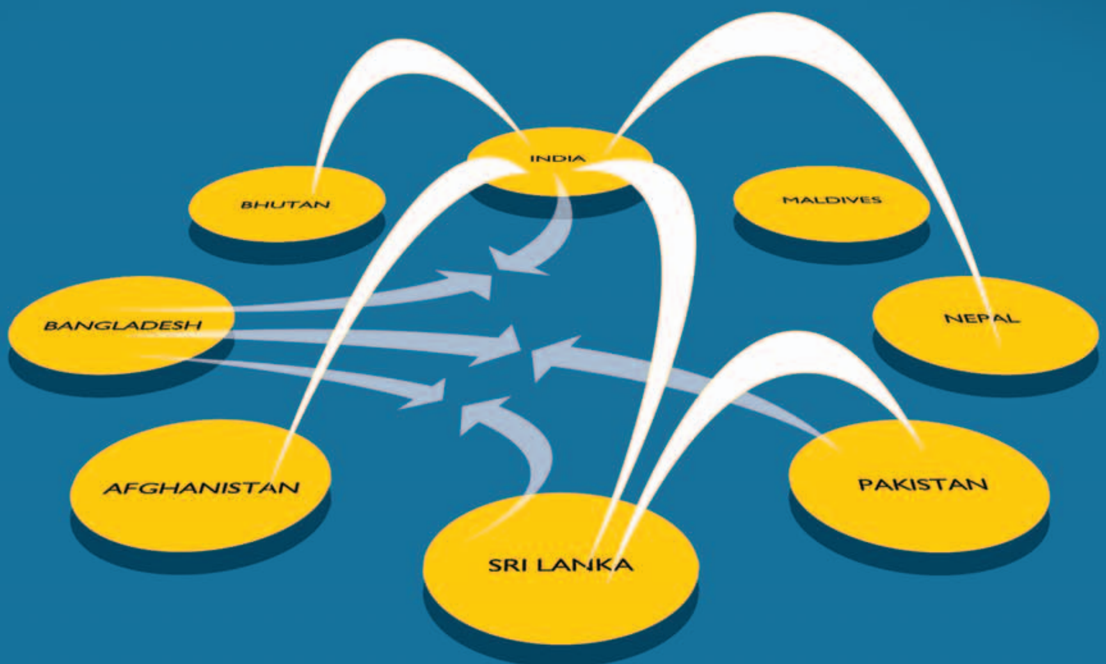
A dialogue on trade and development in South Asia
Vol. 6, No. 2, 2010

TRADE insight

Interview
Dr. Supachai Panitchpakdi

BILATERAL TRADE AGREEMENTS IN SOUTH ASIA



THE RISE OF BILATERALISM | CLIMATE CHANGE AND FOOD SECURITY | ACCESS AND BENEFIT SHARING

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editors' note

Bilateralism and development

EVEN as the regional economic integration process under the South Asian Association for Regional Cooperation (SAARC) proceeds excruciatingly slowly, South Asian countries are increasingly exchanging, or considering exchanging, trade preferences with one another under bilateral trade agreements (BTAs). While these BTAs generally go beyond the Agreement on South Asian Free Trade Area (SAFTA) in terms of the pace, depth and coverage of tariff liberalization and have helped increase trade to some extent, critical trade barriers remain unaddressed.

The sensitive lists under the BTAs, though much shorter than those under SAFTA, generally still contain items of export interest to trading partners. The BTAs have made precious little progress on the removal of para-tariff barriers and non-tariff barriers (NTBs). Mirroring global trends, the latter are getting ever more restrictive even as tariff barriers fall. Stringent rules of origin, quantitative restrictions in the form of tariff-rate-quotas, arbitrary application of sanitary and phytosanitary measures, and technical barriers to trade are major NTBs to bilateral trade and must be addressed within a definite timeframe. Also required is the strengthening of trade facilitation measures, including simplified and harmonized customs procedures, and improved coordination among border agencies, transit arrangements and transport connectivity.

As has been observed in the case of Nepal's and Sri Lanka's trade with India, the growth in exports of the least-developed and vulnerable partners has not been sustainable and not contributed to domestic industrialization, employment generation and improved livelihoods of the poor. There is thus a need to make the BTAs work for high, sustainable, broad-based and pro-poor export growth.

Ideally, trade liberalization taking place under the BTAs should have taken place under SAFTA. But since BTAs are here to stay, the thrust should be on ensuring that they are as trade creating and welfare enhancing as possible. Addressing certain trade barriers such as NTBs under bilateral frameworks will yield welfare gains and may also aid the regional integration process. The relevance of SAFTA in the face of BTAs will, among others, depend on how quickly it can match the liberalization happening under the BTAs and pursue deeper regional integration.

Though the issue of regional investment cooperation received a setback at the 16th SAARC Summit in Thimpu, it is welcome that the SAARC Framework Agreement on Trade in Services was signed. While it is crucial to maintain this momentum by finalizing the schedule of commitments on services at the earliest, efforts must be scaled up to institute a regional investment cooperation agreement. Formulation and effective implementation of an action plan to follow up the decision to declare 2010–2020 as the "Decade of Intra-regional Connectivity in SAARC" will also help enhance regional economic integration.

As trade is but a means to goals such as improved livelihoods, poverty reduction and sustainable development, trade liberalization, whether under BTAs or under SAFTA, should be geared towards the achievement of such developmental goals. A closer look at SAARC decisions and initiatives as well as the performance of the BTAs indicates the region's inability to harness the potential of trade in addressing development challenges, including climate change. For example, the main Declaration as well as the Statement on Climate Change of the 16th SAARC Summit have not adequately dealt with such potential. The role of trade in addressing widespread and chronic food insecurity has also been neglected, despite the existence of a host of barriers to trade in agricultural and food products in the region. ■

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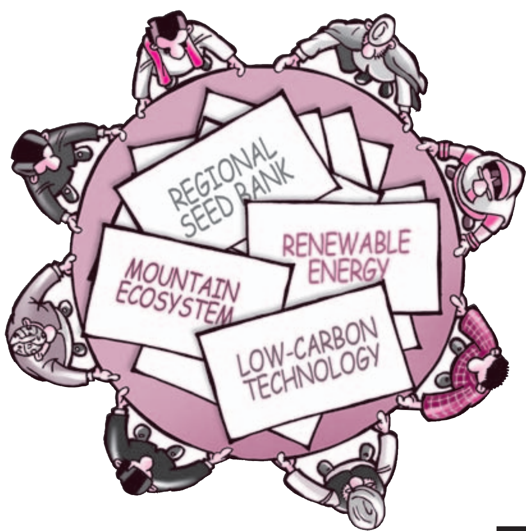

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Cover photo of Dr. Supachai Panitchpakdi: newsimg.bbc.co.uk

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SAWTEE NETWORK

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

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

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

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

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

Trade, poverty and climate change

While climate change is a global concern, poor people are likely to suffer the most from the phenomenon, given their high exposure to the effects of climate change and their meagre means to adapt. Poor people are often directly dependent on goods and services derived from natural resources both for their own consumption and production. Globalization means that trade policy and international regulatory frameworks at global and regional levels are likely to determine decisions on the allocation and use of resources, including land.

The International Dialogue on Trade, Poverty and Climate Change was held on 20–21 May 2010 in Kathmandu. Jointly organized by the International Centre for Trade and Sustainable Development (ICTSD), Geneva, SAWTEE and Centre for WTO Studies (CWS), New Delhi, the dialogue explored the linkages between trade, poverty and climate change, and identified research, knowledge, analytical and action gaps on this theme, particularly in the context of Asia.

A consensus emerged from the dialogue that an analysis of the potential of trade policy to tackle challenges imposed by poverty in the context of climate change is still an under-researched area with plenty of knowledge and action gaps. There is a need to enhance an understanding of how trade could contribute to the adaptive capacities of the poor, and how trade policy and associated regulatory frameworks could serve as enabling factors rather than obstacles to this goal.

Climate change often serves to compound existing levels of vulnerability. Because climate change adds to existing threats and challenges, traditional responses need to be commensurately documented and strengthened, and new ones developed. There is a need for tools and approaches specific to the abatement of poverty in the context of climate-exacerbated vulnerabilities and national economies that are increasingly integrated into global markets. A continuous multi-stakeholder dialogue, bringing together communities working on trade, climate and development policy as well as affected and other interested actors, may be a powerful instrument in the search for effective responses to the new challenges.

While there is an agreement on the channels through which trade impacts climate change, comprehensive studies—sectoral as well as economy-wide—are particularly needed in the context of developing economies. In order to meet the data demands to analyse the poverty impact of climate change, and the possible role of trade policy, information collection and systematization have to be improved. In order to enhance the credibility of research on the impact of climate change on livelihoods—to single out, as best as possible, the impacts of climate change—combining people's perceptions with science is the way forward. The development dimension and the potential poverty reduction impact of climate change adaptation projects through the trade vector need to be analysed.

Diverse circumstances particular to individual countries—not to mention sub-national differences within a country—need to be taken into account in the fight against poverty. For example, the rural poor and the urban poor may be affected differently by climate change and trade policy. There is a need to go beyond mere numbers into assessing access to resources and rights to resources, which may be affected by climate change and by trade policies.

How far trade policy and its associated regulatory frameworks, whether in the World Trade Organization (WTO) or at regional and other international levels, will help reduce poverty in developing and least-developed countries will crucially depend on the organization and performance of their rural economy, including the agriculture sector, which tends to be highly vulnerable to climate change and on which the poor are

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As the poor are likely to be affected by carbon labeling and standards, it is necessary to assess the impact of carbon labeling on the trade-related activities of the poor.

learnaboutpoverty.files.wordpress.com

openphoto.net

overwhelmingly dependent for their livelihoods.

There is a need for more spatial and local studies on the impacts of climate change on agriculture; a better understanding of the impacts of atmospheric release of carbon dioxide on fertilization; more integration of studies by natural scientists, economists and social scientists; detailed research on the impacts of climatic change on vulnerable farmers in poor regions, adaptation capabilities of indigenous species and breeds of plants and animals; and crop- and ecosystem-specific vulnerability studies.

Eco-labeling requirements, given the way they are created and enforced, may either add to the restrictiveness of developed-country import policies that pose barriers to the agricultural exports of developing and least-developed countries, or, ideally contribute to raising carbon-based standards of production. More research is required on farmers' contributions (existing and potential) to climate change mitigation, and how that can be leveraged for a sustainable improvement in their livelihoods. Particularly, small farmers' role in mitigation needs to be further explored and promoted.

The understanding of the linkages between climate change and the fisheries sector, an important sector for the poor, is rather limited at this stage. A clearer picture of the linkages is necessary before exploring how they interact with trade and poverty variables. The contribution of the sector to global warming is unknown. Many of the existing problems in the fisheries sector are caused by poor management of the sector, and climate change is likely to worsen the state of the sector. One first step to address climate change-induced problems would, therefore, be to address current unsustainable policies, with some innovations.

The issue of climate vulnerability needs to be mainstreamed into National Adaptation Programmes of Action and (national) Poverty Reduction Strategy Papers. Extensive research is required on the sector's potential for mitigation.

There is a need to step up discussion on fisheries at the United Nations Framework Convention on Climate Change (UNFCCC), especially with regard to financing/carbon credits, to explore the possibilities of bringing fishery activities into the ambit of the Clean Development Mechanism (CDM) and creating a REDD (reducing emissions from deforestation and forest degradation)-like fund for coastal vegetation.

With the growing use of carbon standards and labeling in developed countries, methodologies for assessing carbon footprints are going to be increasingly relevant for production and exports from developing and least-developed countries. As poor people are likely to be directly affected by carbon labeling and standards, it is necessary to assess in greater detail the impact of carbon labeling on the trade-related activities of the poor. At the same time, it seems critical to enhance the capabilities of these countries, with broad-based stakeholder involvement, to participate in the global standard-setting processes, so as to make the standard regime science-based, fair and pro-poor.

Given the limitations of the CDM as it currently stands, attending the particular needs of the poor would require new and innovative financing approaches at the international level, as well as an enabling environment at the domestic level. Ways to monetize sustainable lifestyle and practices in developing and least-developed countries to address poverty as well as climate-related concerns may also need to be explored.

International assistance is also required for capacity building and technical support. Country- and situation-specific realities should be factored in and domestic baseline studies carried out in the context of needs assessments for development finance—whether placed under climate change financing (CCF) mechanisms or Aid for Trade (AfT) frameworks. Methodologies and monitoring devices may need to be established to assess impacts and ensure that financing actually goes to the poor.

There is considerable scope for mutual compatibility between AfT and CCF initiatives and to build on the actual synergy between AfT and CCF projects. Development partners would do well to ensure additionality in AfT as well as CCF. Better coordination among donors, beneficiary ownership, absence of perverse conditionality and other principles of good practice in development cooperation would generally ensure higher effectiveness. Most studies seem to have been conducted on the inter-linkages between AfT and CCF focusing on African contexts; an extension of these to Asia and other poor regions would be helpful. ■

Disappointment at mid-year UNFCCC meet

weblog.greenpeace.org

THE annual mid-year meeting of the United Nations Framework Convention on Climate Change (UNFCCC), held in Bonn, Germany from 31 May to 11 June, ended in disappointment as lack of progress continued to beset contentious issues such as how to increase mitigation by developed countries, how to support upscaled mitigation in developing countries, and how to manage new financing and get more technology on the ground.

Developing countries sharply criticized a new draft text of a global climate deal presented on the final day of the Bonn climate talks by the Chair of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

The G77 and China expressed "dismay" over the imbalanced new paper and called for a rebalancing in the next draft, while a wide range of individual developing countries and their groupings attacked the text, including for its implied killing of the Kyoto Protocol, eliminating equity considerations, obliging developing countries to "peak" their emissions by 2020, and blurring the distinction between developed and developing countries in their require-

WTO chief rejects changing the Doha agenda

THE head of the World Trade Organization (WTO) has rejected proposals to revise the Doha trade agenda, saying it was unacceptable to developing nations seeking to open up world commerce. WTO Director-General Pascal Lamy was responding to European Union trade chief Karel de Gucht's remark that the goal of the long-running Doha Round should be revised to either seek a "Doha light" deal or aim for a more ambitious outcome.

On 20 April, Lamy said that revising the agenda would be "horribly complex, plus probably politically unpalatable for developing countries who want this round to resolve a fairer system of rules for them". Lamy said none of the WTO's 153 members had suggested revising the Doha agenda during a stock-taking exercise in March during which they tacitly dropped a deadline for a trade liberalization agreement. Lamy was in Uruguay for a meeting of the Cairns Group of agricultural exporting countries. He reiterated that a deal to end the nine-year old round is technically possible as long as world leaders show the political will to do so. "It has a lot to do with politics. That's the question mark." Lamy estimates nearly 80 percent of the issues in the negotiations have been resolved.

But the slow progress in bridging the differences has fuelled suggestions that the talks be paused for a while or scrapped altogether to focus on other areas. Much of the impasse comes from United States' (US) demand that major developing countries make better offers to open their farm, manufacturing and services markets in exchange for US cuts in farm subsidies and politically sensitive tariffs *(www.moneycontrol.com, 21.04.10).* ■

AFTER months of threatening action, India and Brazil on 12 May filed official complaints with the World Trade Organization (WTO) over the detention of India-made generics en route to markets in Latin America by European Union (EU) customs. The seizures—which occurred in 2008 and 2009—centred on the invocation of European Commission Regulation 1383 which allows seizure by customs of products suspected of intellectual property right (IPR) infringement.

Under the current law, the generic medicine shipments should not have been detained because the patents on the drugs are not recognized in either the country of origin or destination. The problem arose with the differing interpretation of Regulation 1383, with customs in the Netherlands taking the position that if such a shipment touched ground in the ments to register and report on mitigation actions. However, most developed countries welcomed the draft or gave cautious support, indicating a large North-South divide.

The parties to the UNFCCC agreed not to mandate the holding of a ministerial meeting before the next climate change conference in Mexico at the end of this year. A controversial proposal, made by Papua New Guinea, aimed at taking decision-making to a political level, a matter that causes concern among the majority of developing countries as the climate negotiations involve many complex technical issues *(Adapted from Third World Network, Bonn News Update, No. 20 and No. 22, 14.06.10; Bridges Trade BioRes, Vol. 10, No. 11, 11.06.10).* ■

G20 renews vow against protectionism

LEADERS from the world's biggest economies, at the G20 summit in Toronto on 26–27 June, agreed to a timeline for reducing their budget deficits and debt levels, and renewed their vow to avoid protectionist measures.

Developed-country members of the G20 agreed to halve deficits by 2013 and stabilize or reduce government debt-to-gross domestic product ratios by 2016. But they also agreed that how governments pursue fiscal consolidation should depend on their national circumstances.

While system-wide mercantilist pressures may be growing, the G20 pledged to avoid specific protectionist policies, renewing for a further three years their earlier commitment to refrain from raising barriers or imposing new barriers to investment or trade in goods and services, imposing new export restrictions or implementing World Trade Organization-inconsistent measures to stimulate exports, and to rectify such measures as they arise.

G20 leaders also expressed support for bringing the Doha Round to "a balanced and ambitious conclusion as soon as possible," although they dropped last year's call to do so by the end of 2010. They are to "discuss the status of the negotiations and the way forward" at their next summit, scheduled for November in Seoul *(Adapted from Bridges Trade Weekly News Digest, Vol. 14, No. 24, 30.06.10).* ■

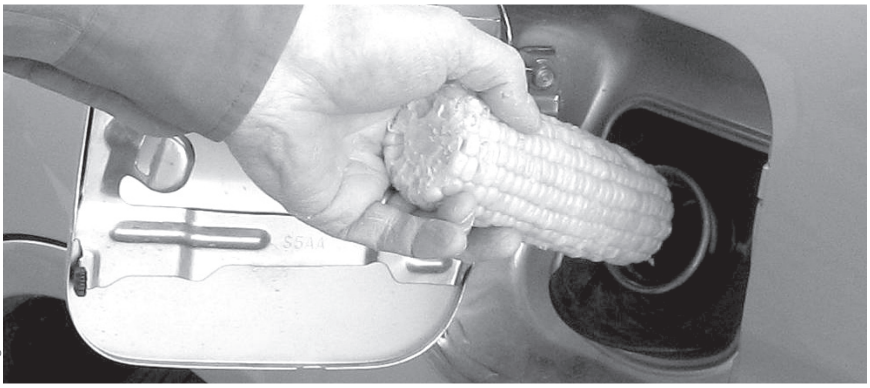
India, Brazil file WTO complaints over generic drug seizures


www.ght.org.uk

EU it was considered to be subject to standard customs procedures. The European Commission launched an online public consultation to review its legislation on customs enforcement of IPRs in March, and maintains that there have been no recent cases of inappropriate seizures by customs operating in the EU.

India and Brazil say they have filed a request for consultation with the EU and the Netherlands, which is the first step in the WTO's dispute resolution procedure. They claim the seizures have violated WTO rules, damaged legitimate trade in generic medicines and impeded access to essential drugs in developing countries *(www.securingpharma.com, 12.05.10).* ■

EU defends food as fuel


blogs.nature.com

THE European Union's (EU) anti-poverty chief has refused to concede that the EU's promotion of biofuels is helping exacerbate global hunger, despite growing evidence that it is. Andris Piebalgs, the EU's commissioner for development aid, published a paper on 21 April conceding that EU officials have an "obligation" to monitor the effects of biofuel production on the world's poor, but did not accept that he was wrong to support the use of food crops for power generation during his previous role as the EU's energy commissioner. "I can clearly state today that biofuel policy has done no damage in the developing world," Piebalgs said. "The focus is right."

Holding the energy portfolio in the European Commission from 2004 until last 2009, Piebalgs was one of the most zealous defenders of an EU strategy that at least 10 percent of all journeys undertaken on the bloc's roads by 2020 should be powered by biofuels.

Since that goal was set in 2007, it has encountered stiff opposition from environmental campaigners and food policy analysts. The World Food Programme has held the greater use of biofuels at least partly responsible for a spike in the prices of basic groceries that has pushed the number of people who suffer from chronic hunger and malnutrition beyond a billion. Food crops used for cars and trucks include wheat, maize, soy, sugar and palm oil.

Piebalgs' stance contrasts with a recent environmental impact assessment on the EU's biofuel policy, which calculated that raising the proportion of biofuels used for road transport above 5 percent in the next decade would do more harm than good to the global environment *(www.ipsnews.net, 22.04.10).* ■

SAARC to be made "action oriented"

AT the 16th Summit of the South Asian Association for Regional Cooperation (SAARC), Thimpu, 28–29 April, which marked the 25th anniversary of the regional body, South Asian leaders vowed to make SAARC action oriented.

The Thimpu Declaration states that the "Silver Jubilee Year should be commemorated by making SAARC truly action oriented by fulfilling commitments, implementing declarations and decisions and operationalizing instruments and living up to the hopes and aspirations of one-fifth of humanity".

In an acknowledgement of national policies and programmes not keeping up with regional decisions, it highlights the need for more efficient, focused, time-bound and people-centric activities and calls for appropriate reflection of all the SAARC decisions in national policies and programmes of member states.

The Summit saw decisions and commitments on issues ranging from regional trade and connectivity to food security and poverty to climate change. It issued a separate statement on climate change. ■

India may get MFN status from Pakistan

IN order to bolster trade relations with India, Pakistan is considering giving India most-favoured-nation (MFN) treatment. In the foreign secretary-level talks held in Islamabad in June, Pakistani officials indicated their willingness to replace the policy of keeping a restricted "positive" list of goods for India-Pakistan trade with a more accommodative "negative-list" approach. This change in policy stance would inevitably lead to India becoming an MFN partner for Pakistan. Although India has accorded Pakistan MFN status for many years, Islamabad has been unwilling to reciprocate. Senior Indian officials said the measure could open up the Pakistani market for a variety of Indian goods. The two countries have agreed to resume commerce secretary-level talks for enhancing their trade relations. Currently, Pakistan maintains a positive list of 934 tariff lines for India. This means that in all items except these, no trade can take place between the two countries. Pakistan's Planning Commission recently estimated India-Pakistan trade potential at US$10 billion. The proposed policy liberalization would help realize a large part of this untapped potential *(www.financialexpress.com, 28.06.10).* ■

Nepal's export potential identified

www.trekinhimalaya.com

www.tching.com

NEPAL Trade Integration Strategy 2010, unveiled in June, has identified 12 goods and 7 services sectors that Nepal should focus on for export promotion. The identified products include seven agro-products, namely large cardamom, ginger, honey, lentils, tea, instant noodles and medicinal herbs/essential oils. Services include tourism, labour services ("remittances"), information technology and business process outsourcing services, health services, education services, engineering services and hydroelectricity. The study proposes a short- to medium-term strategic course to promote the exports of the products.

The study notes that since the mid-2000s, domestic political challenges have put extreme pressure on a number of traditional Nepali exports, especially semi-processed or processed goods dependent on tariff preferences, requiring access to an organized labour force, steady supply of energy and reliable transport. Yet, Nepali entrepreneurs have discovered new export opportunities.

The top 10 markets identified for the 17 goods and services are mostly outside South Asia. Only 13 of the 170 identified markets are South Asian countries. Among South Asian markets, India has the highest frequency. The market access barriers in the Indian market include: imposition of arbitrary duties and non-transparent application of duties by Indian customs; application of World Trade Organization-inconsistent duties and taxes by Indian states; and limited availability of sanitary and phytosanitary quarantine inspection and food-testing facilities for Nepali exports to India at border crossings.

The study concludes that the importance of non-tariff barriers is increasing relative to tariff barriers for Nepali exports. For example, the European Union and Norway have banned the imports of Nepali honey since 2002/03 citing lack of monitoring programmes for pesticides and other residues in Nepal. The study argues that strengthening the competitiveness of Nepali exporters will require legal and institutional development in Nepal in a number of areas, including investment environment, trade facilitation, technical standards, sanitary and phytosanitary measures, intellectual property rights and domestic services regulations. ■

Developing countries launch new coalition at WIPO

NINETEEN developing countries have created a new coalition to push the World Intellectual Property Organization (WIPO) to make its work more development-friendly. The announcement of the new bloc, dubbed the WIPO Development Agenda Group (DAG), came during the April meeting of WIPO's Committee on Development and Intellectual Property.

The DAG is "an open and inclusive group consisting of WIPO Member States that are likeminded in their support for a development-oriented perspective on intellectual property issues, and the mainstreaming of the Development Agenda across all areas of WIPO's work," according to the statement made by Egypt on behalf of the group.

The DAG may be seen as a successor to the Group of Friends of Development. This group played an active role in advancing the initial stages of the WIPO Development Agenda since its launch in 2004 until the adoption, in 2007, of 45 recommendations that aim to integrate the development dimension in all of WIPO's activities.

The founding members of the DAG are Algeria, Brazil, Cuba, Djibouti, Ecuador, Egypt, Guatemala, India, Indonesia, Iran, Malaysia, Pakistan, the Philippines, South Africa, Sri Lanka, Sudan, Syria, Uruguay and Yemen *(Bridges Weekly Trade News Digest, Vol. 14, No. 15, 28.04.10).* ■

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UNCTAD will not settle for "business as usual"

Supachai Panitchpakdi
Secretary General
United Nations Conference on Trade and Development

How do you evaluate the progress within the Doha Round of trade negotiations, particularly with regard to addressing the interests of developing and least-developed countries? What role do you see of UNCTAD in its successful completion in the new future?

Since the Seventh Ministerial Conference of the World Trade Organization (WTO) in 2009, no significant progress has been recorded in the Doha Round of trade negotiations. Current talks are at loggerheads on whether or not to proceed on the basis of modalities for agriculture and non-agricultural market access revised in December 2008. The broader economic and developmental context arising from the global financial and economic crisis has diluted commitment to the Doha Round. Of greater concern to developing and least-developed countries is the erosion of the mandate in the Doha Round to balance market access commitments and strengthened rule-making with developmental concerns. This reinterpretation of the mandate contributes to heightening uncertainty over the prospects of concluding the Round in 2010 or any time soon.

For least-developed countries (LDCs), it is imperative to take measures to ameliorate their economic performance in order to make progress towards achieving the Millennium Development Goals (MDGs). An "early harvest" of a core development agenda of concern to LDCs should be delivered, prior to a full conclusion of the Round itself. This agenda includes: (a) all developed countries, and developing countries in a position to do so, providing duty-free and quota-free (DFQF) treatment for all exports of all LDCs, with simple and transparent rules of origin; (b) an ambitious, expeditious and specific outcome on cotton that eliminates trade-distorting domestic support measures and export subsidies, provides DFQF market access for cotton and cotton by-products originating from LDCs, and a "safety net" mechanism for cotton-producing LDCs to respond to external shocks; (c) a waiver that would allow LDCs' trading partners to provide LDCs with preferential market access conditions in services; (d) accelerated accession of LDCs with terms of accession consistent with their level of development; and (e) complementary trade facilitation and trade capacity building measures—including under the Aid for Trade (AfT) initiative and the Enhanced Integrated Framework (EIF)—that are legally binding and directed mainly at enhancing the productive capacities and international competitiveness of LDCs.

The actual completion of the Round lies in the hands of WTO members but UNCTAD's future role will be to consolidate what it has done thus far. UNCTAD's contribution to trade and development has continued through analytical, consensus-building and technical assistance work in the international trading system in general and the Doha Round in particular. For instance, in preparation for the Seventh WTO Ministerial Conference, UNCTAD supported LDC Trade Ministers in their substantive preparations for the meeting. UNCTAD continues to monitor and assess the evolution of the multilateral trading system from the development perspective and seek consensus among countries on the outcome of negotiations. At the intergovernmental level, the Trade and Development Commission in May this year reviewed the multilateral trade arrangement as well as the Doha Round in the context of successful trade and development strategies for mitigating the impact of the global economic and financial crisis. This work will feed into the UNCTAD Annual Session of the Trade and Development Board in September this year and will allow developing and least-developed countries, together with their trading partners, to again assess the Doha Round and provide insights for its conclusion.

What are the main trade and development needs of the LDCs? Given the slow progress in multilateral trade negotiations, do you think they would benefit more if they pursed regional and bilateral trade agreements with, among others, northern countries?

UNCTAD's research has shown that trade acts as a modest contributor to the growth and development of LDCs. Exports accounted for almost 29 percent of LDCs' aggregate gross domestic product (GDP) in 2008, with an even higher share in some regions and countries, while imports represent 33 percent of LDCs' GDP. For the most part of the last decade, LDCs have experienced persistent net trade deficits, denoting increased dependence on international trade for imports without corresponding increases in exports, leading to higher debts and dependence on aid and remittances. In this regard, the main trade and development needs of LDCs include:

- Finance for the development of competitive and diversified supply and productive sectors, including in services sectors, sustainable agriculture, food processing, dynamic and diversified commodity sectors with value addition, and manufacturing;
- improving trade-related infrastructure, especially transportation networks;
- enhancing the ability to comply with international product standards and facilitating cooperation with standard-setting bodies in integrating the concerns of developing-country producers into the development of standards;
- enhanced and predictable market access through provision of DFQF treatment for LDC exports, with simple rules of origin, and complementary AfT capacity building programmes that help LDCs take advantage of trade preferences;
- removing non-tariff barriers (NTBs) that affect LDC exports;
- ensuring access to essential services like housing, water, health, and education as well as to energy and telecommunications;
- enhanced and improved quantity and quality of development assistance, especially into economic sectors and to build up resilience to global economic shocks through the AfT and the EIF;
- increased investment into productive activities and especially in the non-extractive industries;
- transfer of technology and know-how and development of local capacities to foster diversification and structural transformation;
- human resource development;
- strengthening LDCs' integration into and benefits from their participation in South-South trade and economic cooperation; and,
- the elaboration of development-oriented trade policies and related sectoral policies, regulations and institutional arrangements such as in services, creative industries, competition policy, and organic agriculture to support the development of productive capacities and competitiveness locally and internationally.

Strengthening the participation of LDCs in international trade is facilitated through various instruments. Participation via the multilateral trading system remains the better option for LDCs as the erosion of policy space for development is limited through special provisions and exemptions from WTO obligations. Engaging in regional and bilateral trade and economic integration agreements with other developing countries is another important avenue. Regional agreements involving LDCs should focus on the development of productive capacities for trade as opposed to focusing on trade liberalization strategies *per se*. However, a key challenge for LDCs and developing countries is to rationalize the numerous and often overlapping (in terms of membership and trade and cooperation programmes) groupings into one region. For example, the Africa region has many regional communities and sectoral cooperation organizations which create confusion for governments and firms, and undermine development.

Regional agreements involving LDCs should focus on the development of productive capacities for trade as opposed to focusing on trade liberalization.

Another avenue currently being pursued by a number of developing countries involves negotiations with developed countries to form free trade and economic partnership agreements, such as between African, Caribbean and Pacific (ACP) states and the European Union (EU). However, such agreements, given the asymmetry in economic size and competences between the developing- and developed-country partners, require a stronger development component. Such a development component will involve policies and measures deliberately designed to ensure that the developing-country partners derive trade, economic and development benefits from the economic partnership, and that their populations also benefit in terms of jobs and income opportunities.

Given that developed counties have already provided unilateral preferences especially for LDCs (such as under the Generalized System of Preferences (GSP) and the EU's Everything But Arms (EBA)), North-South agreements essentially imply unilateral liberalization by LDCs. It is no wonder, therefore, that some ACP countries, especially in Africa, are resisting signing such agreements until the development dimension becomes an integral part of the final outcome.

Arrangements between LDCs and developed countries also involve commitments on intellectual property, investment and government procurement, which often go beyond WTO commitments. Certain North-South agreements could also have chilling effects on ongoing South-South sub-regional integration processes. North-South agreements tend to reinforce an existing pattern of comparative advantage which could delay diversification efforts.

Have LDCs been able to take advantage of various multilateral initiatives such as the EIF and the AfT to overcome their trade-related challenges?

The EIF is a multi-stakeholder partnership to support the sustainable development of LDCs. The Integrated Framework was originally established in 1997 to bring together LDCs, key international agencies and donors to ensure the integration of trade needs into national development plans and the implementation of priority trade projects. The EIF was set up in 2005 and effectively became operational in July 2009. Some LDCs have started to take advantage of the EIF and the AfT.

The LDC Trade Ministers' Declaration to the Seventh WTO Ministerial Conference (WT/MIN(09)/2) called for development partners to honour their commitment towards increased additional and predictable financial resources; to fulfil their pledges and provide additional resources for the EIF; and urged other development partners who have not yet contributed to the EIF to provide resources for the effective implementation of the EIF and strengthening of the effectiveness of the EIF through, *inter alia*, expeditious approval of projects that address supply-side, technology and trade-related infrastructure needs to support diversification of LDCs' production and export base.

The AfT was launched by the WTO Hong Kong Ministerial Conference in 2005. Its goal is to contribute to the development dimension of the Doha Development Agenda (DDA), whereby it was agreed that AfT should help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure. Furthermore, a primary guiding principle was that AfT must not be a substitute for the development benefits that will result from the DDA's successful conclusion, particularly on market access.

Despite the fact that AfT commitments reached US$41.8 billion in 2008, few LDCs have been able to make effective use of the initiative—LDCs received US$10.5 billion or 25 percent of the total flows in 2008. As a result, LDC Trade Ministers have urged development partners to provide additional and predictable resources, over and above the EIF resources, especially in the wake of the current global economic and financial crisis.

Despite the fact that Aid for Trade commitments reached US$41.8 billion in 2008, few LDCs have been able to make effective use of the initiative.

How do you assess the performance of LDCs and their development partners in the implementation of the LDC Programme of Action for the decade 2001–2010?

In the area of international trade, the Brussels Programme of Action Commitment 5 expected LDC governments and the international community to implement actions for "enhancing the role of trade in development". Many actions have been implemented with varying success. Areas where important improvements have been realized include the following:

- most LDCs have strengthened liberalization over the years to stimulate competitiveness;
- market access opportunities for LDCs have been expanded with DFQF schemes, such as the EU's EBA. However, NTBs now constitute important barriers;
- human and institutional capacity building efforts for increased participation in trade policy formulation, negotiations and implementation have been enhanced, including through trade and trade-related technical assistance and capacity building initiatives; and,
- efforts to improve gender, especially women's effective participation in trade, have increased in many LDCs and these are being integrated in national plans.

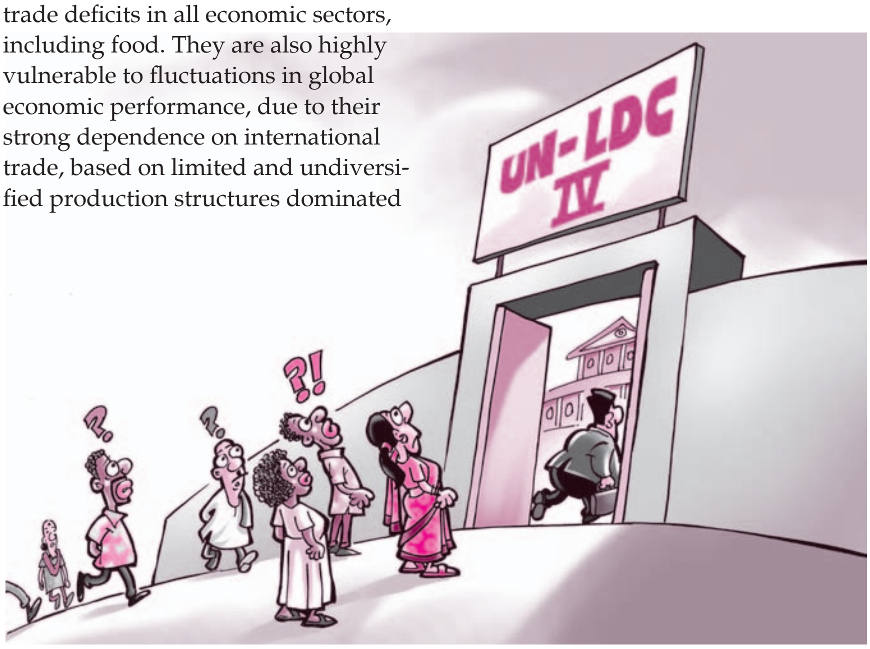
As regards DFQF for LDCs, the WTO's Hong Kong Ministerial Decision in 2005 to grant such treatment to LDCs for at least 97 percent of tariff lines by the start of the Doha Round's implementation period was a groundbreaking international commitment. This needs to be fully delivered. The United States is yet to reach 97 percent coverage for its DFQF scheme. The EU could still improve utilization by simplifying and making its rules of origin more transparent. Extending South-South DFQF treatment, as done by China, India and Brazil, could help expand trade benefits for LDCs.

There is only modest improvement, however, in addressing fundamental development constraints faced by LDCs, especially enhancing productive capacity and fostering structural transformation from agrarian societies into industrialized countries. In most LDCs, despite trade's contribution to economic development, trade policies have not yet been effectively integrated into national policies. Many LDCs do not have specific trade policy established through national consensus to guide and strengthen the role of trade in development. This may be contributing to weak public support for trade and trade-related sectors, weak public-private partnerships in trade, and marginalization of investment in productive sectors while favouring consumption sectors.

Yet, the much needed structural change in trade patterns can mainly come from well-developed productive sectors. The EIF aims to make such improvements but became operational only recently. Some LDCs like Rwanda, with the support of UNCTAD, are trying to strengthen their productive sectors. Improving export value addition, diversification and processing of primary commodities, and improving compliance of products with international standards still remain major challenges for most LDCs. For example, African LDCs still depend on exports of primary commodities while Asian LDCs are dependent on a limited number of manufactures, mainly textiles and clothing. In services trade, improvements have been made but the potential contribution of services to development has not been effectively harnessed. Underdeveloped services infrastructure, including poorly maintained roads and rail networks, ports, electricity and research and development services, energy and telecommunications continue to hamper their development prospects. Despite concerted efforts so far at improving trade facilitation, including at a regional level, this remains a major challenge in many LDCs especially due to poor infrastructure, which reinforces trade costs.

The Doha Round negotiations has not yet been concluded and hence the expected outcome that would deliver development-oriented results on the trade interests of LDCs remains outstanding. Progress in LDCs' regional integration efforts is mixed: LDCs' participation in regional and interregional trade among developing countries remains limited.

It is thus not surprising that in the area of international trade, the 49 LDCs account for less than 1 percent of global trade in goods and services, and 1 percent of total global merchandise trade, and face persistent trade deficits in all economic sectors, including food. They are also highly vulnerable to fluctuations in global economic performance, due to their strong dependence on international trade, based on limited and undiversified production structures dominated by commodities and concentrated markets. A few LDCs have developed and taken advantage of services sectors, especially tourism and movement of natural persons supplying services, but for the most part the services sector remains limited. There is a need to substantially strengthen productive capacity and address the constraints that inhibit the contribution trade could make to alleviating poverty and promoting development in LDCs.



How can UNCTAD and the upcoming UNLDC IV Conference help in mobilizing international support measures and taking concrete actions for the benefit of LDCs?

International support for LDCs in realizing the MDGs is a critical ingredient in view of the weak and limited resources available to LDCs, and further undermined by the impact of the global financial and economic crisis. Moreover, as LDCs did not have the means to implement stimulus packages, other most industrialized countries have improved their competitive positions vis-à-vis LDCs. This is likely to further marginalize LDCs. Furthermore, with many traditional donors experiencing economic problems, there is the likelihood of a reduction in development finance, including for LDCs. Against this background, UNCTAD, in its supportive actions for the upcoming UNLDC IV Conference, has emphasized the need and urgency of:

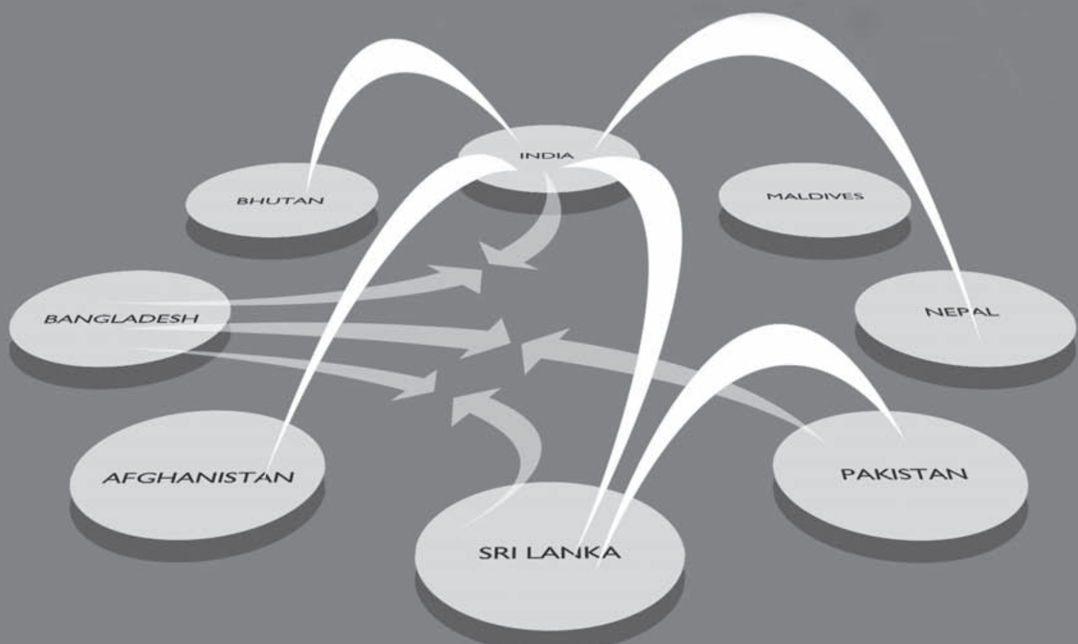
- improved and enhanced development finance, including through AfT, for LDCs;
- increased development assistance for the productive sector which will ultimately provide a sustainable source of development financing;
- increased and targeted official development assistance, which could also be supplemented with thematic funds, such as to help LDCs address climate change or build up trade infrastructure, human capital and institutional support.

Other priority areas where international support measures are important are:

- technology transfer, learning and innovation necessary for productivity and improved trade and development;
- ensuring the contribution of macroeconomic conditions and foreign and domestic investment to productivity;
- the development of infrastructure for agriculture, services (especially remittances) and manufacturing sectors;
- prioritizing internal resource mobilization for infrastructure;
- endorsing policy space for developing productive capacities;
- ensuring a development-oriented multilateral trading system and a successful outcome of the Doha Round;
- debt cancellation; and
- improving development governance at national and international levels.

UNCTAD will, in the course of the preparations for the Conference, continue to advocate for a real difference for LDCs, not just settle for "business as usual". ■

BILATERAL TRADE AGREEMENTS IN SOUTH ASIA



Bilateral trade agreements in South Asia generally go beyond SAFTA in terms of the pace, depth and coverage of tariff liberalization, but critical trade barriers remain unaddressed.

Ratnakar Adhikari and Paras Kharel

While trade liberalization in South Asia under a regional trade agreement (RTA)—the Agreement on South Asian Free Trade Area (SAFTA)—moves at a sluggish pace, there are already five effectively operational bilateral trade agreements (BTAs) between South Asian countries involving at least some exchange of preferences, with several more in the pipeline. Political, economic and geographical factors drive these agreements.

India, South Asia's largest economy, is a partner in four of them—with Afghanistan, Bhutan, Nepal and Sri Lanka. Pakistan, the region's second largest economy, has a BTA with Sri Lanka. Besides the Maldives, Bangladesh is the only South Asian country without any substantive BTA with any of its neighbours. However, India, Pakistan and Sri Lanka have tabled proposals for a free trade agreement (FTA) with Bangladesh. Negotiations are also underway between Bangladesh and Nepal for a BTA.

This feature first discusses the five operational BTAs[1], and some issues in Bangladesh-India trade in the context of the proposed FTA. It then suggests ways to make the BTAs as trade creating and welfare enhancing as possible.

Indo-Bhutan Trade Agreement

The Indo-Bhutan Treaty of 1949, which forms the bedrock of the two countries' relations, provides for, *inter alia*, "perpetual peace and friendship, free trade and commerce and equal justice to each other's citizens".[2]

In the 20-year period from 1981, Bhutan's exports to India accounted for an average of 86.5 percent of its total exports, and imports from India accounted for an average of 79 percent of its total imports.[3] The share of exports to India in Bhutan's exports has remained more or less the same, averaging 88.7 percent between 2001 and 2007.[4] However, imports are becoming slightly more diversified with imports from India accounting for, on an average, 74.2 percent in the same period.[5]

Bhutan's trade profile has been radically altered in the past decade due to huge investments in hydroelectricity projects, mostly supported by India, the monopsony importer of power from Bhutan. The hydroelectricity sector accounts for some 12 percent of Bhutan's gross domestic product and 45 percent of its government revenue. Bhutan has been exporting a huge amount of electricity to India, with the export value increasing almost fivefold between 2002 and 2007. Electricity exports comprise about 44 percent of Bhutanese exports to India. Growth of exports of base metals and metal articles, accounting for 27.7 percent of Bhutan's exports to India, was more than 400 percent during 2002–2007.

Two other factors have also contributed to Bhutan being the only country in the region to have succeeded in maintaining trade surplus with India since 2006. First, the Bhutanese currency, the Ngultrum, is pegged to and valued at par with the Indian currency, which makes it easier to trade without the fear of frequent and/or abrupt changes in prices resulting from exchange rate fluctuations. Second, by virtue of Bhutan's "extraordinarily warm friendship" with India,[6] the latter has accorded favourable treatment to the former in the areas of investment, infrastructure and building human capital.

Indo-Nepal Trade Treaty

The 1996 revision to the Indo-Nepal Trade Treaty, which dates back to 1960, contained provisions that reflected the stage of development of Nepal, the weaker partner. The treaty allowed for duty-free access of almost all domestic primary products into each other's markets. For industrial products, the treaty provided for duty-free entry of all Nepali industrial products into the Indian market, except for those on a mutually agreed small negative list. In return, Nepal provided preferential access to Indian industrial products. These provisions led to a massive increase in trade between the two countries.

Citing pressure from Indian industries that suffered from increased competition from Nepali exports, India inserted restrictive provisions in the treaty, when it was reviewed and renewed in 2002. The rules of origin (ROO) required Nepali exports to fulfil the twin criteria of 30 percent value addition and change in tariff heading (CTH) at a four-digit level of the Harmonized System (HS) to be eligible for preferential market access. Tariff-rate-quotas (TRQs) were imposed on four major products exported by Nepal to India: vegetable ghee, acrylic yarn, copper and zinc oxide. Nepal was required to submit the criteria applied for ROO on an annual basis.

After these provisions were enforced, Nepal witnessed a significant slowdown in the value of its exports to India. While the imposition of quantitative restrictions hit hard vegetable ghee exports, Nepal's top exports to India, the industry's latest woes are of a different making. As a result of the Indian government's decision to reduce tariff on palm oil, the raw material for the production of vegetable ghee, Nepal's exports of this commodity to India fell to zero in the first 10 months of 2009/10.

Besides, there have been complaints about several para- and non-tariff barriers imposed by India on Nepali exports. India imposes para-tariffs either for domestic political economy reasons or for purely political reasons.[7] Nepal's exports of agricultural, food and forest products to India require quarantine certification. Sanitary and phytosanitary (SPS) quarantine inspection and food testing facilities are available only at six of the 26 border crossings. Moreover, there is no predictability in the way quarantine-related rules are applied.

Although the latest revision to the treaty, made on 27 October 2009, extended the duration of the treaty from five to seven years, and included some provisions aimed at addressing Nepal's concerns, it is doubtful that the changes will provide a major boost to Nepal's exports, as the provisions are couched in best-endeavour clauses.

Nepal too imposes para-tariffs, while the imposition of non-tariff barriers (NTBs) on Indian products is unheard of in Nepal. The agricultural development fee is particularly targeted at Indian products because it is not levied on imports subject to most-favoured-nation (MFN) tariff. However, due to Nepal's commitment to phasing out "other duties and charges" at the World Trade Organization, Nepal has begun scrapping or reducing them.

Indo-Sri Lanka FTA

The signing of the Indo-Sri Lanka Free Trade Agreement (ILFTA) in 1998 was a manifestation of the sheer frustration with the regional trade integration process initiated with the launch of the SAARC Preferential Trading Arrangement (SAPTA) in 1993. It was also motivated by India's strategy of entering into BTAs with its neighbours to isolate Pakistan, as well as by Sri Lanka's desire to gain a foothold in the largest market of the region.

The agreement led the countries to exchange much deeper commitments than they did under SAPTA. Even their commitments under SAFTA pale in significance when compared to ILFTA as far as trade-creating effects are concerned.[8] The agreement takes into consideration the relatively lower level of development of Sri Lanka, and provides it special and differential treatment in terms of additional market access and a higher transition period to phase in trade liberalization measures. This has had a positive impact on bilateral trade as well as cross-border flow of investment. While both the countries have achieved high export growth in each other's market, the gain for Sri Lanka is much more pronounced with total exports growing by almost 10 times between 2000 and 2005, although exports have declined since 2006, the reason for which is discussed later. Notably, the bulk of Sri Lanka's exports to India under the FTA has been in industries with low domestic value addition and employment generation.

This agreement too has its own share of problems. India imposes TRQs on products that account for 58 percent of Sri Lanka's global exports. While the TRQ for tea is 15,000 MT, the same for garments is 8 million pieces. While the TRQ for vegetable ghee was initially fixed at 250,000 MT, India unilaterally reduced it to 100,000 MT later. However, after persistent requests from Sri Lanka and a series of discussions, the original TRQ was restored.

Under pressure from domestic lobbies, India imposed port restrictions on tea and garment imports. This partly explains the low quota utilization rate of less than 3 percent for tea.[9] However, repeated Sri Lankan requests resulted in the relaxation of the port restrictions in June 2007.[10] Another reason for the low tea quota utilization by Sri Lanka is the imposition of stringent ROO on the import of CTC tea. There are two ROO criteria that must be satisfied by Sri Lankan tea exporters in order to get preferential market access in India—domestic value addition of at least 35 percent, and HS four-digit CTH. While it is not a serious problem for Sri Lankan tea exporters to meet the first criterion because there is hardly any imported input in tea, it is impossible for them to meet the second one[11] because tea is such a unique commodity that it does not have any other HS four-digit code than 09.02.

These problems are reflected in the direction of Sri Lanka's exports to India. Even with the restoration of the original quotas on vegetable ghee and copper, the peak exports of 2005 are yet to be realized again. Due to the problems highlighted above and lack of interest among Sri Lanka's private sector, negotiations on a Comprehensive Economic Partnership Agreement, scheduled to have been signed by August 2008, have stalled.

Afghanistan-India PTA

The preferential trade agreement (PTA) between India and Afghanistan came into being in 2003, in the aftermath of the United States' (US) invasion of the landlocked least-developed country (LDC) following the 9/11 attacks. Under the positive list-based PTA, each country grants preferential treatment to the other on a limited number of products. While Afghanistan waives basic customs duties on eight products imported from India, including tea, antisera and medicines, refined sugar, cement clinkers and white cement, the latter grants preferential treatment to the former on 38 products, including raisins, dry fruits, fresh fruits, spices and emeralds, with the margin of preference ranging from 50–100 percent.

Preferential treatment is subject to ROO, requiring 50 percent domestic value addition and a HS four-digit CTH. Alternatively, the value addition requirement under the cumulative ROO is 40 percent at the aggregate level and 30 percent at the domestic level. The single-country ROO are more stringent than those under other BTAs in the region as well as under SAFTA.

The period after the signing of the PTA saw substantial increases in exports from Afghanistan to India. The compound annual growth rate of Afghanistan's exports to India during 2003–2009 was 20.73 percent compared to the 11.25 percent growth rate recorded during 1999–2003. The share of India in Afghanistan's total exports also increased, from 15.09 percent in 2003 to 23.12 percent in 2009. On the other hand, growth of imports from India reduced from 45.02 percent during 1999–2003 to 16.69 percent during 2003–2009. India's share in Afghanistan's total imports also decreased, from 8.49 percent in 2003 to 5.12 percent in 2009. With Afghanistan's exports growing faster than imports, its normalized trade balance with India reduced from 62.24 percent in 2003 to 55.58 percent in 2009.

Afghanistan's export potential lies in oil, gas, coal, iron, chrome and copper resources. The denial of transit facility by Pakistan is a major constraint to Afghanistan's trade with India.

> Not wanting to be left behind in the India-led BTA surge, Pakistan signed an FTA with Sri Lanka in 2002.

Pakistan-Sri Lanka FTA

Not wanting to be left behind in the India-led BTA surge, Pakistan signed an FTA with Sri Lanka in 2002. The format of trade liberalization commitments, and special and differential provisions is similar to ILFTA's.

There appear to be tremendous opportunities for enhancing trade between the two countries under the FTA, in force since 2005. For example, Pakistan has provided duty-free access for up to 10,000 MT of tea exports. Pakistan is a country that has limited domestic capacity in tea production, but has the highest per capita tea consumption in the world. Sri Lankan exporters face the challenge of influencing the tastes of Pakistani tea consumers to fully realize the potential.

Table
Bilateral trade in South Asia (US$ million)

Exports from	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Afghanistan to India	22.93	25.32	16.57	31.82	39.42	50.52	36.80	82.32	112.64	98.55
India to Afghanistan	27.73	30.61	51.67	124.29	154.40	148.36	171.96	232.07	358.68	313.80
Bhutan to India *	20.33	22.44	30.10	47.32	50.70	84.33	128.27	181.15	160.76	140.65
India to Bhutan	2.73	3.01	31.18	76.88	85.40	95.52	67.92	79.36	104.71	91.61
Nepal to India	307.20	352.60	363.60	339.80	417.10	540.10	562.98	497.53	475.69	416.16
India to Nepal	143.40	556.73	316.38	589.60	713.68	830.76	911.36	1361.66	1543.39	1350.26
Sri Lanka to India	58.03	71.99	170.58	245.05	391.51	566.41	489.46	515.28	382.02	334.22
India to Sri Lanka	604.90	546.80	848.46	1219.64	1345.11	1871.80	2197.85	2682.76	2483.58	2172.80
Sri Lanka to Pakistan	29.70	24.87	28.84	36.73	39.45	43.56	58.36	55.44	63.30	55.38
Pakistan to Sri Lanka	81.04	74.86	71.33	83.54	134.24	153.74	133.25	161.86	184.79	161.67
Bangladesh to India	50.13	60.80	39.33	55.34	66.15	118.88	168.11	232.93	318.82	268.23
India to Bangladesh	860.33	1086.81	1132.54	1599.55	1624.82	1656.05	1636.98	2594.56	2574.66	2498.72

** Mirror data (India's imports from Bhutan)*

Source: International Monetary Fund's Direction of Trade Statistics, www.imf.org, accessed 30.06.10.

Other products of Sri Lankan export interest also receive preferences. Sri Lanka can export 200,000 pieces of 21 readymade garment items under HS Chapters 61 and 62 duty-free, without having to fulfil the ROO requirement. For exports beyond this threshold and up to 3 million pieces, a 35 percent concession on MFN tariff is provided. Similarly, Sri Lanka can export up to 1,200 MT of betel leaves with 35 percent duty concession. Likewise, on ceramic products, Pakistan has offered a duty concession of 20 percent to Sri Lanka without any quota restriction.

Pakistan has also received significant concessions from Sri Lanka. For example, Sri Lanka has provided zero-tariff access to pharmaceutical and textiles products, and duty concession on PVC, carbon, machinery and transport items. Similarly, Pakistan can export up to 1,000 MT of potatoes and 6,000 MT of basmati rice at zero duty.

However, the impact of the FTA has so far been limited, more so if we compare it with the growth in bilateral trade between India and Sri Lanka after the signing of ILFTA. The annual growth in exports from Sri Lanka to Pakistan between 2005 and 2008 averages 13.27 percent, and the growth in exports from Pakistan to Sri Lanka averages 6.32 percent in the same period. The growth rates are lower than the average increases achieved during 2002–2005, before the FTA came into operation, at 14.73 percent and 29.17 percent, respectively. This is an indication that the agreement may have some political significance, but its economic benefit is either insignificant or yet to manifest.

Bangladesh and India

Signing an FTA with Bangladesh would complete India's efforts at isolating Pakistan by entering into BTAs with all major economies in the region. On its part, an imperative for Bangladesh to enter into an FTA with India owes to the fact that most South Asian countries have a PTA/FTA with India. Issues of trade and connectivity between Bangladesh and India found a prominent place in the joint communiqué issued during the 10–13 January 2010 visit to India by Bangladesh's Prime Minister.

Although Bangladesh has been witnessing increasing trade deficit with India, its exports to India between 2004 and 2008 increased nearly fivefold, indicating the potential opportunities to expand Bangladesh's exports to India.[12] Bangladesh's deficit with India is less alarming if one considers the fact that many of the imports from India (e.g., fabrics and other industrial raw materials) are used as inputs by Bangladesh's export-oriented sectors (e.g., readymade garment industry), thus helping Bangladesh maintain a healthy trade balance with some of its other major trading partners (e.g., a US$3.6 billion trade surplus with the US in 2009).[13]

In contrast to the perception that India's sensitive list maintained under SAFTA is a significant barrier to exports from Bangladesh, a study shows otherwise.[14] India has unilaterally reduced the list for LDCs twice, incorporating 47 of the 101 items requested by Bangladesh. Bangladesh enjoys duty preferences from India through other RTAs (e.g., the Asia-Pacific Trade Agreement). India has unilaterally offered to provide zero-duty market access for up to eight million pieces of garments from Bangladesh (without any sourcing conditionality)—although most apparel items (154) are in India's sensitive list—as per a Memorandum of Understanding between the two countries.[15] However, only 2.3 million and 3 million pieces were exported to India in 2008 (April–December) and 2009, respectively.[16]

Despite the reduced importance of the sensitive list, an attraction of the proposed FTA would be the possible removal of some 90 items from India's sensitive list identified by Bangladesh.[17] Bangladesh would want better market access for key products such as raw jute, chemical fertilizer, cement, readymade garments, leather, battery, and textile fabrics.

The barriers faced by Bangladesh in the Indian market are para-tariffs and NTBs, including ROO, SPS measures and technical barriers to trade (TBT). These barriers are identified as a major reason why Bangladesh has not been able to fully utilize the TRQ for garments. India also faces NTBs in Bangladesh in the form of SPS measures and TBT as well as certain imports (yarn) being allowed through the land route only. Resolution of issues related to NTBs will be a critical test for the proposed FTA between Bangladesh and India to create trade.

Conclusion and way forward

BTAs have been proliferating globally since the early 1990s. What marks out the surge in BTAs within South Asia is that members of an eight-member RTA are busy entering into bilateral alliances with one another. The debate as to whether these BTAs are supportive of or work against regional integration remains unsettled, a la the regionalism versus multilateralism debate. But analysing the content and implementation of the BTAs, it is clear that while they generally go beyond SAFTA in terms of the pace, depth and coverage of tariff liberalization (even after accounting for the sensitive lists) and have helped increase trade to some extent, critical trade barriers remain unaddressed.

The sensitive lists under the BTAs, though much shorter than those under SAFTA, still generally contain items of export interest to trading partners. A time-bound review and gradual pruning of the lists, which is yet to happen in SAFTA, should be seriously considered under the BTAs since bilateral negotiations are presumed to yield results quicker.

In contrast to tariff barriers, however, the BTAs have made precious little progress on the removal of para-tariff barriers and NTBs. Mirroring global trends, the latter are getting ever more restrictive even as tariff barriers fall. If reference to dismantling these barriers is weakly formulated in SAFTA, the BTAs also suffer from either an absence of such references or weakly formulated ones. Serious efforts must be made to address these barriers as gains from tariff liberalization have often been offset by para-tariffs and NTBs. While the discriminatory removal of tariffs under an RTA/BTA carries the risk of trade diversion, the removal of "frictional barriers" such as NTBs, even if on a discriminatory basis, will yield net welfare gains. This makes the case for NTB removal all the more compelling.

In particular, ROO and quantitative restrictions in the form of TRQs, and SPS measures and TBT merit urgent attention and action. The stringent ROO, involving two criteria, are a formidable barrier to export expansion, especially for the LDCs. The rules are way beyond their supply capacity and, moreover, global experience shows that there is no evidence that strict ROO have helped beneficiary countries create a viable industrial base, an ostensible goal of such rules. Although BTAs, in principle, are supposed to free up trade by a greater degree than is possible or feasible under an RTA, those in South Asia have failed to relax ROO significantly below SAFTA levels.

If BTAs are to really enhance trade in a meaningful manner—with substantial benefits also accruing to the weaker partners—making ROO simple, transparent and reflective of partner-specific development conditions is a must. A single criterion—say, a reasonable value addition requirement—holds the potential to substantially create trade in South Asia. For the vulnerable and least-developed economies, ROO should be instituted in phases: starting out with a low value addition requirement (say, 20 percent), and setting a credible deadline for increasing the same (say, in 10 years).

TRQs, essentially a euphemism for quantitative restrictions, also serve to erode market access gains from tariff liberalization under the BTAs. While TRQs are a tool to partially protect sensitive sectors from the full force of tariff liberalization, their arbitrary use has made the trading environment in South Asia unpredictable. In a dangerous trend, the "comparative advantage" and "trade deflection" arguments are spuriously invoked to justify them. For example, attempts were, and still are, made to rationalize the imposition or reduction of TRQs by India on vegetable ghee imports from Nepal and Sri Lanka, on the grounds that these two countries did not have "genuine" comparative advantage in this product and were only arbitraging on the tariff differential with India on palm oil.

True, producers in the two countries cashed in on the tariff differential, but this truth does not warrant quan-

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titative restrictions. They might have been justified if there were no ROO (as in a customs union). But that is plainly not the case: it is precisely to, *inter alia*, guard against trade deflection that ROO are put in place. A non-protectionist measure would have been to straightaway lower domestic tariffs on the raw material to the point of removing the tariff differential—which, in fact, did happen eventually. The "comparative advantage" argument also fails the test of consistency: India and Pakistan impose quantitative restrictions on Sri Lankan tea, a product in which the island nation undoubtedly possesses "genuine" comparative advantage.

Instances of the imposition or reduction of quotas on products being rapidly exported by weaker trading partners—even if they do not possess the proverbial comparative advantage in those products—have implications beyond the fate of the immediate industries in question. They make investors that much warier of investing even in export-oriented industries possessing "genuine" comparative advantage.

If the BTAs are genuinely all about freeing up trade, it is essential to reduce TRQs to a temporary safeguard measure, with a definite timeline for their removal. The economically stronger countries, in particular, would do well to exercise restraint in the application of TRQs (or any safeguard measure) against their least-developed and vulnerable trade partners in deference to the latter's development level.

That said, it is incumbent on the latter group of countries to implement a trade policy that encourages investment in sectors with potential for sustainable and high exports, which contribute to domestic industrialization and employment generation through high domestic value addition. A thorough study of the markets of the trade partners should inform the formulation and implementation of trade policy aimed at export basket diversification. Supply-side constraints should also receive policy attention.

BTAs have made precious little progress on the removal of para- and non-tariff barriers, including stringent ROO.

The problems associated with SPS measures and TBT mainly arise from the lack of mutual recognition agreements (MRAs). Establishment and sincere implementation of bilateral MRAs is likely to not only spur bilateral trade but also pave the way for a regional MRA by moving towards the harmonization of standards-related rules. This will require the upgrading of infrastructure, and the enhancement of institutional and human resource capabilities, especially of the LDCs, for which the stronger partner's cooperation is vital.

In tandem with addressing these issues, trade facilitation measures (some of which can be considered as NTBs) need to be also taken. They should ideally take place under a regional cooperation framework if they are to yield the maximum possible benefits. Nevertheless, for two contiguous countries, simplified and harmonized customs procedures, and improved coordination among intra-country border agencies and transport connectivity—where much reform is needed—can help enhance bilateral trade.

Obviously, a first-best solution would be to address the trade barriers highlighted above under the SAFTA framework, where the risk of trade diversion would be lower, the "hub and spokes" pattern traced by the BTAs eliminated, and the role of asymmetric relationships between powerful and weaker countries blunted. Indeed, the effectiveness of some BTAs would critically depend on at least tri-country cooperation. For instance, gains from the proposed FTA between Bangladesh and Pakistan would be contingent upon the availability of transit passage through India.

This leads us to Indo-Pak tensions, which partly explain the slow pace of regional cooperation initiatives as well as the BTA spree. Normalization of Indo-Pak relations, resulting in Pakistan granting MFN status to India, and the latter becoming more amenable to exchanging trade preferences with its South Asian neighbours under a regional framework, would raise the odds of the BTAs coalescing under SAFTA. Meanwhile, until that fateful moment, intra-regional trade is likely to be increasingly governed by disparate BTAs. Given this geopolitical reality, the interim thrust should, therefore, be on making the BTAs as trade creating and welfare enhancing as possible, notwithstanding the possibility of second-best outcomes. ■

Notes

1. The review of the agreements partially draws on Adhikari, Ratnakar. 2009. *Intra-regional Free Trade Agreements: Implications for Regional Trade Integration in South Asia*. Briefing Paper, No. 9. Kathmandu: SAWTEE.
2. Choden, Tashi. 2004. Indo-Bhutan Relations: Recent Trends. *Journal of Bhutan Studies*, Vol. 11, Winter 2004: 112−128, p 114.
3. *ibid.*
4. RMA. 2009. *Selected Economic Indicators*, March. Thimpu: Royal Monetary Authority of Bhutan.
5. *ibid.*
6. Choden, Tashi. 2004. Note 1.
7. See Faye, Michael L., John W. Mcarthur, Jeffrey D. Sachs and Thomas Snow. 2004. The Challenges Facing Landlocked Developing Countries. *Journal of Human Development 5 (1)*, March: 31−68.
8. Weerakoon, Dushni and Jayanthi Thennakoon. 2008. India-Sri Lanka FTA: Lessons for SAFTA. Revised Draft Paper. Jaipur: CUTS International.
9. Kelegama, Saman and Indra Nath Mukherji. 2007. *India-Sri Lanka Bilateral Free Trade Agreement: Six Years Performance and Beyond*. Discussion Paper (RIS-DP# 119). New Delhi: RIS.
10. Weerakoon and Thennakoon. 2008. Note 8.
11. *ibid.*
12. Rahman, Mustafizur. 2010. Trade-Related Issues in the Bangladesh-India Joint Communiqué: Maximising Bangladesh's Benefits, and Strategies for Future. Presentation at CPD Dialogue on Advancing Bangladesh-India Economic Cooperation: Modalities and Challenges, 4 March 2010, Dhaka, Bangladesh.

[13] *ibid*. [14] *ibid*. [15] *ibid*. [16] *ibid.* [17] *ibid*.

Sri Lanka's bilateral trade deals with India and Pakistan

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Weak progress in regional trade liberalization pushed Sri Lanka into signing bilateral free trade agreements (FTAs) with its key trading partners in South Asia. The first was with India, signed in 1998 and implemented in March 2000, and the second was with Pakistan, which came into effect in June 2005. While aggregate values show strong benefits for Sri Lanka in terms of export growth as a result of the Indo-Lanka FTA (ILFTA), a more disaggregated analysis shows that the actual picture has been less encouraging. The Pakistan-Sri Lanka FTA (PSFTA) has had a limited impact on trade thus far, and the efficacy of the agreement and lessons for other countries can be considered in this light. This article examines the structure of each agreement and evaluates their impact on Sri Lanka's trade with India and Pakistan.

Indo-Lanka FTA

The ILFTA was the first bilateral FTA signed by both Sri Lanka and India. Prior to the signing of the FTA, India was already one of Sri Lanka's major import sources, while exports from Sri Lanka to India remained low.

Structure of the agreement

Learning from the poor trade impact of the positive-list approach of the SAARC Preferential Trading Arrangement (SAPTA), which had come into force in 1995, the ILFTA adopted a negative-list approach to trade liberalization, under which all items would be liberalized except those deemed sensitive by each country. Given the asymmetry between India and Sri Lanka, it was agreed that there would be less-than-full-reciprocity between them. Several special and differential treatment measures were implemented in view of the asymmetry. While India's tariff liberalization programme would be over a period of three years, Sri Lanka was given eight years to complete liberalization, allowing domestic firms a certain time to adjust to associated shocks.

Negative lists

With 429 tariff lines, India's negative list was substantially smaller than that of Sri Lanka, which had 1,180 tariff lines (Table 1). Sri Lanka protected much of the agricultural sector and other sectors where small and medium industries were perceived to be vulnerable to Indian competition. These included sectors such as rubber, ceramic, paper and products thereof. Furthermore, in exchange for revenue compensation being excluded from the agreement, Sri Lanka was allowed to maintain key revenue earning items in its negative list. Therefore, products such as motor vehicles and parts—key imports from India—were kept in the negative list so as to prevent the "flooding" of the Sri Lankan market by Indian products, and the resultant revenue loss.

As a result, of the 1,180 items on Sri Lanka's negative list, 712 were traded between the two countries at a value of US$912.3 million. Therefore, around 50 percent of India's exports to Sri Lanka, in terms of value, did not receive preferences under the FTA. Conversely, 70 of the 429 items on India's negative list were exported from Sri Lanka to India—accounting for 3.3 percent of Sri Lanka's exports to India, in value terms, in 2006.[1]

Tariff-rate-quotas

India's negative list included many products of export interest to Sri Lanka, including tea and garments. In order to provide Sri Lanka with some degree of market access, tariff-rate-quotas were allowed for these products, with product-specific rules of origin (ROO), even as they remained in the negative list (Table 2).

Table 1
Tariff reductions under ILFTA

Tariff reductions	India	Sri Lanka
Negative list	429	1,180
Immediate zero-duty (March 2000)	1,351	319
Zero-duty within 3 years (Cuts of 50%, 75% and 100% by March 2003)	2,870	889
Zero-duty within 8 years (Cuts of 35%, 70% and 100% by March 2008[2])	-	2,802

Source: Indo-Lanka Free Trade Agreement, www.doc.gov.lk

Table 2
ILFTA tariff-rate-quotas

Product	Tariff preference	Quota
Tea	Standard duty rate of 7.5%[3]	15 million kg annually
Garments (HS Chapters 61 and 62)	50%	8 million pieces per year, 6 million of which need to have materials sourced from India to receive preferences
Textiles (HS Chapters 51–60 and 63, except a few items in Chapters 53–56)	25%	-

Source: Indo-Lanka Free Trade Agreement, www.doc.gov.lk

Rules of origin

Twin ROO criteria are stipulated for products to qualify for preferential treatment: a minimum domestic value addition of 35 percent of free-on-board value and a change in tariff heading at four-digit level of the Harmonized System (HS). In case the minimum domestic value addition requirement is not met, there is a provision for cumulative ROO with the requirement of 25 percent minimum domestic value addition together with 35 percent minimum aggregate value addition.

Economic impacts

Even prior to the FTA being implemented, India had become a significant source of Sri Lankan imports, accounting for 8.6 percent of Sri Lanka's total imports in 1999, second only to Japan. However, Sri Lankan exports to India were not substantial prior to the FTA, with total exports in 1999 being a mere US$47 million, around 1 percent of total exports. Furthermore, in 1999, Sri Lanka's trade deficit with India was substantial (US$463 million), with an import-export ratio of 10.5:1. In 1999, Sri Lanka's main exports to India were primary products, mainly agricultural products and unprocessed metals. Prior to the FTA, Sri Lanka's trade with India was limited both in terms of value and industrial depth. Foreign direct investment (FDI) from India to Sri Lanka was also very limited, with cumulative investment as of 1998 standing at just US$2.5 million,[4] or 1.3 percent of total FDI.

The implementation of the FTA had a dramatic impact on trade relations between the two countries. By 2007, Sri Lanka's exports to India had increased to US$515 million (6.6 percent of total exports), making India Sri Lanka's third largest destination for exports and largest source of imports (23 percent of total imports). The trade balance between the two countries narrowed until 2006 (when the import-export ratio was 4:1 compared to 14.3:1 in 1998) as the rate of growth of Sri Lanka's exports was greater than that of imports. Furthermore, FDI from India followed trade, with cumulative FDI expanding to reach US$191.2 million (or 8.3 percent of total FDI) by 2005.

The number of products exported from Sri Lanka to India doubled from 505 in 2000 to 1062 by 2005[5] with a shift in the composition of exports from primary products to processed goods. Vegetable fats and oils (vanaspathi), refined copper, wires (copper, aluminium), margarine, rubber and articles thereof all came above traditional exports such as pepper and spices. New products such as furniture, antibiotics and ceramic products successfully entered the Indian market.[6] The FTA was instrumental in this expansion of trade as 75 percent of Sri Lankan exports to India received preferential treatment in 2006 compared to 22 percent in 2001.

The years following 2005 saw a marked decline in the levels of trade between India and Sri Lanka. This was largely attributed to the fall in Sri Lankan exports of vanaspathi and copper, which in 2005 jointly accounted for 50 percent of total exports to India but by 2009 had diminished to only 3.5 percent.

The global economic crisis, beginning 2008, saw commodity prices crash, leading to the removal of most-favoured-nation (MFN) tariffs on palm imports in India. Given that the vanaspathi industry was dominated by Indian manufacturers so as to evade such tariffs, production in Sri Lanka became redundant causing its near disappearance to just 0.1 percent of total exports in 2009.

Similarly, exports of copper plummeted following changes to invoicing requirements based on London Metal Exchange prices. The global economic crisis was also responsible for the fall in imports from India, due to the collapse in the prices of crude oil and metal products. This caused a reduction in the trade deficit in line with the reduction in total trade. The increase in the exports of foodstuffs (animal feed), machinery and electrical equipment and agricultural products (pepper, cloves) in 2009 ensured that India remained Sri Lanka's third-largest export destination. However, exports to India accounted for only 4.5 percent of total exports.

Pakistan-Sri Lanka FTA

Having obtained significant market access in India through the ILFTA, Sri Lanka was keen on doing the same with the other major economy in the South Asian region. The Framework Agreement of the PSFTA was signed in August 2002 and came into force in June 2005.

Structure of the agreement

Like the ILFTA, the PSFTA takes into account the asymmetry between the two economies. Sri Lanka has a larger negative list and longer tariff liberalization periods.

Tariff liberalization programme

Pakistan offered 206 tariff lines (6-digit level) for immediate zero duty while Sri Lanka offered 102 such tariff lines (Table 3). The remaining products were liberalized over a three-year period by Pakistan, which ended in June 2008. Sri Lanka in effect has access to over 4,000 tariff lines duty free in the Pakistani market. Sri Lanka is to liberalize the remaining products outside the negative list over a five-year period ending in 2010 at a 20 percent margin reduction each year.

Negative lists

The Pakistani negative list consists of 540 tariff lines at the six-digit level. This includes many of Sri Lankan export interests such as tea (except for a quota of 10,000 MT), several textiles and garment items, rubber products, paper products, many dairy products, plastic products, footwear and certain ceramics. The Sri Lankan negative list consists of 697 items including the bulk of the agricultural sector, rubber products, paper products, footwear, ceramic products, many metals products, and many motor vehicles and parts for revenue purposes.

Tariff-rate-quotas

Tariff quotas are in place for tea, garments, betel leaves, cosmetics and ceramics for Pakistan's imports from Sri Lanka, and for basmati rice and potatoes for Sri Lanka's imports from Pakistan (Table 3).

Rules of origin

The ROO criteria are the same as in the ILFTA except that the change in tariff heading should occur at the HS 6-digit level.

Table 3
Duty concession commitments under PSFTA

Duty concessions	Pakistan (No. of tariff lines)	Sri Lanka (No. of tariff lines)
No concessions (Negative list)	540	697
Immediate zero-duty concessions	206	102
Tariff-rate-quotas		
Tea : Duty-free 10,000MT	4	
Apparel : 35% MOP 3mn pieces	21	
Basmati: Duty-free 6,000MT		1
Potatoes: Duty-free 1,200MT		1
Products entitled for MOP		
Betel : 20% MOP	1	
Cosmetics: 50% MOP	11	
Tariff liberalization programme	34%, 67%, 100% over 3 years	20%, 30%, 40%, 60%, 80%, 100% over 5 years

Note: MOP= Margin of preferences.
Source: Department of Commerce of Sri Lanka.

Economic impacts

The PSFTA is yet to become fully operational as Sri Lanka is scheduled to complete tariff liberalization on non-sensitive products in 2010. Pakistan has fully liberalized trade in all items except those in the sensitive list as of June 2008. Thus far the impact of the agreement in terms of Sri Lankan exports to Pakistan has been limited (Figure). In 2003, Sri Lanka's exports to Pakistan were US$36 million (0.7 percent of total exports). While in absolute terms, exports to Pakistan had increased to US$55 million by 2009, it still accounted for a mere 0.8 percent of total exports. Furthermore, Pakistan's exports to Sri Lanka grew at a much faster rate, increasing from US$71 million in 2003 (1 percent of total imports) to US$197 million in 2009 (1.9 percent of total imports).

The growth in Sri Lankan exports to Pakistan was largely in products similar to those exported prior to the Agreement. The only notable change between 2002 and 2009 is the increase in exports of coconuts and decline in exports of tea and copra[7]. In 2009, exports of tea did not even utilize half the quota allocation under the PSFTA, while garment exports to Pakistan have thus far been negligible.

It is clear that export diversification has been limited, but it will take some time for the full impact of Pakistan's complete liberalization to be felt. Nonetheless, some products have been exported to Pakistan taking advantage of preferential tariffs. Fresh pineapples, sports goods, tamarind with seeds and activated carbon are some products that were not previously exported but are now exported using concessions.

Following the FTA, imports from Pakistan have grown significantly. The major import from Pakistan is textiles and fabrics, making up 55 percent of Sri Lanka's imports from Pakistan in 2007. Other items include medicaments, potatoes, rice and dried fish.

It is important to note that the majority of the items imported from Pakistan do not receive benefits under the FTA. Rice and dried fish fall under the negative list and potatoes are imported under a tariff-rate-quota.

Figure
Trade between Sri Lanka and Pakistan

Source: Department of Customs, Government of Sri Lanka.

Conclusion

While the agreements have provided significant market access to Sri Lanka, full advantage has not been taken of this market access due to a combination of reasons. The ILFTA in particular has seemingly not had an impact on entrenched industrialization in Sri Lanka, as the bulk of exports from Sri Lanka, until recently, has been in footloose products that have taken advantage of tariff arbitration as opposed to further development of Sri Lanka's comparative advantages and industrial strength.

There remain certain impediments to trade despite the existence of the FTAs and these impediments have been identified. A key reason as to why there has been a lack of utilization of both FTAs is the inertia by Sri Lankan exporters in exploring markets in India and Pakistan. However, it is expected that with the downturn in the global economy following the global financial crisis of 2008, in combination with the end of the civil war in Sri Lanka, both export capacity and the desire to penetrate alternative markets will increase, and both the ILFTA and the PSFTA may take on increased significance in the coming years. ■

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Notes

1. Weerakoon, D., and J. Thennakoon. 2008. SAFTA: Which Way Forward. *Journal of South Asian Development 3 (1): 135–49.*
2. Due to procedural delays, Sri Lanka was only able to fulfil the "70 percent tariff reduction by March 2006" requirement in September 2006. Accordingly, the March 2008 tariff reduction has not taken place at the time of writing.
3. India's average applied MFN tariff on tea/coffee is 56.3 percent, according to the WTO Tariff Profiles 2006.
4. US$1 = LKR 67.8 (1998 exchange rate).
5. Kelegama, S. and I. Mukherjee. 2007. *Indo-Lanka Bilateral Free Trade Agreement: Six Year Performance and Beyond.* New Delhi: Research and Information Systems (RIS) for Developing Countries.
6. Figures from Department of Commerce Trade Statistics, www.doc.gov.lk/web/tradestatistics.php
7. The likely cause of this reduction is the fact that the price of Ceylon tea increased as global demand (especially from the Middle East and Commonwealth of Independent States (CIS) countries) increased substantially, making it less attractive compared to Kenyan tea which did not increase in price to the same extent.

   It remains to be seen whether the decline in tea exports is a one-off event or a continuing trend—the former is more likely given the unusually high commodity prices that prevailed through the latter half of 2007.

India's bilateral trade agreements with Bhutan, Nepal and Sri Lanka

Indra Nath Mukherji

According to the Database on Regional Trading and Investment Agreements maintained by the United Nations Economic and Social Commission for Asia and the Pacific, India is currently involved in 20 regional trading arrangements (RTAs), of which 10 are bilateral and 10 plurilateral. The bilateral trade agreements (BTAs) in force in South Asia are with Afghanistan, Bangladesh, Bhutan, the Maldives and Nepal. These agreements differ in terms of scope, type, coverage and framework. This article is concerned with India's BTAs with Bhutan, Nepal and Sri Lanka.

History

It is generally accepted that India has been a late starter in its participation in RTAs. However, given its cultural and historical affinity with its two neighbours in the Himalayan region, Nepal and Bhutan, India's trade relationship with these two least-developed countries (LDCs) has a long history.

On 8 August 1949, Bhutan and India signed the Treaty of Friendship, calling for peace between the two countries and non-interference in each other's internal affairs. The treaty also established free trade and extradition protocols. The Agreement on Trade and Commerce between India and Bhutan was concluded on 17 January 1972. It has been renewed periodically with mutually agreed modifications. The current agreement between the two countries on trade, commerce and transit was renewed on 28 July 2006 for a period of 10 years.

Underscoring the close linkage between security and economy, India's first Treaty of Trade and Commerce with Nepal was signed on the same day as the Treaty of Peace and Friendship, on 31 July 1950. However, the basic structure of the existing trade agreement is the Indo-Nepal Treaty of Trade, 1991 as modified by letters of exchange of 16 February 1993, 3 December 1996, 2 March 2002 and 27 October 2009.

After a gap of many years, India signed its third BTA in South Asia on 28 October 1998 with Sri Lanka, a non-LDC. Under the agreement, both countries committed to the elimination of tariffs in a phased manner. The Indo-Lanka Free Trade Agreement (ILFTA) became operational from March 2000.

India, Bhutan, Nepal and Sri Lanka are also members of the Agreement on South Asian Free Trade Area (SAFTA), which entered into force in July 2006.

Scope and type of BTAs

Although all the three agreements cover trade in goods only, they differ in terms of scope and type. While there has been no notification for India's BTA with Nepal, India's BTAs with Bhutan and Sri Lanka have been notified under the Enabling Clause of the WTO.

The India-Bhutan BTA is in the nature of a free trade agreement (FTA) as both the countries have agreed to free up trade and commerce between them. It is renewable every 10 years.

The India-Nepal BTA, renewable every seven years, is in the nature of a partial FTA under which Nepal is exempt from basic customs duties on all listed primary products and on manufactured goods (under certain conditions of rules of origin (ROO) being fulfilled) except those on the negative list. There are only three products or groups of products in India's negative list for Nepal: alcoholic liquors/beverages, perfumes and cosmetics with non-Nepalese/non-Indian brand names, and cigarettes and tobacco. India has duty-free access for listed primary products to Nepal but not so in respect of manufactured goods, on which Nepal shall "endeavour" to give India preferential access.

The ILFTA is in the nature of an FTA as both the parties have phased out their tariffs (within three years by India and within eight years by Sri Lanka) on all items except those on the negative list. India's negative list contains 429 items and Sri Lanka's 1,180 items, both at the six-digit level of the Harmonized System (HS). By contrast, the size of India's sensitive list under SAFTA for non-LDCs is 885 while that of Sri Lanka's consolidated list is 1,065.

SAFTA too can be categorized as an FTA as all non-LDC members will be reducing their tariffs to 0–5 percent by 2013 for non-LDCs (excluding Sri Lanka, which can reduce its tariffs to that range by 2014), on all products barring those on the sensitive lists, while all LDC members are expected to reduce their tariffs by 2016.

Non-tariff barriers

There is no reference to the removal of non-tariff barriers (NTBs) in the

India-Bhutan BTA. Rather, there are "general exceptions" allowing the imposition of restrictions for the purpose of protecting or safeguarding national interests. Similar provisions exist in the other two BTAs as well as in SAFTA.

In the India-Nepal BTA, quota restrictions are applicable on four products, namely vegetable fats, acrylic yarn, copper products and zinc oxide. India is required to make "best endeavours" to assist Nepal to increase its capacity to trade with India through improvement in technical standards, quarantine and testing facilities and related human resource capacities. The agreement stipulates that both parties "shall grant recognition to the sanitary and phytosanitary certificates (including health certificates) issued by the competent authority of the exporting country, based on assessment of their capabilities…" Likewise, both countries "shall undertake measures to reduce or eliminate non-tariff, para tariff and other barriers that impede the promotion of bilateral trade".

Under the ILFTA, except for a reference to general exceptions, there is no reference to NTBs. However, similar to the India-Bhutan BTA, a number of products importable from Sri Lanka are subject to quota restrictions in India. These include tea, garments, vegetable oils, pepper and bakery shortenings.

Under SAFTA, references to trade facilitation and other measures to support the agreement are made under Article 8 relating to "additional measures". These include harmonization of standards, reciprocal recognition of tests and accreditation of testing laboratories, certification of products, simplification and harmonization of customs clearance procedures, etc.

Rules of origin

India's trade agreement with Bhutan does not provide for any ROO. However, its trade agreements with Nepal and Sri Lanka have ROO provisions, as does SAFTA.

The ROO under the India-Nepal BTA lay down twin criteria for eligibility of manufactured products for duty-free entry to the Indian market. Products not manufactured wholly from Nepali and Indian materials or a combination of Nepali and Indian materials must involve a manufacturing process that brings about a change in classification, at HS four-digit level, different from those in which all third-country origin materials used in their manufacture are classified. In addition, the total value of materials, parts, or products originating in non-contracting parties should not exceed 70 percent of the free-on-board value of the articles produced, and the final process of manufacturing takes place in Nepal.

Under the ILFTA, the change-in-tariff-heading condition is the same as above. However, the limit on third-country inputs is lower, at 65 percent. Under SAFTA, the ROO requirements for Sri Lanka and Nepal are the same as in their BTAs with India. SAFTA also provides for product-specific ROO on 191 products with 30–60 percent value addition and change in tariff heading at HS six-digit level. Eligibility requirements are provided for cumulative ROO under the ILFTA and SAFTA. Under the ILFTA, cumulative ROO provide for a minimum aggregate content of 35 percent with inputs from the exporting country accounting for at least 25 percent. The same value addition requirements under SAFTA are 50 percent and 20 percent, respectively.

Economic impact

India's imports from Bhutan increased faster than its exports to that country during 2004/05–2008/09 (Table). Consequently, unlike with most other neighbouring countries, India has a trade deficit with Bhutan. Bhutan's trade surplus with India will be much higher if account is taken of the former's exports of approximately US$82 million power to India from Tala Hydroelectric Project, which contributes roughly 30 percent of Bhutan's export earnings and 50 percent of its revenue. With the other two countries—Nepal and Sri Lanka—India has a substantial and rapidly increasing trade surplus.

India's buoyant exports to Nepal and Sri Lanka are due to several factors. Over the past decade, India has emerged as a competitive low-cost supplier of a vast range of products to its neighbours. Its export structure matches well with the import demand of its neighbors. To illustrate, given the growing energy demand in Nepal and Sri Lanka, India has emerged as the most important supplier of petro-

Table
India's trade with Bhutan, Nepal and Sri Lanka (US$ million)

	Year	2004/05	2005/06	2006/07	2007/08	2008/09
Bhutan	Export	84.58	99.17	57.66	86.74	111.15
	Import	71.00	88.77	142.05	194.72	151.79
	Total trade	155.59	187.94	199.72	281.46	262.94
	Trade balance	13.58	10.04	-84.39	-107.98	-40.64
Nepal	Export	743.14	859.97	927.4	1,507.42	1,570.15
	Import	345.83	379.85	306.02	628.56	496.04
	Total trade	1,088.97	1,239.82	1,233.42	2,135.98	2,066.19
	Trade balance	397.31	480.12	621.38	878.86	1,074.12
Sri Lanka	Export	1,413.18	2,024.67	2,258.30	2,830.43	2,425.92
	Import	378.4	577.7	470.33	634.96	356.57
	Total trade	1,791.58	2,602.37	2,728.63	3,465.39	2,782.49
	Trade balance	1,034.79	1,446.97	1,787.96	2,195.47	2,069.35

Source: Import-Export Databank, Department of Commerce, Government of India.

leum products. Further, the incidence of NTBs facing India is relatively lower.

In marked contrast to exports, India's imports from the three countries have been much more modest. This is partly due to the supply-side constraints of its neighbours and low complementarities between their export structures and India's import needs. India is also perceived by its neighbours as having a higher incidence of NTBs.

While India's neighbours have, to some extent, succeeded in entering the Indian market more favourably in recent years owing to India's duty-free offer, the sustainability of this trend has been suspect. This is because both Nepal and Sri Lanka got duty-free access for products such as vegetable ghee and copper products in which they do not have genuine comparative advantage. Lower import duties on raw materials used in such products from third countries, namely palm oil and copper scrap, in relation to such duties applicable in India enabled manufacturers (mostly Indian investors) to arbitrage on this duty differential and, with minimal processing, deflect such products duty-free to the Indian market. Such a limited range of products became the main drivers of these countries' exports to India.

Faced with protests over the surge in imports of vegetable ghee and copper products from its domestic manufacturers, India re-imposed ROO requirements (withdrawn in December 1996) at the time of the renewal of its trade treaty with Nepal in March 2002. In addition, tariff-rate-quota (TRQ) restrictions were imposed on four products. This led to a decline and stagnation of India's imports from Nepal.

India's dramatic increase in imports from Sri Lanka from 2000/01 to 2005/06 was again driven by Sri Lanka's exports of vegetable ghee and copper products, which together accounted for nearly half of India's imports from Sri Lanka. Responding to considerations similar to Nepal's case, India unilaterally imposed TRQ restrictions on imports from Sri Lanka of vegetable oil, copper products, pepper and bakery shortening products. Consequently, India's imports from Sri Lanka declined from the peak achieved in 2005/06, culminating in a dramatic dip in 2008/09.

Even though India set TRQ restrictions, these quotas were never realized by its trading partners. In this context, India's trading partners have highlighted the incidence of NTBs prevalent in India as the main constraining factor. However, what is overlooked is the fact that India reduced duties on food items, including palm oil, as part of its trade policy reforms and attempt to deal with the challenge of sharp increases in global commodity prices in 2007/08. To illustrate, the average tariff rate in India on crude palm oil declined from 75 percent in 2001/02 to zero in 2008/09, while that on copper scrap declined from 35 percent to 5 percent over the same period. Since 2000, India has also been reducing its MFN tariffs, being committed to bringing them down to the levels of the Association of Southeast Asian Nation. As the external tariff differential on these products narrowed, it was no longer profitable to import and manufacture the final products for the Indian market.

The above-mentioned factors have contributed to a drastic fall in India's imports from both Nepal and Sri Lanka in the items affected by preference erosion. India's imports of vegetable oils and fats (HS 15) from Nepal declined from US$49.80 million in 2007/08 to US$2.94 million in 2008/09. During the same period, India's imports of copper products (HS 74) declined from US$22.95 million to US$ 16.44 million.

Similarly, India's imports of animal vegetable oils and fats from Sri Lanka declined from US$127 million in 2007/08 to US$13 million in 2008/09. Such imports were negligible during the first six months of 2010. Further, India's imports of copper and articles thereof declined from US$30 million to US$11 million during the same period. India imported only US$4 million of such products during the first six months of 2010.

Conclusion

The implementation of these three agreements suggests that some move towards unification of external tariffs (if not a full-fledged customs union) would be meaningful to encourage trade in products based on comparative advantage. However, the agreements should move towards comprehensive economic partnership agreements in order to be more meaningful and relevant. ■

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Bilateral FTAs in South Asia

How justified is this renewed interest?

Some of the SAFTA members will be willing to explore the bilateral route to accelerate the pace of economic cooperation with South Asian partners.

Mustafizur Rahman and Zeeshaan Rahman

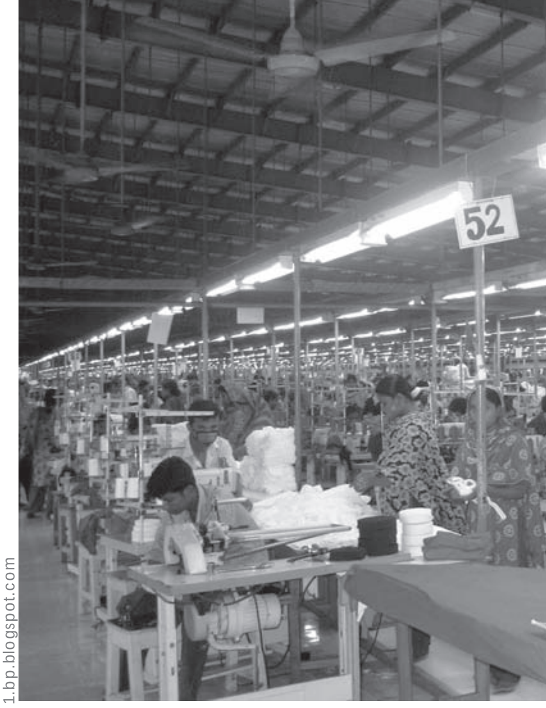
The issue of whether bilateral free trade agreements (BFTAs) are an effective and desirable way to deepen trade and economic cooperation has re-emerged in South Asia in view of proposals to sign BFTAs that have been put on Bangladesh's table recently by India, Pakistan and Sri Lanka.

Antagonists of such proposals have argued that the regional route under the existing Agreement on South Asian Free Trade Area (SAFTA) should be given the necessary time and opportunity first to prove its worth and efficacy, pointing out that SAFTA has been in place only since July 2006. They also believe that involvement in BFTAs will tax the limited capacity of relatively weaker economies such as Bangladesh, requiring them to conduct intensive negotiations and undertake complex implementation-related activities (identifying new tariff liberalization schedules, harmonization of policies, new rules of origin, etc.).

Some have also argued that BFTAs will undermine the inclination of South Asian countries to make SAFTA more effective, by taking incremental steps towards deeper integration. They apprehend that BFTAs are creating a dichotomy within the South Asian Association for Regional Cooperation (SAARC), with some countries only members of SAFTA and some members of both SAFTA and BFTAs.

Those who support the idea of establishing BFTAs tend to anchor their arguments on the following points: that BFTAs are already in place with the participation of a number of SAARC members (India-Nepal, India-Bhutan, India-Sri Lanka, Pakistan-Sri Lanka); that as long as BFTAs are regional trading arrangement (RTA)-"plus", the opportunity to deepen economic cooperation will be that much greater and faster; and that BFTAs could be a speedier way of moving towards the next stage of cooperation in South Asia through further deepening of economic cooperation, and culminating perhaps in the establishment of a South Asian Customs Union (SACU).

Another reason why RTA members tend to go for BFTAs is that the deepening of trade relations generally involves less protracted negotiations. While a move towards a customs union in RTAs calls for establishing common tariffs and harmonization of tariffs of all members, this process is easier when the number of participating countries is minimum, as in



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BFTAs. Some have argued that BFTAs will allow early harvesting of opportunities arising from complementarities and competitive advantages of partner countries.

RTAs, BFTAs and the WTO

The proliferation of RTAs over the recent past, in all regions, is common knowledge. This was taking place at a time when the same countries entering into RTAs were also involved in complex negotiations to strengthen multilateral trading disciplines under the ambit of the World Trade Organization (WTO). Till February 2010, 462 RTAs were notified to the General Agreement on Tariffs and Trade (GATT)/WTO, of which 345 were notified under Article XXIV of the GATT 1947 or GATT 1994, 31 under the Enabling Clause and 86 under Article V of the General Agreement on Trade in Services (GATS). As of that date, 271 RTAs were in force.

About 147 BFTAs are in force at present, and many more are being negotiated. In terms of the nature of partnership, these BFTAs are primarily of two types: BFTAs with the participation of two members belonging to the same RTA or different RTAs (104) and BFTAs between an individual member country of an RTA and another RTA (43, e.g., Association of Southeast Asian Nations (ASEAN)-China FTA, ASEAN-Japan FTA).

Complex reasons informed this momentum, and these have been well documented and analysed in depth. South Asian countries have not been exceptions to this growing trend, with the majority of SAARC countries being members of multiple RTAs. India is the leading country in terms of membership of RTAs of various types (33), with Pakistan not far behind (26). Bangladesh is a member of six different RTAs.

South Asian countries have also been entering into bilateral trade agreements (BTAs) with countries belonging to the same RTAs, or with others. Such BTAs vary in terms of coverage and depth of cooperation: preferential trading arrangements (PTAs), economic integration alliances (EIAs), comprehensive economic partnership agreements (CEPAs), and customs unions (CUs).

Debate on BFTAs in SAARC

Against the backdrop of the above evidence and experience, it is thus not surprising that some of the SAFTA members will be willing to explore the bilateral route to accelerate the pace of economic cooperation with partner countries in SAARC. India and Pakistan have been pioneers—India with Nepal, Bhutan and Sri Lanka, and Pakistan with Sri Lanka. India particularly is aggressively pursuing the BFTA route, with both individual countries and other RTAs (e.g., India-ASEAN FTA, India-European Union (EU) FTA). Such initiatives also have important trade and welfare implications for SAARC countries which are outside of these RTAs. For example, the Indo-EU BFTA will result in, as some recent studies tend to suggest, a significant loss of welfare, exports and real gross domestic product for Bangladesh. However, for Bangladesh, this route is something new, and hence the ongoing debate in the country with regard to whether to go for BFTA or not.

The immediate question that has been raised is whether such BFTAs in South Asia will serve as building blocs or stumbling blocs to greater regional integration as was envisaged under the SAFTA process. For many, the response to this question, a common refrain, is that as long as BFTAs are SAFTA-plus, they should merit consideration. This particular view appears to take its cue from the spirit of GATT Article XXIV that allows derogation from the most-favoured-nation (MFN) principle, and allows the establishment of RTAs as long as these are WTO-plus. The stalled Doha Round talks and the slow movement of SAFTA negotiations have also contributed to this "pessimism". Pakistan is yet to provide MFN treatment to India (a positive list of concessionary tariffs is in place). Some SAARC members have found the lowest common denominator approach (whereby decisions are taken on a consensus basis, which results in suboptimal, lowest common denominator solutions) rather frustrating.

> Often, countries' decisions to establish BFTAs are driven by political exigencies and not so much by economic reasons.

The counter-argument posits the question as to why SAFTA members would be interested to move the regional FTA process forward, towards more comprehensive economic integration, if the bilateral route could provide a more accelerated option. BFTAs, according to them, would thus weaken the spirit of SAFTA. They argue that SAFTA should be allowed to run its own course. No doubt there is also a political dimension to this discourse. Often, countries' decisions to establish BFTAs are driven by political exigencies and not so much by economic reasons. However, setting aside political factors, proposals to establish BFTAs in SAARC do confront countries such as Bangladesh with critical policy dilemmas which need to be factored in by taking into cognizance the logic of economic rationales and imperatives.

Factors that need to inform Bangladesh's BFTA decision

A number of issues call for careful consideration in the above context. Trade creation and trade diversion impacts originating from BFTAs need to be closely examined when a decision with regard to signing BFTAs is considered by countries like Bangladesh. Of course, establishing BFTAs with all countries would do away with the possibility of trade diversion completely. However, since this usually is not the case, both trade diversion and trade creation take place when BFTAs are established. There is thus a need to go beyond the consideration of the static benefits, by taking into cognizance the dynamic benefits as well, as also the welfare gains to be accrued from BFTAs.

On the other hand, in measuring the potential benefits from BFTAs, factors that constrain the SAFTA process will also need to be kept in the purview. As is known, SAFTA is severely constrained by the baggage of the long sensitive lists which undermine the potential of SAFTA as an effective RTA.

However, from Bangladesh's perspective, it has to be kept in mind that in a welcome move, India has reduced its sensitive list twice since July 2006, well ahead of the agreed schedule, and has also accommodated 56 items from Bangladesh's request list of 101 items. The sensitive list has thus been reduced to 480 items from the original 763. Besides, although 157 apparel items still remain in India's sensitive list, Bangladesh was given duty-free access for 8 million apparel items (it is to be noted that Bangladesh has not been able to make use of this tariff-rate-quota to the fullest extent possible as yet). So the constraining implications of the sensitive list for Bangladesh vis-à-vis exports to India are now somewhat limited. Sensitive lists of Pakistan (1,183 items) and Sri Lanka (1,065 items) are still large and cover many tradable items. Bangladesh's own list of sensitive items as is applicable for these countries is larger still (1,254 items). To have any additional market opening value, BFTAs will perhaps need to do away with the sensitive list (or accommodate only very short sensitive lists with a clear time-line for their phase-out). Thus, Bangladesh's own sensitive list will need to be significantly reduced if it goes for BFTAs.

Rules of origin (ROO) in SAFTA remain somewhat restrictive, at 30 percent value addition plus change in tariff heading at the Harmonized System four-digit level for most exports from least-developed countries (LDCs). For developing countries, the ROO are even more stringent. BFTAs will need to have a less complex ROO (perhaps a flat 25 percent domestic value addition or single-stage transformation).

With regard to various non-tariff barriers (NTBs) which continue to undermine trade in South Asia, BFTAs could include mutual recognition agreements, from the very beginning, which would be geared to addressing the attendant concerns related to sanitary and phytosanitary measures and technical barriers to trade. This will call for significant strengthening of relevant institutions involved in accreditation, standardization, certification and testing.

In the case of Bangladesh, a two-track route, one for the LDC member (Bangladesh), and the other for non-LDC members (India, Pakistan and Sri Lanka), in tune with the agreed norm and practice in SAFTA, will need to inform this bilateral process. Issues of deepening bilateral cooperation through concrete steps in the areas of connectivity, supply-side capacity building, promotion of foreign direct investment, and harmonization of tariff and customs policy will also need to be considered, with definite timelines, if the proposed BFTAs are to be SAFTA-plus.

Interests of business and commerce could perhaps be better served if such BFTAs are able to foster and stimulate greater exchange and cooperation between businesspersons and investors of the participating countries through the advancement of project-specific initiatives. Concrete modalities and incentives to promote trade and investment, through bilateral protocols, will need to be an integral part of such BFTAs.

If and when Bangladesh decides to go for a BFTA with India, one of the major reasons for doing so would be to reduce the bilateral trade deficit (about US$3.4 billion of imports against about US$0.4 billion of exports). This will require enhanced opportunities for exports of both goods and services by Bangladesh, which will require a broadened BFTA mandate of the type of CEPA. Many exporters from Bangladesh to India are small and medium enterprises that would require specific policy support to take advantage of the opportunities that could be opened up by the BFTA.

It is interesting to note that Bangladesh's exports to India have increased from US$90 million to about US$360 million in the last five years. Bangladesh's interest will be to accelerate this momentum through a more comprehensive access to the Indian market by taking advantage of the BFTA. Similarly, India's interest will be to have her priorities reflected in the BFTA with Bangladesh, particularly in view of her interest to have greater connectivity with Bangladesh, both through west-east and north-south routes. ■

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International ABS Regime amid Technological Advances

The International Regime on Access and Benefit Sharing will, hopefully, establish a framework under which ABS issues, which require multilateral responses, will be addressed.

Manuel Ruiz Muller

Access to genetic resources and benefit sharing (ABS) has once again become part of a highly contentious international debate. The ongoing negotiation of the International Regime on Access and Benefit Sharing (IRABS) under the Convention on Biological Diversity (CBD) has united the biodiversity-rich southern countries in the search for more fair and equitable terms regarding access to and use of genetic resources and biodiversity-derived components in general. Since the beginning of the negotiations a few years ago, these countries have been pressing for a specific and binding international policy and legal instrument that would secure their social, cultural and economic interests in biodiversity. The North, represented mostly by industrialized and technologically advanced countries, has been very hesitant to agree on specific obligations and has continuously put into question the need and relevance of such an instrument.

The IRABS will, hopefully, establish a framework under which ABS issues, which require multilateral responses, will be addressed. These include enforcement measures and obligations, specific actions by countries receiving and using genetic resources, and inclusion of biodiversity derivatives within the scope of the international regime, among others. Advances in the process related to the international regime may be important, but the feature that is absent in the current draft of the international regime and in ongoing debates relates to new scientific developments and technologies related to genetic resources. Bioinformatics, genomics, proteomics, proboleomics, synthetic biology, new genetically engineered products and processes, etc. are all paving the way for innovation and new knowledge related to biodiversity. However, their inclusion (and especially their understanding) in the IRABS debates has been marginal at best.

The text of the current draft of the IRABS reflects the difficulties of reaching basic agreements on some of the key and critical elements of the international regime. Most importantly, the approach proposed by the draft totally obviates the new scientific and technological paradigm which is instrumental in shaping how research is undertaken, who participates in research and development processes, who are the main actors involved, and ultimately, who controls innovations and advances. Also, the inclusion of indigenous people's traditional knowledge (TK) in the draft, while understandable, is not going to make it easier to reach consensus since the Intergovernmental Committee on Genetic Resources and Intellectual Property, Traditional Knowledge and Folklore (IGC) of the World Intellectual Property Organization (WIPO) is also negotiating an international regime for the protection of TK.

Elaborated in Cali, Colombia in March 2010, the draft text of the IRABS will be subject to further negotiations in Montreal in July. The 10th meeting of the Conference of the Parties to the CBD, to be held in Nagoya, Japan later this year, is seen by some as the perfect opportunity to adopt the international regime.

ABS policies and legal advances

In terms of policy and legal developments in ABS and related TK, considerable progress has been made at national and regional levels since the entry into force of the CBD. Laws and policies in the African Union, the Andean Community, Brazil, Costa Rica, India, Panama, Peru, Philippines, etc., have sought to establish ABS frameworks and measures.[1] These laws are mostly based on a long surpassed paradigm which considers genetic resources as unique, distinct, physical material obtained from the rainforest or from some exotic source elsewhere, subsequently subject to a research and development process and then granted intellectual property protection in

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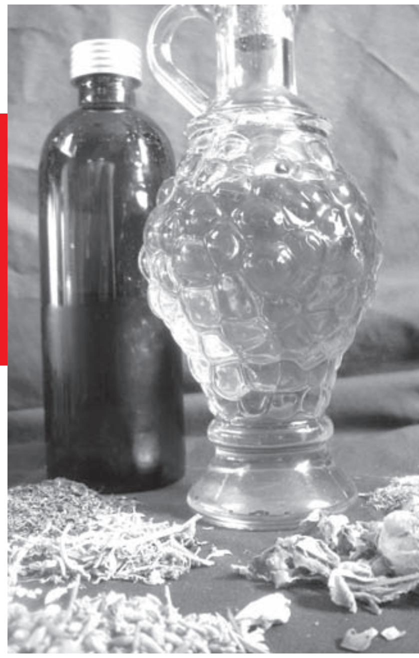

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favour of a transnational company or a foreign institution. However, national actions alone have proven insufficient to ensure appropriate implementation of the benefit sharing principles of the CBD. Hence, there is the need for international agreed measures, which implies the necessity of entering into the IRABS process.

In the context of the genetic resources debate, firstly, there have been investments in natural products development with limited value addition to actual raw materials, such as in the cosmetics and botanical medicines sector. This is an area where debates surrounding the impacts of extraction and collection of biological samples from in-situ sources are probably the most relevant. However, in contrast with the interests of ABS proponents in biotechnologically derived research, as reflected in ABS frameworks, policies and laws have not evolved adequately and rapidly to deal with these issues despite the growing demand and markets for cosmetics and botanical products worldwide.

Secondly, there are critically important areas of research and innovation which are making use of natural, genetic information and transforming the way research and development takes place.[2] It is here where bioinformatics (the combination of computer technology with biochemistry, molecular biology and intensive use of information) and new technologies are revolutionizing the manner and process in which science progresses and innovation is generated. However, this area, which is critical in terms of realizing benefits from genetic resources and derived products, has mostly remained unaccounted for.

Finally, it is clear that at least at present, the IRABS is focusing on tangible components (specimens, samples, genes, molecules) as a subject matter to trigger benefit sharing. The informational aspect of these components brings a totally new set of issues and problems which most negotiators would rather overlook at this time given their complexity and the current status of international negotiations, where a turn, a stop or a change in direction is seen as politically unfeasible.

Challenges for the international regime

Debates with regard to bioinformatics, genomics, proteomics, etc., have taken place mostly in focalized scientific and academic circles, plus in the context of intellectual property and patent coverage in particular.[3] The tension between privatization trends (the "enclosure movement"[4]) and the opposing movement supporting open source, copy left, knowledge commons, public goods, creative commons, etc., has led to very interesting exchanges and enlightening debates between those supporting strong intellectual property to stimulate innovation and those arguing for strong research exemptions and a healthy knowledge commons[5], especially in the field of biodiversity-related research. The 2009 Economics Nobel laureate Elinor Ostrom and her work on the commons have put some of these debates in the spotlight.

In this regard, it is valid to ask whether this debate fits exactly within the IRABS negotiations or whether the international regime is capturing some of its features and addressing them as part of its substance.

> Values of and benefits from biodiversity are not limited to the raw, physical biological materials.

Values of and benefits from biodiversity are clearly not limited to the raw, physical biological materials accessed and used. This is especially true even though it is the markets of natural products (creams, oils, vitamin supplements, foodstuffs, etc.) where economic benefits are more "visible". However, scientific and economic values often lie in the process through

Table
Scope and coverage of the IRABS

Issue	Current approaches in ABS policy and legal frameworks (including the IRABS)	New tools and means to transform, innovate, create and develop genetic resources	Products and processes
Scope	• Biological, tangible materials (physical component)	• Natural, encoded genetic information • Bioinformatics • Genomics • Proteomics • Synthetic biology • Genetic engineering • Other technologies	• Identification of species • Data bases • Bar codes • Active compounds • Pharmaceuticals • Seed varieties • Other products
Nature	• Physical nature	• Based on interpreting data and information (including genetic information)	• Tangible, sometimes informational products
Rights	• Sovereignty • Community rights • Property rights	• Intellectual property	• Intellectual property

which genes are identified, proteins codified, specific gene functions determined, evolutionary relations established, active compounds identified, molecules understood or synthesized, drugs produced, etc. The immediate question is who has the rights during the different stages of these processes and over the different innovations therein, and whether sovereignty of states is relevant and enforceable in practice along this process. This is critical given these different tools and disciplines are, ultimately, using biological or genetically derived components to generate knowledge, innovations and products.

> Countries should take a careful note of and respond through sound measures as to how science and technology are evolving and transforming the scientific process altogether.

Way forward

As part of the IRABS negotiations, countries should take careful note of and respond through sound measures as to how science and technology are evolving and transforming the scientific process altogether. Data, information and inter-disciplinary efforts are paving the way for new developments in biodiversity research. Strictly speaking, genetic resources are not tangible; their value, at least, lies in their informational nature.

Indeed, biodiversity research is based, as a starting point, on biological materials obtained from varied sources—from hydro-thermal vents to farmers' plots or protected areas. These are certainly areas under the scope of the international regime. But more sophisticated research and innovation processes are transforming biodiversity. Here, the "distance" between original materials and products is considerable and information products are the key elements. These are parts of a complex ABS scenario where policy and laws should carefully intervene. Intellectual property rights is an area of law now fully engaged in regulating these fields, so maybe it is appropriate for the IRABS to do likewise.[6]

Once genetic resources are seen as genetic information, the economics of information kicks in and alternative options to safeguard the interests of biodiversity-rich countries start to make sense. Some are proposing the need for a "biodiversity cartel", supported by technological tools such as databases and certificates which identify the origin of species. Benefits (monetary) would then be distributed equally among countries sharing the geographical, spatial distribution of these species according to a set percentage derived from income generated by commercialized or patented products.[7] ■

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Notes

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3 Oldham, Paul. 2006. Biodiversity and the Patent System: An Introduction to Research Methods. Initiative for the Prevention of Biopiracy. Research Document. Year II, No. 6, March. http://www.biopirateria.org

4 Boyle, James. 2003. The Second Enclosure Movement and the Construction of the Public Domain. Duke University, USA.

5 Hess, Charlotte and Elinor Ostrom (eds.). 2007. Understanding Knowledge as Commons: From Theory to Practice. Massachusetts Institute of Technology, USA.

6 Pastor, Santiago and Beatriz Fuentealba. 2006. Camélidos, Nuevos vances tecnológicos y Patentes: Posibilidades y Preocupaciones para la Región Andina. Año II, No. 4. http://www.biopirateria.org

7 Vogel, Joe, Manuel Ruiz and Teodora Zamudio. 2010. Logic Should Prevail: A New Theoretical and Operational Framework for the International Regime on Access to Genetic resources and the Fair and Equitable Sharing of Benefits. Research Document. Initiative for the Prevention of Biopiracy. Year V, No. 13, March. Lima, Peru.

Climate Change and Food Security

Puspa Sharma

South Asia is home to the largest number of poor people in the world. More than one third of the total population in the region still lives on less than US$1.25 a day. Although sub-Saharan Africa fares the worst in terms of the proportion of the total population living in chronic hunger, no region in the world beats South Asia if the absolute number is taken into account.

Food security has remained a core development agenda of South Asian countries for a long time now. The 16th Summit of the South Asian Association for Regional Cooperation (SAARC) held in Thimpu, Bhutan on 28–29 April 2010 also acknowledged the enormity of the challenges related to food insecurity and poverty, and reiterated the commitment to face this challenge collectively through regional- and national-level efforts.

"Climate Change" was the major theme of the 16th SAARC Summit. Although SAARC Leaders dealt with a number of issues in which regional cooperation is essential, the issue of climate change received the utmost importance as was also reflected by the issuance of a separate document "Thimpu Statement on Climate Change", besides the regular Summit Declaration.

However, despite the revelation by a number of studies that climate change is going to have a huge negative impact on South Asia's agriculture, no direct connection has been made between climate change and agriculture or food security in the Summit Declaration and the Thimpu Statement. Both the issues have been dealt with as stand-alone challenges and commitments have been made to address these challenges in different ways. Nevertheless, it should not be considered as delinking the two issues from each other completely. A closer look at actions committed to be taken to address climate change issues depicts that such actions have important bearings on the agriculture sector and food security.

Climate change

SAARC Leaders have agreed to review the implementation of the Dhaka Declaration and SAARC Action Plan on Climate Change and ensure its timely implementation. This Action Plan was adopted during the SAARC Ministerial Meeting on Climate Change on 3 July 2008 in Dhaka, Bangladesh and later endorsed by the 15th SAARC Summit held on 3 August 2008 in Colombo, Sri Lanka.

The Action Plan contains a number of thematic areas such as climate change adaptation, mitigation, technology transfer, etc., which are related to agriculture. For example, one of the action plans is to make agriculture and biodiversity sectors adaptive to climate change. Similarly, one of the mitigation action plans is to share the best practices on nationally appropriate mitigation actions, which, although not mentioned in the Action Plan, is relevant in the case of the agriculture sector as well. However, not much has transpired at the implementation level.

Farmers in South Asia possess a wealth of traditional knowledge and are engaged in traditional practices to cope with the adverse impacts of climate change. Such knowledge and traditional practices are either common and in the public domain, such as the selection and exchange of drought-resistant varieties and adoption of specific soil and water management practices; or within the domain of and/or practiced by select individuals, communities or institutions, for example, the integrated hedgerow technology[1] adopted by some communities in some hilly parts of Nepal. In whatever form the knowledge and practices exist, there is ample scope for their sharing among countries and communities in South Asia, which has also been reiterated in the 16th SAARC Summit Declaration. However, what is more important, again, is if and how SAARC countries would implement the commitments.

In recent years, South Asia has witnessed changes in rainfall patterns, which have adversely affected the region's rain-fed agriculture. Erratic and unpredictable rainfall has changed farmers' agricultural practices through changes in planting seasons. For example, lack of enough rainfall during the paddy planting season has resulted in the reduction of the production of paddy, which is the staple crop of most South Asian countries. Studies have also suggested that South Asia is going to witness the weakening of monsoons and hence decrease in rainfall over time. Therefore, SAARC Leaders' commitment to commission a SAARC Inter-governmental Monsoon Initiative on the evolving pattern of monsoons to assess vulnerability due to climate change is another important feature of the Thimpu Statement on Climate Change which relates to agriculture. However, the Initiative should not merely be confined to assessing the vulnerability. In a region where about 70 percent of the total population lives in rural areas and the rural population accounts for about 75 percent of the poor, most of whom depend on agriculture for their livelihood, SAARC Leaders' efforts should be to protect the rural folks from such vulnerabilities.

Food security

Food insecurity in South Asia is a chronic problem, and climate change is going to compound it further. Hence, food security has remained a core development agenda of SAARC countries. In every SAARC summit, including the 16th Summit, SAARC Leaders have committed to address the problems of food insecurity both through national-level efforts and also through regional cooperation.

Paragraph 29 of the 16th SAARC Summit's Declaration reads, "… the Leaders directed the SAARC Agriculture Ministers to vigorously pursue regional cooperation in agriculture covering all sub-sectors to enhance overall agricultural productivity [calling] for regional efforts on increased sharing of best practices, technologies, techniques, and materials. Given the importance of quality seeds in enhancing productivity, [the Leaders] further directed early consideration of the concept of a regional seed bank,

Box
Community seed banks

Community seed banks are not new to South Asia. In Bangladesh, India and Nepal, for example, farmers themselves, and more recently, in partnership with research institutes, have maintained local seed banks at the community level. Community seed banks store seeds deposited by individuals, informal groups and in some cases also non-governmental organizations. The seeds thus stored are then used by farmers as and when necessary, ensuring their sustainable use and replenishment.

Community seed banks not only help farmers cope with environmental and economic stresses by giving them access to a number of crop varieties adapted to a range of environmental conditions, but also facilitate farmers' access to markets and give them more choice over what they grow. Seed is transferred between households and the seed bank through cash sales/purchases and a variety of exchange mechanisms (mainly informal) such as seed fairs, in-kind seed loans, barter, and transfers based on social obligations.

Adapted from: http://base.d-p-h.info/en/fiches/dph/fiche-dph-8060.html regional testing and certification of seeds, and a framework for transfer of plant genetic material and seeds. They agreed that South Asian agriculture must benefit from collaborative efforts from within and among SAARC countries by undertaking specific initiatives and projects".

While some of the issues covered under this commitment on food security are the reiteration of earlier general commitments, the commitment for the early consideration of the concept of a regional seed bank is a new and an important one, more so in the face of climate change impacts on agriculture. However, in the context that community seed banks exist in some countries (Box), and that regional seed bank is a fairly new concept, there might be questions regarding the latter's necessity and its operational modality.

On the necessity of a regional seed bank, there are a few justifications. First, farmers in a particular community might not be able to set aside a portion of their harvest as seed since their primary concern would be to satisfy their present hunger rather than think of the future. In such a circumstance, a regional seed bank could be the source of seed and/or planting material for farmers of that community. Second, the need for the establishment of a regional seed bank has even strengthened lately due to the possible impacts of climate change. Climate change might have differentiated impacts on different regions of South Asia. If so, communities that get impacted more than the others might not be able to save seed for and by themselves. On the other hand, even if they do possess enough seed in their community seed bank, there will always be the fear of natural disasters—which might intensify due to climate change—destroying the seed banks of particular communities. Regional seed banks can act as farmers' last resort in such cases.

On the operational modality of the regional seed bank, there is a need for consultations with stakeholders. "Whether to establish a centralized regional seed bank located in a particular country or operationalize decentralized national-level seed banks that could operate regionally through joint decisions and under a set of guidelines could be a major issue of consideration for the operationalization of the SAARC Seed Bank."[2]


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In the Thimpu Statement, SAARC Leaders have also agreed to stress the imperative of biodiversity and natural resources conservation. Biodiversity and natural resources are the basis of life for a majority of people in South Asia. Therefore, the issue of the conservation of biodiversity and natural resources has always received adequate attention in the region. Climate change has further enhanced the importance of the conservation of biodiversity and natural resources, which are extremely important to ensure food security of the masses, more importantly of the poor and vulnerable population.

On the other hand, the 16th Summit Declaration and the Thimpu Statement have missed out completely on the SAARC Food Bank. In view of natural disasters and emergencies that climate change could exacerbate in the days ahead, devising proper mechanisms to effectively operationalize the SAARC Food Bank has become even more important than before.

Way forward

As in the previous summit declarations, SAARC Leaders have once again reiterated the need for a stronger regional cooperation on food security. It is commendable that SAARC Leaders have agreed on some new ideas that are important from the perspective of facing the challenges being posed by climate change and to tackle the problems of food security. But equally importantly, SAARC Leaders should not have missed out the previous mechanisms, for example the SAARC Food Bank, which required further reiteration and an effective modus operandi to make it operational.

SAARC Leaders have also expressed their commitments to harness the potential of renewable energy sources and low-carbon technologies, both of which are also important from climate change and food security perspectives. Their decision to commission a SAARC Intergovernmental Mountain Initiative on mountain ecosystems also generates a number of opportunities to address mountain-specific climate change, food security and development challenges.

An important decision of SAARC Leaders in the 16th SAARC Summit is also the agreement to direct the SAARC Secretary General to commission a study on "Climate risks in the region: Ways to comprehensively address the related social, economic and environmental challenges". However, what matters the most in addressing the challenges posed by climate change and in making a food-secure South Asia is not just the commitments and pledges on paper, but their real implementation on the ground. ■

Notes

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How Regional Trade Agreements co-exist with the WTO

GATT Article XXIV, GATS Article V and the Enabling Clause make clear exceptions to the MFN principle allowing different RTAs to survive and thrive within the WTO framework.

In this issue we explore what on the surface looks like a contradiction: Regional trade agreements (RTAs), which by nature discriminate, exist within the multilateral trade framework under the World Trade Organization (WTO) that dons "most-favoured-nation" as a basic principle.

The surge in RTAs has continued unabated since the early 1990s. As of February 2010, some 462 RTAs have been notified to the General Agreement on Tariffs and Trade (GATT)/ WTO. Of these, 345 RTAs were notified under Article XXIV of the GATT 1947 or GATT 1994; 31 under the Enabling Clause; and 86 under Article V of the General Agreement on Trade in Services (GATS). Of these, 271 agreements were in force. The overall number of RTAs in force has been increasing steadily, a trend likely to be strengthened by the many RTAs currently under negotiation. Of these RTAs, free trade agreements (FTAs) and partial scope agreements account for 90 percent, while customs unions account for 10 percent.[1]

The MFN principle means that a country should not discriminate between its WTO-member trading partners. The proliferation of RTAs raises the question: Are such agreements, which by nature discriminate between members and non-members, compatible with the WTO framework? The answer is "Yes" as long as they are compatible with the conditions set out in Article XXIV of the GATT for goods and Article V of the GATS for services. In addition, the Enabling Clause adopted in 1979 as part of the Tokyo Round of multilateral trade talks allows developing countries even greater flexibility to enter into agreements which may be non-reciprocal, or cover a very limited range of products (which would otherwise contravene the GATT/GATS).[2]

There is much debate about whether these regional bodies hurt or help multilateral trade. In late 2004, an independent report prepared for the WTO, titled "The Future of the WTO: Addressing institutional challenges in the new millennium", expressed concerns about the effects of the proliferation of RTAs and recommended that they be "subject to meaningful review and effective disciplines in the WTO". This led to the formation in December 2006 of the Transparency Mechanism for RTAs. This is a topic that has been and will continue to be in the limelight. Knowing the framework behind the existence of RTAs will be an asset in any such debates.

GATT Article XXIV

Clause 5 of Article XXIV states: "... the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area..." and then lays down conditions, including:

- The RTA covers "substantially all the trade" between the RTA members;
- Such an agreement does not raise tariffs or increase restrictions;
- Any interim agreement to set up such an FTA or customs union shall include a plan and schedule for its formation within a reasonable length of time.

Thus, we see how GATT Article XXIV makes a clear exception to the MFN principle that allows different RTAs to survive and thrive within its framework.

GATS Article V

Article V of the GATS arguably provides a defence against complaints that WTO members are not complying with their GATS obligations, primarily that of MFN. Titled "Economic Integration", it provides that, as long as certain conditions are fulfilled, the GATS will "not be a barrier to members being a party to FTAs" and has been used in the past as a defence against claims that an FTA breaches the MFN principle.[3]

There are two "interpretations" of Article V that have an impact on negotiations. One is the mandatory view which stresses that all WTO members entering into FTAs have to fulfil the mandatory provisions outlined and the other is a defensive interpretation that it provides a defence against complaints that WTO members are not complying with their GATS obligation of MFN treatment. Taking the mandatory interpretation would have effects on non- WTO members as well while a defensive interpretation allows for a more relaxed approach. However, on the question of which of these interpretations is used by a particular nation, the principle of good faith is applied in international law. A country that has so far interpreted it as mandatory will follow the process it sees fit while one that sees it as a defence in the event of a challenge will not. A final resolution to this could, however, be provided by a dispute which, when settled, would prove a precedent.

The Article sets out two conditions for an RTA to be legal under the GATS framework: substantial sector coverage; and elimination of existing and prohibition of new or more discriminatory measures. The text qualifies the term "substantial sector coverage" thus: "This condition is understood in terms of number of sectors, volume of trade affected and modes of supply. In order to meet this condition, agreements should not provide for the *a priori* exclusion of any mode of supply." RTAs registered under this Article, therefore, need to have this coverage, but the Enabling Clause allows developing nations to contravene this requirement as well. The second condition is self-explanatory.

Article V:3 provides for flexibility in terms of developing nations who are members of such agreements "in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub sectors" and V: 4 states clearly that such an agreement should not raise the barriers to non-members.

Article V: 7 (a), (b) and (c) and Article V: 8 lay out the role of the Council for Trade in Services. Members are required to "promptly notify" the Council of any such agreements or

> Article V of the GATS opens the door for RTAs as long as they have substantial sector coverage and work towards the elimination of existing and prohibition of new or more discriminatory measures.

any enlargements and/or significant modifications, and asks for periodical reporting vesting the Council with the authority to make recommendations based on these reports.

Article V, therefore, opens the door for RTAs as long as they have substantial sector coverage and work towards the elimination of existing and prohibition of new or more discriminatory measures.

The Enabling Clause

This clause allows even more flexibility to developing countries wishing to enter into agreements which may be non-reciprocal, or cover a very limited range of products, which contravenes the substantial trade coverage condition of GATT Article XXIV as well as the substantial sector coverage condition of GATS Article V.

The introductory paragraph of this decision dated 28 November 1979 states: "Notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries, without according such treatment to other contracting parties."

Paragraph 2(c) goes on to say this is applicable to RTAs of developing nations that seek to reduce or eliminate tariff and non-tariff barriers. Hence, this clause allows for preferential treatment from developed nations to developing nations; gives developing nations the leeway to form RTAs; and allows for special treatment for the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.

Paragraph 5 makes an important addition. It makes clear that this preferential treatment is non- reciprocal. It states that "the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs."

The clause presented thus far paints a rosy picture. However, voices have been raised against this clause in developed and developing nations. One such argument contends that substantial trade preferences under the Generalized System of Preferences are rare because "developing countries" are a self-designated group of countries without agreed exit criteria.

As noted above, up to February 2010, 31 RTAs have been registered under this clause, including the South Asian Free Trade Area (SAFTA) and the Association of Southeast Asian Nations (ASEAN).

Conclusion

There are three ways in which the WTO has built the possibility of RTAs of different kinds existing within its framework. Though the principle of MFN treatment is a core principle of the WTO, exceptions of varying degrees are allowed. The debate about the role of RTAs will rage on. Knowing the actual framework for their existence and the debates that surround it is crucial to having an informed view on these debates. ■

Notes

1 World Trade Organization. Regional Trade Agreements, www.wto.org/english/tratop_e/region_e/region_e.htm, accessed 22.06.10.

2 World Trade Organization. Work on Special and Differential Provisions, www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm#enabling_clause, accessed 20.06.10.

3 Turkey – Restrictions on Imports of Textile and Clothing Products, WT/DS34/AB/R, 22 October 1999, para 58.

The Rise of Bilateralism

Title: The Rise of Bilateralism: Comparing American, European and Asian Aproaches to Preferential Trade Agreements
Authors: Kenneth Heydon and Stephen Woolcock
Publisher: United Nations University Press
ISBN: 978-92-808-1162-9

Abhishek R. Parajuli

Preferential trade agreements (PTAs) have become increasingly important in the global trade environment. At a time when the Doha Round of multilateral trade talks is floundering and PTAs are proliferating, *The Rise of Bilateralism: Comparing American, European and Asian Approaches to Preferential Trade Agreements* is a timely publication on a topic of increasing importance.

The authors—Kenneth Heydon, a visiting fellow at the London School of Economics, and Stephen Woolcock, a lecturer at the same institute—set out the primary research question for their book early in the Overview section: Are PTAs an alternative to multilateralism, an interim measure or an impediment for multilateralism? To answer this question, the book focuses on the PTAs concluded by the United States, the European Union (EU), the European Free Trade Association, Japan and Singapore.

To the question of whether PTAs hurt or help multilateralism, the answer is ambiguous: "The presumption that preferential deals amongst the willing can somehow compensate for slow progress multilaterally is as inappropriate as the idea that PTAs ...undermine wider multilateral efforts". The key argument of the authors is that the strength of the multilateral framework itself will decide whether the PTAs work as building blocks or stumbling blocks.

The argument that multilateral frameworks need to make PTAs work for multilateralism with proper regulation seems almost preempted if one looks at the formation of the Transparency Mechanism for Regional Trade Agreements (RTAs) within the WTO. Concerns over the effects of PTAs on the multilateral framework are being dealt with here using oversight. But this is only one of three recommendations the book makes. This vigilance, it adds, has to be coupled with a greater thrust at multilateral liberalization even if it means abandoning the "single undertaking" and, at a broader level, market opening has to be viewed as a tool for growth, not as a concession made to others. Instead of allowing the regulatory capacity to be stretched, the multilateral framework needs to be made more enticing to potentially curb the trend.

One distinguishing feature of this book is that it examines in detail the actual substance of PTAs. In highlighting some of the characteristics of these new PTAs, the authors point to similarities. For example, these PTAs share a pursuit of speed and flexibility: the dominance of free trade areas over customs unions, which are more complex, and of bilaterals over plurilaterals. They are ambitious in both the scope of issues and agreement on liberalization of trade. They also represent a relative decline in the goal of regional integration: the proliferation of cross-regional bilateral agreements is weakening regional integration and diluting intra-regional trade patterns.

An example of the last feature is the conclusion of economic partnership agreements (EPAs) between the EU and certain African states where the declared aim of promoting regional integration and thus development in sub-Saharan Africa is not achieved as individual EPAs have been negotiated with selected countries in southern and west Africa, complicating regional integration in Africa rather than promoting it.

The book is divided into five sections. Part 1 provides a general overview, allowing part 2 to look at the nature and scope of PTA policy provisions. Part 2 looks at tariffs and rules of origin, non-tariff barriers and intellectual property rights, among others. Part 3 compares American, European and Asian approaches with Asia represented by Japan and Singapore. Part 4 assesses the economic impacts of PTAs. Part 5 concludes with the findings of the study, suggesting how bilateral trade diplomacy is likely to evolve and affect multilateral trade.

The authors are clear about the future of these PTAs. They see the economic downturn as a thrust for PTAs. This is put well by one of the authors in an East Asia Forum article. "As countries struggle to recover from the 'Crash of 2008' and cope with the political economy of trade liberalisation's concentrated losses and dispersed gains," explains Heydon, "the appeal of bilateral PTAs will grow, given the opportunities they present to: hand pick partners and avoid liberalising sensitive sectors; avoid most-favoured-nation commitments and free-riding; secure reciprocity from partners; and address a perceived race to the bottom in environment and labour standards."

If how the surge in PTAs will affect multilateral trade and what can be done to make its effect positive are questions that interest you, this book has some answers. ■

The reviewer is associated with SAWTEE.

Trade, poverty and climate change

SAWTEE, together with the International Centre for Trade and Sustainable Development (ICTSD), Geneva and the Centre for WTO Studies (CWS), New Delhi, organized a "Dialogue on Trade, Poverty and Climate Change" on 20–21 May in Kathmandu.

Twenty-five experts from the academia, private sector and non-governmental organizations of eight countries of Europe, Southeast Asia and South Asia discussed the interlinkages between trade, poverty and climate change, with poverty as the focal point, in the context of Asia. They identified knowledge, research, analytical and action gaps in the area of poverty alleviation amid rapid integration of national markets into global markets and climate change impacts. ■

Third South Asia Policy Forum

SAWTEE collaborated with Imagine a New South Asia Alliance (INSA), Climate Action Network South Asia (CANSA), South Asia Centre for Economic Journalists (SACEJ), ActionAid, Oxfam and WaterAid to organize the "Third South Asia Policy Forum" on 25–27 April in Kathmandu.

The forum, a coordinated effort of South Asian civil society networks, provided a platform to a range of multistakeholders for a consultative dialogue on the region's challenges and opportunities in different areas such as climate change, natural resources management, biodiversity, trade, agriculture and food security. The forum issued a civil society statement highlighting several key areas and issues in which governments and other stakeholders alike are required to take concrete actions at both policy and grassroots levels. It also emphasized the need to promote regular interactions among parliamentarians of all member countries of the South Asian Association for Regional Cooperation in order to help strengthen political commitment.

A cross section of policy and research organizations, academicians, parliamentarians, policy makers, journalists and civil society organizations from various South Asian countries participated in the policy forum.

The South Asia Policy Forums have been crucial in generating policy recommendations for strengthening regional cooperation in South Asia. ■

South Asia and Doha Round

CONSUMER Unity & Trust Society (CUTS) International, Jaipur and the Institute of Policy Studies of Sri Lanka (IPS), Colombo organized a seminar on "South Asian Positions in the WTO Doha Round" in Colombo on 18 June. The event was part of the South Asia Forum on International Trade Project being implemented in five South Asian countries. Prof. Anwarul Hoda, former Deputy Director of the World Trade Organization, said that the Doha Round impasse can be broken if all major players offer some additional concessions. Dr. Saman Kelegama, Executive Director of IPS, highlighted the South Asian context in this regard and stressed that it is critical for countries in the region to join forces to call attention to their common interests. About 30 participants from various government agencies, academia, civil society organizations and the media attended the consultation. ■

10 years of Indo-Lanka FTA

A CONFERENCE on "Ten Years of the Indo-Lanka Free Trade Agreement (ILFTA)" was jointly organized in Colombo on 24–25 May by the Institute of Policy Studies of Sri Lanka (IPS), the Centre for WTO Studies (CWS), the India-Sri Lanka Joint Business Council, and the Indo-Lanka Chamber of Commerce and Industry. The objective of the conference was to review the performance of the ILFTA, assess the benefits, examine the pitfalls in the agreement and identify areas for improvement. There was strong stakeholder participation throughout the conference, including representation from key private sector chambers. ■

Discussion Paper: Services Trade Agreement in South Asia : Contours and Modalities
Author: Posh Raj Pandey
Publisher: SAWTEE

Briefing Paper: Case for South Asian Transit Arrangement
Author: Paras Kharel
Publisher: SAWTEE

Briefing Paper: Migration and Remittances in South Asia
Author: Dharshani Premaratne and Deshal de Mel
Publisher: SAWTEE

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT

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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