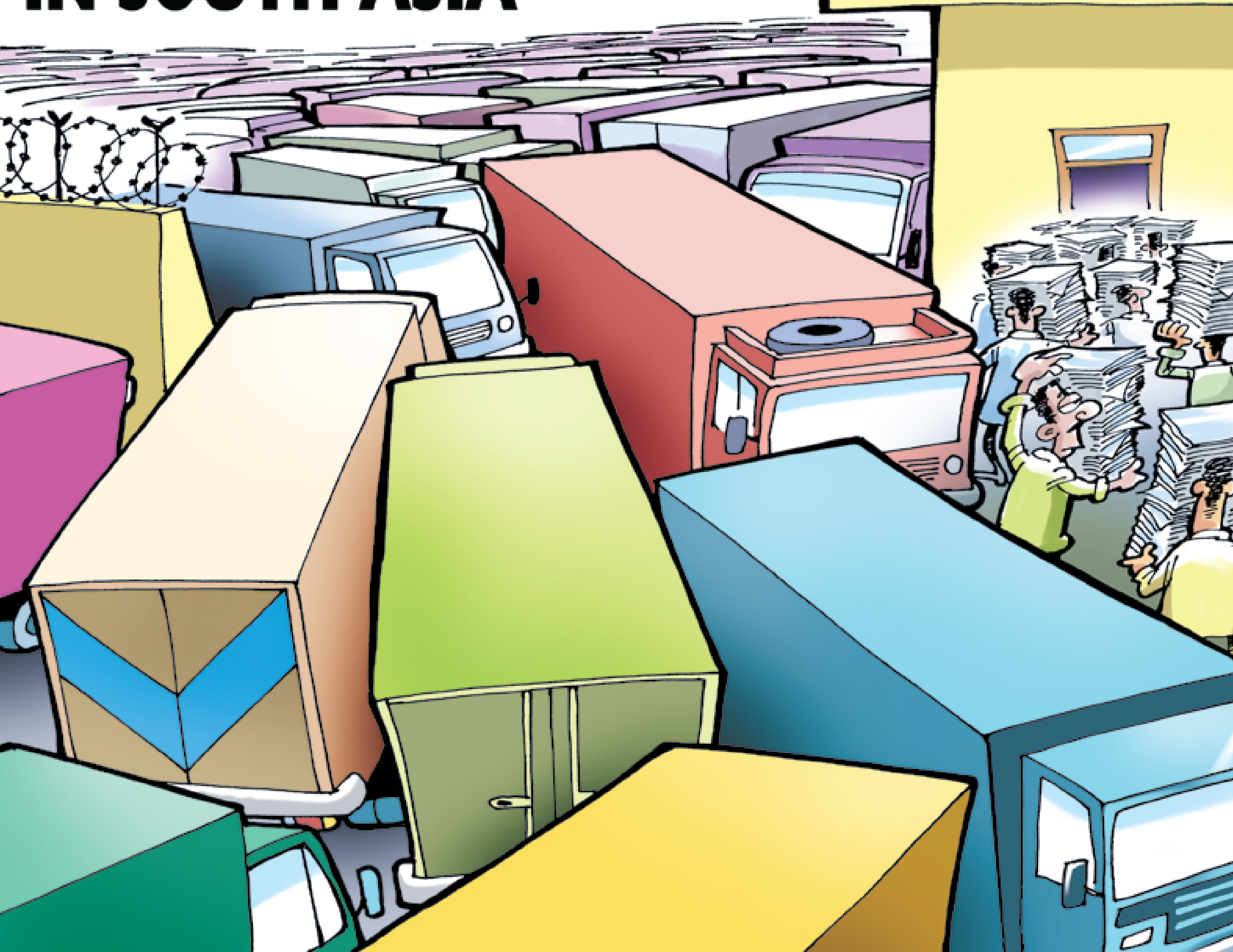
A dialogue on trade and development in South Asia

Vol. 9, No. 2, 2013

TRADE insight

TRADE FACILITATION IN SOUTH ASIA



SOUTH ASIA'S AGENDA FOR BALI | AIR SERVICES LIBERALIZATION | RIGHT TO FOOD | PLANT TREATY

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TRADE insight

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editors' note

Trade facilitation should be part of a package deal in Bali

IT is widely accepted that without putting in place adequate trade facilitation measures, no country can benefit from international trade. South Asian countries too have had this realization, and therefore, they have been undertaking various trade facilitation measures as part of their reform agenda. However, South Asian countries are at different levels regarding the extent to which they have undertaken the measures. That is because the availability of resources and technical expertise necessary to undertake the measures is not the same in all countries. Moreover, trade facilitation has not been accorded the same priority in their policy agenda by all the countries.

Studies have shown that there are huge gains from trade facilitation. For instance, a recent study has shown that the granting of most-favoured nation status by Pakistan to India would result in trade gains to all South Asian countries, though in varying degrees. But if these efforts are complemented by improvements in trade facilitation in the region, the gains would be much larger. Unfortunately, however, despite the measures being undertaken by South Asian countries to improve trade facilitation, the recent *Doing Business Report* has shown that except Sri Lanka, all other countries have performed worse than in earlier years. This shows that the efforts put in by countries to bring about improvements in trade facilitation have not been enough.

In the 9th Ministerial Conference of the World Trade Organization (WTO) due to take place in Bali, Indonesia, on 3–6 December 2013, it is expected that trade facilitation is going to be a topic of discussion, mainly in terms of finalizing the draft agreement on trade facilitation. South Asian countries are not indifferent to the draft agreement altogether; however, their concerns are largely related to the provisions of special and differential treatment, and financial and technical assistance that are required for them to undertake broader trade facilitation measures. They are concerned that if they agree to the trade facilitation agreement under the WTO, they would have to undertake measures beyond their capacity.

South Asian countries should continue to take forward the trade facilitation measures that they have been undertaking unilaterally, and through regional cooperation. But when it comes to agreeing and committing on the trade facilitation agreement at the WTO, without having a firm commitment from other WTO members, especially the developed countries, in terms of providing financial and technical assistance to meet the infrastructural needs of the developing countries, with priority accorded to the needs of the least-developed countries of the region, it would be premature for South Asian countries to agree on a stand-alone comprehensive trade facilitation package.

The gains from a positive outcome on the trade facilitation agreement alone would be more in favour of developed country members than most of the developing country members of the WTO. Therefore, South Asian countries should assert that rather than focusing only on the trade facilitation agreement, developed countries should strive to conclude the Doha Development Agenda (DDA) in its entirety so that the outcomes are more in the favour of developing and least-developed countries. This is the only way to give practical shape to the "development" content, which is incidentally the *raison d'etre* of the DDA. ■

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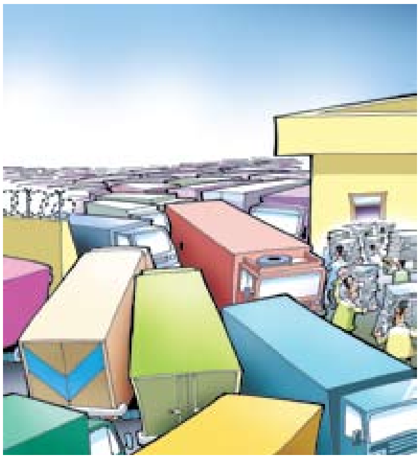

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Views expressed in *Trade Insight* are of the authors and editors and do not necessarily reflect the official position of SAWTEE or its member institutions.

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

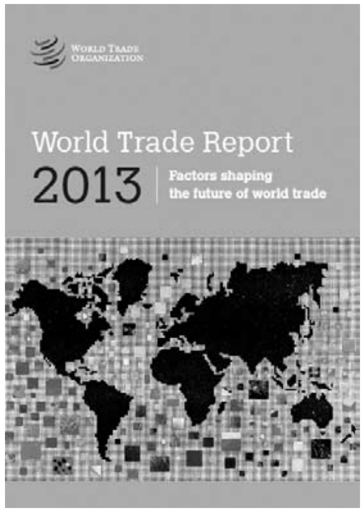
SRI LANKA
1. Institute of Policy Studies (IPS), Colombo
2. Law & Society Trust (LST), Colombo

The future of world trade

TODAY, trade is globally recognized as an engine of growth and development. But trade depends on a range of factors that could change in the future and affect not only the extent, but also the nature and impact of trade as we know it. It is therefore extremely necessary to be well aware of the factors that could/will influence trade in the future. According to the *World Trade Report 2013*, the future of world trade will be shaped by a range of economic, political and social factors, including technological innovation, shifts in production and consumption patterns, demographic change, changes in the composition of trade, the rise of international supply chains, and, of course, policy.

World Trade Report 2013, titled *Factors Shaping the Future of World Trade*, published by the World Trade Organization (WTO), summarizes the main trends in global trade, and identifies both systemic and policy challenges that may arise is the future. Notably, the Report highlights the effects that likely trends will have on the multilateral trading system and the challenges it faces as well as the ways that the multilateral trading system could address such challenges.

The Report argues that the dramatic decrease in transport and communication costs, along with the growing trade in services, have been influential in defining today's global trade. More importantly, given that between 1980 and 2011, developing economies raised their share in world exports from 34 percent to 47 percent and their share in world imports from 29 percent to 42 percent, the developing world, Asia in particular, is playing an important role in world trade. In addition, the Report argues for measuring trade in value-added terms due to the increasing prominence of international supply chains. World trade has grown, on average, nearly twice as fast as world product, clearly reflecting the role of international supply chains.



The Report cites demographic change, investment in infrastructures, technological innovation, decreasing transport costs and improvements in institutional quality as the major factors affecting international trade. Increasingly important is the continuing emergence of a global middle class. The expansion of the middle class in the future is likely to result in an increase in demand for goods and services. However, increasing demand will put new strains on both renewable and non-renewable resources, generating an even greater need for careful resource management.

Moreover, investment in physical infrastructure, accumulation of capital, building of knowledge, and technological progress can facilitate the integration of developing countries into the global supply chains by altering their comparative advantage. Already, new countries have emerged among the countries driving technological progress. Countries representing 20 percent of the world population accounted for about 70 percent of research and development expenditure in 1999, but only about 40 percent in 2010. Furthermore, effective policy actions at the national and multilateral levels, notably the conclusion of the Doha Round and improvements in the quality of institutions, will go a long way in reducing trade barriers and facilitating international trade.

According to the Report, another important issue that is likely to have a major impact on world trade is trade openness. Adjusting to changes in the competitive environment is the key to successful integration into global markets. But these adjustments can put strain on the labour market and can exert pressure on governments to increase trade barriers. However, it is important to note that barriers on imports will inevitably decrease export competitiveness. Besides trade openness, sustainable development path will definitely be a driving force in world trade in the future. The global transition to sustainable growth will require careful management of the multi-faceted relationship between trade and environment. Also, a stable financial and monetary system, delivering a sufficient volume of trade finance, will play a pivotal role in the expansion of trade in the years to come.

Some of the other trends that will likely influence world trade in the future are the emergence of global value chains, the rise of regionalism, growth of trade in services, greater incidence of non-tariff measures, higher and more volatile commodity prices, the rise of emerging economies, and evolving perceptions about the link between trade, jobs and the environment. However, these trends will raise a number of new challenges for the WTO. Addressing these challenges will involve reviewing, and possibly expanding, the WTO agenda. In summary, as trade evolves with the global scenario, new policy challenges will arise. But if managed properly, international trade can and will continue to contribute to global prosperity. ■

TRIPS extension for LDCs: Is it enough?

THE Council on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO), on 11 June, decided to extend the deadline of complying with the TRIPS Agreement by its least-developed country (LDC) members from the existing 1 July 2013 to 1 July 2021. The decision comes as WTO members continue to work feverishly towards concluding a set of deliverables in time for the upcoming 9th Ministerial Conference of the WTO that is going to take place in Bali, Indonesia, in December.

When the WTO was established in 1995, the organization's poorest members were initially given until 1 January 2006 to implement the obligations contained in the TRIPS Agreement. In 2002, that deadline was extended until January 2016, but only for pharmaceutical patents. Later, in 2005, a decision was made that extended the deadline to comply with other forms of intellectual property also, although only until 1 July 2013.

In light of the July 2013 deadline, Haiti submitted a proposal on behalf of the LDC Group to extend the transition period further. "The situation of LDCs has not changed significantly since the last extension decision in 2005… [and they] have not been able to develop their productive capacities and have not beneficially integrated with the world economy," the proposal explained. Moreover, LDCs have a low level of economic and social development and thus require time to develop a viable technological base and to experiment with domestic intellectual property legislation before being obliged to implement the TRIPS Agreement.

The new extension period of eight years, starting 1 July 2013, is longer than the seven-and-a-half years transition period provided in 2005. It is thus an improvement, though very slight. It is also significantly below what the LDC Group had asked for in its formal proposal, in which the Group had requested that the transition period should last so long as a country remains an LDC. But the developed countries argued that the proposal, in reality, meant an indefinite extension, which implied that intellectual property is not a relevant issue for the LDCs.

The recent decision on deadline extension has also removed the condition introduced in the earlier 2005 decision that LDCs cannot roll-back the level of implementation of the TRIPS Agreement that they have already undertaken in their national legislation. This is one of the main issues that had divided members in their recent consultations. LDCs have argued that the "no roll-back" clause is an undue restriction of their policy space and contrary to the letter and spirit of the extension, as stipulated in the TRIPS Agreement. Under the new wording, LDC members have expressed "their determination to preserve and continue the progress towards implementation of the TRIPS Agreement." However, the decision notes that nothing in the new extension should prevent LDCs from using the flexibilities inherent in TRIPS to address their needs, such as developing a technological base and overcoming capacity constraints.

Despite the positive sides of the extension, the agreement to extend the period by only eight years has been criticized as "a half-hearted compromise." Developed countries should instead have permitted a "longer and more complete" extension, while urging LDCs to take advantage of the opportunity afforded by the exclusion of the "no roll-back" clause. Experts warn that giving LDCs less than a decade of additional time would limit their opportunities to test out which domestic intellectual property laws might be in their best interests. In addition, the opportunity to experiment will be burdened with uncertainty about the longer term future.

The best outcome would have been that the LDC Group's request had been fully agreed to by the TRIPS Council. Nonetheless, given the circumstances, decision to extend the transition period is to be welcomed as it is a gain for the LDCs. This is better than nothing, but short time extension does not allow LDCs to build up their own technological and knowledge base, and the laws and regulations necessary for implementation of the TRIPS Agreement, let alone benefit from such implementation. LDCs need the space to implement intellectual property systems appropriate for their development needs.

LDCs should now receive full support from the developed countries, in the spirit of the Doha Development Agenda, to make effective use of the transition period to build their technological base through technology transfer and capacity building, while making full use of the flexibilities afforded to the LDCs, including the further extension *(Based on the Bridges Weekly Trade News Digest, Vol. 17, No. 21, 13.06.2013; and SOUTHNEWS, No. 32, 13.06.2013).* ■

India under pressure at the WTO to phase out textile subsidies

4.bp.blogspot.com

PRESSURE is mounting on India at the World Trade Organization (WTO) to put an end to subsidies and incentives it has given to its textiles sector.

The European Union and Japan have joined hands with the United States (US) and Turkey to demand that India stop giving fresh subsidies and gradually phase out the existing ones since India's textiles sector has already achieved export competitiveness. India, however, maintains that many of the subsidies identified by the US and others are not subsidies, but merely a reimbursement of input duties. It has argued that before the phasing out happens, there has to be a common understanding on what constitutes subsidies.

The WTO allows countries with per capita income below US$1,000 to give export subsidies till its exports are lower than 3.25 percent of world trade in that particular commodity. India's share in the global market for textiles crossed the limit in 2007, according to WTO records, and is almost 4 percent at the moment. However, since countries are given eight years to remove the subsidies, India has until 2015 to do so *(www.thehindubusinessline.com, 16.05.13).* ■

Bangladesh allows transit for foodgrains for Northeast India

IN a major policy change, Bangladesh will allow India ferry foodgrains to its mountainous Northeastern states via its territory. According to the Food and Civil Supplies Minister of Tripura, Government of Bangladesh has agreed to allow the transportation of 10,000 tonnes of foodgrains for Tripura through its territory. "The Bangladesh government issued necessary orders earlier this week following a series of diplomatic and other parleys. After some security-related clearance, the carrying of food grains, mainly rice and wheat, is likely to start within a month," he added.

After getting a green signal from Dhaka, the Food Corporation of India has initiated the process to transport food grains and essentials using the Bangladeshi river port in eastern Bangladesh and the roadways connected to the Northeastern states. In the first consignment, 10,000 tonnes of rice, wheat and sugar would be ferried to Tripura from West Bengal's Haldia port via the Ashuganj port.

Due to various bottlenecks, Northeastern states of India suffer from poor supply of foodgrains for most part of the year. Especially during the monsoon season, road transport becomes very difficult in the mountainous region due to floods and landslides. For ferrying essentials, goods and heavy machinery from abroad and other parts of the country, India has for long been asking Bangladesh for land, sea and rail access to its Northeastern states *(www.india.nydailynews.com, 25.05.13).* ■

UNDP and GoN collaborate on climate change

UNITED Nations Development Programme (UNDP) and the Government of Nepal (GoN) have joined hands to minimize threats from climate change to nearly 100,000 people through a multi-million dollar initiative. Community-based Flood and Glacial Lake Outburst Risk Reduction Project (CBFGLOF)—a joint initiative of the government and UNDP—will directly benefit an estimated 96,562 members of communities vulnerable to climate change in Nepal. The project will contribute to Community-based Disaster Management for Facilitating Climate Adaptation, and GLOF Monitoring and Disaster Risk Reduction, both included in Nepal's National Adaptation Plan of Action (NAPA).

The major source of funding for this project comes from the Least Developed Countries Fund (LDCF), managed by the Global Environment Facility and UNDP, and amounts to US$7.2 million for a duration of four years from 2013 to 2017. This is the first project being implemented with the LDCF after Nepal prepared the NAPA. The project was developed by UNDP with the technical assistance of the International Centre for Integrated Mountain Development following wider consultations at different levels. This intends to help the GoN overcome some of the key barriers to manage the growing risks of GLOF in the high mountains, and flooding in the *Tarai* and *Churia* Range of Southern Nepal through a strong emphasis on community engagement, empowerment and social inclusion *(myrepublica.com, 17.07.13).* ■

Number of poor declines in Bangladesh

DESPITE a growing population, the number of poor people in Bangladesh declined by 26 percent between 2000 and 2010, according to a World Bank report titled *Bangladesh Poverty Assessment: A Decade of Progress in Reducing Poverty, 2000–2010.* Released on 20 June, the report has identified that during the 10-year period till 2010, poverty reduction was closely linked to the growth in labour income and changes in demographics.

Poverty declined 1.8 percent annually between 2000 and 2005, and 1.7 percent annually over the rest of the decade. There was a continuous decline in the number of poor people—from nearly 63 million in 2000, to 55 million in 2005, and then 47 million in 2010, according to the report.

Labour income, both formal and informal, was the dominant factor in higher incomes and lower poverty rates. Additionally, fertility rates have been steadily dropping over the last several decades, which have resulted in lower dependency ratios, thereby increasing per capita income and reducing poverty.

According to the report, the potential to benefit from the demographic dividend will continue in the short to medium term. However, for further reduction in poverty, Bangladesh will need policies and coordinated multi-sectoral approaches that respond to the needs of the growing population of young adults as well as the poor in general *(www.thedailystar.net, 20.06.13).* ■

End extreme poverty by 2030: UN

THE world should set for itself the ambitious goal of ending extreme poverty by 2030, a United Nations (UN) panel co-chaired by David Cameron and the presidents of Indonesia and Liberia said in a report that proposes 12 development goals and 54 targets for the period after 2015 when the millennium development goals (MDGs) will expire.

Seeking to move beyond the MDGs, which aim to halve extreme poverty by 2015, the report calls for ending extreme poverty for good. It also proposes eliminating preventable infant deaths and reducing maternal mortality. But the proposals do not include a standalone goal on inequality.

Development experts say widening gaps in wealth and opportunity have acted as a brake on poverty reduction, as well as hindering progress in child survival, nutrition and education. The 1.2 billion poorest people account for only 1 percent of world consumption while the billion richest consume 72 percent.

The report states that one trend—climate change—will determine whether policymakers can deliver on the next set of development goals. "People living in poverty will suffer worst from climate change. The cost of taking action now will be much less than the cost of dealing with the consequences later," states the report.

The report was the culmination of a consultation process undertaken by the UN *(www.guardian.co.uk, 30.05.13).* ■

Revised labour law in Bangladesh

www.thestar.com

BANGLADESH approved a highly-anticipated reform to its national labour law as part of a broader effort towards averting future disasters such as the factory collapse in April that killed over 1,100 people. Separately, North American and European retailers that source Bangladeshi textile products announced two respective plans aimed at improving safety standards for workers in Bangladesh.

Under the labour law revisions, Bangladeshi workers will not need approval from factory owners to form unions. Over 80 other sections of the law have also been revised in order to reflect the results of consultations held with factory owners and workers, retailers, development partners, and the International Labour Organization.

While the government has said that the "landmark legislation" could lead to substantial improvements in worker conditions, some labour rights activists caution that the revisions, while welcome, do not go far enough.

The April tragedy, along with prompting responses from both the European Union and United States governments, had also sparked calls for those foreign companies that source their textile products from Bangladesh to take actions of their own toward fostering better conditions for workers. In response, a group of over 70 companies—most of them European, and including garment giants like Inditex and H&M—recently signed a binding safety deal with Switzerland-based unions UNI Global and IndustriALL. Along with involving safety inspections in factories where these companies source their products, the initiative will also require participants to pay US$500,000 per year to help maintain safety standards and keep funds in reserve for safety-related renovations to the production hubs. Companies will also be providing detailed information on which factories they use for their products.

Meanwhile, a group of 17 North American companies, including the GAP, Macy's, Sears, and JC Penney, have decided to instead sign a non-binding agreement, which would be in place for a period of five years. Among other provisions, the plan would involve inspections of all factories of the participating retailers and will attempt to establish common safety standards by October 2013. Labour groups such as IndustriALL and UNI Global have called the North American plan "another toothless corporate auditing programme for Bangladesh factory safety." Critics caution that it is non-binding, and it also does not involve any worker representative or third-party inspections, and there are no legal ramifications if safety standards are not met.

Activists have urged the participating North American retailers to sign the alternative European accord in order to tackle the safety manufacturing issues in a more comprehensive and binding way. They have also noted that boycotting Bangladeshi products will only harm the workers that need the most help, and are instead encouraging consumers to make ethical choices and select products from among the companies who have committed to the binding accords *(www.ictsd.org, 18.07.13)*. ■

Sri Lanka–Thailand trade and investment deal

SRI LANKA and Thailand recently forged a trade and investment deal, and agreed to double their bilateral trade—which, over the past three years, averaged US$536 million—within the next three to five years. Investments are specifically intended for infrastructure development projects, small-scale industries and production for exports. The two countries have set up a sub-committee to coordinate their trade relationships. Following the deal, the Thai Union Manufacturing Company, Thailand's largest canned fish factory, announced plans to construct a large operation in Sri Lanka. Sri Lanka is viewed as a market with high potential due to its large port, South Asian location, and cheap labour *(www.asiabriefing.com, 07.06.13)*. ■

Pakistan and IMF agree to a US$5.3 billion bailout

PAKISTAN and the International Monetary Fund (IMF) have reached an initial agreement on a bailout of at least US$5.3 billion to stave off an economic crisis as the country's foreign reserves dip perilously low. The agreement comes less than six years after Pakistan's last IMF bailout, and the driving need for the money this time around was to repay the institution billions of dollars that Islamabad still owes. Pakistan's previous government failed to implement many of the requirements of the last loan, including reducing the deficit and improving tax collection. That left the new government, which took over at the beginning of June, with the difficult task of convincing the IMF that this time would be different.

The IMF mission director in Pakistan acknowledged Islamabad's checkered history, but said the institution would not punish the country for the failure of its predecessors.

He also said that the loan will be disbursed over a three-year period, and will have an interest rate of roughly 3 percent. It will be repaid over 10 years after an initial grace period of four years.

The announcement of the bailout should help calm fears of financial instability in Pakistan. The deal, however, is yet to be approved by IMF officials in Washington and its Board of Directors *(http://world.time.com, 04.07.13)*. ■

Indian Cabinet approves new food subsidy scheme

graphics8.nytimes.com

INDIA'S cabinet has approved a food subsidy scheme that will dramatically expand subsidized food entitlements to millions of poor citizens. While the government has described the move as a "game changer," the opposition has been quick to dismiss it as an "election gimmick."

The scheme is set to provide 67 percent of the population with a legal right to obtain cheap food grains from the country's extensive network of "fair price" shops. The governing Congress party has made the initiative a centrepiece of its legislative programme, but a bill to enact the scheme has been held up in successive parliamentary sessions due to differences between political parties on the best way to tackle hunger sustainably.

There is already an existing programme, known as the *Antyodaya Anna Yojana*, which targets the very poor. This system will continue to provide 35 kilograms of grains a month at subsidized prices, with additional clauses that make special allowances for pregnant and lactating mothers.

The government estimates that the initiative is likely to cost Indian Rs.1.25 trillion (or about US$22 billion) —a figure which some experts caution may in fact be too low. Critics also warn against relying on the country's notoriously "leaky" public distribution system to channel the aid to beneficiaries *(www.ictsd.org, 11.07.13)*. ■

Resolution a
Regional Consultati
South Asian Priorities for t

Members of the South Asian Association for Regional Cooperation (SAARC) have been working together in the World Trade Organization (WTO) to build coalition among like-minded countries and have also tabled proposals on issues of mutual interests collectively. It is note-worthy that the Heads of State or Government of SAARC countries, during the 14th SAARC Summit held in 2007 in New Delhi, reaffirming their commitment to a rules-based multilateral trading system and recalling that the Doha Round was premised on the centrality of development, directed their Commerce Ministers to work closely to coordinate their positions to ensure that the centrality of the development dimension in all areas of negotiations for creating new opportunities and economic growth for developing countries was fully realized. They also called upon all WTO Members to show commitment for a successful conclusion of the Doha Round.

In view of the above, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, and the Institute of Policy Studies of Sri Lanka (IPS), Colombo, jointly organized a "Regional Consultation on Road to Bali: South Asian Priorities for the Ninth WTO Ministerial" in Marawila, Sri Lanka, on 2–3 July. The participants of the consultation have urged the SAARC Ministers to discuss and take up the following issues in the run up to as well as during the 9th Ministerial Conference of the WTO to be held in Bali, Indonesia, on 3–6 December 2013.

General issues

1. While reaffirming commitments as a regional grouping to a strengthened rules-based multilateral trading system, and taking a pro-active approach to ensure that the negotiations conclude, the Ministers must emphasize the centrality of the development dimension in all areas of negotiations.
2. The Ministers must oppose the practices of plurilateralizing negotiations in areas that are part of the multilateral negotiations. The issue of transparency in the process of WTO negotiations must be stressed, especially in the context of plurilateral services negotiations being held behind "closed-doors" and most of the WTO Members remaining in the dark. This is neither in the spirit of the multilateral trading system nor the Doha and Hong Kong Ministerial Declarations, as the impact of the decision made by a few countries will have a bearing on others who have no say in the decision-making process, the worst affected being the least-developed countries (LDCs).
3. SAARC countries restrained themselves from resorting to protectionism during the global economic crisis. Accordingly, the Ministers should call all WTO Members to exercise utmost restraints in resorting to protectionism as the global (and regional) trade growth saw a decline in 2012.

Specific issues

1. The Ministers need to emphasize the importance of issues like climate change-induced threats to availability of food, food security in general, food security and food aid, livelihood of poor farmers, flexibility to developing countries, and effective market access on items of export interest to developing countries and LDCs, and negotiate in line with the "G33 Proposal on Some Elements of TN/AG/W/4/Rev.4 for Early Agreement to Address Food Security Issues". They should also stress that WTO Members do not resort to export restrictions, and eliminate of all forms of export subsidies on agricultural products—the deadline for which was set as 2013 by the Hong Kong Ministerial Declaration—as proposed by the G20 (JOB/AG/24 dated 21 May 2013).
2. The Ministers must emphasize the issue of operational and effective market access in all categories of services sectors, especially for Mode 4 (in which SAARC countries have comparative advantage) by delinking it from Mode 3. They should stress the early implementation of the "Preferential treatment to Services and Service suppliers of Least-Developed Countries", keeping in mind the sectors/subsectors and modes of

dopted at the
on on "Road to Bali:
he Ninth WTO Ministerial"

supply of interest to SAARC LDCs.

3. While recognizing that trade facilitation will reduce the transaction cost world-wide, for many SAARC Members, the major issue relates to enhancing the local capacity to implement the measures. Without having a firm commitment from other WTO Members, especially the developed countries, to provide assistance not only in terms of knowledge sharing and capacity building towards management and local governance but also providing the finances to meet the infrastructural needs of the developing countries, with priority to the needs of the LDCs of the region, it would be premature to agree on a stand-alone comprehensive trade facilitation package.
4. While climate change remains a concern for SAARC Members, the Ministers must urge all the WTO Members not to resort to trade measures of any type in the name of climate change since that might affect the trade performance of developing and least-developed countries without making any substantial contribution to the fight against the negative impacts of climate change. Several studies have shown that this can even be counterproductive. The Ministers must also urge the developed country Members of the WTO to take appropriate measures for effective technology transfer to developing countries and LDCs that would be essential for these countries in their climate change adaptation and mitigation efforts.
5. The Ministers should appreciate the extension of the transition period under Article 66.1 of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) for the LDCs. In addition, they should reiterate the flexibilities available to developing countries under the TRIPS Agreement, especially in the context of public health. They should also continue to support the demand made by developing countries to include "disclosure requirement" as a condition for patent applications in the TRIPS Agreement in a manner supportive to the Convention on Biological Diversity.
6. Despite the Doha Ministerial having agreed to put in place a mechanism for the monitoring of technology transfer to the LDCs, and the mechanism put in place since 2003, progress on this front has been extremely slow, and visible results are yet to appear. Therefore, the monitoring mechanism must be strengthened and made enforceable.
7. While additional, predictable, sustainable and effective Aid for Trade (AfT) is a sine qua non, the Ministers should urge developed country Members to provide additional AfT funding for regional projects in South Asia, and preferential AfT for LDCs for the development of their trade-related infrastructure. Moreover, the Ministers should urge that of the total AfT to be disbursed to LDCs, at least four-fifth should be in the form of grant. The Ministers should also urge that a robust AfT monitoring and evaluation mechanism with full participation of recipient countries be put in place.
8. The duty-free and quota-free (DFQF) market access to LDCs on all products of their export interest, in line with Annex F of the Hong Kong Ministerial Declaration, must be enforced by the developed countries as early harvest and also by those developing countries which can afford it. A firm commitment to start the DFQF Scheme must come out as a Bali outcome.
9. Non-implementation of the "Decision on LDC Accession" in true spirit is a matter of serious concern. WTO Members should not seek any commitments from acceding LDCs beyond the requirement of the "Decision on LDC Accession". The need for early accession of two SAARC Members, viz. Afghanistan and Bhutan, to the WTO, should be stressed especially in view of the WTO having adopted the Istanbul Plan of Action in its work programme.
10. The concerns regarding preference erosion should be addressed with priority, especially on items of export interests to developing countries and LDCs. ■

South Asia's Agenda for Bali

Rajan Sudesh Ratna

The Doha Round is the most ambitious round in the entire history of the multilateral trading system. It was officially launched at the 4th Ministerial Conference of the World Trade Organization (WTO) in Doha, Qatar, in November 2001. The Work Programme for Doha covered negotiations on some 20 broad items/subjects, which included: agriculture; non-agriculture market access (NAMA); services; intellectual property rights; implementation-related issues and concerns; sanitary and phytosanitary measures; technical barriers to trade; textiles and clothing; trade-related investment measures; anti-dumping; and special and differential treatment (S&DT) provisions; among others.

Before the start of the Doha Round, many developing countries were opposed to the launch of a new round, mainly due to the unfulfilled promises of the Uruguay Round. The consensus for agreeing on the launch of a new round in Doha was reached only after the developed countries assured the developing countries that the new round would address their development concerns and sort out the problems related to the implementation of the Uruguay Round Agreements. The declaration that the WTO members adopted in Doha formulated a work programme, "the Doha Development Agenda", which included undertaking trade negotiations (under the Doha Round) and addressing the implementation issues emanating from the agreements of the earlier rounds.

The Doha Round has entered its 12th year, but without much progress. Despite agreement on almost 80 percent of the issues discussed, differences still exist in areas of agriculture, NAMA, services and non-tariff barriers. Since the outcome of the Doha Round requires consensus on the entire package, the Round will conclude only if the major players, such as the United States and the European Union, view the negotiations from a global welfare perspective rather than taking a more individualistic approach.

Bali Ministerial

Amidst growing scepticism regarding the future of the Doha Round, the 9th Ministerial Conference of the WTO is going to be held in Bali on 3–6 December this year. In preparation for the Bali Ministerial, possible agendas were discussed at the General Council Meeting of the WTO on 4 June 2013. At the meeting, the Director-

General of the WTO highlighted that the success of the Ministerial Conference in Bali requires finalizing the draft agreement on trade facilitation, building a landing strip on agriculture, canvassing the elements of the monitoring mechanism and the Cancun agreement-specific proposals, as well as building the elements for a package for LDCs. He also stated that other elements which could be part of the Bali deliverables are Aid for Trade (AfT), WTO accession of countries whose accession negotiations are still pending, the expansion of the Information Technology Agreement, and extension of the transition period of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) for the LDCs. The delegates at the meeting reiterated the importance of fully respecting the development mandate, together with the need for a balance in the three Doha Development Agenda areas, namely trade facilitation, agriculture and S&DT/ LDC issues to make the Bali Ministerial a success. A positive development took place on 11 June when the WTO members agreed to extend until 1 July 2021 the deadline for LDCs to protect intellectual property under the TRIPS Agreement, with a possibility of further extension.

There are a lot of expectations from Bali because if Bali fails, Doha will fail as well. Moreover, if negotiators are not able to break the impasse, the credibility of the WTO and the future of the multilateral trading system will be at risk.

In the aftermath of the global economic crisis, a positive outcome of the Bali Ministerial will definitely strengthen support for the multilateral trading system, and improve the prospects of free and fair global trade. Thus, the Bali outcome is expected not only to conclude the Doha Round but also to provide a future roadmap to the WTO. But the road to Bali is not smooth, and resolving the issues that are likely to be considered at Bali will require strong political will and a bit of flexibility as the issues are becoming increasingly complex with the passage of time.

SAARC's position at Bali

Over the years of Doha Round negotiations, member countries of the South Asian Association for Regional Cooperation (SAARC), that are WTO members, have realized the importance of coalition building among like-minded countries and have often tabled proposals collectively on issues of mutual interests. During the 14th SAARC Summit held in New Delhi in 2007, the Heads of State and Government of all SAARC members reaffirmed their commitments to a rules-based multilateral trading system. They recalled that the Doha Round was premised on the centrality of development and directed their Commerce Ministers to work closely to coordinate their positions to ensure that the centrality of the development dimension in all areas of negotiations for creating new opportunities and economic growth for developing countries was fully realized.

In view of the above, at the Bali Ministerial, SAARC ministers need to identify elements of the Doha Round which are of regional importance and move collectively to achieve the desired outcome. Since the LDC group in the WTO is currently being led by Nepal, South Asian countries, especially the LDCs, should take the opportunity to put forth their agenda in the run up to as well as during the Bali Ministerial. Some of the major issues in which the South Asian countries should have a collective voice are food security, services negotiations, LDC package, and accession of LDCs.

Food insecurity and farmers' livelihoods are issues of major concerns for most of the developing country members of the WTO. The G33 and G20 countries have put forward proposals in the WTO in relation to having an early agreement to address food security issues, on export restrictions and export subsidies, among others. South Asian countries can support these proposals since they reflect their interests as well.

South Asian countries should oppose the plurilateral approaches being taken on services negotiations, which are also against the principle of transparency, since that will have detrimental effects on the LDCs. More importantly, they should push for the early implementation of the services waivers that the 8th Ministerial Conference of the WTO granted to the LDC members. On the issue of LDCs' accession to the WTO, two LDC SAARC members—Afghanistan and Bhutan—are awaiting accession to the WTO. Therefore, SAARC countries should stress to get their accession process expedited.

SAARC countries should also assert the urgent need to enforce the duty-free and quota-free market access to LDCs on all products of their export interest by all WTO members. Moreover, in order to adequately address the developmental challenges of all SAARC members, they should emphasize the effectiveness of AfT and the predictability and continuous flow of new resources.

Conclusion

The best example of coalition building in the WTO can be illustrated by the example of India and Pakistan, who, despite political differences, have submitted joint proposals to the WTO and have chosen to be at the same side of the table during negotiations in the past. Also, India, Pakistan and Sri Lanka have always extended their support to LDCs during the entire Doha Round negotiation.

It is therefore important that SAARC, as a regional grouping, takes these issues collectively to the Bali Ministerial as well after discussing them in the upcoming SAARC Commerce and Trade Ministers meeting scheduled to be held in Sri Lanka. In the run up to as well as during the Bali Ministerial it is essential that SAARC countries remain united on issues of mutual interest. Only then will SAARC be able to ensure that "development" remains the core of Doha Round outcome. ■

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India-Pakistan Economic Cooperation
A case for improved trade facilitation

Selim Raihan and Prabir De

Trade facilitation landscape of South Asia is unimpressive when we consider behind-the-border barriers. Even India and Pakistan—the two major economies of the region—fare poorly in logistics facilities when compared to their global peers. Also, South Asian countries suffer from excessive direct costs and time taken to cross borders, and inefficient cross-border transactions, which have a negative effect on trade. Trade in the region is also constrained by poor condition of infrastructure, congestions, high costs and lengthy delays. These problems are particularly acute at India-Pakistan border crossings, many of which pose significant barriers to trade.

Among the major causes of high trade transaction costs is the number of cumbersome and complex cross-border trading practices, which also increase the possibility of corruption. Goods carried by road are subject largely to trans-shipment and manual checking at the border, which imposes serious impediments to regional and multilateral trade. The situation is further compounded by the lack of harmonization of technical standards and trade documents. On top of that, overland transit is not allowed in most cases.

Nevertheless, there have been some positive developments in trade relations between South Asian countries, especially between India and Pakistan, in recent times. In fact, one of the most significant developments in the world lately in terms of economic cooperation is the revival of India-Pakistan trade talks in 2011. Since then, India and Pakistan have made good progress towards achieving closer economic relations with a vision to enhance peace and stability in South Asia. Of the several initiatives taken by India and Pakistan for strengthening bilateral relations, Pakistan's decision to offer the most-favoured nation (MFN) status to India is the most remarkable one.

However, given the poor status of trade facilitation between the two countries, will the granting of MFN status by Pakistan to India become a panacea? What will be the gains from trade for the two countries as a result of this development? Or should that be accompanied by improvements in trade facilitation, infrastructure, connectivity, and logistics to reap the true benefits of trade? To answer these questions, we have undertaken a quantitative exercise using the global computable general equilibrium (CGE) modelling, namely the Global Trade Analysis Project (GTAP) model.[1] Since benefits to Pakistan from trade with

Box
Modelling methodology

First, we identified 561 products for Pakistan—for which, the unit costs of imports from India would be lower than the unit costs of imports from other countries—at the 6-digit Harmonized System (HS) level from the World Bank's World Integrated Trade Solution (WITS) database. The percentage differences in these unit import costs were then calculated. The percentage differences in unit prices for these 561 products at the 6-digit HS code were then aggregated into the GTAP sectors matching the concordance and weights for respective products. Pakistan would experience fall in unit import prices for these products only if the import source is India. We consider a scenario—the "MFN scenario"—in the GTAP model, under which Pakistan's import price from India would decrease. In brief, the MFN scenario incorporates the reduction in import prices for Pakistan because of increased potential of sourcing imports from India at cheaper prices. In addition, it is assumed that there would be some "peace dividends" for all the South Asian countries because of improved trade relation between India and Pakistan. In the GTAP framework, such "peace dividend" is assumed to lower transaction costs in bilateral trade among the South Asian countries by 0.5 percent.

Table 1
Welfare effects of MFN (Equivalent variation in US$ million at 2007 prices)

Country	Welfare effects
Bangladesh	21.08
India	160.71
Nepal	18.01
Pakistan	99.21
Sri Lanka	34.92
RSA*	15.72
China	-10.52
USA	-18.39
EU	-29.55
RoW**	-66.71

*Rest of South Asia; **Rest of the World.
Source: GTAP simulation.

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Trade in South Asia is constrained by poor infrastructure, congestions, high costs and delays at border points.

India, comparing unit price, are huge, we factor in this benefit quantitatively while modelling the gains from trade (See Box for the modelling methodology).

Gains from trade facilitation

The results of the MFN scenario are presented in Table 1. The simulation indicates that welfare effects of MFN will be positive both for India and Pakistan. The GTAP simulation suggests that there would be some positive welfare effects on other South Asian countries due to the "peace dividends" generated from improved economic relations between India and Pakistan. There will, however, be some negative welfare effects for the countries outside of South Asia, since Pakistan would divert the source of some of its imports from other countries to India.

The GTAP simulation results suggest that, due to the MFN scenario, Pakistan's import from India would rise by 32 percent. Also, there would be some marginal rise in imports from Bangladesh, Nepal and the rest of South Asia. However, imports from China, the United States (US), the European Union (EU) and the rest of the world would decline.[2] This suggests that rise in imports from India would lead to a fall in imports from other major source countries. Pakistan's total import would however increase by only 0.28 percent. This apparently indicates that the granting of MFN only would not have a major impact on Pakistan's total import. A number of sectors in India will benefit in terms of rise in exports to Pakistan due to the MFN status. Such rise in exports from India would be possible due to India's unit cost advantage compared to Pakistan's other trading partners. Under this scenario, the change in exports from India to Pakistan would vary significantly at the disaggregated product level. For instance, meat exports would increase by a whopping 348 percent while exports of vegetables, fruits and nuts will rise only by 0.2 percent. There will also be a rise in exports of chemical, rubber and plastic, food processing, mineral fuels (petroleum, coal products), metals, machinery and equipment, textiles, leather products, dairy products, fisheries, etc.

The impact of the granting of MFN status on Pakistan's total exports, however, would be minimal. Pakistan's total exports would rise by only 0.17 percent, and its exports to India, in particular, would rise by 0.4 percent. Granting MFN status to India would thus have negligible impact on Pakistan's sectoral exports to India. There would, however, be some rise in exports of plant-based fibres, animal products and metals from Pakistan to India. Pakistan would also experience some rise in exports to other South Asian countries and China. At the same time, Pakistan would experience a marginal fall in exports to its major export destinations such as the US and the EU. This suggests that the granting of MFN status to India would lead Pakistan to reorient some of its exports to the South Asia region.

Regarding imports to India, its total import would rise by only 0.1 percent. Other South Asian countries would experience some rise in exports to India due to the "peace dividends" assumed in the GTAP model simulation. This suggests that merely granting MFN status would not have much impact on India's imports. Also, India's total exports would rise by only 0.12 percent. In a static sense, India would experience small reductions in its exports to China, the US and the EU.

The aforementioned analysis suggests that the gains from granting of MFN status by Pakistan to India are likely to be marginal. Therefore, to reap larger trade benefits, extended economic cooperation between India and Pakistan might be necessary. To test this hypothesis, the study incorporated several other scenarios in the GTAP framework. These scenarios include a bilateral free trade agreement (FTA) between India and Pakistan; a bilateral FTA with increased bilateral trade facilitation, a South Asian Free Trade Area (SAFTA) scenario (where all South Asian countries reduce their bilateral tariffs on goods to zero); and a SAFTA with regional trade facilitation scenario. It should, however, be mentioned that all these scenarios incorporate the MFN scenario. The reason for incorporating the MFN scenario is to highlight that the full and effective implementation of any bilateral FTA between India and Pakistan or the SAFTA Agreement would require Pakistan granting MFN status to India.

Table 2 presents the welfare effects of the different trade scenarios. Under a bilateral FTA scenario, both India and Pakistan would have positive welfare effects, but the gain will be larger for Pakistan. Other countries would experience some welfare losses due to their exclusion from the FTA. If enhanced bilateral trade facilitation (a reduction in the transaction costs in the bilateral trade between India and Pakistan by 25 percent) is also added to the bilateral FTA, the gains would be much larger for both the countries. Under this new scenario, the size of the welfare gain for India would be larger than that for Pakistan. It should be mentioned here that a deeper bilateral economic cooperation between India and Pakistan may give rise to some concerns about the prospect of deepening economic cooperation among countries of South Asia. Therefore, an effective implementation of SAFTA would be more desirable for other South Asian countries.

Thus, a scenario of SAFTA was also run, and the simulation results suggest large welfare gains for both India and Pakistan. In terms of gains in both allocative efficiency and terms of trade, a full SAFTA would generate much larger welfare gains for India and Pakistan than those under a mere bilateral FTA between these two countries. There would be welfare loss for Bangladesh due to the possibility of a larger trade diversion effect than the trade creation effect.[3] However, when the SAFTA scenario was run considering a regional trade facilitation scenario, it was found that welfare gains for all South Asian countries would increase dramatically. The welfare gains for India and Pakistan would also be much higher in this scenario than those under any other scenarios.

The scenarios with enhanced trade facilitation would result in much higher rise in Pakistan's overall imports and exports. Under the bilateral FTA scenario with trade facilitation, Pakistan's total imports would increase by 7.35 percent which would be 4.95 percentage points higher than that under the bilateral FTA scenario. Similarly, the rise in total exports would be 5.4 percentage points higher under the former scenario than under the latter scenario. The results are similar for the SAFTA scenarios. Rise in imports and exports would be the highest under the SAFTA scenario with enhanced regional trade facilitation. It should also be mentioned that a scenario with mere MFN would result in the least rise in imports and exports for Pakistan. Similar is the case with India, although the magnitudes are lower.

Thus, what makes MFN effective is the trade facilitation that surrounds it.[4] The results of the general equilibrium simulations indicate that Pakistan's MFN to India would generate larger benefits if it is supported by improved connectivity and trade facilitation. In other words, gains to Pakistan would be limited in the absence of improved connectivity and trade facilitation. The net economic impacts of SAFTA along with trade facilitation are beneficial to both Pakistan and India.

Table 2
Comparison of welfare effects (Equivalent variation in US$ million at 2007 prices)

Country	Pakistan's MFN to India	MFN plus India-Pakistan FTA	MFN plus India-Pakistan FTA with bilateral trade facilitation	MFN plus SAFTA	MFN plus SAFTA with regional trade facilitation
Bangladesh	21.08	-2.58	-14.59	-111.77	1479.56
India	160.71	376.43	2288.46	1810.73	5452.03
Nepal	18.01	-0.65	-6.85	485.03	1654.21
Pakistan	99.21	443.96	1964.11	1121.67	2618.38
Sri Lanka	34.92	-4.28	-15.56	71.88	2173.12
Rest of South Asia	15.72	-20.27	-41.22	298.21	1265.02
China	-10.52	-4.81	-128.04	-216.19	-760.12
USA	-18.39	-62.13	-223.79	-270.47	-985.54
EU 25	-29.55	-38.32	-262.74	-348.32	-1394.91
Rest of the World	-66.71	-185.81	-861.13	-681.72	-3020.78

Source: GTAP simulation.

Trade facilitation and beyond

Trade between India and Pakistan is expected to increase by many folds in coming years. Accompanying this growth will be an increase in demand for both national and regional infrastructure services. Since cross-border infrastructure enhance bilateral (and also regional) connectivity through higher trade and investment, a failure to respond to this demand will slow down trade between the countries. Compared to their proximity, India and Pakistan do not have much presence of cross-border infrastructure between them, and therefore, much of the bilateral trade between them takes place through unofficial routes. Hence, development of cross-border infrastructure, especially transportation linkages and energy pipelines, should get utmost priority, since its completion will contribute to the bilateral as well as regional integration by reducing transportation costs and facilitating trade and services. Sub-regional transit of goods between Afghanistan, India and Pakistan would not only facilitate trade and investment but also encourage cross-border production networks. Extending it to the rest of South Asia would eventually build an overall arc of regional connectivity.

Along with the granting of MFN status, India and Pakistan should consider a strategy that will not only eliminate the barriers to cross-border infrastructure development but will also encourage investment flows in the region. Since most cross-border projects are associated with several risks, India and Pakistan have to play a larger role in creating an environment suitable for the private sector to invest in regional infrastructure projects.

There should be a proactive policy for promoting bilateral investments. Since there are ample scopes for joint ventures across borders, improving border trade infrastructure and instituting mutual recognition agreements to facilitate the movement of goods and services are important. Also, facilitating visa for increased business travel is necessary.

Additionally, there are limited transportation services connecting India and Pakistan. For example, Delhi and Islamabad are yet to be directly connected by air. Thus, there is a strong need to build stronger air connectivity and improve transportation network in the region.

There is a need for both countries to rationalize import duties, and eliminate regulatory duties and other para-tariffs, quantitative restrictions, and several other measures that have been restricting trade. Also, one of the major stumbling blocks in the bilateral trade between India and Pakistan is the presence of non-tariff barriers (NTBs). Deeper cooperation between India and Pakistan can potentially result in significant reductions of these barriers.

> Cross-border infrastructure between India and Pakistan needs to be strengthened to check unofficial trade.

Conclusion and recommendations

Pakistan's MFN to India would generate larger benefits if it is supported by improved connectivity and trade facilitation. The net economic impacts of SAFTA along with trade facilitation are beneficial to both Pakistan and India, which would eventually lead to a stronger economic growth of the entire South Asia region.

Therefore, reduction of transaction time through simplification of documentation and paperless trade should be the priority. Significant reductions in transaction costs in South Asia will be critical to the bilateral trade cooperation's effectiveness. To reduce trade-related transaction costs, governments must collaborate on a trade facilitation agenda that encompasses procedures, regulations and processes that impose costs on cross-border commercial transactions (e.g. customs, standards, movement of people, etc.).

With Pakistan granting MFN status to India, the full implementation of SAFTA is not beyond our reach. Both the countries should therefore go beyond MFN and embrace a comprehensive agreement that would open the door to other regional cooperation initiatives. At the same time, investments from India to Pakistan could provide a major boost to the Pakistan's export industry, which, in turn, would reduce its trade gaps with India and other countries in the world.

Therefore, in general, three policy options are recommended. First, trade liberalization should be further deepened through, for example, removal of NTBs, reduction of sensitive lists, duty-free and quota-free market access to products in which marginal returns from trade are very high, removal of quantitative restrictions, etc. Second, trade facilitation should be supported to complement trade liberalization through, for example, expediting payments between exporters and importers by introducing e-banking, allowing more banks to operate in each other's country, etc. Third, foreign direct investment should be allowed to move freely between the two countries by, among others, building the institutional mechanism for bilateral investment guarantee.

While all the mentioned steps are perceived as fruitful ways and means to boost business networks and bilateral relations, a change in the mindset on both sides of the border is key to converting the trust deficit into an everlasting partnership. ■

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Notes

1 This study has used the version 8 database of the GTAP model. For the description of the GTAP model, see Hertel, T.W. 1997. Global Trade Analysis: Modeling and Applications. Cambridge: Cambridge University Press.

2 Here EU represents its 25 member countries.

3 Raihan, Selim. 2012. "SAFTA and the South Asian Countries: Quantitative Assessments of Potential Implications." MPRA Paper 37884. Munich Personal RePEc Archive.

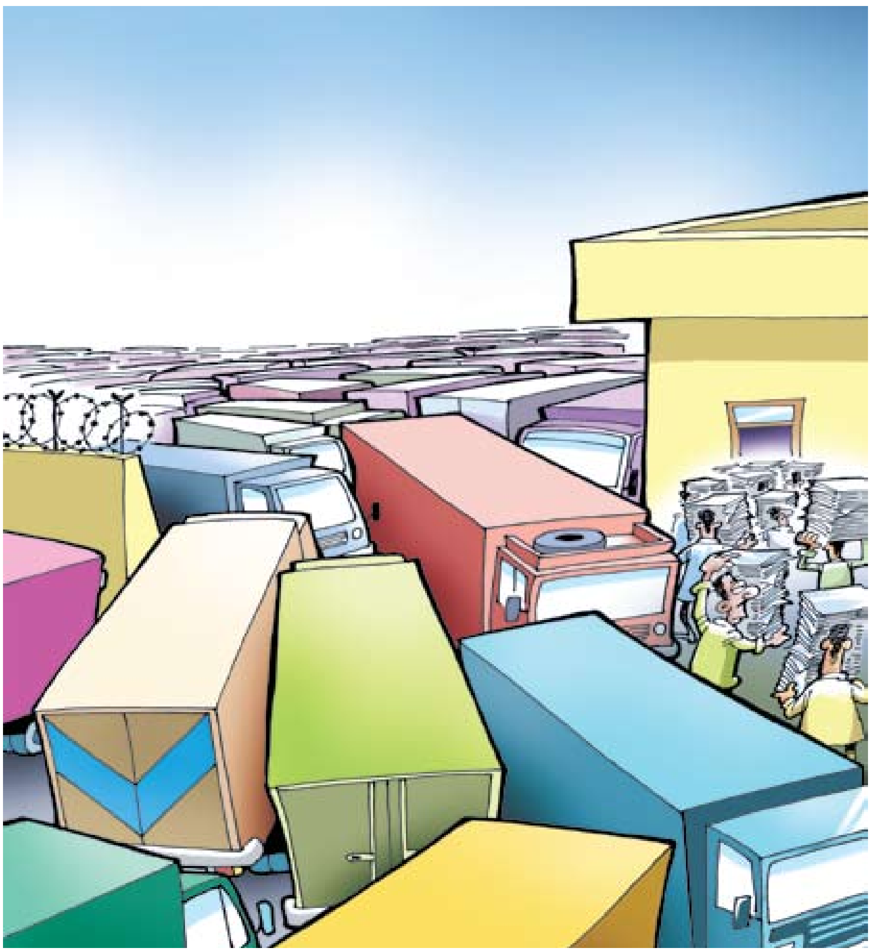
4 De, Prabir. 2011. "Why is Trade at Border a Costly Affair in South Asia? An Empirical Investigation." Contemporary South Asia 19(4): 441-64. http://www.tandfonline.com/doi/abs/10.1080/09584935.2011.602666#.UaMuMh-6Zg8

Trade Facilitation

Issues confronting South Asia at the WTO

South Asian countries' reservation towards trade facilitation lies in their inability to meet the set commitments, and to undertake measures beyond their implementation capacity.

Nisha Taneja and Isha Dayal



Trade facilitation, along with investment, competition and government procurement, was put on the World Trade Organization's (WTO) negotiating agenda at the Singapore Ministerial in 1996. Following the Ministerial, these issues became collectively known as the "Singapore Issues". However, when the Doha Development Round was launched in 2001, only trade facilitation was retained for negotiation, indicating that this was the least contentious of the Singapore Issues.

Formal negotiations on trade facilitation were launched in July 2004, with the modalities for these negotiations outlined in Annex D of the so-called "July Package". The negotiations "aim to clarify and improve relevant aspects of Articles V (Freedom of Transit), VIII (Fees and Formalities) and X (Publication) of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit". The negotiations also aim to enhance "technical assistance and support for capacity building" and develop "provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues". Furthermore, the outcomes of the negotiations are expected to "take fully into account the principle of special and differential treatment for developing and least-developed countries" and such countries are not expected "to undertake investments in infrastructure projects beyond their means".[1]

It is expected that the 9th Ministerial Conference of the WTO, to be held in Bali, Indonesia, in December this year, will also focus on trade facilitation, besides focusing on agriculture and certain other topics of special interest to least-developed countries (LDCs). The draft text agreement on trade facilitation prepared by the Negotiating Group on Trade Facilitation is still undergoing changes as members continue to debate over several issues in the text.

South Asian countries have recognized the benefits of trade facilitation and are therefore in support of the agreement. However, their concerns are largely related to the special and differential treatment, and technical assistance provisions that they need to undertake broader trade facilitation measures. They have been undertaking trade facilitation measures as part of their domestic reform agenda, but they are concerned that once they agree on the trade facilitation agreement, they would have to undertake measures beyond their capacity if they are to maximize the gains from trade facilitation.

Benefits of trade facilitation

Perhaps the main reason for a consensus on trade facilitation is the recognition of its benefits by all WTO members. There is a widespread agreement on the notion of the developing world garnering greater benefits from undertaking trade facilitation reforms; considering that inefficiencies in administrative procedures and policies tend to be higher in developing countries and LDCs. Moreover, the potential gains inherent in undertaking trade facilitation reforms are likely to bolster the efforts of the developing world in their pursuit towards economic development.

Worldwide gains from undertaking trade facilitation measures are expected to be very large. The World Economic Forum (2013)[2] has estimated that the income gains from raising the average trade facilitation performance halfway to Singapore's would be six times larger than those from the removal of all import tariffs. WTO Director-General Pascal Lamy too has reiterated the benefits of a multilateral deal on trade facilitation, maintaining that cutting red tape by half could add US$1 trillion to the global economy.[3]

In addition to boosting trade and incomes across the world, a multilateral framework on trade facilitation will facilitate the growth of production networks at the global level. Though regional production networks have been in place for many years, the framework has not been able to liberalize trade in a holistic manner and deal with barriers arising from high transaction costs, documentation requirements or restrictive customs procedures. Thus, with trade facilitation, the value chains flourishing at regional levels as part of regional preferential trading arrangements or free trade agreements are likely to expand and become global, subsequently easing trading regimes across the world.

South Asian countries can indeed gain from a trade facilitation agreement as it will help members lower their transaction costs enabling them to participate more effectively in the production networks not only in South Asia, but also in the global value chains.

Box
Flexibilities in implementation

Category A
Implementation of provisions upon entry into force of the Agreement.

Category B
Implementation on a date after a transitional period of time following the entry into force of the Agreement.

Category C
Implementation on a date after a transitional period of time following the entry into force of this Agreement, after acquiring implementation capacity through technical assistance and capacity building support.

The draft agreement

The draft negotiating text on trade facilitation has been revised several times, and there are still 500 issues that need to be addressed. The draft has two sections. Section 1 strengthens GATT articles V, VIII and X; and Section 2 lays down provisions relating to special and differential treatment, and technical assistance for developing members. The negotiations on trade facilitation include a number of topics such as improving the availability of information for traders, establishing advance duties on tariff classification, expediting and simplifying the release and clearance of goods, enhancing transparency in administrative procedures and customs rulings, streamlining fees and charges, improving coordination among border agencies, creating a single window system, and disciplining transit formalities and documentation requirements. However, building consensus on certain areas such as customs cooperation and transit, pre-shipment inspection, customs brokers, and prohibition of consular fees may require greater political intervention and thus need to be dealt with carefully.

With regard to the disciplines laid down in Section 1 related to the General Agreement on Tariffs and Trade (GATT) Articles V, VIII and X, Section 2 of the negotiating text provides flexibility to developing and least-developed country members to schedule commitments under three categories

A, B and C (Box), according to their ability to implement them. This flexibility given to developing countries and LDCs lies alongside a provision of needs-based technical assistance in undertaking trade facilitation reforms.

The provisional dates for notification and implementation under categories B and C have to be provided within a specified time period, along with a listing of provisions in terms of priorities for technical assistance and capacity building. This shall be followed by specification of definitive dates of implementation, to again be notified within a set time period. Members are encouraged to provide information on domestic implementing agencies and on donors with whom there is an agreement to provide technical assistance.

South Asian countries vary significantly in terms of the extent of trade facilitation measures they have undertaken.

A key feature of the agreement is that there is an "early warning mechanism". As long as developing and least-developed members notify that they require an extension of implementation dates, under categories B and C (within a specified timeframe), an extension may be granted by the WTO Committee on Trade Facilitation, along with a new date by which the members shall be expected to fulfill the concerned action. There is also a provision for grant of repeated extensions. The agreement is thus likely to have an inbuilt flexibility which may well mean that the commitments may not be binding.

Regarding the provision of technical and financial assistance, in order to maintain transparency, the agreement necessitates the assisting member to submit information to the Committee on the description of technical and financial assistance, and capacity building resources; the status and the amount committed or disbursed; procedures for disbursement of assistance; the beneficiary country or the region; and the implementing agency providing assistance. It is now imperative to synergize both the sections of the agreement in order to constructively use the flexibilities provided in Section 2 to move forward with the disciplines and mandatory commitments enlisted in Section 1.

Measures undertaken by South Asian countries

South Asian countries have been undertaking various trade facilitation measures as part of their reform agenda. But there is a significant variation among the countries regarding the extent to which the measures have been adopted because of the differences in the level of development, availability of resources and priority accorded to trade facilitation on the policy agenda of these countries.

In India, all relevant information on any aspect of trade policy is published by the Central Board of Excise and Commerce, Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce, and the Reserve Bank of India. Initiatives have been taken to improve the quality and accuracy of foreign trade data, with information and updates being easily accessible through the internet. Also, the country has a strong legal system with a two-layered appeal system—administrative and judicial.[4] An alternative dispute resolution mechanism has also been provided for by the Settlement Commission. Fees and charges for many formalities such as an online application for Importer Exporter Code are nominal, while many others continue to exist on an *ad valorem* basis, raising the issue of what a "reasonable" fee should be. In addition, a number of steps have been taken to expedite and simplify the release and clearance of goods, such as the introduction of electronic Bank Realization Certificate (e-BRC) systems for pre-arrival processing, facility for electronic payment of application fees, introduction of Risk Management Systems (RMS), and publication of average release times measured by the dwell time at ports. The e-BRC system, made mandatory since 2012, allows details on realization of export proceeds to be transmitted from banks to DGFT in an electronically secured format. This step is aimed at reducing the time taken and documentation required for submitting accurate information on the volume and value of trade to the government. RMS was introduced in 2005 at Customs locations where the Electronic Data Interchange (EDI) System is operational. Hence, the practice of routine assessment, concurrent audit and examination has been discontinued. To reduce transaction and handling costs, a single window system to facilitate exports of perishable agriculture produce has also been introduced.

However, challenges still remain. The government releases draft notices on customs procedures to solicit comments from stakeholders before making the final decision. But the participation has still not been effective. Moreover, advance ruling has been in place since 2003, but the current scope is limited to certain categories like joint ventures, and is not available to a solely Indian owned company.

A major problem is that there is still no coordination between the customs authority and the port authority, resulting in delays in clearing goods. Lack of adequate infrastructure, such as testing laboratories, creates further delays at the border. With respect to the review of formalities and documentation requirements, there continues to be a trail of hard copy despite India's attempt to electronically link all trade documents. Moreover, introducing an RMS facility at all ports and making all border customs electronically enabled remains a challenge considering India has altogether 93 Land Customs Stations, 155 Inland Container Depots and Container Freight

Stations, 12 major ports, 187 minor ports and 37 international airports. Similarly, making available information on release time for goods may not be possible at all the ports. Establishment of a single enquiry point is still pending. Moreover, a single window clearance system for general commodities can be resource intensive and technologically challenging for a big country like India.

Pakistan too has been undertaking trade facilitation measures as part of its reform agenda. Pakistan's National Trade Facilitation Strategy (2012)[5] has set out a timeline for undertaking various reforms over the period 2012–2015, including all the commitments specified in Section 1 of the draft agreement on trade facilitation. A major breakthrough in Pakistan's customs came with the implementation of a "Pakistan Customs Computerized System" in 2005 to maintain electronic records, minimize customs clearance and dwell times, and adopt a risk-based clearance system. However, all features of the computerized system are yet to be implemented, and a hard copy submission of documents is likely to go along with electronic interchanges as well.

Besides India and Pakistan, other South Asian countries have also undertaken trade facilitation reforms. For instance, the Chittagong port in Bangladesh currently handles 90 percent of its sea-based trade[6], and over the years, the port has come to be known as one of the most efficient container ports in South Asia. In the past several years, there have been reductions in physical inspection of goods, the number of signatures required and the export clearance time. Despite these improvements, the system at the port needs to be streamlined with the needs of the trade facilitation agreement including the introduction of electronic processes, single window, and procedures to expedite shipments and clearance of goods.

While measures related to GATT Article X (publication of trade regulations) and Article VIII (fees and formalities) are adopted, keeping in view the trading environment of these countries, those related to transit fall within the bilateral ambit of the countries granting and receiving transit. Furthermore, since the issue of transit is of paramount importance given that all members (except Sri Lanka) are either providers or recipients of transit facilities in the region, transit issues are also covered under the Agreement on South Asian Free Trade Area (SAFTA).

Despite attempts to facilitate trade, South Asian countries have not made much headway in streamlining processes and bringing transparency in transit procedures. With respect to transit, in South Asia, there are only two major agreements: one between India and Nepal, and the other between Afghanistan and Pakistan. India allows transit facilities to Nepal but there is tremendous room for improvement in streamlining the procedures. At present, the documentary requirements are more than those specified in the transit treaty between the two countries, and there is lack of transparency in the manner in which the treaty has been implemented.

Pakistan and Afghanistan, on the other hand, have recently renewed their transit treaty, which will help them link to various other Central Asian countries. At present, Pakistan allows exports from Afghanistan to reach India, but Indian exporters cannot access the Afghan market via road through Pakistan.

Clearly, there exist major intercountry transit issues within South Asia. Pakistan does not provide a transit platform between Afghanistan and India, and India does the same for trade between Nepal and Bangladesh. Also, Bangladesh does not allow transit to India for trade between its northeastern states. The disciplines of Articles VIII and X will be applicable to transit only when there are transit agreements in place.

It may be relevant to mention that while South Asian countries are undertaking reforms to streamline procedures, reduce clearance times, and improve transparency, there is a significant difference in the application of these measures to the land ports that connect South Asian countries. For instance, even though an EDI system has been installed at Petrapole at the India-Bangladesh border and at Raxaul at the India-Nepal border, they do not function properly, and therefore, manual processing is still required.

At the India-Pakistan border, these facilities do not exist at all. Moreover, there is a conspicuous absence of the application of RMS at land ports. As a result, there is excessive checking of goods at land borders, which is far less efficient than the procedures and systems in place at sea and air ports in these countries. Thus, even though South Asian countries have succeeded in reducing clearance times at major sea and air ports, the systems lag far behind at the land ports, despite the crucial role of land ports in enhancing intra-regional trade. While these procedures need to be improved, efficiency at borders can be further increased through improved cooperation between customs authorities and establishment of one-stop joint inspection facilities between trading countries.

> South Asian countries have not made much headway in streamlining processes and making transit procedures transparent.

South Asia's issues on WTO trade facilitation agreement

South Asian countries have been reluctant to undertake massive trade reform measures without receiving anything in return, especially a deal on "agriculture" in order to achieve a "balanced outcome". The reservation towards trade facilitation lies in the prospective inability of the developing country and LDC members in meeting the set commitments, and having to undertake measures well beyond their implementation capacity. Moreover, given their limited resources and comparatively low levels of development, South Asian countries are concerned that the technical assistance and capacity building support may not be sufficient to meet their needs. The prospect of being "punished" for not undertaking the desired reforms and having to confront a dispute settlement case for not honouring their commitments are the major reasons inhibiting South Asian countries and other developing countries from fully supporting a stand-alone multilateral deal on trade facilitation.

In light of the prospective challenges faced on the implementation front, India, in unison with other developing member states, has been pitching for technical assistance and support for capacity development. India should not ask for any technical assistance, but rather undertake measures ahead of what it commits to in the agreement.

The two key requirements to implement trade facilitation measures are the introduction of information technology systems to streamline procedures and increase efficiency, and to raise transparency. For an emerging economy like India, implementation of these measures is not much of a problem. Because India is well equipped in information technology, and transparency can be improved through better governance, India will not require large resources for undertaking the necessary reforms.

On the contrary, other developing countries and LDCs may require technical assistance to implement the required trade facilitation reforms. Hence, there should be a definitive link between technical assistance with the level of commitments and implementation of specific measures. Though the concern of South Asian LDCs on this front is valid, India should support them in their demand

> Trade facilitation should encompass improvements in transport systems, infrastructure and other behind-the-border measures.

for strengthening the disciplines of the agreement through external assistance. India may even be in a position to help other South Asian countries in their move towards undertaking trade facilitation measures, while providing technical assistance, especially in human resource development, through training programmes. In addition, good governance will be very important in determining how successfully developing countries can proceed with full implementation.

Beyond the trade facilitation agreement

While support for the trade facilitation agreement is not in question anymore, the scope of the agreement itself is limited to reducing complexities of procedures, rationalizing fees and reducing clearance times. To reduce transaction costs, we need to look at the broader definition of trade facilitation which encompasses improvements in transport systems, infrastructure and other behind-the-border measures.

India is a large country and transporting goods within the country is an important leg of the transport chain of any trade cargo. In India, inland haulage constitutes a substantial proportion of the total cost of transportation to a foreign destination. Inefficient transport systems within the country raise transaction costs for consignments that are destined to foreign markets. This issue would not fall within the international definition of trade facilitation, but would in fact be a matter of domestic policy on developing domestic infrastructure.

At the regional level, in South Asia, poorly designed land transport protocols and inadequate border infrastructures, which fall under the purview of national governments, are the root causes for high transaction costs. Though India has a liberal transport protocol with Nepal, studies have shown that very often, free flow of goods is restricted and transshipment of goods at the border continues to take place. This indicates that there is a discrepancy between protocol and practice, which can be bridged by improving institutions and governance systems. This again does not fall within the realm of the trade facilitation agreement.

On the issue of transit, the trade facilitation agreement will only address the fees and formalities associated with transit. It does not include transit rights/institutions or transit infrastructure, both of which are crucial for lowering transaction costs for intra-regional trade. Individual and joint efforts by the contiguous South Asian countries in establishing regional transit protocols will be conducive for the creation of a progressive trading environment in South Asia. ■

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Notes

1 The Launching of Negotiations on Trade Facilitation. http://www.wto.org/english/tratop_e/tradfa_e/tradfa_negoti_e.htm

2 World Economic Forum. 2013. *Enabling Trade: Valuing Growth Opportunities.* http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf

3 Speech by WTO DG Pascal Lamy, 1 February 2013. http://www.wto.org/english/news_e/sppl_e/sppl265_e.htm

4 The various appellate authorities are Commissioner (Appeal), Revision Authority, Customs Excise and Service Tax Appellate Tribunal, High Court, and the Supreme Court.

5 Pakistan's National Trade Facilitation Strategy, May 2012. http://www.nttfc.org/reports/Pakistan%20TF%20Strategy%20Rev%202012%20v3.1.pdf

6 http://www.wto.org/english/news_e/sppl_e/sppl265_e.htm

Connecting South Asia

Liberalizing Air Services

Anushka Wijesinha

It may not be immediately convincing that aviation should be considered a key policy issue for developing countries, particularly those in the low-income category. As noted by Li (1998), "the traditional wisdom that air transport is a luxury transport mode is still common in much of Asia".[1] However, air transport is becoming increasingly essential for developing economies, especially for landlocked states, to increase their gains from globalization and international trade.

In South Asia, enhancing intra-regional connectivity has been identified as a key regional policy priority by member countries of the South Asian Association for Regional Cooperation (SAARC). For instance, at the 16th SAARC Summit held in Thimphu, the Heads of States and Governments declared 2010–2020 as the "Decade of Intra-regional Connectivity in SAARC". A key component in enhancing intra-regional connectivity is greater air connectivity through the expansion of civil aviation services.

Air transport and the developing world

Findlay and Goldstein (2004) note that the liberalization of air services "reduces the costs of trade, especially in high-value added supply chains such as electronics, perishable food, or cut flowers; attracts privatization-related investment, supports tourism and more generally weaves together a modern society".[2] Even though it can be argued that the growth of civil aviation within a region is, to a great extent, contingent on the level of income, a dynamic civil aviation eco-system can reduce transaction costs, facilitate access to global markets and integration with global and regional supply chains, and encourage foreign investment inflows. Further, Piermartini and Rousova (2008) emphasize that increases in international air passenger transport are positively correlated with developments in trade as well as the growth of tourism.[3] Grancay (2009) notes that removal of air services restrictions open up new destinations and creates more frequent and better flight connections, resulting in new markets for international businesses.[4]

Regional integration in air travel

The mutual interdependence between regional integration and transport connectivity has been well established in the literature. Transport connectivity is necessary for increased exchange of goods and services and people-to-people connections to stimulate investments and business transactions. At

the same time, transport linkages will not materialize in a substantial manner unless there is a degree of existing regional integration. Therefore, these two factors are interdependent and mutually reinforcing. Although the current level of air transport activity in South Asia is only a fraction of that in other regions, the prospects for future growth is strong.

InterVISTAS-ga (2006) found extensive and significant evidence that supports the generally accepted conventional wisdom that liberalization of air services between countries generates significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities.[5] The study also found that traffic growth subsequent to liberalization of Air Services Agreements (ASAs) between countries typically averaged between 12–35 percent. In a number of situations, growth exceeded 50 percent, and in some cases reached almost 100 percent of the pre-liberalization rates.

Air services in the SAARC connectivity agenda

Policymakers and stakeholders involved in and/or keen on driving the South Asian air services liberalization agenda have placed a significant emphasis on "connectivity" within the SAARC agenda over the years. The 14th SAARC Summit held in New Delhi was the first summit to significantly mention (in the Summit declaration) intra-regional connectivity as a priority area for SAARC cooperation. The Meeting of SAARC Transport Ministers held in New Delhi in 2007 then formally mooted the idea of a "connectivity decade". At the conclusion of the meeting, the Ministers' communiqué stated, "The Ministers also agreed to recommend to the SAARC Council of Ministers to declare the next decade as the 'Decade of Intra-regional Connectivity in SAARC'". At the conclusion of the 15th SAARC Summit in Colombo in 2008 as well, the summit declaration heavily emphasized the need for greater connectivity. The recommendation made by the Transport Ministers' meeting in 2007 was accepted at the 16th SAARC Summit in 2010. The summit declaration stated, "The Leaders called for collaborative efforts to achieve greater intra-regional connectivity and endorsed the recommendation to declare 2010–2020 as the 'Decade of Intra-regional Connectivity in SAARC'... The Leaders, reiterating the centrality of connectivity to further deepen and consolidate regional integration, mandated the Chair to convene an Inter-Governmental Meeting to recommend specific measures to enhance multi-modal connectivity including air, sea and surface transport."

Air services agreements and South Asian scenario

The World Trade Organization (WTO) Secretariat has developed a scoring system that rates the openness of different ASAs in the world. The scoring structure—the Air Services Liberalization Index (ALI)—selects key features of bilateral ASAs that affect aviation openness and gives scores according to the degree of liberalization of each feature. It covers the features of designation, withholding[6], tariffs, capacity, traffic rights, exchange of statistics, and allowance of cooperative arrangements.

The ALI has 4 different rating schemes, each providing a different weight to a particular feature of restrictiveness that may be particularly influential depending on the nature of an ASA. The first scheme is a standard ALI, the second provides additional weight to the provision of 5th freedom (ALI 5+), the third gives additional weight to ownership (ALI O+) and the fourth gives extra weight to the designation clause (ALI D+). A recent study[7] looked into ASAs in South Asia to explore the restrictiveness in air connectivity among five major economies in the SAARC region—India, Pakistan, Sri Lanka, Bangladesh and Nepal. The study assessed the restrictiveness in air connectivity within the region using the ALI (Table 1).

The maximum possible ALI score is 50, and this applies to all 4 different scoring schemes mentioned in Table 1. From this perspective, it appears that South Asian ASAs are very restrictive, with the highest ALI (standard) being 10 out of 50. However, most ASAs that operate globally remain somewhat restrictive, and therefore, one finds that even the most liberal of the ASAs do not score very high, as is evident from Table 2.

Nonetheless, it is clear that South Asian ASAs are even more restrictive than average ASAs that operate globally. However, South Asian countries are relatively more liberal in terms of bilateral ASAs with third parties than within the region (Table 3). The restrictiveness of bilateral ASAs within the region could potentially be an important determinant of limited connectivity in South Asia. Therefore, in order to exploit the advantages that greater air services connectivity could bring to South Asia, it is necessary to

Table 1
Air Liberalization Indices of South Asian bilateral ASAs

Bilateral ASA	ALI Standard	ALI 5+	ALI O+	ALI D+	Type
Sri Lanka–Pakistan	8	13.5	6.5	7	i
Sri Lanka–India	6	12	5	5.5	c
Bangladesh–India	10	15.5	8.5	13	e
Bangladesh–Nepal	6	12	5	5.5	c
Pakistan–Nepal	6	12	5	5.5	c

Notes: i = incomplete data; c = 3rd, 4th and 5th freedom, double approval of tariffs, single designation, substantial ownership and effective control, pre-determination of capacity; e = 3rd, 4th and 5th freedom, double approval of tariffs, multiple designation, substantial ownership and effective control, pre-determination of capacity.

Source: WTO Air Services Liberalization Analytical Tool (www.wto.org).

revisit the ASAs between countries in the region.

Policy roadmap for South Asia

The case for greater liberalization of air services is strong. South Asian policymakers and stakeholders need to take note of the substantial evidence generated from new research, which demonstrate the economic benefits of air services liberalization such as reduction of air fares, increase in employment and enhanced trade in the long run. Sri Lanka's experience of the initial attempts to move towards open skies via unilateral liberalization of air services with India highlights the positive spillover effects of such liberalization—increased tourist arrivals and greater people-to-people connections, which stimulate investment and commerce.

While efforts are made to formulate a more liberal South Asian air services connectivity framework, other related issues, for instance, introducing more competition in national air transport, supporting services markets and addressing infrastructure constraints, need to be simultaneously addressed. A SAARC-led collaborative programme could give the necessary impetus for South Asian countries to begin examining other regional efforts at tackling similar issues. Stakeholders of the air services industry in the region also need to be made aware of the processes and measures adopted by other regions.

More importantly, the key is for all aviation sector stakeholders in South

Table 2
Weighted ALI of high-traffic bilateral ASAs

ASAs concerned	WALI
Top-67 ASAs	16.6
Top-100 ASAs	16.1
Top-200 ASAs	15.4
All QUASAR ASAs (1970)	14.0

Source: WTO Secretariat.

Asia to take a close and keen look into the bilateral ASAs and see which elements are unnecessarily restrictive and can be relaxed in order to give a boost to regional air connectivity. Then, under a phased approach such as in the European Union and the Association of Southeast Asian Nations, SAARC can begin preparing a regional ASA framework that moves closer towards a vision of "South Asian Open Skies".

While these initiatives would address some of the key regulatory bottlenecks, a significant driver of increased connectivity has to be greater demand for travel within the region. But this would require greater regional integration on fronts such as commerce, tourism and people-to-people transactions. In the current environment of limited demand for air travel in South Asia, the regulatory environment of bilateral ASAs is not the only significant inhibitory factor. However, assuming that the demand will increase in the long term as economic integration and tourism increase, regulatory factors will pose greater constraints. It should also be borne in mind that as regional air services connectivity is further liberalized, it will have dynamic effects, which may, in turn, cause certain routes that are currently commercially unviable to become viable. ■

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Table 3
ASAs between South Asian countries and select other countries[8]

Country	Singapore				Japan				UK			
	St	5+	O+	D+	St	5+	O+	D+	St	5+	O+	D+
Sri Lanka	14	19	12	16.5	10	15.5	8.5	13	14	12	12	16.5
India	10	15.5	8.5	13	12	17	10	14.5	10	15.5	8.5	13
Pakistan	14	19	12	16.5	-	-	-	-	14	12	12	16.5
Nepal	17	21.5	14.5	15.5	10	15.5	8.5	13	8	7	7	11
Bangladesh	10	15.5	8.5	9	6	12	5	5.5	-	-	-	-

Source: WTO Air Services Liberalization Analytical Tool (www.wto.org).

Notes

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5. InterVISTAS. 2006. "The Economic Impact of Air Service Liberalization". Washington: InterVISTAS-ga2. http://www.boeing.com/assets/pdf/commercial/liberalization/pdf/ExSum30May06_ltr.pdf.
6. The term "withholding clause" is used by the International Civil Aviation Organization, but this clause is often referred to as "designation" or more frequently, "ownership" clause, given that the "standard" requirement is that, to be designated by a Contracting State to utilize the rights granted in an ASA, an airline be "substantially owned and effectively controlled" by the nationals of that Contracting State.
7. Wijesinha, A. and D. de Mel. 2012. "Liberalization of Air Services in South Asia: Prospects and Challenges." In *Regional Integration and Economic Development in South Asia*, edited by S.H. Rahman, S. Khatri, and H-P Brunner. Asian Development Bank and Edward Elgar Publishing.
8. Singapore, Japan and the United Kingdom are selected based on the fact that data for these countries' ASAs with almost all the selected South Asian countries were available.

Overcoming trade facilitation challenges in South Asia

To bring about improvements in trade facilitation, countries in South Asia should emulate Sri Lanka, the trailblazer in the region in terms of improved trade facilitation status.

Ghulam Samad

South Asia is one of the least integrated regions in the world, thanks to the minimal level of regional trade connectivity. Despite a huge regional market, and close proximity and cultural similarities among countries within the region, South Asia has not been able to fully exploit the benefits of regional trade. Though the region has experienced a long period of economic growth averaging 6 percent a year over the past 20 years, deteriorating infrastructure and the lack of inter- and intra-regional connectivity has constricted trade activities and subsequently restricted growth of gross domestic product (GDP).

Intra-regional trade among South Asian countries is still less than 6 percent of their total global trade. A critical reason for the low level of intra-regional trade in South Asia is the widespread discrepancy in infrastructure quality across countries. According to the *Global Competitiveness Report 2012–2013*, which ranked 144 countries based on the overall quality of infrastructure, Sri Lanka (ranked 50th) leads other South Asian countries, followed by India (ranked 89th), Pakistan (ranked 105th), Nepal (ranked 129th) and Bangladesh (ranked 131st).[1] The Report clearly illustrates that the overall quality of infrastructure in South Asia is far below that of developed countries, and even below that of many developing countries. Limited availability of quality infrastructure in South Asia is likely one of the main reasons for low levels of exports and imports within the region.

Despite several shortcomings, some South Asian countries have made significant progress in trade infrastructure in recent years (Table). Between 2010 and 2013, Sri Lanka not only improved its quality of overall infrastructure, but also substantially improved its ranking in three infrastructure categories, namely roads, railroads and air transport. Similarly, India made significant improvements in the quality of port and road infrastructures, and improved its quality of overall infrastructure. On the other hand, Pakistan, the second largest economy in the region, has failed to make improvements in the quality of its infrastructures. The deteriorating quality of overall infrastructure, roads, railroads and air transport infrastructures in Pakistan reflect the lack of effort and commitment on the part of the government to develop the much needed infrastructures. Other than the establishment of the Gwadar port, no

www.zafaronline.net

Table

Infrastructure quality

	Quality of overall infrastructure		Quality of road infrastructure		Quality of railroad infrastructure		Quality of port infrastructure		Quality of air transport infrastructure	
	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013
Pakistan	87	105	65	73	51	66	73	60	76	78
Bangladesh	125	131	95	113	65	73	113	121	116	120
India	89	87	89	86	20	27	90	80	65	68
Sri Lanka	63	50	60	48	44	37	43	45	64	57
Nepal	130	129	126	127	109	122	119	133	107	131

Source: Global Competitiveness Report 2010 and 2013.

momentous infrastructural improvements have been observed between 2010 and 2013. Similarly, the sub-standard quality of infrastructure and its deterioration in Bangladesh and Nepal have pushed these countries too below their previous global rankings.

While the *Global Competitiveness Report* only considers quality of trade infrastructures, the World Bank's *Doing Business Report* provides objective measures of the different issues related to trading across borders. For this purpose, the report considers different factors such as documentation, time and cost required to import or export goods. Therefore, to explore and understand existing trade facilitation issues further in South Asia, we consider *Doing Business Reports* of 2010 and 2013 to compare the progress made by South Asian countries on trade facilitation.

According to the Reports, Sri Lanka has the best environment to do business in South Asia. In 2010, it was ranked 65th when considering the ease of trading across borders. In Sri Lanka, for exports, eight documents were required; the time involved in paper work, inland transportation and handling, customs clearance and technical control, terminal handling, etc. totalled 21 days; and the per container cost was US$715. Similarly, imports required six documents; 20 days to complete all import procedures; and the per container cost was US$745.

But between 2010 and 2013, Sri Lanka brought about reforms in trading procedures across the border, consequently improving its ranking to 56th in 2013. Within three years, it reduced the number of documents required for export from eight to six; improved inland transportation and handling, customs clearance and technical control procedures, which shortened the delivery time by one day; and reduced the cost to export to US$720 per container. Similarly, on the import side, the time and cost to import were reduced to 19 days and US$775 per container, respectively.

Unfortunately, unlike Sri Lanka, other South Asian countries have failed to improve their business environment. In 2010, Pakistan was ranked 78th among the 183 countries considered, but lengthening export procedures and increasing cost per container negatively affected its ranking in 2013 dragging it down to 85th. In the case of India, lengthening of the documentation procedure, increase in export and import time, and a substantial increase in per container export and import costs significantly reduced India's ranking from 94th to 127th. Similarly, rise in export and import costs, and increase in the number of documents required for import and export have deteriorated the business environment in Bangladesh, Nepal and Bhutan as well.

Therefore, there is a need to put in more efforts to improve the quality of trade facilitating infrastructures in South Asia to enhance regional trade and subsequently broader regional integration. Specifically, for the economic growth of landlocked countries—Afghanistan, Bhutan and Nepal—which are dependent on the neighbouring countries for their international trade, a smooth trade corridor in South Asia is a must.

Bilateral disputes and security issues are the other two overwhelming factors affecting trade connectivity in South Asia. Easing these will help tackle other issues that are affecting trade facilitation in the region.

Conclusion

Despite South Asia's potential to turn into a regional economic giant and contribute to global economic growth, the region has failed to invigorate intra-regional trade, one of the reasons for which is the lack of poor trade facilitation. Poor quality of infrastructure facilities, time consuming cross-border trading procedures, and increasing trade costs are some of the major issues hampering trade in South Asia. In addition, mutual disputes and security issues also pose as major impediments to regional trade. A positive change in South Asia's regional trade is not possible without a change in the mindset of the governments to improve regional connectivity and facilitate regional trade. ■

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Note

1 Afghanistan, Bhutan and the Maldives have not been considered in the Report.

Right to food

Is Food Security Law the answer?

Apurba Khatiwada

According to the Food and Agriculture Organization of the United Nations (FAO), South Asia has the largest number of undernourished people in the world. Out of the total population in the region, 17.6 percent or 304 million people are undernourished.[1] High food prices, climate change, political instability, ineffective market regulation, etc. continue to deteriorate the state of food insecurity in the region.

Notwithstanding clear threats to continuing food insecurity, legal frameworks promoting and protecting food security in South Asian countries are not adequate. In addition, South Asian countries have so far failed to acknowledge food insecurity as a form of human rights violation. Similarly, food security has not become a part of conscious and coherent legal approach in the region. Constitutional provisions relating to food security in five South Asian countries—Bangladesh, India, Nepal, Pakistan and Sri Lanka—are couched in the form of vague aspirations rather than concrete and justifiable rights. Except Nepal, the South Asian countries have enshrined the right to food of their citizens under the chapter "Directive Policies of the State" of their respective constitutions. In Nepal, "food sovereignty" has been defined as a fundamental right in the Interim Constitution of 2007, but lacks a clear and concrete definition. Consequently, the right is unlikely to be enforced any time soon owing to absence of a clear legislative standard and institutional arrangements to implement the same.

Perhaps, the failure of South Asian countries to define food security as a fundamental human right is reflective of a deeper theoretical conflict between civil and political freedom, and socio-economic rights, not to mention the scepticism towards the protection of socio-economic rights in the same manner as civil and political freedom. In addition, the presence of clear legal standards on food security may also have been discouraged because of the huge resource requirements necessary to ensure food security.

The theoretical foundation that justifies the creation of a hierarchy of rights, which relegates rights such as right to food to second-class rights, is increasingly being questioned in the international human rights discourses. For instance, Sen (1994) famously

argued the contrary and showed that famine [food insecurity] is related to a lack of civil and political freedom.[2] In any case, the very fact that a significant group of population are food insecure and are forced to fight hunger continuously should be enough to question the logic of relegating food security concerns to the secondary objective of the state, both in terms of priorities and resource allocation.

Similarly, the resource constraints argument with regard to food security law is a result of approaching food security only from the perspective of food aid, whereby food security law is only seen in terms of public distribution of food at subsidized prices or even for free. Food aid is indeed an important aspect of food security. However, food aid alone does not necessarily ensure food security. Regulation of markets in order to ensure proper distribution, transportation and supply of food; quality control; access to resources, seeds and fertilizers; mitigation of climate change impacts; consumption pattern; peace and stability; etc. also equally contribute to the state of food security.

Naturally, legislative framework relating to food aid such as the recent Indian Food Security Ordinance 2013, which has an ambitious plan of ensuring universal public distribution mechanism, may frighten other countries in the region as they might not be able to bear a similar obligation of universal public distribution mechanism. However, as indicated above, it may not be adequate or even necessary that such universal distribution mechanism is introduced in all food-insecure countries. The FAO also maintains that food security does not merely imply the availability of food, but also access to resources, and utilization of and stability in food supply as additional requisites for an ideal food security situation.

Be that as it may, the food aid system prevailing in India (before the Food Security Ordinance) and Pakistan indicate that each country can tailor their food aid laws according to the need and availability of resources. For example, the Indian public distribution system under the Essential Commodities Act 1955—the largest of its kind in the world—defined the basis of food aid in lieu of various criteria that mainly related to urgency and food security needs of the community. Similarly, Pakistan's food aid mechanism under the Bait-ul-Mal Act 1991 also seeks to establish a needs- and urgency-based food aid system, whereby people in need of medical attention, children, pregnant women, and so forth, benefit from food aid. In short, by devising criteria for food aid distribution, countries can define the scope of food aid according to the available resources and will not have to bear obligations they cannot afford to fulfil.

In any case, food aid alone is not the complete answer to food insecurity. Provisions should be made whereby people, particularly farmers and the poor, have access to resources that enable them to produce or purchase food. This, in turn, can take various forms such as land reform programmes that distribute land to the poor and vulnerable; and access to agriculture finance, seeds and fertilizers. Similarly, once access to resources is ensured, it becomes essential to prevent potential distortions that threaten production, distribution and supply of food in the market. Because price fixing, limiting of output or production and other forms of anti-competitive conducts in a market can lead to food insecurity, food security law should include legislation that prevent artificial scarcity and price rise.

Quality of food is another important aspect of food security that necessitates regulation and standardization by the government. Furthermore, challenges posed by climate change, natural disasters, shortage in the supply of food and sudden rise in food prices require special provisions that can address those challenges. Particularly, climate change-related challenges demand swift actions and legal responsiveness, such as food storage and emergency distribution mechanisms, climate insurance, emergency funds transfer, and early warning mechanisms.

While various legal methods/mechanisms have been devised to address food insecurity, it is also important to note that special focus should be given to people who are more vulnerable to food insecurity. Law should have special provisions that address the unique challenges faced by such groups. Furthermore, administrative and judicial mechanisms that are relevant for the enforcement of food security law should also be sensitive to the concerns of the groups that are more vulnerable to food insecurity. Good governance and effective legal remedy, in that respect, are vital to ensure proper enforcement of food security law.

In short, food security laws have to take a human rights-based approach and should essentially acknowledge food as a fundamental human right upon which other rights and freedoms are based. Food insecurity, thus, should not only be seen as the failure of a state to make wise decisions regarding resource allocation and market regulation, but also as a violation of people's rights. Food security, in this sense, is a freedom in itself; it is a freedom from hunger and undernourishment. Additionally, food security law must not be limited to food aid. Food security law, inevitably, is an amalgamation of food aid provisions with provisions relating to access to resources and various regulatory measures including emergency actions and the maintaining of food standards. ■

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Notes

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2 Sen, Amartya. 1994. "Freedoms and Needs." *The New Republic*, 10 and 17 January.

Benefit sharing and development

Policy options for India

Anitha Ramanna-Pathak

Benefit sharing, or the distribution of gains from the utilization of biological resources, with local communities was enshrined in the Convention on Biological Diversity (CBD) 1992 and further defined in the Nagoya Protocol on Access and Benefit Sharing that was adopted by the Conference of the Parties to the CBD in 2010. Benefit sharing aims to create greater equity by preventing the exploitation of genetic resources without compensation to traditional communities or knowledge holders. Although seen as a measure with great promise for local communities, the implementation of benefit sharing on the ground has been complex and is yet to deliver significant advantages for local communities. Focusing on India, this article points out that unless benefit sharing is promoted as part of a well-planned development strategy, it will not yield the desired results.

Perspectives on benefit sharing

Benefit sharing could be constituted in different ways depending on the development strategy adopted by a country. We consider some of the relevant perspectives that provide insights into state-market relations and the philosophy of development, including, neo-liberal, nationalist, critical, and capacity building theories to explain benefit sharing.

The neo-liberal perspective asserts that development takes place when markets are allowed to function freely with minimum government intervention. A system based on the free market ideology of the neo-liberal school would view benefit sharing as a market exchange between firms and local communities. The firm would gain access to genetic resources or knowledge in exchange for providing monetary or non-monetary benefits to local communities. The transaction would be between the company and local communities themselves, and the government could step in to collect a tax that would then be distributed to the communities.

Nationalists, however, focus on the state and the role of power. They view genetic resources as the sovereign right of states. The state would negotiate the agreement with firms and then decide, and distribute, rewards to local communities, but keeping the interest of the state foremost. Critical theories, such as the Marxist perspective, on the other hand, challenge the established forms of organization. They question the benefit sharing mechanism itself since they view it as a part of an exploitative structure. The theory argues that the firm or the state, rather than giving due share to communities, exploits them.

In addition to these three major schools of thought in international political economy, we consider one more perspective from the field of development theory, that is, Amartya Sen's capability approach. The key idea of the capability approach is that strategies should aim to expand people's capabilities. According to Sen, an essential test of development is whether people have greater freedoms. Thus, rather than focusing on transferring income or commodities, the approach focuses on ensuring capabilities which the people themselves value.[1] Benefit sharing, in this case, would focus on building the capabilities of local communities and would question what communities can actually achieve with benefit sharing rather than only transferring money or other benefits. It would be a bottom-up approach where communities would have to be involved in designing the benefit sharing arrangements.

Benefit sharing in India

India's implementation of benefit sharing is an important indicator of how nations view benefit sharing in terms of a development strategy. India is one of the leading countries that promoted the need for benefit sharing at the international level. Along with other developing nations, India ensured that genetic resources were no longer viewed as "common heritage" but as the sovereign right of every nation under the CBD.

India enacted the National Biodiversity Act in 2002 and signed the Nagoya Protocol in 2011.[2] The National Biodiversity Authority (NBA) of India, entrusted with the task of implementing the provisions of the Biodiversity Act along the lines of the CBD, states that it has entered into more than 100 access and benefit sharing (ABS) agreements as of 2012 and has dealt with over 600 applications.[3] According to the Biodiversity Act, benefit sharing is to be formulated on a case-by-case basis. Article 21(1) of the Act states that benefit sharing is to be carried out "in accordance with mutually agreed terms and conditions between the person applying for such approval, local bodies concerned and the benefit claimers." Further, Article 21(2) elaborates the various ways in which benefit sharing can be implemented, including joint ownership of intellectual property rights (IPRs) with the NBA or with benefit claimers; technology transfer; location of production units to improve living standards of benefit claimers; establishing a venture capital fund for benefit claimers; and the payment of monetary or non-monetary benefits. The Act further points out that if the ownership of a biological resource lies with a specific group, and monetary benefit sharing takes place for the use of that biological resource, the money may be paid directly to that group.[4]

In practice, benefit sharing so far has been in the form of collecting royalties from firms/individuals by the NBA. According to the NBA, firms/individuals will pay to the NBA a yearly royalty of 2–5 percent of the gross ex-factory sale of the product derived from the use of biological resources and/or associated knowledge for the duration of the agreement, and an annual royalty of 5 percent of the total ex-factory sale of the product derived from the use of biological resources and/or associated knowledge for the term of the agreement. For exporters, the royalty is 5 percent of the free-on-board value of export consignments. A researcher has to pay 5 percent of the upfront payment if the patent is licensed to others, and also 5 percent of the ex-factory sale, annually, in the event of commercial production from the use of biological resources, for the term of the agreement. It is promised that, "The payment (royalty) in all such cases shall be made to NBA which will be ploughed back to the benefit claimers/conservers/growers of biological resources." As of 2012, the NBA has received a total of INR 4,339,698 (about US$72,000) as royalty from the agreements signed by firms/individuals.[5] The NBA is still in the process of ensuring that at least some of these funds are distributed to local communities.

Cases of benefit sharing

Two cases cited by the NBA regarding benefit sharing are illustrative of the current status. The NBA has collected approximately US$65,000—a large part of the total collected—from PepsiCo India Holdings Private Limited for export of seaweed cultivated by the fishing community in the southern Indian state of Tamil Nadu. Approximately 2,000 metric tonnes of seaweed have been exported to countries like Malaysia, Philippines and Indonesia by PepsiCo.[6] According to the NBA, "Efforts are being made to form Biodiversity Management Committees by State Biodiversity Board of Tamil Nadu in coastal villages to distribute the benefits accrued thus far with 754 benefit claimers spread across four districts in Tamil Nadu."

In the second case, the NBA has collected about US$924 from Bio India Biologicals for the export of 2,000 kilograms of *neem* to Japan.[7] According to the NBA, the local community of the village named *Amarchinta* in the southern Indian state of Andhra Pradesh, collected and dried *neem* leaves "by undertaking a few special operations" before handing it over to the company for export. The NBA states that it has transferred a "part of the royalty amount" to the local biodiversity body in *Amarchinta* for "planting *neem* saplings and creation of awareness about biodiversity conservation."[8]

> India is one of the leading countries that promoted the need for benefit sharing at the international level.

Way forward

The development strategy of India with respect to benefit sharing, in practice, is based on the nationalist perspective, though some elements of other theories can be seen in the legal text.[9] It views genetic resources as the "sovereign right of states" and it is the state that is entrusted with the power to collect payments from firms/individuals. In addition, the transfer of money is from the NBA to local authorities who are further expected to distribute these funds to the benefit claimers. The main problem with the nationalist view is that it assumes that the state will be able to overcome the administrative hurdles and will have adequate incentive to implement benefit sharing for the welfare of the local community. In addition, this approach may also discourage innovation by firms/researchers as it focuses on collecting payments from these actors also. Criticism of this approach to benefit sharing is already being voiced in India. Many have questioned the reasons why local communities have not been consulted and why benefits have not yet reached the communities.[10]

Let us now consider some options based on the different perspectives. If a neo-liberal philosophy was adopted, the state's role would be reduced and benefit sharing would take place through greater bilateral negotiations between the company and the local communities. Even if the state intervened to collect the tax, it would give more space for direct negotiations. The approach would certainly be less bureaucratic and could provide scope for innovations in determining benefit sharing. However, the problem arises with the unequal bargaining power between firms and local communities. In addition, if the firm calculates its profits based on future calculations, but for various reasons is not able to realize the profits, this would impact local communities negatively. For

example, according to a recent study by Anderson and Winge (2013) [11], in the case of teff genetic resources in Ethiopia, one of the main reasons cited for the failure of the benefit sharing arrangement was that the company involved overestimated the market potential and its profits.

However, under the critical perspective, the entire structure of benefit sharing would have to be rejected and seen as reinforcing the intellectual property system (West 2012).[12] This would provide some grounds for devising new strategies, but we are yet to evolve some practical alternatives to benefit sharing.

The capacity building approach provides some important guidelines in terms of developing a viable method for benefit sharing. It would shift the focus back to the local communities rather than only on the state or the firm. It would ensure that local communities themselves would define what they value and require, in terms of benefit sharing, for their development. It would ensure that the success of benefit sharing would be measured in terms of what capabilities the communities actually acquire, rather than just the monetary or other tangible rewards. Unfortunately, the strategy is not without its limitations, as it would not be easy to identify and involve communities. However, India's Act itself calls for such consultations with communities, and doing so could provide valuable lessons. In addition, India must also consider the International Treaty on Plant Genetic Resources for Food and Agriculture of which India is a member and a keen participant. The Treaty stipulates a multilateral system of access and benefit sharing with greater focus on the need for sharing plant genetic resources between nations and other actors. Another important issue is to focus on providing incentives for both public and private actors to promote innovation, and enable access to technology/resources for local communities.

Therefore, India and other nations need to reconsider the development strategy within which to promote benefit sharing by focusing on the capability approach and creatively designing systems that promote the development of local communities. ■

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Notes

1 Human Development and Capability Association. http://www.capabilityapproach.com/pubs/HDCA_Briefing_Concepts.pdf

2 PIB. 2012. "Ratification of Nagoya Protocol on Access and Benefit Sharing by India." Press Information Bureau, Government of India. http://pib.nic.in/newsite/erelease.aspx?relid=88149

3 National Biodiversity Authority. 2012. "Access and Benefit Sharing Experiences from India." http://www.gsbb.in/pdf/annexure-2.pdf

4 National Biological Diversity Authority. 2002. http://nbaindia.org/content/25/19/1/act.html

5 National Biodiversity Authority (2012). Note 3.

6 *ibid*.

7 *ibid*.

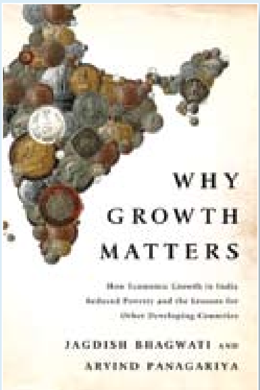
8 *ibid*.

9 For instance, the Act calls for consultations with communities and different types of benefit sharing (not just monetary) that could broadly be seen in light of the capability approach.

10 Bhutani, Shalini, and Kanchi Kohli. N.d. "Unfair Share, Uncertain Futures." *The Malaysian Insider.* http://www.themalaysianinsider.com/mobile/breakingviews/article/unfair-share-uncertain-futures-shalini-bhutani-and-kanchi-kohli/

11 Andersen, Regine, and Tone Winge. 2013. "Access and Benefit Sharing Agreement on Teff." *Trade Insight* 9(1): 29-31.

12 West, Simon. 2012. "Institutionalised Exclusion: The Political Economy of Benefit Sharing and Intellectual Property." *Law, Environment and Development Journal* 8(1). http://www.lead-journal.org/content/12019.pdf



Why Growth Matters

Title: Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries
Authors: Jagdish Bhagwati and Arvind Panagariya
Publisher: PublicAffairs
ISBN: 9781610392716

Anirban Dasgupta

A recent book *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* by renowned Columbia University economists Jagdish Bhagwati and Arvind Panagariya is the latest addition to the sizable volume of popular and academic materials written by the authors (both collectively and individually) on the state of the Indian economy and the policy options available to the country for rapid development. Although the sub-title of the current book mentions the lessons for other countries from the Indian experience, it is primarily an India-centric book and the so-called wider lessons are generic and well known to the average market-friendly economist. The main title is simple but powerful, and reminds one of the iconic and unequivocal pronouncement of the influential work by Dollar and Kraay (2002).[1]

Bhagwati and Panagariya's writing is characteristically lucid and the arguments are laid out clearly in the three-part structure of the book. The first part with six chapters is a quick brush up on the account of how the Indian economy has evolved since the economic reforms started in the early 1990s, with a short preamble about the nature of India's development strategy in the pre-reform era. These chapters are organized in terms of different myths or widely held views about the economy that the authors challenge and debunk through evidence. The myths range from the negative impact of the reforms on poverty and inequality, the exacerbation of corruption in the post-reform period to the pathetic state of malnutrition inspite of rapid growth in contemporary India, and a lot more. The authors are consistent in refuting these claims made about the different ills of the two-decade old liberalization process, and upholding the benefits of these reforms for the Indian economy and populace alike.

The second and third parts of the book are statements of Bhagwati and Panagariya's policy recipe for robust inclusive growth and development in the Indian economy as a follow-up to the wide-ranging changes in the economy that has taken place since 1991. While Part II outlines the policy issues that need to be taken care of to enhance the rate of growth and increase India's labour intensity—the so-called Track I (or core) reforms, the third part talks about redistributive policies or Track II reforms to ensure that the benefits of growth reach the poor and the disadvantaged.

Given the well-known ideological position of the present authors as unabashed market enthusiasts, most of the policy prescriptions are expected. Reforms in the labour and land markets to allow flexible use of these inputs by entrepreneurs along with better infrastructure and human capital are the essential ingredients for unfettered capital accumulation according to the book. Liberalizing agriculture trade and marketing will aid the process of structural transformation by making cultivation efficient and pushing the less efficient to the urban sector. Further reduction of tariffs and the incorporation of the Indian consumer market into the global supply chains will complete the preparation for the economic giant to gain its rightful position as a global economic power. The discussion on redistributive policies or Track II reforms seems largely forced by the recent proliferation of discussions on inclusive growth in the Indian context. Given the basic contention of the authors that growth itself should deliver the goods to rich and poor alike, there should not be any need for a Track II approach. The role that they ascribe to Track II social programmes is basically that of add-ons, taking care of some discrepancies or omissions created by (or remaining in spite of) the core growth process.

Interestingly, the authors manage to be dismissive about each of the progressive rights-based legislation (and corresponding social interventions) like the right to work, right to education and right to food without conclusive evidence. For many development workers and academics in India and elsewhere, who see the beginning of a new era of rights-based development from the recent Indian experience, this may seem disappointing and unfair.

In conclusion, it suffices to say that alternative perspectives on the entire gamut of issues covered in this book are not only available in the literature but are frequently raised in any balanced forum of debate on the Indian economy and international development in general. The fact that Bhagwati and Panagariya present a clear counterpoint to the huge volume of critical writings on the Indian reforms and its outcomes can be seen as an intellectual service to the future student of the Indian economy. However, the steadfast and pre-determined agenda against state involvement in economic matters that guides this work is unlikely to make it the ideal introduction for the unsuspecting beginner. ■

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Note

1 Dollar, David, and Aart Kraay. 2002. "Growth is Good for the Poor." *Journal of Economic Growth* 7:195-225.

Fifth Session of the Governing Body of The Plant Treaty

This international gathering aims to address, among others, issues relating to the effective implementation of the Treaty's Multilateral System and Farmers' Rights.

The International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) is crucial in the fight against hunger and poverty, and essential for the achievement of Millennium Development Goals 1 and 7. After more than 15 sessions of the FAO Committee on Genetic Resources and its subsidiary bodies, the ITPGRFA was approved during the FAO Conference in 2001. This legally binding Treaty came into force on 29 June 2004 and currently has 128 Contracting Parties, including the European Union. The Treaty covers only plant genetic resources for food and agriculture, and does not deal with other plant genetic resources.

Box 1
Features of the Treaty

The Treaty's truly innovative solution to access and benefit sharing is its declaration that 64 of the world's most important crops, included in Annex 1, will comprise a pool of genetic resources that are accessible to everyone. On ratifying the Treaty, countries agree to make their genetic diversity and related information about the crops stored in their gene banks available to all through the MLS.

Access to genetic materials is through the collections in the world's gene banks. These can include collections of local seeds kept in small refrigeration units of research labs, national seed collections housed in government ministries or research centre collections that contain all known varieties of a crop from around the world. Under the Treaty and its MLS, local, national and international gene banks, which are in the public domain and under the direct control of Contracting Parties, share a set of efficient rules of facilitated access. This includes the vast collections of the Consultative Group for International Agricultural Research (CGIAR)—a consortium of 15 international research centres.

Those who access genetic materials through the MLS agree that they will freely share with others any new developments for further research or, if they want to keep the developments to themselves, they agree to pay a percentage of any commercial benefits they derive from their research into a common fund to support conservation and further development of agriculture in the developing world. The fund, called the Benefit-Sharing Fund, was established in 2008. It invests directly in high impact projects supporting farmers in developing countries conserve crop diversity in their fields and assisting farmers and breeders globally adapt crops to our changing needs and demands.

The Standard Material Transfer Agreement is a mandatory model for parties wishing to provide and receive material under the MLS. It is the result of lengthy negotiation among the Contracting Parties to the Treaty and may not be varied or abbreviated in any way. However, as a template, it contains some paragraphs and sections that need to be completed to each use. The material transfer agreements that use the standard template are private agreements between the particular providers and recipients, but the Governing Body, through FAO as the Third Party Beneficiary, is recognized as having an interest in the agreements. The standard template has been developed to ensure that the provisions of the Treaty regarding the transfer of plant genetic resources for food and agriculture under the Multilateral System are enforceable on users.

2.bp.blogspot.com

The Governing Body is the highest organ of the Treaty. Composed of representatives of all Contracting Parties, its basic function is to promote the full implementation of the Treaty, including the provision of policy guidance on the implementation of the Treaty. The Governing Body holds regular sessions at least once every two years. The last session—The Fourth Session of the Governing Body—was held in Denpasar, Bali, Indonesia, on 14–18 March 2011.

In order to take stock of the developments thereafter and take further decisions to implement the Treaty, the Government of the Sultanate of Oman will host the Fifth Session of the Governing Body of the Treaty in Muscat from 24 to 28 September 2013 at the premises of the Al Bustan Palace Hotel. The Fifth Session will address, among other issues, implementation of the Treaty's Multilateral System (MLS) of Access and Benefit Sharing (ABS), including reviews and assessment under the MLS and implementation of the Standard Material Transfer Agreement (SMTA); implementation of the ITPGRFA Funding Strategy; sustainable use of plant genetic resources; Farmers' Rights; implementation of the Global Information System; operation of the Third Party Beneficiary; and Work Programme and Budget for the 2014/2015 biennium. While the meeting will be preceded by two days of regional consultations on 22–23 September, a number of side events have also been planned by different agencies and groups. ■

Compiled from: http://www.planttreaty.org; http://sawtee.org/publications/Policy-Brief-17.pdf; http://biodiversity-l.iisd.org/events/fifth-session-of-the-itpgr-governing-body.

Box 2
Farmers' Rights in the Treaty

One of the major features of the Treaty is its recognition to Farmers' Rights to plant genetic resources for food and agriculture and traditional knowledge. In Article 9, the Treaty recognizes the enormous contribution that the local and indigenous communities and farmers of all regions of the world, particularly those at the centres of origin and crop diversity, have made and will continue to make for the conservation and development of plant genetic resources, which constitute the basis of food and agriculture production throughout the world.

It gives governments the responsibility for implementing Farmers' Rights, and lists measures that could be taken to protect and promote these rights:

- The protection of traditional knowledge relevant to plant genetic resources for food and agriculture;
- The right to equitably participate in sharing benefits arising from the utilization of plant genetic resources for food and agriculture; and
- The right to participate in making decisions, at the national level, on matters related to the conservation and sustainable use of plant genetic resources for food and agriculture.

The International Treaty also recognizes the importance of supporting the efforts of farmers and local and indigenous communities in the conservation and sustainable use of plant genetic resources for food and agriculture, including through a funding strategy.

Trade and Transport Facilitation Assessment

Trade and Transport Facilitation Assessment is a simple and cost-effective instrument to analyse bottlenecks in international supply chains and define remedial actions.

Sudeep Bajracharya

Because trade facilitation reforms represent significant opportunities for countries to increase trade competitiveness, achieving trade facilitation reforms is now a core developmental priority. In recent years, the international community has started focusing more on trade facilitation issues such as customs procedures, logistics, trade infrastructures, and the trade regulatory environment than on reducing other trade barriers, such as tariffs and quotas. The World Bank considers trade and transport facilitation to be closely linked to its prominent objective of poverty alleviation and economic growth. Aimed at improving the effectiveness of the Bank's contribution towards trade facilitation, the World Bank and its partners worked to develop a tool that would accurately identify and analyse trade facilitation problems, and help prepare appropriate corrective measures. After extensive work on existing concepts and multiple revisions of their methodology, in 2010, the World Bank issued the Trade and Transport Facilitation Assessment (TTFA) toolkit.

What is TTFA?

TTFA is a practical tool developed to identify inefficiencies in trade supply chains and examine problems that affect not only export competitiveness, but also the ability to import and distribute production inputs. It helps to design plans of action to improve logistical performance in three main areas: infrastructure, services, and procedures and processes. TTFA toolkit resulted from the growing demand to improve export competitiveness, expand trade in intermediate goods, and improve synchronicity in the supply of inputs and delivery of products. The 2010 version of TTFA is a revision of the 2001 edition of Trade and Transport Facilitation Audit toolkit[1] that was based on an original concept developed by John Raven.[2]

While the Audit toolkit (2001) examined and evaluated existing difficulties in cross-border movement of goods and services, and the means of payment, the Assessment toolkit (2010) incorporates such border issues into a broader examination of the performance of global supply chains. By integrating the knowledge and information obtained through interviews with key participants from the private and public sectors, TTFA helps to identify corrective measures to facilitate trade and transport, resulting in greater export competitiveness.

Why conduct TTFA?

Regulation of logistics, services and trade procedures, along with the quality and capacity of trade infrastructures, have a direct effect on international supply chains. Thus, polices that affect trade and logistics should be built on an understanding of its impact on trade competitiveness. Prior to 2007, policy makers and private stakeholders did not have the information to identify trade constraints and create effective policy reforms. The availability of the Logistics Performance Index (LPI) since 2007 has helped fill that gap to some extent; however, awareness through indicators like LPI is not sufficient to fully understand the supply chain and identify major trade impediments, let alone devise trade policies to promote export competitiveness. Proper identification of trade constraints requires relevant information and a variety of different analytical approaches. Designed to provide a multidimensional assessment of the performance of trade logistics, services and processes, TTFA is the primary instrument to respond to such policy needs although the set of objectives pursued through TTFA can vary significantly to meet each country's or the region's needs. The assessment may be conducted to inform economic policy making, or to develop action and reform plans to enhance trade competitiveness. Thus, the objectives of the TTFA should be clearly defined before conducting the assessment.

TTFA's analytical structure

The TTFA is designed to be implemented in two phases.

First phase

In the first phase, logistical, infrastructural and procedural bottlenecks are identified and how these factors affect international trade is understood through direct interviews with both the private sector (freight forwarders, exporters, transporters and bankers) and the public sector (customs and port authorities, and transport regulators) that make up the supply chain. After reviewing the objectives of the TTFA and identifying relevant trade issues through extensive research, details about the selected trading commodity is collected. The investigators then arrange and conduct a series of meetings with associations and companies involved in trading and logistic services of the selected commodity. The result is a preliminary report that presents the findings and suggests policy changes needed to address important trade impediments. Discussion of beneficial future projects to remove trade impediments, along with a plan for conducting the second phase of the assessment is also included in the preliminary report.

Second phase

The second phase examines the relative importance of the problems identified in the first phase and provides detailed information needed to design initiatives to improve the performance of the supply chain. Since the second phase requires a high degree of participation of public and private sector stakeholders, a steering committee that includes both public and private sector representatives is established. Furthermore, due to the breadth of the issues covered in the first phase, the second phase is limited to the supply chains for specific trades. Though the interviews conducted in the second phase covers the same general topics as in the first phase, the interviews are open-ended, allow for follow-up questions and are complemented with site visits to key facilities such as ports, border crossings, etc. to verify the observations of the interviewees. Finally, the findings from interviews, site visits and analysis of sample data are presented in an assessment report that also includes description of possible projects to address the impediments identified. This report is then presented at the stakeholders' workshop to develop support for initiatives that will require public and private sector participation.

Challenges in conducting TTFA

Since the first edition of the Trade and Transport Facilitation Audit was issued in 2001, many governments and development agencies have conducted the audit. The World Bank alone conducted nearly 50 audits prior to 2009. More recently, in 2011 the World Bank conducted TTFA in Thailand, Lao PDR and Cambodia[3], and also organized a capacity building workshop on TTFA in Seoul.[4] Past assessments have provided useful insights about the challenges faced in identifying supply chain bottlenecks and in conducting the assessment due to varying degree of government participation.

Identifying supply chain bottlenecks

One of the major challenges faced by investigators is to accurately identify hidden trade constraints/bottlenecks affecting trade competitiveness. Problems within a component of the supply chain may seem significant, but may have little impact on the overall performance of the chain. If not recognized, this could lead to ineffective policy reforms. This was the case in Central Africa where several studies identified poor road conditions as a major impediment to efficient transport. But it turned out that 75 percent of the total transit time was actually spent in ports, and thus cumbersome procedures and shippers' strategies were to be blamed for the high logistics costs. Another major challenge results from the failure in examining the entire supply chain, including international movement of goods and services. Much of the trade movement occurs outside national borders, which contributes to transit time and costs. For example, in Nepal, several studies on the corridor connecting Kathmandu with the port of Kolkata have criticized the roads and border crossing infrastructures for affecting trade competitiveness. However, a review of the supply chain has revealed that roads and cross border infrastructures have had little impact on supply chains compared to delays experienced in international ports due to inefficient operations and lack of scheduled services.

Government participation in implementing recommendations

While TTFAs have been successfully conducted in several countries, governments have responded to the recommendations made by these assessments in a variety of ways. For instance, the Moroccan and Tunisian governments were both heavily involved in implementing the assessment and designing action plans, and exhibited high level of commitment to improve freight logistics. But in the Central African Republic, due to low level of government involvement, TTFA was less effective. The assessment's recommendations to improve transit regime and the design of project components lacked active government involvement.

With the lowering of formal trade barriers, high trade costs are now the most significant obstacles faced by many countries in their pursuit to integrate with the world economy. TTFA would help reduce such trade costs, but without dedicated government participation and its commitment to implement the recommendations of the TTFA, existing informal trade barriers will remain insuperable. ■

Based on a 2010 World Bank Study, "Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation."

Notes

1 Raven, John. 2001. "Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action." Discussion Paper 427. The World Bank, Washington D.C.

2 Raven, John. 2000. Trade and Transport Facilitation: An Audit Methodology. Washington D.C: The World Bank.

3 http://www.adb.org/sites/default/files/TTF-2012-Summary-Proceedings.pdf

4 http://www.unescap.org/tid/projects/ttf-assess-prog.pdf

Regional Consultation on WTO Ministerial

SAWTEE and the Institute of Policy Studies of Sri Lanka (IPS), Colombo, organized a two-day regional consultation on "Road to Bali: South Asian Priorities for the Ninth WTO Ministerial" in Marawila, Sri Lanka, on 2–3 July. The consultation was organized to identify common issues for South Asia in the run up to the 9th WTO Ministerial that is taking place in Bali on 3–6 December this year.

Some of the major issues that the consultation came up with to request South Asian governments to take to the 9th WTO Ministerial as South Asia's common position include: effective market access on items of export interest to developing countries and least-developed countries (LDCs); market access in services, especially for Mode 4; financial and technical assistance from developed country members for infrastructure upgradation in developing countries and LDCs. The consultation further reiterated the need for effectively utilizing flexibilities available to developing countries under the Agreement on Trade-related Aspects of Intellectual Property Rights, especially in the context of public health.

The resolution also focused on the provision of additional Aid for Trade (AfT) funding for regional projects in South Asia, and preferential AfT for LDCs, along with putting in place a robust AfT monitoring and evaluation mechanism with full participation of recipient countries; and enforcement of the duty-free and quota-free market access to LDCs on all products of their export interest, in line with Annex F of the Hong Kong Ministerial Declaration of 2005 *(See pages 11–12 for the list of issues that were identified by the consultation)*. ■

Migration and development

AN international conference on "Mainstreaming Migration to the Development Agenda: The South Asian Experience" was organized by the Institute of Policy Studies of Sri Lanka, together with the Friedrich Ebert Stiftung, during 13–14 June in Colombo.

Following the launch of the *Sri Lanka Migration Profile* earlier this year, the international conference was organized to explore the feasibility of mainstreaming migration policies into the broader development agendas of the region. The two-day event saw delegates and migration experts from South Asia gathering to examine evidence from the region to make a feasible case for the mainstreaming of migration to the development agendas. ■

Removing trade barriers

CONSUMER Unity and Trust Society (CUTS) International, Jaipur, with support from The Asia Foundation and Federation of Indian Export Organizations (FIEO), organized a half-day consultation on "Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia" on 24 May in Kolkata. The meeting was represented by various civil society organizations, export houses and members of FIEO, along with trade researchers from Kolkata.

The objective of the meeting was to present the issues relating to non-tariff barriers (NTBs) in South Asia as well as to present proposals for enhancing the process of NTB reforms in the region through a participatory approach, and to elicit the views and concerns of multiple set of stakeholders, particularly those of the private sector.

Presenting a research report on the topic, CUTS stated that apex business organizations in South Asian countries should back governmental efforts to speed up the regional trade liberalization process under the Agreement on South Asian Free Trade Area. They should also seek membership of the SAARC Chamber of Commerce and Industries and use it as a platform to discuss and formulate policy proposals. ■

Report on mercury pollution

SUSTAINABLE Development Policy Institute (SDPI), Islamabad, recently launched a research report revealing extremely high levels of mercury pollution in air, exceeding the permissible limits of 300 ng/m^3, at some sites in Pakistan. The report was a culmination of a research study conducted by SDPI in collaboration with the European Environmental Bureau and Zero Mercury Working Group, with support of The Sigrid Rausing Trust, to assess mercury emissions in various cities of Pakistan. Mercury is a hazardous substance widely used in dentistry as well as in various other industries.

Early this year, 140 countries signed the Minimata Convention on Mercury, in Geneva, to reduce mercury use and control its emissions and release by the end of 2020.

The best preventive approach to mercury pollution is to reduce mercury at source and adopt in-house best environmental practices such as improved cross ventilation, use of exhaust fans and proper mercury waste management. Also, companies should be made to print names of harmful chemicals rather than codes on product labels so that consumers could make informed choices. ■

South Asian Consultation on Green Economy

SAWTEE, in collaboration with the International Development Research Centre (IDRC), Canada, organized a regional consultation titled "South Asian Consultation on Green Economy" in Lalitpur on 23–24 June. The objectives of the consultation were to identify research agendas on green economy in South Asia and create a network of like-minded individuals/institutions to work further on South Asian green economy.

More than 40 participants from Bangladesh, Bhutan, Canada, India, Korea, the Maldives, Nepal, Pakistan and Sri Lanka participated in the consultation. The participants expressed the view that a gradual transition towards a green economy would be to South Asia's advantage in terms of, among others, addressing the region's high level of poverty and high vulnerability to climate change. However, the transition towards a green economy is going to be a complex process and there is a need to look at green economy in a pluralistic way and not get locked down into a particular pathway.

The consultation also identified a number of research agendas on green economy for South Asia. ■

CUTS receives international award

GEORGE Cheriyan, Director of Consumer Unity and Trust Society (CUTS) International, Jaipur, received the Rhoda Karpatkin Consumer International Award for 2013 for his contributions to the welfare of consumers. The award was presented by the American Council on Consumer Interests (ACCI), a membership organization for academicians and other professionals involved in consumer- and family-economics. ■

Regional training of economic journalists

A regional training programme for economic journalists from South Asian countries was jointly organized by SAWTEE and the Institute of Policy Studies of Sri Lanka, Colombo, in Marawila, Sri Lanka, on 4–5 July. The broad theme of the training programme was "Trade, Climate Change and Food Security".

During the two-day event, experts from different South Asian countries interacted with the journalists on a number of topics such as regional trade integration in South Asia, trade facilitation, services trade, non-tariff barriers, agriculture and food security, trade and food security, climate justice, among others. Sixteen journalists from Bangladesh, India, Nepal, Pakistan and Sri Lanka participated in the training programme. ■

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.

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