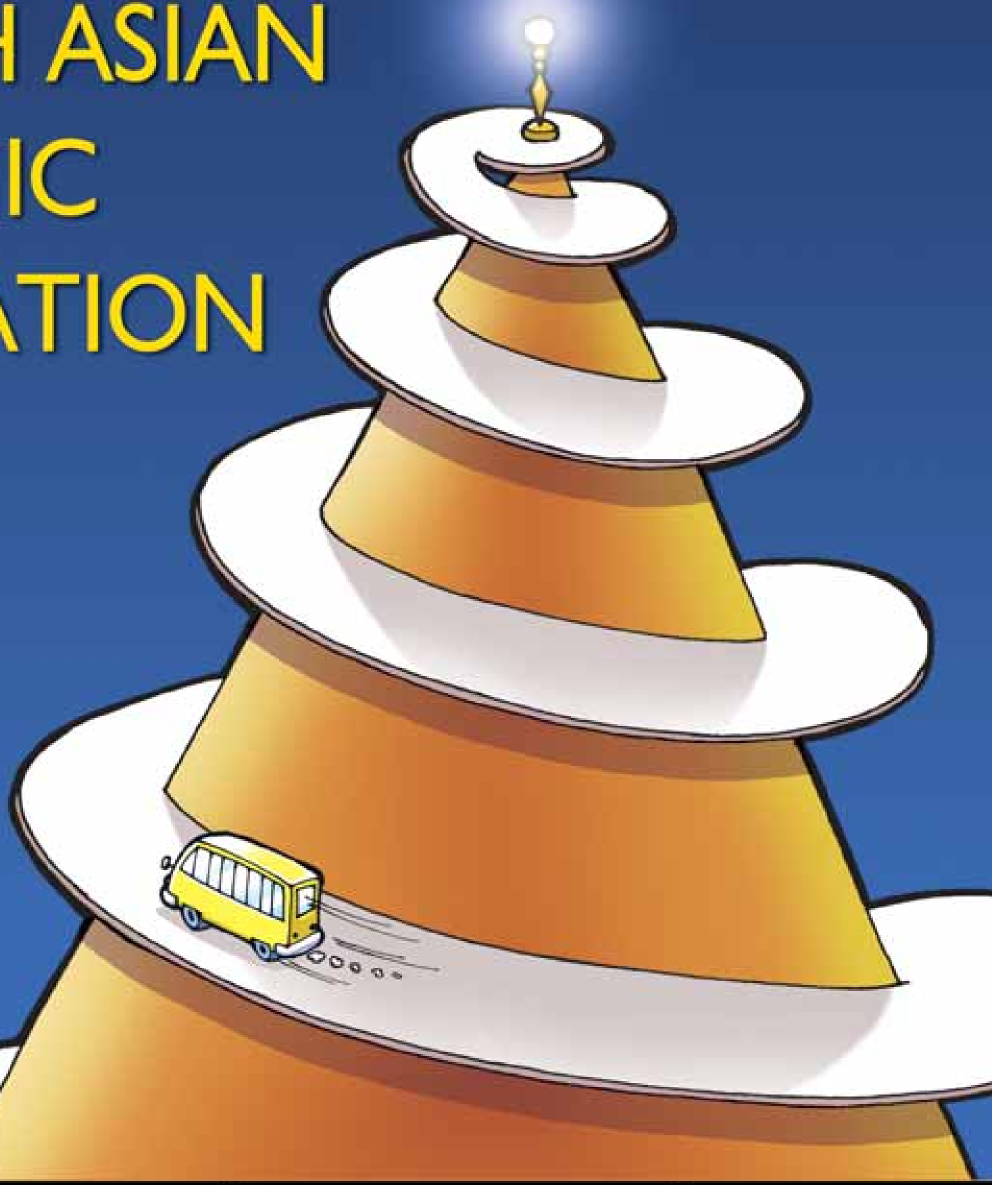
A dialogue on trade and development in South Asia
Vol. 8, No. 2, 2012

TRADE insight

ADVANCES

IN SOUTH ASIAN ECONOMIC COOPERATION



INDIA-CHINA ECONOMIC RELATIONS AND NEPAL | AGRI-TRADE IN SOUTH ASIA | INDO-PAK TIES

A dialogue on trade and development in South Asia Vol. 8, No. 2, 2012

TRADE insight

PUBLISHED BY
South Asia Watch on Trade, Economics and Environment (SAWTEE)

sawtee

P.O. Box: 19366
Tukucha Marg
Baluwatar, Kathmandu, Nepal
Tel: +977-1-4424360/4444438
Fax: +977-1-4444570
E-mail: sawtee@sawtee.org
Web: www.sawtee.org

Published with support from
Oxfam Novib

editors' note

Renewed hopes in South Asian economic integration

THE pace of regional economic cooperation in South Asia has been excruciatingly slow. No wonder, then, that the narrative on the subject is more often than not downbeat. A series of recent positive developments, however, has given rise to optimism about the prospects for regional economic cooperation.

Arguably, the most important development is the thaw in relations between India and Pakistan, whose rivalry has been a critical hurdle to the works of South Asian Association for Regional Cooperation (SAARC). Encouragingly, economic agenda is driving the improvement in the ties between the two countries. This sets the current peace dialogue apart from past peace talks. It has produced a series of landmark measures and agreements to boost trade and liberalize visa procurement procedures.

If the momentum is maintained to achieve full normalization of trade relations between India and Pakistan, it is highly likely to have positive spillover effects on the wider regional cooperation front, so far held hostage to the trials and tribulations of Indo-Pak relations. Because economic issues are at the core of the latest peace dialogue, speedy implementation of the agreements reached, such as with regard to visa process liberalization and easing restrictions on cross-border investment, can greatly help win the critical support of domestic constituencies on both sides of the border for improved ties and prevent the peace initiative from unraveling.

Apart from positive developments on the Indo-Pak front, the announcement by India to reduce its sensitive list under the Agreement on South Asian Free Trade Area (SAFTA) to just 25 items for the least-developed countries (LDCs) with effect from 1 January 2012 has also set off positive vibes across the region. Though the preferences are applicable to all the LDCs of the region, the move holds special significance for Indo-Bangladesh ties, which have had their share of strains, as it meets a key Bangladeshi demand.

Hopefully, the gesture will inject momentum into the implementation of the pledges and agreements contained in the joint communiqué issued during the visit of the Bangladeshi prime minister to India in January 2010, including in the area of sub-regional connectivity. The recent meeting between the commerce secretaries of Bangladesh and India, the first in eight years, is also significant.

For the region as a whole, another important development under SAFTA is the reduction of sensitive lists by at least 20 percent by almost all other member states also. As tariff liberalization proceeds, meaningful moves in the area of non-tariff barriers and trade facilitation (including connectivity) will be crucial.

Even as the three most populous countries of the region are engaged in constructive dialogue and are taking important measures—confidence building and more—which portend well for regional economic integration, vigilance must be exercised against the possibility of vested interests sabotaging the process on one pretext or the other. It is the duty of the civil society to exert pressure on governments to stay the course. ■

contents

Advances in regional cooperation

Regional agriculture trade

China–Nepal–India

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

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

Rio+20 ends with weak outcome

EVEN as the urgency of taking strong actions for sustainable development is greater than ever, there was no breakthrough in the Rio+20, the United Nations Conference on Sustainable Development. The summit, held from 20–22 June in Rio de Janeiro, Brazil, adopted a document titled "The Future We Want", which met with public disappointment, including of civil society, for a lack of ambition in terms of specific commitments and targets.

The outcome document mostly reaffirmed or recalled what had been agreed at the first Rio Summit in 1992 and the Johannesburg Summit that produced a Plan of Implementation in 2002, as well as other agreements such as the Millennium Declaration.

Heads of state and high-level representatives from almost 200 countries were unable to add ambition to a weak outcome document prepared ahead of their arrival. Developing countries faced a deteriorating global cooperation environment and especially United States (US) opposition to many of their demands right since the time of the preparatory process of the summit. Key weaknesses of the document included a lack of action on phasing out fossil fuel subsidies, controlling the high seas, improving women's reproductive health, and mitigating conflict and disasters; failure to decide to convert the United Nations Environment Programme (UNEP) into a full-fledged specialized United Nations agency; and absence of meaningful actions on technology transfer and finance. During the summit, many non-governmental organizations went so far as to argue that the final outcome text laid the groundwork for "The Future We Don't Want". However, it would be unfair to call the summit a total failure, as a few important decisions were taken.

The document in paragraph 15 reaffirms the 1992 Rio principles, including the principle of "common but differentiated responsibilities". This was finally agreed to by developed countries, including the US, after vehemently opposing to it for much of the negotiations. The common but differentiated responsibilities, and equity are also "recalled" as a basis for action on global climate change, principles that were absent in the decision at the climate talks last December.[1] The document also "recalled" the technology text in the 2002 Rio+10 summit in Johannesburg, including technology transfer on favourable terms to developing countries. Not only was there no concrete commitment on finance, developed countries also refused to entertain the phrase "new and additional financial resources." However, it was agreed that an intergovernmental committee will prepare a report by 2014 proposing options on an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives.

> The outcome document mostly reaffirmed what had been agreed at the first Rio Summit in 1992 and the Johannesburg Summit in 2002.

A key decision that went beyond reiteration of or watering down of past commitments was to launch sustainable development goals (SDGs). A 30-member United Nations working group with members nominated by governments will prepare a proposal for SDGs, covering all three aspects of sustainable development—economic, social and environmental. It has been specified that the development of these goals should not divert focus or effort from the achievement of the Millennium Development Goals. Another important decision was to set up a high-level political forum on sustainable development, to replace the existing Commission on Sustainable Development. The forum is to follow up on the implementation of sustainable development and should avoid overlap with existing structures, bodies and entities in a cost-effective manner. Although the proposal to convert UNEP into a specialized agency was not endorsed, it was agreed that UNEP would be strengthened and upgraded, including through universal membership of its governing council and increased financing.

It was agreed in Rio that green economy in the context of sustainable development and poverty eradication is one of the important tools available for achieving sustainable development and that it could provide options for policymaking but should not be a rigid set of rules. There was agreement on a set of 16 principles to govern green economy policies, including avoidance of trade protection and aid conditionality.

At the closing plenary, Brazilian President Dilma Rousseff said the outcome document was a "starting point" and not a "threshold or ceiling". Indeed, the ultimate outcome will depend upon follow-up actions and implementation of whatever has been agreed upon, since weak implementation has afflicted "historic" decisions taken in the past, dating back to the first Rio meet. ■

Note

1 Khor, Martin. 2012. "Mandated follow-up actions are key", 25 June, TWN RIO+20 News Update No. 23.

Reserve Bank of India announces SAARC Swap Arrangement

www.marketwatch.pk

WITH a view to strengthening regional financial and economic cooperation, Reserve Bank of India (RBI) Governor Dr D. Subbarao announced in the 24th SAARC Finance Governors' Meeting, in Pokhara, Nepal, that RBI will offer Swap Arrangement of US$2 billion both in foreign currency and Indian rupee. The facility will be available to all SAARC member countries, viz., Afghanistan, Bangladesh, Bhutan, the Maldives, Nepal, Pakistan and Sri Lanka. With the launching of this facility, member countries can now approach RBI for availing of the facility.

The swap will be offered in US dollar, Euro or Indian rupee against domestic currency or domestic currency-denominated government securities of the requesting country. The SAARC Swap Arrangement will have a corpus of US$2 billion. India will contribute the entire fund.

Under the facility, requesting member countries can make drawals of US dollar, Euro or Indian rupee in multiple tranches. Each drawal is of three months' tenure and can be rolled over twice. The first rollover will be at the normal rate of interest, while the second one attracts 50 basis points interest more than the normal interest rate. The normal interest rate agreed upon is the LIBOR (for three months) plus 200 basis points. The normal interest rate for Indian rupee swap is RBI Repo Rate minus 200 basis points.

To avail themselves of the facility, central banks of requesting countries will need to enter into bilateral swap agreements, which need final approval from the Government of India.

The Swap Arrangement is intended to provide a backstop line of funding for SAARC member countries to meet any balance of payments and liquidity crises, till longer term arrangements are made or if there is a need for short-term liquidity due to market turbulence. The SAARC Swap facility is being offered by RBI pursuant to the decision of SAARC Finance Ministers at the SAARC Ministerial Meeting on Global Financial Crisis, held on 28 February 2009

The swap amount available to various member central banks has been arrived at broadly based on two months' import cover subject to a floor of US$100 million and a maximum of US$400 million per country *(Reserve Bank of India, 16.05.12).* ■

No slowdown in new trade restrictions

World Trade Organization Director-General Pascal Lamy, in his report on trade-related developments issued on 29 June, said that "there has been no slowdown in the imposition of new trade restrictions over the past seven months". He noted that "the more recent wave of trade restrictions seems no longer to be aimed at combating the temporary effects of the global crisis, but rather at trying to stimulate recovery through national industrial planning, which is an altogether longer-term affair".

Since mid-October 2011, 182 new measures that restrict or can potentially restrict or distort trade have been recorded, affecting around 0.9 per cent of world imports. The main measures are trade remedy actions, tariff increases, import licences and customs controls. Over this period, fewer new export restrictions were introduced.

The new measures restricting or potentially restricting trade are adding to the trade restrictions put in place in previous periods, says the report.

Moreover, this has to be considered in a broader perspective where the stock of trade restrictions and distortions that existed before the global crisis struck, such as in agriculture, is still in place *(www.wto.org).* ■

Sri Lankan port opens for business

3.bp.blogspot.com

SRI LANKA'S first Chinese-built port, a strong symbol of Beijing's investment in South Asia, opened for international shipping on 6 June with the handling of 1,000 cars from India. The US$1.5 billion deep-sea port in southern Hambantota, the home constituency of President Mahinda Rajapaksa, straddles a major east-west shipping lane used by 200–300 international vessels daily.

The idea of the project, which was delayed by just over a year, is to create a new logistics hub to handle trans-shipments from the Asian region and provide a boost to Sri Lanka's economy as it recovers from decades of civil war.

China has agreed to build a second port in Sri Lanka's capital Colombo and Chinese firms have pledged investments amounting to US$50 billion spread over the next 10–15 years, according to Sri Lanka's trade ministry.

Elsewhere in South Asia, China has funded port facilities in Pakistan and has plans for rail projects in Nepal. Bangladesh has asked for Chinese help to build a port and Beijing recently opened an embassy for the first time in the Maldives.

According to Charu Lata Hogg, an analyst at Chatham House, a London-based think-tank, India has come to terms with China in its backyard. "There seems to be a tacit understanding that their commercial interests can be complementary," said Hogg, adding, "Indian cars going through a Chinese-built port in Sri Lanka reveals a lot about this relationship."

The first shipment of cars in Hambantota, 240 kilometres (150 miles) south of Colombo, came from the south Indian port of Chennai and was destined for Algeria *(AFP, 06.06.12)*. ■

Economic slowdown in India to continue

THE slowdown in India's economic activity is likely to continue and might aggravate in the coming months, scotching hopes that Asia's third-largest economy had bottomed out in the fourth quarter of the last fiscal year.

India's economy expanded only 5.3 percent in January-March 2012 quarter, the lowest pace of growth in the last nine years. Since then stock markets have rebounded on the hope that the economy will pick up pace on the strength of some policy action from the government, softer commodity prices and some improvement in sentiment.

The Paris-based Organisation for Economic Co-operation and Development, in its monthly release of composite leading indicators (CLI) in July, said that India's economic activity points strongly to a slowdown with growth further decelerating from the long-term average.

The CLI index—which is designed to anticipate turning points in economic activity compared to long-term trend—points to an easing of economic activity in all major economies including Japan, the United States, Russia, China, Germany and other countries in the Eurozone.

India's CLI has been moderating since January, pointing to a prolonged slowdown in economic activity. The closer the index reading of a country is to 100, the higher are its economic growth prospects. India's index reading moderated from 98 in April to 97.8 in May. The reading stood at 98.6 in January and has been consistently declining since then *(economictimes.indiatimes.com, 10.07.12)*. ■

No progress in regional meeting on services

THE Group of Experts (GoE) meeting in Kathmandu in June on the SAARC Agreement on Trade in Services (SATIS) ended without any breakthrough as participating countries refrained from making clear commitments on opening up services trade among the eight member countries of the South Asian Association for Regional Cooperation (SAARC). SATIS was signed at the 16th SAARC Summit in Thimphu in April 2010.

"Apart from Bhutan and India, it seemed that other countries attended the meeting without doing any exercise at home to make their commitment to facilitate regional trade liberalization," said an official attending the meeting. The two-day meeting (19–20 June) was supposed to garner commitments from all eight member countries to boost services trade within the region. The meeting ended with a decision to meet in Kathmandu again in September with the hope to garner concrete commitments from all member countries.

The meeting also decided to submit proposals and requests to the SAARC Secretariat by August for further liberalization in services trade. The proposed meeting in September will discuss the proposals and requests submitted by member countries to the SAARC Secretariat *(Republica, 20.06.12)*. ■

Integrated SPS system proposed in Pakistan

THE existing legislation and institutional framework in Pakistan to control food safety, animal health and plant health are inadequate and unable to address the various challenges being faced by the country's agro-food sector, necessitating the establishment of a new federal body to cope with the situation. There is also a lack of an integrated system of official sanitary and phytosanitary (SPS) controls at the federal and provincial levels, says the draft bill prepared by National Animal and Plant Health Inspection Service (NAPHIS) under the Ministry of National Food Security and Research, with the support of the European Union-funded Trade Related Technical Assistance Programme.

The NAPHIS presented the draft bill in a consultative workshop on "National Food Safety, Animal and Plant Health Regulatory Authority Bill" held on 11 June.

According to the proposed bill, there is dire need to establish a new federal body, the National Food Safety, Animal and Plant Health Regulatory Authority, which will provide a national legal framework for SPS regulatory control. The new authority will provide an integrated national system of official controls for SPS issues, including monitoring SPS conditions and levels of compliance with technical regulations.

The proposed bill further says the new authority will provide unitary co-ordination of national system of official controls for food safety and animal health and plant health as well as make national risk management decisions in these areas *(www.brecorder.com, 12.06.12)*. ■

Sri Lanka seeks to leverage FTAs to get FDI

COMPANIES based in the Association of Southeast Asian Nations (ASEAN) economies looking to enter the lucrative Indian and Pakistani markets are being encouraged to set up operations in Sri Lanka to make use of the favourable free trade agreements it has with the two countries.

"Sri Lanka is well poised to be a safe and sound investment destination," Sri Lankan President Mahinda Rajapaksa told a gathering of business leaders during his official visit to Thailand. He said the country was a great destination for investors, noting that investor protection provisions were enshrined in the constitution.

He said the areas of interest to investors from Thailand and other ASEAN countries in Sri Lanka include infrastructure, knowledge-based economy, and tourism.

M.M.C. Ferdinando, chairman of the Board of Investment (BoI), told his Bangkok audience that unlike many countries, investing in Sri Lanka was very easy. The BoI takes care of everything from the procurement of land to the basics of handling tax issues once companies are set up. There are no limits on foreign ownership and repatriation of earnings.

Constitutionally protected safety of investment, coupled with no duties on 4,232 categories of goods exported to India and 4,686 to Pakistan, "offer huge potential for investors". Continuous power supply and new communications infrastructure are added attractions *(Bangkok Post, 11.06.12)*. ■

Oil boost for Bangladesh

BANGLADESH, whose economy is crippled by power outages and treasury-sapping oil import bills, has discovered new oil reserves in Sylhet, the country's northern region.

Bangladesh Petroleum Exploration Co. (Bapex), the exploration unit of state-run Bangladesh Oil, Gas and Mineral Corp, or Petrobangla, has discovered 137 million barrels of oil reserves in two abandoned gas fields of Kailashtila and Haripur.

The total worth of 55 million barrels of extractable oil discovered in the two fields is about US$5.5 billion. Petrobangla said that Bapex will soon start deep drilling into the two fields. The projected 55 million barrels that can be produced from the two new finds are equivalent of two years' supply for Bangladesh.

The new oil will reduce pressure on Bangladesh's foreign currency reserves, which have declined to below US$10 billion at times over the past few months due to increasing import bills.

About US$3 billion of the country's US$21.7 billion import payments in the eight months through February were for fuel oils. A shortage of energy is driving industrialists to use rental power plants, driving up fuel import bills.

Seventeen plants contribute about a quarter of the country's total maximum daily power generation of 5,230 MW, which is still well short of the 6,300 MW demand reported by Bangladesh Power Development Board on 19 May.

Since 2009, 53 deals for rental power plant projects, perceived as "quick solutions" to the country's power crisis, have been signed, with some still in the process of being commissioned and others under construction *(Asia Times, 23.05.12)*. ■

India overhauls copyright law

THE Indian Parliament has approved a landmark new bill that will bring major changes to the country's current copyright law. The legislation is expected to have major implications for areas ranging from the relationship between authors and producers in the music sector to limitations and exceptions for people with disabilities.

The Copyright (Amendment) Bill 2012 also seeks to bring Indian copyright regulations up to date with international norms, such as the World Intellectual Property Organization's Copyright Treaty and its Performances and Phonograms Treaty. The Lok Sabha—India's lower house of Parliament—unanimously passed the legislation on 22 May, after the Rajya Sabha—India's upper house of Parliament—approved the measure. The legislation requires presidential approval before it can enter into force.

The amendment's potential ramifications for the music and movie industry have been the centre of attention since the parliamentary vote. The bill effectively makes authors, lyricists, composers, and other "artistes" owners of the copyright of their work in films, which had previously been assigned to film producers. It also requires radio and TV broadcasters to pay royalties to the owners of the copyright every time a work is broadcast.

www.vergemagazine.co.uk

The new Indian copyright regime also encompasses more specific exceptions and limitations for persons with disabilities, covering all copyrighted material in "accessible format", such as Braille, as well as other formats, if the latter are being used by non-profits working with the disabled *(Bridges Weekly Trade New Digest, Vol. 16, No. 22, 06.06.12)*. ■

Nepal least urbanized, but fastest urbanizing

WITH only 20 percent of its 26.6 million population living in urban areas, Nepal is the least urbanized country in South Asia. But with an urban population growth estimated at more than 5 percent per year on average since the 1970s, it is also one of the fastest urbanizing countries of the region, says a World Bank study.

The study *Nepal: Urban Growth and Spatial Transition: An Initial Assessment* found the country has undergone major structural shifts over the past few decades from an agricultural economy to a service-based one. It says that urban areas, where incidence of poverty more than halved between 1995–1996 and 2010–2011, are the centres of this transformation. It calls for tapping into the potential of Nepal's cities to leverage their competitive advantage in strategic sectors like tourism, crafts and agro-processing *(Hindustan Times, 09.05.12)*. ■

An assessment of UNCTAD XIII

UNCTAD XIII saw the growing confidence of the South, which resisted attempts to unduly restrict the mandate of the UN agency.

Dinesh Bhattarai

The Geneva-based United Nations Conference on Trade and Development (UNCTAD), formed in 1964 as a permanent intergovernmental body, is the United Nations focal point for trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development. International discourse on development came to be structured within this body for a group of newly emerged countries of Africa, Asia and Latin America called the Global South. UNCTAD's functions are based on three pillars—consensus building; research, policy analysis and data collection; and technical cooperation—tailored to the specific requirements of developing countries, with special attention to the needs of the least-developed countries (LDCs) and economies in transition. In its 48 years of existence, UNCTAD has held 13 quadrennial conferences. The latest one was held in Doha (UNCTAD XIII) on 21–26 April 2012.

Over the years, UNCTAD has proved to be a knowledge-based institution, and the UN's premier development "think-tank for developing countries". Its main works include globalization and development strategies, Africa, the LDCs and Special Programmes, international trade in goods and services and commodities, investment and enterprises development, and technology and logistics. UNCTAD conducts ahead-of-the-curve research and analysis on both longstanding and emerging development issues.

Doha Mandate

UNCTAD XIII took place at a time when the world was facing a series of persistent and emerging global challenges, including fragile recovery from economic and financial crises, hunger and food insecurity, environmental problems and climate change. The conference considered development as a universal concern and underlined the importance of sustainable development. The conference's main theme was "Development-led globalization: Towards inclusive and sustainable growth and development". Subthemes included focusing on enhancing and enabling economic environment for inclusive economic growth and development; addressing the policy challenges for sustainable development; strengthening all forms of cooperation and partnership for trade and development, including North-South, South-South and triangular cooperation; and addressing persistent and emerging development challenges with an integrated approach promoting structural transformation.

The preparatory phase leading to the main conference saw several rounds of intensive negotiations to accommodate the interests of different groups of countries within UNCTAD. The differences between the North and the South that had cropped up in UNCTAD XII on the role of the market and the state also figured prominently during UNCTAD XIII. The North preferred the "market" as the conductor of social affairs, while the South and UNCTAD argued that "developing countries should pursue development strategies that are compatible with their specific conditions within the framework of an enabling State." As is seen in the position papers submitted for the conference by various groups within UNCTAD, the contents of the Washington Consensus that so far remained the "dominant paradigm" and a "template for emulation" came to be contested.

Northern countries insisted that UNCTAD limit its work to the original mandate given to it. They did not want the UNCTAD secretariat to include an analysis of the causes of the financial crisis and long-term problems posed by the domination of finance over social life. The North wanted UNCTAD's budget trimmed so that it remained focused on the original mandate and did not to take

Puspa Sharma

up issues already dealt with in other United Nations (UN) organizations, and "engage in intellectual competition" with them. The issue of good governance figured repeatedly, leading one analyst to term it the North's desire for "the dawn of a new neocolonialism".

Two outcome documents in the forms of the Doha Mandate and the Doha Manar—an Arabic word meaning strong light visible from a distance that serves to guide travellers—were adopted. They reaffirm and build upon the Accra Accord of UNCTAD XII. The most important outcome was seen in the emergence of the South as a potent force. Given the circumstances and background against which it met amid a plethora of contentious issues, and the traditional North trying to prevail, the conference was a success and the Doha Mandate was an achievement *streamlining* the agenda for the next four years.

The North was seen preferring to do away with some of the paragraphs from the Accra Accord already agreed upon in Ghana in 2008. However, the Doha Mandate reaffirmed that developing countries should pursue development strategies that are compatible with their specific conditions within the framework of an enabling state which has an important role to play in forging a coherent development strategy and providing an enabling environment for productive economic activity. UNCTAD XIII saw the growing confidence of the South to stand up for solidarity, unity and consensus.

The declaration reiterates UNCTAD to be the focal point of the UN system for the integrated treatment of trade and development, and interrelated issues in the areas of finance, technology, investment and sustainable development. It recognizes UNCTAD's substantial contribution to advancing discourse on development and to enhancing the beneficial integration of developing countries into the global economy. It also commits to working towards a more development-centred globalization for more inclusive and sustainable growth and development.

The Doha Mandate requires UNCTAD to "continue, as a contribution to the work of the UN, research, and analysis on the prospects of, and impact on, developing countries in matters of trade and development, in light of the global economic and financial crisis".

The issue of green economy figured prominently. Energy price volatility, access to energy and energy infrastructure are prominently mentioned. Climate change was already an agenda for UNCTAD XII and its adverse impact on inclusive and sustainable growth and development for developing countries, especially the LDCs and the small island developing states, got high attention in the Doha conference, providing important inputs to the Rio+20 process.

The mandate recognizes trade as an engine of economic growth and socio-economic development, and calls for promoting value addition and economic diversification as central to development strategies for building resilience. The declaration focuses on partnerships at national and international levels, including partnership between public and private sectors, to help develop productive capacities. It encourages regional and interregional cooperation and integration in the South to complement North-South cooperation, and linking up Southern economies with global supply chains. It calls for an open, rules-based, transparent, non-discriminatory and inclusive trading system. It considers the successful conclusion of the World Trade Organization (WTO) Doha Development Agenda as crucial and underlines the importance of accession to the WTO of more developing countries, in particular the LDCs and the economies in transition, for enhancing the universality of the trading system.

The Doha message was loud and clear, reflecting the plurality of views on trade and development issues, despite several efforts on the part of the North to undermine the mandate of UNCTAD.

UNCTAD XIII came to a close with the recognition of issues of great interest to developing countries such as the role of the state, energy alternatives for development, and the relation between development and gender. It showed that UNCTAD remained "ahead of the curve" in analytical work on global trade, economic and financial issues. The conference also showed that a better coordination in other groupings like the G20 and the BRICS (Brazil, Russia, India, China and South Africa) would further strengthen the position of the G77, as some of the members of the G77 are in both the G20 and the BRICS. The Doha Mandate maintains that "development-centred globalization sets the stage for inclusive growth and development, and contributes towards reducing poverty and creating jobs", adding that "discussions on globalization should be balanced, highlighting its benefits, acknowledging its risks and addressing its challenges". The outcome document mandated UNCTAD to continue its research and advisory work on issues of public debt, and dissemination or diffusion of technology to developing countries.

The Doha Mandate provided guidelines for the organization's activities for the next four years, and reaffirmed work priorities agreed in the Accra Accord in 2008. Attention was given to serious political, economic and social costs that emanated from financial shocks. Eliminating hunger and achieving food security appeared to be one of the priorities. Energy issues, including that related to renewable energy, were recognized for the sustainability of the development process.

The declaration underlined the critical importance of multilateralism and recognized the need to strengthen UNCTAD and the impact of its work by enhancing its efficiency, effectiveness, transparency and accountability, and building partnerships and promoting greater synergy and complementarity with other relevant international organizations.

Continued role and relevance of UNCTAD

Ever since its formation in 1964, the South has attached importance to UNCTAD for the discussion of issues, formulation of policies, and review of results, and for taking such operational measures as are needed in the sphere of international economic relations. It has remained an indispensible tool to initiate a new era in the evolution of international cooperation in the field of trade and development.

New policies and reforms in trade, finance, investment and technology will have to be introduced to confront the challenges of post-crisis globalization. Recent trends and developments in the world economy that are of great concern to the poor South, as was stated by the UNCTAD Secretary General, "fundamentally and unambiguously" reaffirm UNCTAD's mandate.

The closing declaration of UNCTAD XIII, called the Doha Manar, commends UNCTAD as the focal point of the UN system for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development under its three pillars: policy analysis, consensus building, and technical cooperation.

These are challenging times, which is evident in the unfolding of great difficulties in international relations. UNCTAD XIII was not without the touch of evolving global geo-political changes. Since the last conference in Accra in 2008, the UNCTAD secretariat has continued to do outstanding work on the global economy, providing incisive analyses of the financial and economic crises and other attendant challenges. UNCTAD under the leadership of Dr Supachai Panitchpakdi has called a spade a spade. "Finance should not be the master of development," he said. "Whether it be a slave of development is something else, but finance should serve development." While markets can help with the structural transformation needed to move towards a green economy, the role of governments as regulators and supporters of domestic industries remains essential.

> The most important outcome was seen in the emergence of the South as a potent force.

UNCTAD needs to reform and equip itself with better resources and make their smart uses to address these challenges. In strengthening UNCTAD, efforts should be made "to enhance its efficiency, effectiveness, transparency, and accountability, including through effective results-based management and ensuring a member State-driven process through the intergovernmental machinery". In the aftermath of the economic and financial crises, and in the face of both persistent and emerging challenges, UNCTAD should continue conducting analytical research and analyses, and providing technical assistance to countries that are emerging from political crises and conflicts to address these challenges. It should work to enhance institutional capacity in line with the development priorities of member countries, particularly the weakest and the most vulnerable.

While every country has the primary responsibility for its economic and social development, national development efforts need to be supported by an enabling international economic environment. Global sustainability cannot be achieved in isolation from the sustainable development of the weakest and the most vulnerable. UNCTAD has served to advance the call of this cause well. ■

Dr Bhattarai is a former Permanent Representative of Nepal to the WTO and Permanent Mission to the United Nations Office in Geneva.

Regional integration in agriculture trade in South Asia
Potential and Constraints

Rashmi Banga

South Asia produces 12 percent of global agriculture output and feeds 23 percent of the world's population residing in the region. The agriculture sector contributes around 20 percent of the gross domestic product (GDP) in almost all countries of the region and employs around 50 percent of their population. However, the sector is one of the most under-developed and the slowest growing in almost all countries in South Asia. That is mainly because backward technologies, low productivity levels and lack of standards and quality controls have plagued the agriculture sector. Being the mainstay of most of the countries, it has remained one of the most protected sectors resulting in low international trade of agriculture goods and low investments in the sector in all countries of the region.

However, dynamics of the world is changing fast. Global and regional de-

mand for agriculture goods has been growing at a rapid rate. The growth bonanza for South Asian countries in the decade of 2000 has also added to this growing demand. Imports of agriculture goods of the region grew from US$5 billion in 1999 to US$24 billion in 2010, of which India's import demand increased from US$4 billion to US$14 billion. Irrespective of this growing demand, however, average annual growth of agriculture slowed in the 2000s compared to the 1990s in most of the countries of the region, including India and Pakistan. Therefore, a pertinent question that arises in this changing scenario is whether South Asian countries can take advantage of this opportunity of growing demand of agriculture goods to not only arrest the slowdown of their agriculture growth but also reverse the trend. With the majority of the population still dependent on agriculture for their livelihood, higher growth in the agriculture sector is essential for addressing the issue of poverty in the region.

One of the encouraging trends in the agriculture sector in the region is that not only the share of intra-regional exports of agriculture products in total global exports of agriculture products is higher than the share of total intra-regional exports in total global exports, the growth rate of the share of intra-regional exports of agriculture products in total global exports of agriculture products is also rising faster (Figure, next page). The average annual growth rate of intra-regional trade in agriculture goods during 2000–2010 was 13 percent compared to 6 percent of total intra-regional trade. All countries experienced a rise in their exports and imports within the region in 2010 compared to 2000. Some 95 percent of Bhutan's and 91 percent of Nepal's agriculture exports were to the region in 2010. The region's share in Pakistan's and Bangladesh's total agriculture exports was around 20 percent, while the shares of India and Sri Lanka were 13 percent and 8 percent respectively. On the import front, more than 20 percent of the total agriculture imports of almost all countries, except India, was from the region. Such growing importance of the region in agriculture trade in all countries reflects the potential of intra-regional trade in this sector. There is now a need to explore the possibility of whether regional integration in the agriculture sector in terms of trade, investments and sharing of technologies can help all countries in the region improve their agriculture growth and overall development.

One of the key sub-sectors within the agriculture sector, in which intra-regional trade is found to be growing fast, is processed food and beverages. Intra-regional exports in this sector increased from 2 percent in 1990 to 23 percent in 2011. This reflects the growing competitiveness of the region in this sector as well as the growing tendency to source the products from within the region. A forthcoming study by the United Nations Conference on Trade and Development (UNCTAD) and the Asian Development Bank (ADB), based on a dynamic gravity model, estimates that potential intra-regional trade in the agriculture sector is 38 percent higher than the existing trade, while potential trade in the food processing sector is 1.5 times higher than the existing trade. The maximum potential for trade in this sub-sector is found between India and Pakistan, which can increase threefold. Except for the Maldives, most of the countries have yet to realize their bilateral trade potentials. There is also a strong possibility of forming regional supply chains for the food processing industry in the region. The study identifies competitive export basket and import basket, which can be sourced from the region, and potential investment sectors for each country in the region, which can help foster a regional supply chain for the food processing industry.

SAARC countries should undertake efforts to increase agriculture productivity through intra-regional investments and technology sharing.

When it comes to the question of food and commodities, given the vast population of poor people residing in each country in the region, the issue of integration becomes much more complex. Presently, export surplus exists in the region only for rice, and to a limited extent, for sugar. In wheat, corn, edible oils and pulses, most of the countries in the region are facing deficits. India and Pakistan are either self-sufficient or possess export surplus in most commodities. Nepal, the Maldives, Bhutan and Afghanistan are facing deficits and rely on imports for most of the important commodities. Bangladesh and Sri Lanka show encouraging trends in commodities such as rice and tea[1]. Given this scenario, it becomes urgent for the region to undertake efforts to increase agriculture productivity through intra-regional investments and technology sharing. Combined efforts to increase productivity and output of food and commodities in all countries are required for the region to aim at achieving food security in the near future.

Although supply chains and potential areas of regional integration can be identified in the agriculture sector, especially in the food processing industry, tariffs and non-tariff measures (NTMs) remain one of the formidable challenges for the region. The Agreement on South Asian Free Trade Area (SAFTA) requires elimination of tariffs, para tariffs and non-tariff restrictions on the movement of goods; adoption of trade facilitation and other measures; and the progressive harmonization of legislation by the contracting states in relevant areas. Regarding tariffs, their harmonization is ongoing within the region which means that revaluation at borders is reported to be common. This suggests a need for better and more coordinated information systems across customs authorities.

However, there are no binding commitments on the removal of non-tariff barriers (NTBs) in SAFTA and much remains to be done to harmonize NTMs in the region. Establishment of the SAARC Regional Standard Organization for achieving uniform quality standards within the region is an important step in this direction.

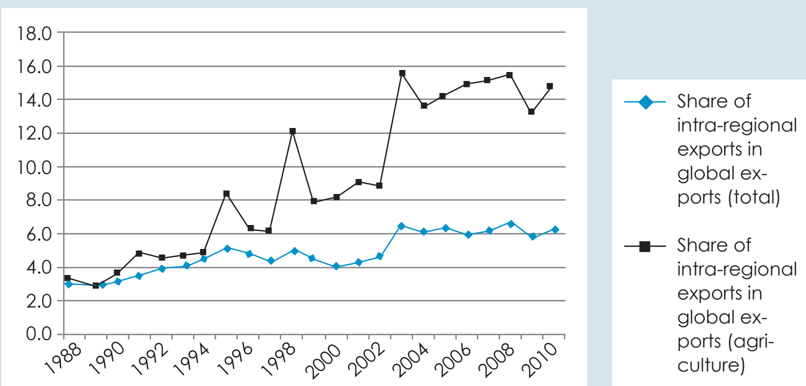
Analysis of reported NTBs across countries within South Asia to the UNCTAD TRAINS database suggests that most measures fall under the category of price and quantity control, which would include such practices as non-automatic licensing as well as price setting and interventions in food and commodity markets. Mandatory standards seem to be particularly challenging because there are currently no Mutual Recognition Agreements (MRAs) in operation within the region as a result of which goods that need to meet quality standards have to undergo 100 percent testing.

Moreover, testing facilities are not always located close to the borders, resulting in procedural delays. This is an important barrier to intra-regional trade in agriculture goods given the perishable nature of many such goods. Poor customs procedures and other logistical constraints are also significant barriers to intra-regional trade in South Asia. These barriers include, for example, lack of cold storage facilities at borders, limited space for loading bays, etc. There are also other types of NTBs that are widely used by SAARC countries and which remain undisciplined at the regional level. For example, using export restrictions to deal with seasonal shortages of goods such as onions, cotton and rice.

One of the outstanding questions that arise with regard to NTBs/NTMs in South Asia is: Who should undertake trade surveillance and NTB monitoring within the region—the SAARC Secretariat or the SAARC Chamber of Commerce and Industry? Also, there does not exist any robust dispute settlement mechanism in the region at present to enforce decisions. Hence, much work remains to be done within SAARC to address NTBs and oversee reductions in reported barriers.

For any successful advances in regional integration, efforts are required both at the country level and at the regional level. These involve short-term actions for increasing the momentum of intra-regional trade and investment as well as long-term planning which would address domestic constraints and improve productive capacity. Some of the policy recommendations suggested at the regional as well as country levels, which are important for encouraging intra-regional trade in agriculture goods in South Asia, are discussed below.

Figure
Trend in intra-regional agriculture trade in South Asia



Source: UNCOMTRADE.

Accelerating customs and logistics procedures

The role of trade facilitation measures in generating momentum to intra-regional trade in South Asia is critical. Given the perishable nature of many agriculture commodities, it assumes even greater significance for agriculture trade. Many studies have highlighted the gains of accelerating customs and logistics procedures. Reduced transit time leads to lower production costs. Lowering transit time is also important for making countries and regions more attractive for supply chains. Djankov *et al.* (2010)[2] found that an extra day of transit time reduced trade volumes by 1 percent. Similarly, Weerahewa (2009)[3] observed that reducing trade costs and time delays in South Asian countries up to the average values of best performers in South Asia can increase the value of intra-regional agriculture trade by 18 percent and 27 percent respectively.

According to Wilson and Ostuki (2007)[4], the category of trade facilitation that will produce the greatest gains is service-sector infrastructure, followed by efficiency in air and maritime ports. The region requires upgrading of ports and information technology infrastructure, and continued reforms in customs clearance procedures and regulatory harmonization. India, with an 80 percent share in South Asian GDP, can act as a catalyst along with partners in the region to advance a trade facilitation agenda.

Accelerating and deepening regional trading arrangements

A large number of products in the sensitive lists of member countries and the presence of NTBs are preventing the SAFTA Agreement from having greater impact on agriculture trade integration in South Asia. Harmonizing regulations and procedures, along with lowering tariffs and addressing NTBs, are some of the outcomes of regional trading arrangements that are a critical part of reducing transit costs and time. Identifying areas for MRAs, especially to address issues of sanitary and phytosanitary measures and technical barriers to trade, in agriculture trade along with targeted policies to promote regional trade in agriculture are necessary. Though there exists a system of reporting existing NTBs under SAFTA, an NTB monitoring mechanism is missing. Therefore, a dedicated executive body can be set up to oversee reductions in reported barriers and a robust dispute settlement mechanism can be put in place to enforce decisions under SAFTA.

Developing food processing industry in the region

Given its size and diversity, the agriculture sector has the potential to become one of the greatest strengths of South Asia. The food processing industry provides an opportunity to all countries in the region to contribute productively and gain in terms of higher output and trade in agriculture. The sector has high employment multipliers and requires relatively low skills. It can, therefore, address the problems related to unemployment effectively. Intra-regional investments and sharing of technology within the region can help in fostering regional and global supply chains.

Improving transport and communication infrastructure

An adequate road or rail infrastructure is an imperative for reducing transportation time and direct cost, and maintaining quality in production. Ports and cargo-handling facilities are also important components of the infrastructure. Cheap and reliable communication networks are necessary to ensure that correct goods are shipped at the correct time between production nodes in a supply chain. Therefore, reducing transaction costs of trade also means improving the means of communication within and across national borders. This is also an area where the presence of large externalities suggests significant rewards to regional cooperation (Brooks 2008)[5]. India can play the role of a catalyst in the region with respect to building telecommunication infrastructure.

> Much work remains to be done within SAARC to address NTBs and oversee reductions in reported barriers.

Mobilizing financial resources

Development and expansion of regional supply chains require the development and/or expansion of new firms and capital investments. Sources of capital can be internal or external. For the least-developed countries (LDCs), the main source of external investment capital is foreign direct investment. It is important that countries define (and emphasize) their comparative advantage and provide the necessary information to potential investors with regard to those advantages. With respect to regional supply chains, much of the production expansion is likely to come from the expansion of firms within the region (from more advanced economies in the region to LDCs). Therefore, particular attention needs to be paid to creating an environment for the flow of regional FDI. In that regard, regional investment agreements need to be explored.

Another source of finance which can be potentially feasible for supply chains, but is yet to be tapped and tried, is intra-firm trade credit. Larger or better financed firms may be able to provide trade credit to less financed firms within their network if right incentives such as tax concessions, insurance or limited guarantees are given.[6] This may have the added benefit of making production within supply chains more attractive to nascent firms. The use of development banks can be leveraged to develop regional supply chains, especially in the agriculture sector.

Conclusion

With the changing realities of the world, where Northern markets are losing their glitter, developmental regionalism is fast gaining ground. South Asia, as a region, has not, as yet, taken advantage of the opportunities that exist within the region. The existence of a fast-growing emerging economy in the region and the spurt in the growth of other developing countries of the region have increased the potential gains of regionalism for South Asia. Rising per capita incomes in the region has added a new momentum to the growing demand for agriculture products. Growing global and regional demand for agriculture products has provided an opportune moment for the region to overcome its trust deficit and explore avenues for productive and development-oriented integration. ■

Dr Banga is Senior Economist, Unit of Economic Integration and Cooperation among Developing countries (ECIDC), UNCTAD, Geneva.

The article is based on a forthcoming report "Exploring Regional Integration in Agriculture in South Asia: Identification of Potential Supply Chains" under UNCTAD's project on "Development-Oriented Integration in South Asia" funded by the Asian Development Bank.

Notes

1. Sekhar, C.S.C. 2012. "Regional integration and food security in South Asia". Presentation in Regional Consultation on "Potential regional trade in agriculture in South Asia", 28 May 2012, Dhaka.
2. Djankov, Simeon, Caroline Freund and Cong S. Pham. 2010. "Trading on time", *The review of economics and statistics*, 92 (1): 166–173.
3. Weerahewa, Jeevika. 2009. "Impact of trade facilitation measures and regional trade agreements on food and agricultural trade in South Asia", Asia-Pacific Research and Training Network on Trade Working Paper Series, No. 69, June.
4. Wilson, John S. and Tsunehiro Ostuki. 2007. "Cutting trade costs and improved business facilitation in South Asia". In Ahmed, Sadiq and Ejaz Ghani (eds.). *South Asia: Growth and regional integration*. Washington, D.C.: World Bank.
5. Brooks, Douglas H. 2008. "Regional cooperation, infrastructure, and trade costs in Asia", ADBI Working Paper Series No. 123, Tokyo.
6. Inter-firm financing through trade credit was a very important tool in the early industrialization of Japan.

The initiative for the establishment of South Asian Association for Regional Cooperation (SAARC) in 1985 had come from the smaller countries of the region. Of course, without the support of the two largest countries, India and Pakistan, SAARC would not have materialized. But a determined push for it was made by two least-developed countries (LDCs), Bangladesh and Nepal, which saw in regionalism a potential safeguard against bilateralism characterized by asymmetric power relationships. When the seven countries of the region came together to form SAARC,[1] the common goal, at least at the official level, was to find regional solutions to regional problems.

The SAARC Charter ruled out "bilateral and contentious issues" from deliberations in the regional body and included the principle that regional cooperation would not be a substitute for bilateral and multilateral cooperation but would complement them, apparently to allay the concerns of the bigger countries. Still, on the balance,

Advances in South Asian economic cooperation

Stay the course

Paras Kharel

SAARC provided an option, where none existed before, for South Asian countries to engage with one another at a regional forum instead of only bilaterally.

Economic cooperation to accelerate economic growth and promote the welfare of the peoples of South Asia was a key objective of SAARC. Deepening cooperation in the economic realm was supposed to gradually ease the way towards the ultimate resolution of a host of prickly bilateral issues, including disputes over border and sharing of water resources, immigration and terrorism. In practice, the latter impeded the former although they could not be discussed at SAARC. Particularly, the SAARC process was held hostage to the often-icy India-Pakistan relations; so much so that not even the annual Summits could be held regularly. Mistrust among other member countries did not help matters either.

The SAARC Preferential Trading Arrangement (SAPTA), which came into being in 1993, marked the first major step towards regional economic integration in South Asia. However, because it was based on a positive list, with products with high trade potential being outside the list, SAPTA failed to increase intra-regional trade significantly. SAPTA was replaced by the Agreement on South Asian Free Trade Area (SAFTA) in 2004. SAFTA was theoretically better than SAPTA in that the former was based on a negative-list approach. But in practice, the long sensitive lists maintained by member states, including India—the region's largest economy—continued to stifle trade. Furthermore, Pakistan did not accord most-favoured-nation (MFN) status to India. Goods on the sensitive lists accounted for over half of intra-regional trade.

Besides the slow pace of tariff liberalization, there was no progress in eliminating or reducing non-tariff barriers (NTBs) as envisaged by SAFTA. Trade facilitation measures were not taken to the desired extent.

As a result, intra-regional trade barely budged from 5 percent of the region's total foreign trade despite substantial trade potential (see, for example, ADB and UNCTAD 2008, which uses a gravity model to estimate potential trade at 120 percent of actual trade).[2] The table on the next page shows trends in intra-regional trade in South Asia. Intra-regional trade has been growing but has not been able to match the growth in extra-regional trade.

> Improvement in bilateral relations has created a favourable atmosphere for taking the regional economic integration enterprise forward.

There was more to the slow pace of regional economic integration than the state of India-Pakistan ties alone. India's sensitive list under SAFTA for LDCs was effectively and principally aimed at Bangladesh, as India allowed duty-free and quota-free access to most products from Bhutan and Nepal under bilateral agreements.[3] While India's official concern was the possible threat to its domestic industry from increased imports from Bangladesh, which had the strongest manufacturing sector among LDCs in South Asia, there were strong perceptions in Bangladesh that geo-political reasons explained India's reluctance to grant duty-free access to imports from Bangladesh, the argument being that India's huge economy would be able to absorb imports from Bangladesh with little adjustment costs. Moreover, there was a glaring assymetry between India's exports to and imports from South Asia: in 2010, for example, India accounted for nearly 69 percent of intra-regional exports but only 11 percent of intra-regional imports.

Even as trade liberalization under a regional framework moved at a sluggish pace, bilateral trade agreements (BTAs) were renewed and revised or new ones came into being: between India and Nepal, India and Bhutan, India and Sri Lanka, India and Afghanistan, and Pakistan and Sri Lanka. Further, India, Pakistan and Sri Lanka have tabled proposals for free trade agreements with Bangladesh. Negotiations are also underway between Bangladesh and Nepal for a BTA. India also unilaterally offered to provide zero-duty market access for up to eight million pieces of garments from Bangladesh (without any sourcing conditionality).[4] An analysis of the content and implementation of the BTAs in South Asia shows 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 in the BTAs) and have helped increase trade to some extent, critical trade barriers remain unaddressed.[5] In particular, the BTAs have made hardly any progress in the elimination or reduction of para-tariff barriers and NTBs.

Poor transport connectivity in South Asia has remained a critical barrier to economic integration. A regional approach is also required for dismantling this barrier optimally. The Asian Development Bank-supported SAARC Regional Multimodal Transport Study (SRMTS) had identified 10 road corridors, five rail corridors, two inland waterway transport corridors, 10 maritime corridors and 16 aviation gateways as having great potential to improve regional connectivity. But the implementation of SRMTS recommendations approved by the SAARC Summit in 2007 remained slow due to lack of political commitment.[6]

In the 16th SAARC Summit held in Thimphu, Bhutan in April 2010, which marked a quarter of a century of SAARC's existence, the region's leaders admitted that the regional body had not been able to deliver much in almost all areas of regional cooperation and committed to "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".[7]

Positive developments

In the last one and a half years, however, there have been a number of positive developments in bilateral relations and in regional cooperation under SAARC. Since the resumption of dialogue between India and Pakistan in February 2011, there has been a marked improvement in the relations between the two countries. Economic cooperation, including on trade, has been the centrepiece of the improvement in bilateral ties. There have been three meetings of commerce ministers in less than a year.

Two rounds of peace talks have produced a series of landmark measures to boost trade and liberalize visa procurement procedures.[8] These include Pakistan agreeing in November 2011 to grant India most-favoured-nation status in trade matters and taking major steps to achieve that by 2012-end, and switching to a negative list from a positive list in its trade with India; India's in-principle decision to allow Pakistani firms to invest in the country; the setting up of an India-Pakistan joint business council; talks between the Reserve Bank of India and the State Bank of Pakistan to allow banks from both the countries to open branches in each other's territory; the opening of a second gate for commercial trucks at the Wagah-Attari land crossing between the two countries with a capacity to handle about 600 trucks a day; and the near-finalization of a liberalized visa pact that will allow businessmen from one country greater freedom to travel in the other.[9]

In another positive development, under SAFTA, India announced in the 17th SAARC Summit, held in November 2012 in the Maldives, its decision to unilaterally reduce its sensitive list for LDCs by 95 percent such that only 25 items—alcohol items, tobacco and tobacco products—would remain in the list with effect from 1 January 2012. The biggest beneficiary of this reduction would naturally be Bangladesh. Satisfying a key Bangladeshi demand, this gesture could potentially trigger further moves in economic cooperation at the sub-regional and regional levels.

This came two years after a joint communiqué issued by Bangladesh and India during the visit of the Bangladeshi prime minister to India in January 2010 which featured agreements on cooperation on transport and transit that would benefit not only Bangladesh and India but also landlocked Bhutan and Nepal, but which remained to be implemented. The agreements included use of Bangladeshi sea ports by India, Bhutan and Nepal; transit and transport facility by India for Bhutan and Nepal for trade with and through Bangladesh; transit facility for India to use Bangladeshi territory for accessing Indian territory in the Northeast; and expeditious conclusion of discussions on the sharing of the Teesta waters.

There was a hiccup, however, when the Indian prime minister's visit to Dhaka in September 2011 failed to secure crucial agreements on the sharing of the Teesta waters and the granting to India of overland access through Bangladesh to its territory in the Northeast. Nevertheless, India's reduction of its sensitive list for LDCs

Table
Trends in intra-regional trade in South Asia

	2003	2004	2005	2006	2007	2008	2009	2010
Intra-regional exports in US$ billion*	5.45	6.38	8.30	9.54	11.78	14.44	11.05	15.18
Intra-regional share (%)								
Export	6.63	6.53	6.71	6.21	6.50	6.65	5.50	6.01
Import	5.16	4.36	4.07	3.95	4.08	3.53	3.19	4.15
Trade (Export+import)	5.81	5.28	5.15	4.85	5.03	4.68	4.10	4.96
Share in intra-regional export (%)								
Afghanistan	1.21	1.65	1.29	1.27	1.49	2.63	2.24	1.25
Bangladesh	1.59	2.56	3.10	3.37	5.37	2.82	2.84	2.43
Bhutan	0.99	0.75	2.71	3.41	4.71	3.41	4.12	2.25
India	69.63	67.92	60.73	64.05	65.42	66.90	62.77	68.36
Sri Lanka	6.28	7.44	7.29	6.18	5.39	3.71	3.81	3.76
Maldives	0.29	0.23	0.19	0.19	0.15	0.09	0.17	0.27
Nepal	6.41	5.13	4.42	3.36	3.96	4.23	5.39	3.84
Pakistan	13.61	14.33	20.26	18.17	13.51	16.20	18.66	17.84
Share in intra-regional import (%)								
Afghanistan	9.68	10.54	15.67	12.41	9.12	4.27	2.86	4.18
Bangladesh	29.18	23.75	19.97	21.95	22.02	26.80	25.34	25.95
Bhutan	1.56	1.46	3.82	3.13	3.19	2.96	4.05	4.59
India	11.61	15.23	17.77	15.95	14.76	15.80	14.49	11.06
Sri Lanka	21.68	24.59	20.46	21.14	25.77	22.18	18.50	19.96
Maldives	2.10	2.25	1.67	1.56	1.78	1.69	1.37	0.99
Nepal	17.80	12.31	10.80	9.91	10.62	12.29	20.59	20.51
Pakistan	6.37	9.86	9.83	13.95	12.76	14.01	12.80	12.76

* *Average of import and export values taken to reconcile the difference between intra-regional imports and exports.*
Source: Author's calculation based on UNCOMTRADE; mirror data used in the case of missing values.

www.mea.gov.in

may be a signal of its intention to improve ties with Bangladesh. Encouragingly, after a hiatus of eight years, a meeting of the commerce secretaries of Bangladesh and India was held in March 2012, in New Delhi. The need for issuing long-term multiple entry visas to prominent businesspeople of the two countries was discussed during the meeting, among other things.

Though not as sharply as by India, all other SAARC members, except Bhutan,[10] also removed at least 20 percent of the items from their sensitive lists with effect from 1 January 2012. The Maldives removed about 78 percent of the items from its sensitive list. India also reduced by 20 percent its sensitive list for non-LDCs (see related article on pages 21–23).

It was agreed at the Seventh Meeting of the SAFTA Committee of Experts (Islamabad, 14–15 February 2012) that there was a need for further reduction in the sensitive lists for enhancing trade under SAFTA, especially for encouraging exports from the LDC members,[11] as there are still over 800 items in many countries' sensitive lists. For this purpose, the Meeting decided to form an *ad hoc* Working Group on Reduction in the Sensitive List under SAFTA (Phase III). The Working Group would devise modalities of reduction in the sensitive lists and make its recommendations for consideration of the Eighth Meeting of the SAFTA Committee of Experts. The sharp reduction by India of its sensitive list for LDCs may be expected to lead to a deeper and more meaningful pruning of sensitive lists in Phase III by other countries and also by India for non-LDCs.

The positive movements in the area of goods trade has been accompanied by encouraging steps in other areas of economic cooperation under SAARC. The SAARC Agreement on Trade in Services (SATIS) was signed in April 2010 at the 16th SAARC Summit in Thimpu, and negotiations on the scheduling of specific commitments are ongoing. In addition, key outcomes of the 17th SAARC Summit in November 2011 related to economic cooperation included the signing of the SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment, and the SAARC Agreement on Implementation of Regional Standards. The Summit decided to conclude the Regional Railways Agreement and to convene the Expert Group Meeting on the Motor Vehicles Agreement before the next Session of the Council of Ministers. Further, it decided to direct the early conducting of a demonstration run of a container train (Bangladesh-India-Nepal), and to direct the conclusion of the Intergovernmental Framework Agreement for Energy Cooperation and the Study on the Regional Power Exchange Concept, as well as the work related to SAARC Market for Electricity.

Just prior to the 17th Summit, the Agreement on the Establishment of South Asian Regional Standards Organization (SARSO) had been ratified by all member states and entered into force. Work on the harmonization of standards in 12 identified products has commenced.

Furthermore, negotiations after the 17th Summit indicate that the SAARC Investment Promotion and Protection Agreement, which has been pending since 2007, is likely to be finalized at the 18th SAARC Summit, proposed to be held in Kathmandu in 2013. Such an agreement will be a critical first step towards exploiting trade-investment nexus in the region and developing regional value chains, for example, in agro-processing and textiles and clothing industries. At present, official and unofficial barriers discourage intra-regional investment.

Staying the course

The recent improvement in official India-Pakistan ties, driven by economic agenda, has created a favourable atmosphere for taking the regional economic integration enterprise forward. Since the possibility of groups in the two countries opposed to rapprochement throwing a spanner in the works of the peace process remains a critical concern, the onus falls on the civil societies and private sectors of these countries to put pressure on their respective governments to stay the course.

A couple of hiccups in the peace process seen in recent months (see related article on pages 29–30) should not be allowed to dwarf the positive developments. Full normalization of trade relations between India and Pakistan will be a landmark in the annals of South Asian economic cooperation.

The extent of removal of items from sensitive lists that are of export interest to partner member states under Phase III of SAFTA sensitive list reduction will have a critical bearing on the efficacy of SAFTA. Upon the restoration of normal trade relations between India and Pakistan, the sensitive lists maintained by the two countries for non-LDCs[12]—which are aimed at each other—must be pruned.

As tariff barriers fall, NTBs take on increasing importance in restricting trade in the region. Expeditious and effective operationalization of SARSO and implementation of the SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment and the SAARC Agreement on Implementation of Regional Standards will immensely help reduce the trade-restricting impact of NTBs, something SAFTA has failed to address in practice. This should be later complemented by instituting an independent and effective dispute settlement mechanism to deal with, among others, disputes related to NTBs.

The civil societies and private sectors of India and Pakistan must put pressure on their respective governments to stay the course.

In order to make the signing of SATIS meaningful, the ongoing exchange of requests and offers concerning specific commitments should yield market access beyond what has been already committed to at the WTO.[13] Likewise, the signing of the SAARC Investment Promotion and Protection Agreement could be a major breakthrough for regional economic integration.

Speedy implementation of the decisions regarding transport and energy taken at the 17th Summit will also be essential to keep the momentum going. Agreements on transport and transit contained in the January 2010 Bangladesh-India joint communiqué had raised hopes for improved connectivity in the eastern sub-region of South Asia, benefiting both landlocked and transit-providing countries, with potential positive impact on both intra-regional and extra-regional trade, but there has been little progress in their implementation. Implementing them will be a key test of the commitment of the leaderships of Bangladesh and India to regional integration. This would generate the momentum for the ultimate establishment of a regional transport and transit arrangement.[14]

Recent developments portend well for intra-regional market opening. However, supply-side constraints prevent or restrict the translation of market access into market entry. This is especially true of the LDCs, which have weak productive capacities. The creation and mobilization of an LDC Integration Fund, as proposed by Adhikari (2010), is a possible way of helping the LDCs of the region overcome supply-side constraints.[15] If the improvements in the atmosphere for regional cooperation are sustained, SAARC should explore the option of instituting such a fund. That will contribute to making the distribution of benefits of regional economic integration more equitable, and increase the chances of success of the integration enterprise. ■

Notes

1 Afghanistan joined SAARC in 2005.

2 ADB and UNCTAD. 2008. *Quantification of benefits from economic cooperation in South Asia*. New Delhi: Asian Development Bank.

3 Afghanistan was not a member of SAARC when SAFTA came into force. The bilateral trade agreement between Afghanistan and India, in force since 2003, had limited preferential coverage.

4 Rahman, Mustafizur. 2010. "Trade-related issues in the Bangladesh-India joint communiqué: Maximising Bangladesh's benefits, and strategies for future". Presented at CPD Dialogue Bangladesh Advancing Bangladesh-India Economic Cooperation: Modalities and Challenges, Dhaka, 4 March 2010.

5 Adhikari, Ratnakar and Paras Kharel. 2010. "Bilateral trade agreements in South Asia", *Trade Insight* 6(2).

6 Rahmatullah, M. 2010. "Improving transport connectivity in South Asia". Presented at Third South Asia Economic Summit, 17–19 December 2010, Kathmandu, organized by South Asia Watch on Trade, Economic and Environment (SAWTEE) and South Asia Centre for Policy Studies (SACEPS).

7 "Thimphu Silver Jubilee Declaration: Towards a Green and Happy South Asia", Sixteenth SAARC Summit, 28–29 April 2010.

8 Roche, Elizabeth. 2012. "Easing of India-Pakistan strains may lose pace", 25 May, www.livemint.com

9 Note 7, Roche (2012); Chalise, Kuvera, 2012, "Deal to give a fillip to trade in SAARC region", 22 February, www.thehimalayantimes.com

10 Bhutan has the shortest sensitive list (150 items).

11 www.saarc-sec.org

12 Pakistan maintains just one list, applicable for both LDCs and non-LDCs.

13 Except Afghanistan and Bhutan, all SAARC countries are WTO members.

14 For a case for such an arrangement, see Kharel, Paras. 2009. *Case for South Asian transit arrangement*. Briefing Paper, No. 11. Kathmandu: SAWTEE.

15 Adhikari, Ratnakar. 2010. *LDC Integration Fund*. Special Brief for the 16th SAARC Summit. Kathmandu: SAWTEE.

Trade Integration in South Asia

Pruning sensitive lists and beyond

The reduction of sensitive lists under SAFTA will help deepen economic partnership among South Asian countries.

Fahmida Khatun

South Asia has been the least integrated region in terms of intra-regional trade flows. Keeping this in mind, South Asian countries made efforts to improve trade integration in the region beginning in the early 1990s, with the broader objectives of poverty alleviation and economic development. Members of the South Asian Association for Regional Cooperation (SAARC) created a trade bloc in April 1993 known as the SAARC Preferential Trading Arrangement (SAPTA). Further efforts at trade liberalization culminated in the signing of the Agreement on South Asian Free Trade Area (SAFTA) in January 2004 at the 12th SAARC Summit. The agreement came into effect on 1 January 2006.

Implementation of SAFTA

SAFTA has been a ground-breaking step as it opened a window of trade opportunities for the countries of the region through a number of instruments, which include: i) trade liberal-

Table
Sensitive lists under SAFTA (Phase II)

Country	Number of sensitive products in the initial list	Number of sensitive products in the revised lists (Phase II: with effect from 1 January 2012)
Afghanistan	1,072	850
Bangladesh	1,233 (LDCs); 1,241 (NLDCs)	987 (LDCs); 993 (NLDCs)
Bhutan	150	150
India	480 (LDCs); 868 (NLDCs)	25 (LDCs); 695 (NLDCs)
Maldives	681	152
Nepal	1,257 (LDCs) ; 1,295 (NLDCs)	998 (LDCs); 1,036 (NLDCs)
Pakistan	1,169	936
Sri Lanka	1,042	845 (LDCs); 906 (NLDCs)

Source: www.saarc-sec.org/areaofcooperation/detail.php?activity_id=35

ization programme; ii) rules of origin; iii) institutional arrangements; iv) consultations and dispute settlement procedures; v) safeguard measures; and vi) any other instrument that may be agreed upon.

Among these, the most significant measure obviously is that of tariff liberalization. According to Article 7 of the SAFTA Agreement, the developing countries or the non-least-developed countries (NLDCs) of South Asia—that is, India, Pakistan and Sri Lanka—were to bring their duties down to 20 percent in the first phase of the two-year period ending in December 2007. The 20 percent duty is to be reduced to 0–5 percent in a series of annual cuts in the final five-year phase ending 2012 (six years for Sri Lanka). However, the least-developed countries (LDCs) of the region—Afghanistan, Bangladesh, Bhutan, the Maldives and Nepal—were to bring their tariffs down to 30 percent in the first phase. The LDCs have an additional three years to reduce tariffs to 0–5 percent in the second phase ending December 2015. This tariff liberalization programme would cover all tariff lines except those kept in the sensitive lists by the member states.

After six years of the establishment of SAFTA, South Asia is still considered to be the least integrated among global regions where barriers to trade, investment and movement of people are very high. Currently, regional trade in South Asia is only about 5 percent of its total trade as opposed to about 40 percent in East Asia, for example. The low trade integration is because the spirit behind the creation of SAFTA was not upheld for a long time due to economic and political barriers. Also, due to the inherent dissimilarities of the member countries, the gains from this regional pact have not been distributed equally. The size of the economies, the level of incomes and the structure of trade and protection, all have affected the benefits to a large extent. Hence, the fruition of SAFTA was not mutually beneficial for South Asian countries. Though the reduction in tariff barriers under SAFTA was expected to raise intra-regional trade,[1] the impact was found to vary across countries and there was an apprehension of trade diversion for some countries due to their low share of exports and other bottlenecks.[2]

The issue of sensitive lists

Another important factor to determine the magnitude of the effects has been the initial levels of trade protection in the region. Article 7(3)(a) of SAFTA states that the tariff liberalization programme would not apply to the tariff lines included in the sensitive lists. Because of this exclusion, the benefits from the regional trade agreement have been restricted, particularly for the LDCs of the region.

Recognizing the trade-restricting nature of the sensitive lists, the working group of SAFTA proposed the reduction of tariffs on a number of products under the initial lists of sensitive goods during the second phase of tariff reduction. SAARC countries were to undertake such a measure with effect from 1 January 2012. Except for Bhutan, all other countries have reduced the number of products on their sensitive lists, both for LDCs and NLDCs. India has reduced its sensitive list for LDCs from 480 items to 25 items and granted zero basic customs duty access on all other items. It has also reduced peak tariff rates to 8 percent for NLDCs under SAFTA.

Pakistan has cut its sensitive list by 20 percent, which will allow duty-free import of more than 200 products from India, Bangladesh and Sri Lanka. After the removal of 233 tariff lines, Pakistan's sensitive list has shortened from 1,169 to 936 tariff lines. The number of sensitive products by country is summarized in the Table. SAFTA member countries have committed to further reduce their sensitive lists and progressively liberalize their trade and investment policies, so that overall trade and commerce is strengthened among them.

Reaping benefits from tariff liberalization

Trade facilitation is a central element for the success of any regional trade agreement. The experience of regional trade agreements indicates that the expected benefits from the agreement cannot be reaped if bottlenecks are not removed through trade facilitation. Hence, the success of SAFTA is also contingent upon trade facilitation through the adoption of a number of measures. For example, procedures of customs clearance should be simplified. Low-risk goods can be cleared with little or no documentary verification or physical inspection through the adoption of shared risk management by customs.

Risks can be determined according to indicators of the likelihood of smuggling or fraud, or of issues relating to rules of origin and sanitary and phytosanitary standards. Banking procedures for import financing should also be simplified. There is a need for simplified and streamlined procedures for express shipments. Greater flexibility and cooperation in sharing data among trade officials are needed, and electronic data interchange systems should be established. Transit facilities for intra-SAARC trade are essential for successful trade cooperation. Such initiatives should be based on mutual understanding keeping in view the political sensitivity of each country. Barriers to intra-SAARC investments should be removed.

Effective implementation of a trade agreement also depends on other measures such as those related to intra-regional investment, finance, and trade in services. Communications systems and transport infrastructure should be developed within the region. Simplification of procedures for business visas has been a longstanding demand of SAARC businesspeople. A borderless region must be created for SAARC businesspeople by easing business visa rules, including issuance of longer-term multiple entry visas with flexibility.

Harmonization of standards has also been on the agenda for long in order for intra-regional trade to take place smoothly. Besides, export diversification through removal of supply-side constraints within countries is also important for taking advantage of tariff liberalization. However, the LDCs require technical assistance to diversify their export baskets. Larger NLDC partners should come forward to help improve the supply capacity of LDCs. This is also important since the LDCs will lose out economically once tariffs are removed fully.

SAFTA had the provision, which has now expired, for a mechanism for revenue loss compensation to the LDCs under which NLDC members would provide compensation to the LDCs for four years (one extra year for the Maldives given the size of its economy) for the loss of customs revenue due to the implementation of SAFTA. Such a spirit should be upheld as and when it becomes necessary.

Reduction of tariff barriers does not necessarily bring results unless non-tariff barriers (NTBs), which range from import limits to stringent sanitary regulations, are dismantled. These NTBs are very difficult to deal with as many of them are not documented in paper and are practiced unwritten.

Additional measures like agreements on intra-regional investment, finance and services are necessary for the successful implementation of SAFTA. In this regard, the SAARC Agreement on Trade in Services (SATIS) can be mentioned as an example of the two-track liberalization process which is needed for further strengthening cooperation among South Asian countries as agreed by the members.

Finally, there is a need for more analytical work on the quantification of benefits of cooperation and the costs of non-cooperation. This will provide the basis for renewed urgency among countries to implement SAFTA in a timely and judicious manner.

Conclusion

The reduction of sensitive lists under SAFTA will help deepen economic partnership among South Asian countries by way of increased intra-regional trade. It will open the window for ushering more foreign direct investment into the region, which is likely to be accompanied by investment in physical infrastructure, changes in the regulatory systems and trade facilitation measures, and technical and financial assistance. Ultimately, it can also be a powerful tool for bringing economic stability in the region by way of increasing growth and reducing poverty and income inequality as it will create opportunities for employment and income generation.

> More analytical work is needed to quantify the benefits of cooperation and the costs of non-cooperation in South Asia.

Suspicion and distrust have hamstrung businesses and social development in all countries of South Asia for a long time. However, recent developments have been encouraging. For example, Pakistan granted most-favoured-nation status to India late last year and, in exchange, India agreed to examine its NTBs. If implemented, these will bring about both quantitative and qualitative changes in the overall trade relationships within the region.

Although South Asia has been plugged into a phase of high economic growth, averaging 6 percent a year over the past 20 years, the region is home to more than 44 percent of the developing world's poor. This has subdued several other achievements, particularly in the field of human development.

What is needed in South Asia is a graduation towards a higher growth path that is more dynamic and inclusive. This, unfortunately, cannot be achieved in isolation without cooperation among nations. SAFTA, a long-felt need, came into effect six years ago. If implemented in its full force, economic prosperity as well as political stability will be at the doorsteps of the region, and the possibility of South Asia emerging as a powerful regional group will be real and imminent. ■

Dr Khatun is the Head of Research, Centre for Policy Dialogue, Dhaka.

Notes

1. Rahman, M, W.B. Sadat and N.C. Das. 2006. "Trade potential in SAFTA: An application of augmented gravity model", CPD Occasional Paper 61, Centre for Policy Dialogue, Dhaka.
2. Raihan, S. 2012. "SAFTA and the South Asian countries: Quantitative assessments of potential implications", MPRA Paper 37884, University Library of Munich, Germany; Bouët, A., S. Mevel and M. Thomas. 2010. "Is SAFTA trade creating or trade diverting? A computable general equilibrium assessment with a focus on Sri Lanka", IFPRI Discussion Paper 00950, January.

Rising

Sino-India Economic Interaction and Nepal

The rapid growth of and deepening ties between the Chinese and Indian economies present vast opportunities for Nepal.

Posh Raj Pandey

The rapid and persistent economic growth of China and India, at annual rates of 10.3 percent and 7.1 percent respectively during the last decade, and their emergence as major players in world trade and sources of substantial foreign investment have serious implications for other developing countries. Their rapid growth, initially centred on low-technology products followed by a steady movement towards medium-and high-technology products and skill-intensive services, have provided and will provide a significant stimulus to the opportunities of trade expansion. This is partly also due to the fact that most developing countries have comparative advantag-

es in primary commodities and these two countries are turning into major shoppers of these products in global markets.

China is now the world's largest consumer of most of the main metals accounting for more than a quarter or more of world imports, and also of a wide range of agriculture commodities such as wheat, rice, palm oil, cotton and rubber. It is also a major consumer of energy.

India, a late comer in the race to high growth, primarily driven by services, is also a major energy user and a large consumer of many of the main metals and agriculture goods such as sugar, tea, wheat, rice, palm oil and cotton. In addition, increasing fragmentation of production systems—trade in different "slices" of a product—has provided great impetus to trade in intermediate products. As a result, there will be "spillover effects" of technological development in these countries and there is also a possibility of investment inflows to other developing countries.

However, the picture is not entirely rosy. There are other possible direct impacts detrimental to developing countries. There will be increased competition with Chinese and Indian exports in third countries as well as increased competition with Chinese and Indian imports in domestic markets, increasing the risk of de-industrialization.

Increased emissions of greenhouse gases by these countries would increase economic and environmental vulnerabilities. Therefore, the global market may expand, investment flows may increase and new production opportunities may arise, but opportunities for other developing countries may not be distributed equally and some countries may turn out to be net losers.

From antagonism to economic cooperation

It is a rare coincidence that the two aspirant world powers, China and India, share common borders, have fought a full-fledged war, and with a perceived threat of diplomatic and maritime encirclement from each other, have accelerated and recalibrated military modernization. But economic realities eventually determined geopolitical relations and there has been uninterrupted progress in their political, economic and security relationships in the past decade. This has been reflected, on the economic front, in the impressive expansion of bilateral trade. From 1999 to 2010, bilateral trade rose from US$1.9 billion to US$63 billion—with a growth of 48 percent in 2010—and bilateral investment has also been increasing significantly.

China is now the second largest trading partner of India. However, Sino-India trade remains low as a percentage of total Chinese trade. The bilateral trade between India and China is largely dominated by crude materials, chemical and related products, machinery and transport equipment and manufactured consumer goods.

Given the current trends in Sino-India trade growth, with both countries embarking on modernization of ports and basic infrastructure, and their engagement in international fragmentation of production—that is, "cross-border dispersion of component production/assembly within vertically integrated manufacturing industries"—there are huge unexploited potentials for promoting bilateral trade and investment. There is no reason to be pessimistic about the Sino-Indian target of eventually increasing trade to US$100 billion.

Bumpy bridge between two aspirant super powers

For Nepal, being a buffer state between the two giants, increasing bilateral trade flows between them carries much more implications than for other developing countries. The implications transcend the economic sphere into the political and diplomatic spheres. Both the countries would pursue their foreign policy to attain strategic goals, namely security, including resource security, increased trade and investment opportunities, and the establishment of a strong political and diplomatic alliance. The challenge for Nepal is to maintain equidistance politically and diplomatically, and not to dance with one of the giants.

Increasing economic interaction between China and India and their projected double-digit growth is likely to increase demand for agriculture and natural resource products and ICT-embedded services, as well as enhance the opportunity for Nepal to act as a transit state. However, the trade impact would be ambiguous. The increased exports of primary products and the resulting specialization away from manufacturing goods may lead to Dutch disease problems. In addition, Nepal would have to face increased competitive pressures from China and India in labour-intensive products such as readymade garments, carpets and handicraft in the international markets and in consumer goods in the domestic market. This would adversely affect Nepal's export and production potentials and increase the risks of de-industrialization. Being an immediate neighbor, the natural resource-intensive growth pattern of both countries and the resulting emissions of greenhouse gases and the further deteriorating brown clouds could have a damaging impact on the pristine environment of Nepal.

Nonetheless, expanding bilateral trade could provide an impetus to the Nepalese economy. As bilateral trade is growing at an astonishing speed and is set to continue that way, both countries are looking for cheap and easy transportation routes by land, air and sea. Nepal can develop itself as a transit state, for the conveyance of people or goods from China to India and vice versa. Passage through Nepal could be of strategic importance to China as it offers the most direct access to the Indian heartland. For India, it will be an instrument to allow Indian exporters an easy access to the regional markets of China such as Tibet, Shanghai and Sichuan.

Such a Nepalese corridor would not only help develop Nepal's transport system, including rail transport, increase the demand for electricity and related services, and boost employment. It would also make Nepal an attractive destination for growing Chinese and Indian tourists. Moreover, amid increasing fragmentation of production systems and the mounting global pressure to reduce costs, Indian and Chinese producers would find it economically beneficial to relocate their production base to Nepal and export to other countries rather than producing in their own territories.

Nepal's preferential market access through multilateral, regional and bilateral trade agreements because of its least-developed country status will provide further incentives for Indian and Chinese firms to relocate production. This would increase the inflow of foreign investment. However, it should be noted that the existing road and other infrastructure designed to accommodate about US$5 billion worth of Nepal's exports and imports would not be sufficient to cater to the potential US$100 billion Sino-India bilateral trade flow, which constitutes, among others, high-weight industrial raw materials, machinery and equipment. This demands a modern transport system and transformative policies on infrastructure development, including engagement of foreign investment in infrastructure development.

> Nepal's preferential market access can be an incentive for Indian and Chinese firms to relocate production.

The major road blocks to the projected growth of India and China would be the deficiency in energy supply and both countries have initiated a drive to secure energy resources for their rapid economic expansion. China is expected to have the highest rate of increase in energy demand among the major economies of the world. These countries would look at a variety of sources, including hydroelectricity and nuclear energy, to satisfy their demands. Nepal, which has exploited only 1.4 percent of its 43,000 MW of hydroelectricity potential, would be a reliable source to meet part of the increasing demand for energy in China and India. Energy trade can be a potential instrument to reduce Nepal's burgeoning trade imbalance with both the neighbours. However, Nepal needs to separate its economic and political interests in energy trading, and strengthen its institutional capacities.

Risk of relapse?

Despite China and India having shown resilience during the financial crisis and quick rebounds in growth after the crisis, both countries face new and more uncertain world economic environment in the post-global financial crisis era. Slow growth and high unemployment in the major developed countries along with the Eurozone crisis would slow down growth prospects in the short to medium term. The depreciation of the Indian rupee may further aggravate India's growth scenario. Nonetheless, the centre of economic gravity will continue to shift towards Asia in the future, with China and India as the drivers, but their strength would be determined by how they cope with emerging challenges of energy supply, infrastructure needs, technology development, new production networks and better governance. Nepal will be lifted with these rising tides, if the right strategies and policies are put in place. ■

Dr Pandey is Executive Chairman, SAWTEE.

Government-Industry Partnership

A new optimism to South Asia

India and Pakistan, with the support of their private sectors, have taken some historic steps to normalize bilateral trade relations.

Pranav Kumar

South Asia is the fastest growing region in the world, but also one of the least integrated. While the region's trade with the rest of the world is growing rapidly, intra-regional trade is merely 5 percent of its total trade.

There are various explanations for the current low level of South Asian integration. These include arguments like South Asian countries lack trade complementarity and they are late liberalizers. However, the fact is that despite being natural trade and investment partners, the volume of trade between India and Pakistan—the two largest economies of the region—is extremely low. For instance, total trade between Brazil and Argentina amounted to US$33 billion in 2010, almost 15 times more than the current Indo-Pak trade of little over US$2 billion. It is worth mentioning that Argentina and Brazil too have had a similar turbulent past of war and fierce rivalry.

Efforts to foster deeper trade and economic integration in South Asian Association for Regional Cooperation (SAARC) have been going on since the signing of the SAARC Preferential Trading Arrangement in 1993. However, in the real sense, the momentum picked up when the Agreement on South Asian Free Trade Area (SAFTA) was operationalized in July 2006. SAFTA implementation has at least put the process of dialogue and negotiations aimed at regional trade integration on track. Since the operationalization of SAFTA, member countries have taken some significant steps forward. The most notable is the recent announcement by India to reduce its sensitive list for the least-developed SAARC member countries from an earlier 480 tariff lines to only 25 tariff lines. Nevertheless, there is still much room for SAFTA to progress further.

Many people subscribe to the view that Indo-Pak hostilities are holding the process of regional economic integration in South Asia. They are right as these two countries are the major economies of the region. Stronger trade and economic ties between them will facilitate faster integration of the economies, and hence prosperity of the people, in the region.

Developments in the last one year on the India-Pakistan bilateral trade front have created a renewed sense of optimism and hope for the people of South Asia. The two governments, with a very enthusiastic support from their private sectors, have taken some path-breaking steps to normalize the bilateral trade relations. What is more heartening to note is that businesses from both India and Pakistan are not thinking in terms of individual gains and losses, but are very eager to see the current process continue in a positive direction and achieve its desired outcome—the full normalization of bilateral trade relations.

In April 2011, India and Pakistan made a new beginning towards normalizing bilateral trade relations. India agreed to amend its Foreign Exchange Management Act to allow foreign direct investment from Pakistan. India also offered to help Pakistani officials and businesses to understand about the regulatory norms and standards of India, which would help facilitate Pakistani exports to India. The two countries also agreed to open dedicated Integrated Check Posts for freight movement. Likewise, they agreed, in principle, on visa facilitation for businessmen.

Three agreements were signed to address non-tariff barriers (NTBs)—Customs Cooperation Agreement, Mutual Recognition Agreement and Redressal of Trade Grievances Agreement. Progress was also made on modalities of electricity and petroleum products trade.

sevensisterspost.com

India took another politically significant step by withdrawing its objection in the World Trade Organization (WTO) to the European Union (EU) trade concession to select textile exports of Pakistan. This was possible after India's textile industry, which had feared that the EU concession would make it difficult for them to compete with Pakistan's exports, agreed to let its government withdraw the objection in view of the larger goal of achieving regional peace and prosperity.

Pakistan reciprocated by deciding to grant most-favoured-nation status to India, which was long overdue. It also switched to a negative list, from the existing positive list, for trade with India. Under the positive-list approach, Pakistan permitted the import of only 1,946 items from India, giving way to large informal trade flows, mostly in items excluded from the positive list. Also, the positive-list approach lacked transparency, created uncertainties and led to high transaction costs. A meaningful, target-oriented and structured government-to-government dialogue has provided a renewed confidence to the private sectors of both India and Pakistan. They are now taking the process forward.

The Pakistani Commerce Minister visited India in November 2011, which the Indian Commerce Minister reciprocated by visiting Pakistan, accompanied by a huge business delegation in February 2012. Following this, the Confederation of Indian Industry (CII) sent a 100-member strong business delegation to Pakistan. The delegation comprised some of the top business houses of India.

Developments on the India-Pakistan front have definitely stolen the limelight in the last one year. But there are other positive developments which are worth mentioning. The Commerce Secretary of Bangladesh, accompanied by a 15-member business delegation, visited India after a gap of almost eight years. Following India's pruning of its SAFTA sensitive list for LDCs to 25 items, Bangladesh is now focusing on improving trade infrastructure and land connectivity so that the benefits of a liberal trade regime could be realized.

The private sector in South Asia has shown growing interest in regional markets. Therefore, going beyond mere tariff liberalization, it is now talking about building and improving physical trade infrastructure, addressing NTBs, opening up of bank branches (particularly in the case of India-Pakistan), and de-linking regional trade from the dollar. It is also urging respective governments to dismantle physical barriers by, for example, establishing better connectivity through land by opening new trade routes.

One of the major hindrances to regional trade in South Asia is visa restrictions, particularly between India and Pakistan. Long-term multiple entry business visas without police reporting and city restrictions would encourage business-to-business contact. Both the governments are likely to ratify a new visa policy to facilitate the movement of businesspeople by cutting down the processing time and allowing multiple visits to more than one city.

There is a general lack of awareness about each other's competencies and business capabilities, particularly in the case of India and Pakistan. In this regard, organizing trade promotion activities and establishing web portals would be a step in the right direction in furthering bilateral trade and business relations. For example, the CII had organized "Made in Pakistan" shows in 2008, 2009 and 2010 in Chandigarh. Over 100 Pakistani companies participated in these exhibitions and a large number of businesspeople from Pakistan attended the business meets. A strong India-Pakistan tie could potentially catalyze the process of South Asian economic integration.

One of the major issues common to all South Asian countries is transit. This needs to be resolved in accordance with international practices as unnecessarily high costs of transportation and transit restrict intra-regional trade.

While the private sector has to play a critical role in taking the South Asian economic integration process forward and making it long-lasting and sustainable, governments still have to play a major role. What businesses want is a conducive business environment and political peace. Governments' role is extremely crucial in creating trade-related physical infrastructure, policies and agreements for intra-regional investment promotion, and ensuring easy visa for businesspeople. ■

The author is Director and Head, International Trade Policy, Confederation of Indian Industry, New Delhi.

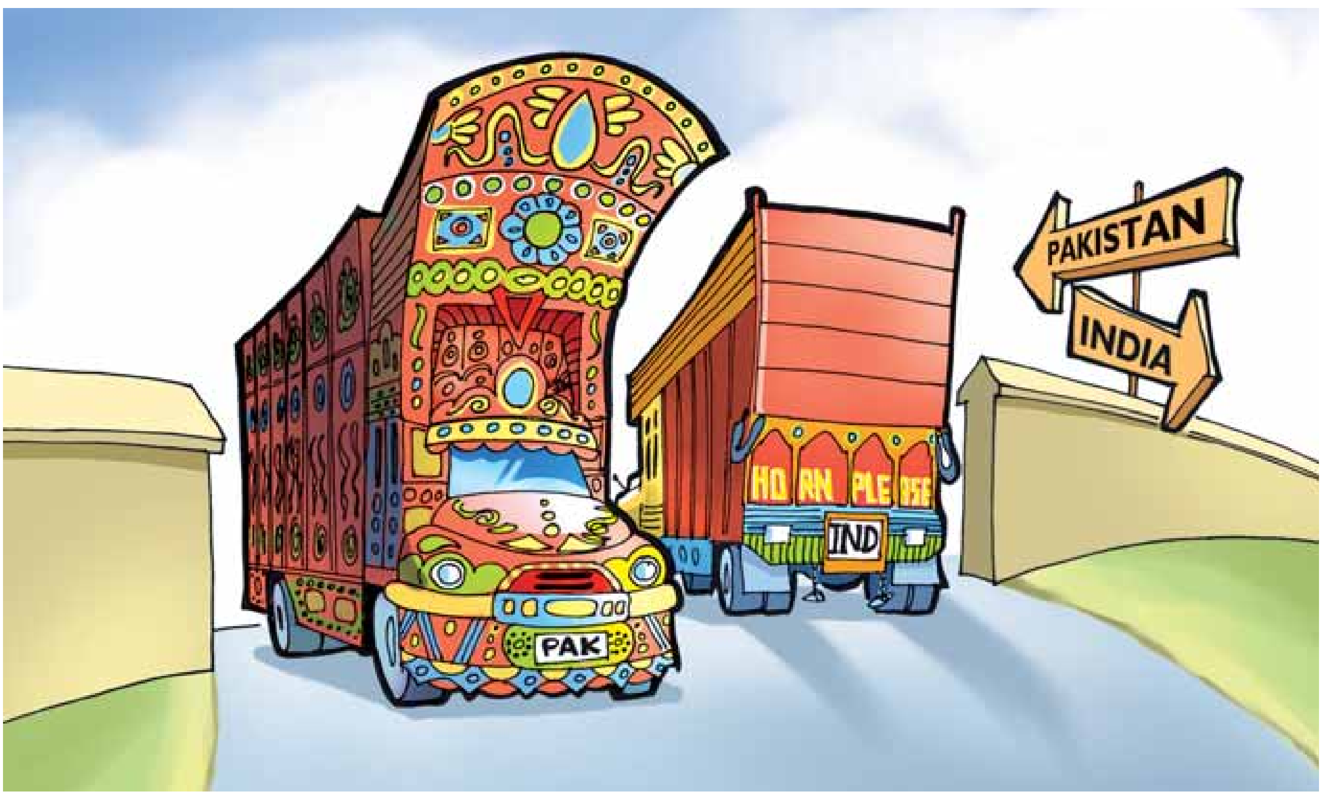
Thaw in Indo-Pak relations
Renewed hopes
for South Asia

Abid Qaiyum Suleri

Relationship between Pakistan and India is always fragile and uncertain. However, there is a sense of realization that one has to learn to live with its neighbours. Hence, despite every odd, the voice of sanity, although in minority, has prevailed and catalyzed the peace process between the two countries.

Until the last few weeks, things were quite promising on the Indo-Pak bilateral trade front. We will discuss the latest developments that may stall this process of trade normalization later, but let us first analyse the positive developments that took place last year.

Pakistan made a historic move by granting most-favoured-nation (MFN) status to India. It took Pakistan 16 years to decide "in principle" that it would also grant MFN status to India, which the latter had granted to the former in 1995 when both countries became founder members of the World Trade Organization (WTO). Pakistan's decision is a quantum leap in improving trade relations between the two countries, and a majority (except few extremist groups and some business cartels) on both sides of the border, has welcomed this move. There are a few ifs and buts on the implementation of the MFN status and the way it would change the trade dynamics between the two countries. However, the most pertinent question is: how will this decision change the Indo-Pak relationship?



First and foremost, it has a symbolic value. Second, it helps in striking an item out from the list of objections that a major group in India raises against Pakistan. Third, and most important is that a dialogue on visa relaxation followed this move to facilitate the movement of not only business persons but also common citizens. Finally, there is a hope in Pakistan that India would also reciprocate to Pakistan's move by relaxing some of the non-tariff barriers (NTBs) on imports from Pakistan.

Bilateral trade

The official bilateral trade between Pakistan and India in 2010 stood at an estimated US$1.83 billion. India accounts for approximately 1.2 percent of Pakistan's global exports, while Pakistan accounts for less than 0.9 percent of India's global exports. India maintains a sensitive list of 850 items for non-least-developed country (NLDC) members under the Agreement on South Asian Free Trade Area (SAFTA). This is also applicable to Pakistan. Therefore, everything apart from those 850 items imported into India from NLDC members, including Pakistan, will be subject to 0–5 percent tariffs by 2013. Pakistan, on the other hand, was following a more restrictive arrangement (a positive-list approach) for imports from India. Only 1,946 items on Pakistan's positive list could be imported from India.

In March 2012, the Ministry of Commerce of Pakistan issued a Statutory Regulatory Order (SRO) for switching over to a negative-list regime to trade with India. Accordingly, 1,209 items have been included in the negative list and would not be importable from India to Pakistan. Of the total importable items from India, 137 items would be importable through the Wagah land route. Pakistan has announced that it would phase-out its negative list by 31 December 2012, provided that access of Pakistani products to the Indian market is ensured through the removal of all NTBs.

The change in the trading regime would allow trade between Pakistan and India in a greater number of goods, implying that Pakistani consumers would have increased choices of quality and variety along with the benefit of competitive prices—provided there are minimal NTBs on both sides of the border.

Moreover, it is a safe assumption that implementation of MFN status to India would divert most of the informal and indirect trade, currently estimated at US$2–3 billion, to formal channels. That means the bilateral trade between the two countries could rise to about US$4–5 billion in a couple of years.

By providing MFN status to India, Pakistan seems to gain more than India as the current exchange rate is in its favour. However, in order to export to India or compete with Indian imports, Pakistani industry would have to learn to be more dynamic and competitive.

Regional trade

Intra-regional trade in South Asia has been relatively low, owing much to the geo-economic dynamics, mainly the sour Indo-Pak relations, as well as other factors, and not merely the existing tariff regimes. Hence, Pakistan's decision to grant MFN status to India would help to expedite effective implementation of SAFTA.

In societal terms, it would mean increased business-to-business and people-to-people connectivity, which would not only help in making SAFTA—signed during the Islamabad SAARC Summit in 2004—effectively operational, but also help in trust building at the people-to-people level. This would create a demand at the grassroots for resolution of bilateral disputes through dialogue. This demand is a must to generate political will at the state level for initiation of trade normalization. Some of these steps include giving a human face to the existing torturous visa regime; improving connectivity; relaxing flow of bilateral investment; giving permission to open bank branches and allowing trade in other financial services; and establishing mobile phone roaming arrangements.

Sand in the wheels

While things seemed to be sailing smooth, the first hiccup came in the form of inconclusive talks in May 2012 between Pakistani and Indian interior secretaries on a liberal visa regime. A liberal visa regime, which is a must for Indo-Pak trade normalization, still exists in the realm of diplomatic promises, for the joint statement issued after the secretary-level meeting speaks of its signing "at an early date", but does not specify *when*.

The second hiccup came in June 2012 when a meeting between Indian Foreign Secretary and his Pakistani counterpart got soured by India's recent arrest of Sayed Zabiuddin Ansari, suspected of being a key handler for the Mumbai attackers who were alleged members of the Lashkar-e-Taiba militant group. India says Ansari has admitted to helping to coordinate the deadly assault from a command post in Karachi, and his testimony has renewed Indian accusations that "state elements" in Pakistan were involved.

Conclusion

The important aspect of all the above-mentioned positive and negative developments is that the process of trade normalization is still on, though at an extremely slow pace. The point that both the countries ought to remember is that they have to find non-traditional trade partners and diversify their export destinations, especially in the face of the Eurozone crisis and a weak United States economy. It is high time that Pakistan and India focused on regional trade for the stability of businesses and industries as well as for the welfare of their consumers who have been paying a very high price of economic non-cooperation.

We must give peace a chance. By living as friendly neighbours in South Asia, we will be able to divert a substantial portion of our defense budgets to social sector development and turn this region into a hub of global growth. ■

Dr Suleri is Executive Director, Sustainable Development Policy Institute, Islamabad.

SAARC Seed Bank

Perspectives from Bangladesh

Community seed banks are one of the important sources of seed supply and genetic materials in Bangladesh.

Selim Raihan and Faria Tasneem

Despite the fact that the share of agriculture in gross domestic product (GDP) of Bangladesh has declined over the years, agriculture is still considered to be at the heart of economic activities in the country. Of the various inputs required for crop production, seed is the core element. Therefore, ensuring the supply of good quality seed is a pre-requisite for better yield.

In the past, priority was given to the supply of seeds of food grains, especially rice and wheat, with the aim of achieving self-sufficiency in these food items since they constitute the major share in consumption in Bangladesh, and hence important for food security. Seed supply took place through traditional arrangements of seed exchanges among farmers. Production and distribution of seeds of rice and wheat were conducted only by public sector organizations. Private sector entered the seed production and distribution business much later. In recent years, there has been an expansion of private sector seed companies, which has resulted in the engagement of thousands of contract farmers in the formal seed production chain in the country. These contract farmers are mostly organized in few production clusters in north and north-west Bangladesh.

Community seed banks are another source of seed supply in Bangladesh. Community seed banks serve as one of the important sources of sustained supply of seed as well as genetic materials. Like many countries in the world, Bangladesh has also emphasized the setting up of community seed banks in the country. UBINIG, a policy and action research organization in Bangladesh, has set up several seed huts and community seed wealth centres (CSWCs). There are some conventional rules and regulations that have to be strictly maintained by farmers belonging to the seed huts or the CSWCs. UBINIG took these initiatives as part of a new agriculture movement, named the *Nayakrishi Andolan,* under which it has created a Seed Network. Any member of the movement can collect seeds from the seed huts if they promise to deposit double the quantity of seeds after their harvest.

SAARC Seed Bank

To adapt to severe consequences and mitigate the adverse effects of climate change, member countries of South Asian Association for Regional Cooperation (SAARC) have decided to take various collective measures, which are reflected in summit declarations. One of such decisions relates to the establishment of the SAARC Seed Bank. As per the proposal put forward by the Bangladeshi Prime Minister Sheikh Hasina at the 16th SAARC Summit held in Thimphu, Bhutan, in 2010, member countries "directed early consideration of the concept of a regional seed bank". Bangladesh then prepared a concept paper and distributed it among all member countries through the SAARC secretariat. After having recognized the future potential and the feasibility of the Seed Bank, member countries signed the "Agreement on Establishing the SAARC Seed Bank" at the 17th SAARC Summit held in Addu Atoll, the Maldives, in 2011.

There are several reasons for initiating the process to establish the SAARC Seed Bank. First, it would act as a medium of exchanging and sharing different varieties of seed, among South Asian countries, produced in the whole South Asian territory, and thus help farmers get quality seeds. Second, it would help member countries get access to seeds, especially high yielding varieties, when available seeds in the country would fall short of actual demand due to natural calamities or any other reason. Third, member countries can have access to better plant genetic resources, technologies and techniques through the seed bank.

Stakeholders' views

Now that the Agreement on Establishing the SAARC Seed Bank has been signed, the next step would be establishing the Bank. What would be the implications of setting up of the SAARC Seed Bank for Bangladesh? We attempted to get an answer to this question by speaking to a few relevant stakeholders in Bangladesh, mainly private seed companies, and representatives of government institutions and non-governmental organizations.

Stakeholders are of the opinion that the SAARC Seed Bank would bring in great relief to farmers in cases of emergencies or at times of natural calamities. In Bangladesh, where cyclones and floods are regular occurrences, the SAARC Seed Bank would be a great respite. However, that would all depend on how the system of access to seeds from the Bank would be devised. They perceive that the system should facilitate easy and timely access to seeds. Some stakeholders also view that the Bank would help conserve seeds of some varieties of plants that are going to be extinct.

However, there are others who pose some critical questions on the SAARC Seed Bank. The most important question is who will take control of the regulatory and maintenance issues of the Seed Bank. They perceive that India and Pakistan, which have regional dominance, might be at the helm of regulating and maintaining the Seed Bank, and, therefore, most benefits would accrue to them. Other member countries might be deprived of the benefits. Another question relates to the adaptability of seeds since seeds collected from various geographical areas in member countries might not yield good harvest in any soil. Different climatic conditions, soil and input requirement may impede the growth of foreign varieties.

Operational modality

SAARC member countries need to contribute seeds to the SAARC Seed Bank in a regular manner, and they can get access to seeds in the Seed Bank at times of need. It is yet to be negotiated what the share of each country's contribution to the Seed Bank would be. It is going to be a challenge for Bangladesh to contribute effectively to the seed bank since the country is already experiencing seed shortages. The country might be able to contribute varieties of seeds not available elsewhere to the Bank, but in limited quantities. Therefore, it is extremely important to have a regional database of genetic resources and traditional knowledge available in SAARC member countries, and establish a regional access and benefit sharing regime with specific guidelines.

> For Bangladesh, contributing to the SAARC Seed Bank will be a challenge since the country itself is facing seed shortages.

Similarly, determining seed prices and setting the terms and conditions of payment are other issues that are yet to be decided through negotiation among member countries. Also, it is essential to estimate the total demand for seed in the region.

Ensuring proper distribution of seeds of different varieties is one of the crucial issues which could impede the functions of the Seed Bank. Therefore, it is important to map the vulnerable areas in all countries of the region. It is also necessary that seed centres are located in border areas as well as in easily accessible places of member countries so that they could be accessed and transported with ease and at less costs at times of need. Another major issue relates to testing and certification of seeds. These tasks should be carried out in a proper way before seeds reach the farmers. Testing and certification of seeds can be ensured through introducing a set of laws by the Seed Bank authority. The authority might establish seed testing centres for carrying out testing and certification process. The testing centres will also ensure the adaptability of seeds to the countries where seeds are delivered from the Seed Bank.

Conclusion

Establishing a regional seed bank in South Asia will create a huge opportunity to share and exchange seeds and seed-related technologies and genetic resources among SAARC member countries. However, the main concern is the effective and proper implementation of the Seed Bank. Therefore, to ensure that the Seed Bank is a success, its operational modalities have to be set up based on each member country's interest and concern. For Bangladesh, the SAARC Seed Bank is a dilemma since the country is dependent on import of seeds, and it is always prone to natural disasters. ■

Dr Raihan is Executive Director and Ms Tasneem is Research Associate at South Asian Network on Economic Modeling (SANEM), Dhaka.

International agreements and management of plant genetic resources

Little is known about the implementation of global agreements in the field of plant genetic resources for food and agriculture in developing countries. A project aims to help fill this void.

Regine Andersen and Tone Winge

Plant genetic resources for food and agriculture (PGRFA) constitute the foundation of plant breeding by providing the genetic traits required to develop new varieties and respond to crop pests and diseases as well as changing climate conditions. Without genetic renewal, yields will decrease and quality will deteriorate. Plant genetic diversity is also essential to traditional small-scale farming, on which some 1.4 billion people worldwide depend for their livelihood. As much as 75 percent of the world's poorest 1.2 billion people live in rural areas and rely on farming. Therefore, plant genetic diversity is of central relevance to the United Nations Millennium Development Goals, which aim at halving the number of people living below the poverty line from 2000 until 2015, and to the Right to Food.

However, the diversity of plant genetic resources is disappearing at an alarming rate. For several major crops, 80–90 percent losses of varieties over the past century have been reported. In addition, legal restrictions on access to genetic resources are emerging as obstacles to traditional farming as well as scientific research.

Management of PGRFA

If humanity is to be able to adapt to climate change and its consequences, it will require successful management of PGRFA. For that, it is important to focus on the conditions for successful implementation of three international agreements—Convention on Biological Diversity (CBD) with the Nagoya Protocol on Access and Benefit Sharing (NP), the United Nations Framework Convention on Climate Change (UNFCCC), and the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA)—relevant to the sustainable management of PGRFA.

The relationship between these three agreements contains the potential for synergies as well as turf struggles. Their normative directions are largely compatible but may in some contexts be conflicting, as a large number of institutions, all facing the challenge of effective coordination, are involved. Particularly challenging is the interplay between these agreements and the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization, as countries must balance demands for intellectual property rights (IPRs) with access and benefit sharing and farmer's rights, as addressed under the ITPGRFA.

Implementation challenges

A central challenge for the implementation of these three regimes is establishing functional ABS mechanisms. Without access, genetic resources cannot be put to use, and that would undermine food security and the possibilities of adapting food production to climate change. Lack of adequate benefit sharing also reduces the incentives for conservation and sustainable use of crop genetic resources.

The Multilateral System of Access and Benefit Sharing (MLS) under the ITPGRFA entered into force in 2007. The CBD entered into force in 1993, but the NP was adopted in 2010 and has not entered into force yet. It will enter into force 90 days after the 50th country has ratified it. The NP applies to all genetic resources (except human genetic resources), whereas the MLS applies to 35 major food crops and 29 forage plants. Thus, these treaties are quite different in coverage, design and approach, which in turn give rise to questions regarding their interaction, and how they can best be implemented in harmony at the national level.

The MLS is effective in terms of providing access to genetic resources, and has generated some funds for benefit sharing. However, these funds have come from optional contributions, not as a result of the regulations on benefit sharing as such. Progress has been slow, and a review of the benefit sharing mechanism is on the agenda for the next session of the Governing Body in 2013. Further, the benefits under the MLS are dedicated to farmers who are conserving and sustainably using PGRFA. This is closely related to farmers' rights as addressed in the ITPGRFA, especially regarding the rights of farmers to participate equitably in the sharing of benefits arising from the use of PGRFA.

For the NP to be effective, it will need to overcome various hurdles that have plagued ABS governance since its inception. The first challenge will be to get the requisite number of signatories for the Protocol to enter into force. In addition, several key provisions of the Protocol will need to be developed further and implemented. Here, it is worth noting that the NP will be entering an already densely populated institutional environment. There exist many other international agreements that regulate or otherwise affect ABS governance, including the UNFCCC and the ITPGRFA.

This international legal and institutional complexity is mirrored at the national level, where there are heavy demands for coordination and integration between sector ministries. Moreover, biotechnological research and development, so essential to ABS governance, is increasingly undertaken in a globalized manner or by multinational corporations, often related to mitigation of and adaptation to climate change, giving rise to a global "bio-economy".

A new project

Considerable research has been carried out on the implementation of international environmental agreements in industrialized countries, but less is known about the conditions for their implementation in developing countries. Therefore, the Fridtjof Nansen Institute (FNI), Norway, and South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, have initiated a new project in Nepal and India to study how the three international agreements have been implemented in these countries, and what the effects have been so far. The overall objective of this new SAWTEE/FNI project is to contribute to our understanding of the mechanisms for, and barriers to, national implementation of the CBD, the NP and the ITPGRFA in the field of plant genetic resources for food and agriculture, in light of the UNFCCC and TRIPS.

> Differences between the treaties raise questions about how they can be implemented in harmony.

More specifically, the project will seek to explain how the CBD and the ITPGRFA have been implemented in terms of ABS in India and Nepal, and to identify the prospects for further implementation in these countries, especially with regard to the interaction between the NP and the MLS in the context of the larger regime environment. In addition, the project will consider the coordination of such implementation efforts with existing and future measures to mitigate and adapt to climate change, seeking to identify the conflicts and synergies that may arise in implementing these treaties. A further point for discussion is the extent to which these findings may have relevance to other countries.

The choice of India and Nepal as the case countries has been made for the following reasons: India has been a pioneer in developing policies for the sustainable management of its crop genetic heritage, and has been very active in international negotiations on access to and sharing of benefits from genetic resources. India has also been among the developing countries that have pointed out the potential negative implications of TRIPS. As a result, the country has been attempting to develop mitigating mechanisms within its IPR laws. India's implementation of these international agreements can therefore provide lessons for other countries. The new project will look at achievements within law and policy, the underlying conditions, and any challenges India has encountered in seeking to implement these three international agreements. A main project goal is to derive lessons from India's experiences that are of relevance for the further implementation of these agreements in India and elsewhere.

The other case country, Nepal, is a least-developed country that has already begun to feel the consequences of climate change. However, the country is also endowed with a rich heritage of PGRFA well-adapted to marginal environments. With associated traditional knowledge, much of it is highly relevant with regard to climate change. So, a few questions that are of relevance in this respect are: How has Nepal been coping with the challenges of climate change? What has been achieved in terms of implementing the ABS provisions of the three agreements, and what are the key challenges? The new project will seek to draw answers to these questions and derive lessons of relevance for further implementation in Nepal, as well as in other countries.

The empirical findings of the project will contribute to our understanding of how the objectives of the CBD-NP, UNFCCC and ITPGRFA can be transformed into practical policies at the national and sub-national levels. The project will also provide further insights into how overlapping international regimes influence the national implementation of environmental policies. ■

Dr Anderson is Senior Research Fellow, Fridtjof Nansen Institute (FNI) and Project Leader of the new project, and Ms Winge is Research Fellow, FNI.

Biotrade

Biotrade is characterized by its reliance on biodiversity as well as by the particular framework under which such trade takes place.

Niraj Shrestha

Millions of people in the world, particularly in rural areas, rely on biodiversity for livelihood and ecosystem services. New scientific inventions/innovations and growth in the biotechnology sector, coupled with increased awareness among consumers regarding the ethical sourcing as well as production processes of "natural products" used in cosmetics, pharmaceutical products, etc., have expanded the demand for biodiversity-based products, thereby increasing the scope for biotrade.

What is biotrade?

According to the United Nations Conference on Trade and Development (UNCTAD), biotrade includes collection, production, transformation and commercialization of goods and services derived from native biodiversity. This includes trade in products based on genetic resources, species, organisms and ecosystems, which are used in line with environmental, social and economic sustainability criteria.

Biotrade principles

Biotrade is characterized both by its reliance on biodiversity as well as by the particular framework under which such trade takes place. UNCTAD's BioTrade Initiative (Box 1) has developed a framework according to which biotrade activities should meet the following principles:

- Conservation of biodiversity.
- Sustainable use of biodiversity.
- Fair and equitable sharing of benefits.
- Socio-economic sustainability.
- Compliance with national and international regulations.
- Respect for the rights of actors involved in biotrade activities.
- Clarity about land tenure and access to natural resources and knowledge.

Biotrade activities and benefits

Biotrade involves a wide range of activities broadly associated with the development of a product and the various stages along its value chain. These activities are extremely diverse in nature and are performed by a wide range of value chain actors ranging from producers, hunters and collectors to intermediaries, processors, distributors and traders. Similarly, biotrade products and services are equally diverse in nature, as shown in Box 2. The commonality, however, lies in the fact that all these biotrade activities rely on agriculture or natural biodiversity as the source of origin.

A well-managed biotrade can contribute significantly to securing sustainable livelihoods at the local level and can reverse biodiversity declines. The biotrade sector can generate direct and indirect benefits to various value chain actors, particularly the poor people in rural areas. However, unsustainable wildlife trade, for instance, has threatened the existence of a number of species, thereby limiting the ability of locals to take advantage of these species for subsistence use or to derive income

Box 1
Conceptual framework of the UNCTAD BioTrade Initiative

The BioTrade Initiative, launched by UNCTAD in 1996, promotes sustainable BioTrade in support of the objectives and principles of the Convention on Biological Diversity. Its objective is to contribute to the conservation and sustainable use of biodiversity through the promotion of trade and investment in BioTrade products and services. Implementation of the BioTrade framework rests on three complementary approaches:

- Value-chain approach, which strengthens value chain as a critical element in facilitating good practices related to the sustainable use and conservation of biodiversity and promotes equitable sharing of environmental, social and economic benefits among value-chain participants.
- Adaptive management approach, which contributes to the implementation of sustainable practices based on improved knowledge of BioTrade's impacts on species and ecosystems.
- Ecosystem approach, which integrates ecological, productive and social issues, as well as the interactions and processes that are involved in a productive system.

Source: UNCTAD/UNDP. 2010. BioTrade potential for growth and sustainability. Geneva: United Nations Conference on Trade and Development and United Nations Development Programme.

from them over the long term. Thus, biotrade, when unregulated or poorly managed, can negatively affect both biodiversity conservation and people's livelihoods.

International frameworks relevant to biotrade

Legally binding international agreements such as the Convention on Biological Diversity (CBD) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) have great ramifications on overall biotrade.

CBD, which entered into force in December 1993, envisions conservation of biodiversity, its sustainable use and equitable sharing of the benefits derived from the use of genetic resources. It establishes that states have sovereign rights over their genetic resources, and links conservation efforts to the economic goal through fair and equitable sharing of the benefits. UNCTAD's BioTrade Initiative is an indirect outcome of the CBD.

Similarly, CITES, which entered into force on 1 July 1975, aims to ensure that international trade in specimens of wild animals and plants does not threaten their survival. Due to the nature of the convention, CITES has greater implications for biotrade.

Factors enabling or hindering biotrade

International trade rules, especially related to quality and standards, when used ambiguously, can encourage protectionism and become non-tariff barriers (NTBs). Developed countries apply stringent rules and set high standard requirements for importing goods. Such high standards affect exports of biodiversity-based products from biodiversity-rich developing countries since they are often unable to meet the standards due to lack of supply capacity and trade-related infrastructure.

The Agreement on Technical Barriers to Trade Agreement (TBT) and the Agreement on Sanitary and Phytosanitary Measures (SPS) of the World Trade Organization (WTO) deal with the issue of product standards in international trade. While TBT is concerned with standard and certification of products, including, packaging and labelling, SPS deals with plant and animal health, and food quality. Both TBT and SPS agreements allow WTO member countries to set their own product standards, provided they are based on scientific justification to protect the environment; life and health of human, plants and animals; and for national security.

To ensure that such standards are harmonized globally and that standards are not used as means of trade protectionism, member countries are encouraged to use international standards and guidelines for setting national standards. Adherence to internationally accepted qualities and standards and necessary certifications from internationally accredited organizations can thus facilitate biotrade and expand the growth of its industry.

An access and benefit sharing regime, as per the objectives of CBD, can create a win-win situation by facilitating bio-prospecting while at the same time incentivizing farmers and custodians of genetic resources and traditional knowledge to continue to conserve biodiversity and use them sustainably. However, by allowing for patentability of life forms, including plants, without the need to disclose the origin of resources while applying for patents, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the WTO could possibly be accentuating bio-piracy.

Making the most of biotrade

Greater awareness about the benefits of conserving biodiversity, implementation of legislation and prevention of illegal trading in wildlife and other resources are imperative for biotrade to reach its potential.

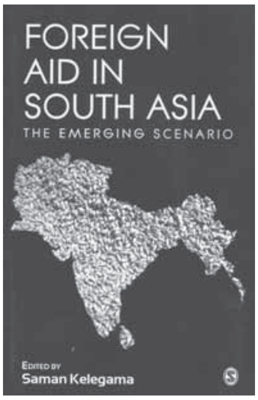
Similarly, empowerment and active participation of local communities and farmers, particularly women, in the protection and preservation of natural biodiversity has a direct impact on biotrade. Problems related to ownership of natural resources and free riding may result in loss of biodiversity, which may hinder biotrade in the long term.

Therefore, these issues need to be taken care of at the national level. At the same time, developed countries should also provide financial and technical support to developing countries to contribute to biodiversity conservation as well as to ensure that biotrade products meet the required standards in their import markets. ■

Box 2
Biodiversity-based products and services

- **Natural ingredients and products for cosmetics:** essential oils, natural dyes, soaps, cream and butter, moisturizers, etc.
- **Natural ingredients and products for pharmaceuticals:** extracts and infusions from medicinal plants, natural medicine capsules, etc.
- **Natural ingredients and products for food:** fruits, cereals, grains, tuberous, nuts, cocoa, fish products, jams, sweets and snacks, jellies, pulps and juices, spices and sauces, teas and infusions, food supplements, crocodile meat, etc.
- **Leather and garments:** skin from Caiman yacare and Nile crocodile, etc.
- **Wildlife for pets:** butterflies, chameleons, snakes, tortoise, etc.
- **Flowers and foliage:** heliconias and other tropical flowers.
- **Fish products:** paiche (Arapaima gigas).
- **Natural ingredients used in handicrafts:** furniture, decoration objects, jewellery and garments.
- **Sustainable tourism:** ecotourism, nature-based tourism, bird watching.

Source: As in Box 1.



Foreign Aid in South Asia

Title: Foreign Aid in South Asia: The Emerging Scenario
Editor: Saman Kelegama
Publisher: SAGE Publications Pvt. Ltd.
ISBN: 978-8132108740

Hamid Mahmood

Aid is part and parcel of the development package in South Asia. The book titled *Foreign Aid in South Asia: Emerging Scenario* offers insights into the role of foreign aid in South Asia's development. It covers the chronology of aid development and provides a detailed examination of South Asian countries' adaptation to changes taking place in the context of development, security and post-conflict economies.

The book is divided into five sections and eleven chapters. The first four chapters discuss changed global aid efforts and alternate policy options for making aid more effective. The authors identify potential areas that need attention to improve aid delivery. Some of them include emergence of new players and new avenues of cooperation, including South-South and trilateral cooperation, for influencing development through aid reforms. The authors also link aid to the growth paradigms taking place in India and discuss the historical sequence of aid inflows, effectiveness of aid disaggregation in the context of India, and ways to address the gaps.

In chapters five and six, the authors discuss the nexus between aid and security in the context of Afghanistan and Pakistan. The next two chapters are on policy priorities and the role of aid in post-conflict economies with cases on Nepal and Sri Lanka. In these chapters, the authors have stipulated the imperatives of crisis and the opportunities that they have created in directing future aid inflows. They also point out that the Dutch disease phenomenon is evident in South Asia, and hence recommend policy reforms to channelize aid towards more productive areas. The last three chapters discuss the role of aid in two least-developed countries (Bangladesh and Bhutan) and a vulnerable economy (the Maldives). The authors provide solutions for making aid meaningful in these countries.

The uniqueness of the book lies in the diversification and sequencing of topics. It presents to the readers the importance of aid and issues involved in it through historical presentation, country-specific case studies, and linkage of aid with broader policy objectives in terms of development and policy reforms. South Asian countries show mixed response to and impacts of foreign aid keeping in view aid inflows, domestic resurgence, absorptive capacity, resource mobilization, disbursement, channeling of aid, policy priorities and governance portfolio.

The authors argue that although donor-led policy priorities in making use of foreign aid were successful after the Second World War, in recent years, South Asian countries have been successful in getting foreign aid linked more with their domestic policies. They support their assertions through country cases in which they have used different methodologies to gauze the developmental impact of foreign aid. The book argues that foreign aid, in general, has lost its rigour as a developmental tool. However, if the sectoral significance of foreign aid is explored and its impact is evaluated in a better framework of analysis, it can be found that foreign aid can still influence developmental outcomes. This calls for future research and understanding of the importance of aid for South Asia's development.

In conclusion, the book discusses several aspects of foreign aid in South Asia and provides a framework for managing future aid inflows to South Asian countries in an effective manner. The case studies of individual countries have illustrated policy priorities of governments with regard to foreign aid. Therefore, it is a must-read for policymakers, academia and other stakeholders who have a keen interest in issues of foreign aid in South Asia. ■

The reviewer is Senior Economist, Planning Commission, Government of Pakistan.

Side-event at UNCTAD XIII

Puspa Sharma

"BETTER and fuller understanding of the linkages between trade, climate change and food security is urgently needed". This was a key conclusion of the discussion programme on "Climate change, trade and food security: Challenges and opportunities" jointly organized by CUTS International and South Asia Watch on Trade, Economics and Environment (SAWTEE). The event took place at the Civil Society Organization (CSO) Forum during UNCTAD XIII on 24 April 2012. The major objective of the event was to discuss issues related to trade-climate change-food security linkages and to identify elements of holistic policy responses, in particular to inform the work of UNCTAD in these areas for the next four years.

Panelists of the event included Mark Halle, Director, Trade and Investment, and European Representative, International Institute for Sustainable Development (IISD); Ambassador Nathan Irumba, Executive Director, SEATINI; and Dr Debapriya Bhattacharya, Distinguished Fellow, Centre for Policy Dialogue (CPD), Dhaka, and Former Ambassador of Bangladesh to the WTO and United Nations Office in Geneva. The panelists and participants unanimously agreed that the issue of trade, climate change and food security should be looked at holistically, and concluded that knowledge-creation and capacity building on trade-climate change-food security linkages is urgently needed. That would allow stakeholders in developing and least-developed countries to better understand the challenges and find holistic solutions. ■

Workshop on social protection

IPS

INSTITUTE of Policy Studies of Sri Lanka (IPS), together with the Department of National Planning of the Ministry of Finance and Planning, Government of Sri Lanka, and the World Bank, organized a workshop on "Promoting Productive Social Protection and Labour Systems in Sri Lanka for Inclusive Growth: Developing an Integrated Social Protection and Labour Strategy" at the IPS Auditorium on 25–26 June 2012. The workshop was organized as a platform through which policy and implementation dialogue could be started with relevant stakeholders and concerned parties on social protectionism in Sri Lanka.

The speakers of the workshop included Hon. D.E.W. Gunasekera, Minister of Human Resources, Government of Sri Lanka; Ms Diarietou Gaye, Country Director for the World Bank in Sri Lanka; Mr Augusto Iglesias Palau, Chilean Vice-Minister for Social Security; Mr Christian Barros, the Chilean Ambassador-designate to Sri Lanka; Dr B.M.S. Batagoda, Director General of the Department of National Planning, Government of Sri Lanka; and Dr Saman Kelegama, Executive Director, IPS.

Speakers stressed that although the poverty headcount ratio in Sri Lanka has fallen, and the gap between the urban, rural and estate sector poverty levels has narrowed down, problems of inequalities persist between regions. Also, since Sri Lanka's population is aging rapidly, adequate revisions and amendments need to be made to the existing national Social Protection Policy to avoid a crisis in the future. ■

Seminar on Trade, Climate Change and Food Security

Yamuna Ghale

SAWTEE, the Institute of Policy Studies of Sri Lanka and Oxfam Novib organized a South Asia-level regional seminar on "Emerging Issues on Trade, Climate Change and Food Security: Way Forward for South Asia" on 31 May–1 June 2012 in Colombo. The programme was inaugurated by Hon. Anura Priyadharshana Yapa, Minister of Environment, Government of Sri Lanka.

South Asian academics, experts, civil society members, policy makers and media persons, among others, deliberated on issues such as the outcomes of the Durban Climate Conference in relation to climate finance and technology transfer, the SAARC Food Bank, the SAARC Seed Bank, issues of competition policy and food price inflation, liberalization of trade in environmental goods and services, and South Asian intra-regional liberalization of trade in services. Discussions took place over six technical sessions. The meeting also came up with a way forward on these issues.

It was recommended that the Technology Mechanism, an outcome of the Durban climate change conference, should focus more on LDCs and the small island states, and collaborate with other agencies like FAO, UNIDO and UNCTAD in the area of capacity building. It was agreed that community seed banks are playing or can potentially play a crucial role in helping ensure availability of seeds to farmers and arresting a drastic loss in seed diversity and hence biodiversity. Therefore, it is important to link the community seed banks with the SAARC Seed Bank. However, the operational modalities of the SAARC Seed Bank have to be worked out keeping in mind the possible difficulties at the implementation level and taking cognizance of equity considerations. It was emphasized that regional cooperation on technology, research and extension was required to address food insecurity in the region. ■

Consultation on Green Economy

SUSTAINABLE Development Policy Institute (SDPI), in collaboration with a number of other organizations, organized a "National Consultation on Green Economy" in Islamabad on 18–19 May 2012. The Consultation was organized prior to the Rio+20 Conference that took place in Rio on 20–22 June 2012. Among others, the Consultation discussed the relevance of green economy to Pakistan given the indispensable contribution of ecosystems and agriculture to the country's gross domestic product, jobs and livelihoods. It also delved into ongoing efforts of Asia-Pacific countries to achieve sustainable development and poverty eradication through a transition to a green economy and a low-carbon growth paradigm to identify relevant lessons for Pakistan; and discussed ideas on how to ensure a green economy future for Pakistan. The deliberations of the Consultation were provided to the Pakistani delegation that participated in the Rio+20 Conference and also to other stakeholders to consider accelerating the pace of sustainable development and poverty eradication in Pakistan. ■

Second phase of COENCOSA

AFTER concluding the first phase of the project Cost of Economic Non-cooperation to Consumers in South Asia (COENCOSA–I), Consumer Unity and Trust Society (CUTS) International has initiated the second phase of the project (COENCOSA–II). The project is being supported by The Asia Foundation, and CUTS is implementing it in partnership with the Institute for Policy Advocacy & Governance, Bangladesh; SAWTEE, Nepal; Sustainable Development Policy Institute, Pakistan; and Institute of Policy Studies of Sri Lanka.

Under COENCOSA–I, a study was conducted to estimate the gains that would accrue to consumers in five South Asian countries, namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka, as a result of enhanced trade within the region. The study concluded that the total static gain would be more than US$2 billion per year, and dynamic gains would be much higher. COENCOSA–II will focus on customs-related and other procedural non-tariff barriers, which constitute a significant part of the intra-regional trade cost in South Asia. ■

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

www.sawtee.org