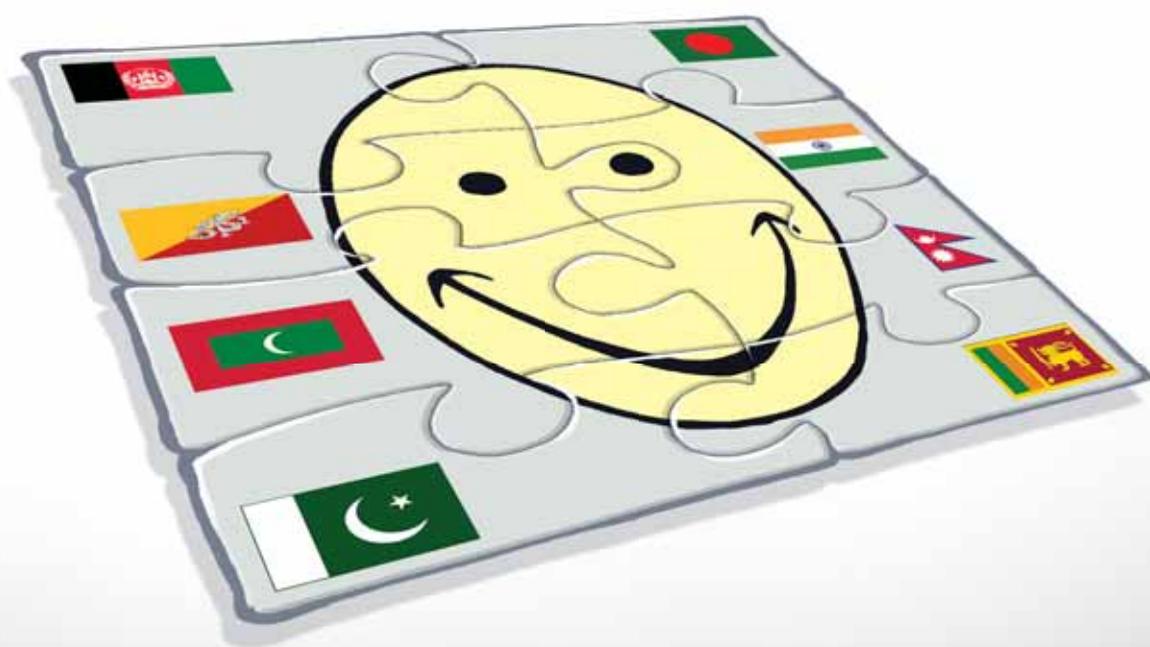


● TRADE ●

insight

DEEPER INTEGRATION WITH **HUMAN FACE**



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Walk the talk

THE 18th Summit of the South Asian Association for Regional Cooperation (SAARC) is all set to begin, and there are high expectations that, unlike the previous Summits, this is going to be a path-breaking one. Historical changes in the political leadership of the largest economy of the region and the initial gestures of its leadership in terms of strengthening SAARC have been the main source of this optimism. In the nearly 30-year history of SAARC, many important agreements have been signed and strong commitments made to ensure socio-economic development of all countries in the region. However, translation of those commitments into action has been utterly disappointing.

During the upcoming Summit, three important agreements on energy cooperation, motor vehicles and railways are expected to be signed. These are important to deepen regional integration in South Asia as they would be a means to provide energy security and facilitate intra-SAARC connectivity, which would boost intra-regional trade and investment. However, mere signing of the agreements will do very little unless they are put into implementation. Therefore, SAARC countries need to address the deficiency of quality trade, transport and energy infrastructure, and implement the agreements in earnest.

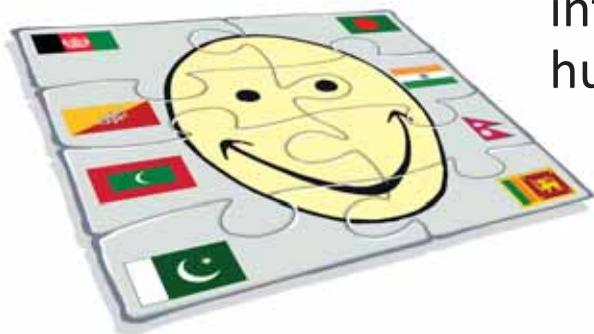
While the Motor Vehicles Agreement and the Railway Agreement would be important milestones in deepening regional integration in South Asia, their performance may be limited in the absence of a regional transit agreement which would be necessary to complement them. This is necessary to address the transit-related concerns of the landlocked member countries, which are also least-developed countries. As various studies have shown, the coastal countries will also gain from a regional transit agreement in South Asia.

SAARC countries should also sign a regional investment agreement as there is a strong nexus between trade and investment. That would be one necessary step in promoting intra-regional investments. Moreover, rise in intra-regional trade and investment would further attract foreign direct investments (FDI) from outside the region. It is also important for SAARC countries to fully implement the SAARC Agreement on Trade in Services by expediting the negotiations on offer and request lists, not least because there is high potential in intra-regional services trade in addition to what has already been taking place, but also because a huge proportion of FDI in South Asia is in the services sector. There are prospects for FDI in this sector to increase further.

Food security and climate change are two other important areas that call for enhanced cooperation among SAARC countries. It is the poor and the vulnerable who are worst affected by climate change and food insecurity. Despite the rapid transformation of the regional economy over the past decades, South Asia still has the highest concentration of hunger and malnutrition. With various studies showing the extremely adverse effects of climate change on South Asia's agriculture, food insecurity is going to aggravate further, threatening to push millions back into poverty and directly affect the quality of human capital, which can limit growth. Regrettably, the initiatives taken by SAARC member states to address climate change and food insecurity have so far been half-hearted and thus ineffective.

The 18th SAARC Summit is an opportunity for SAARC leaders to reaffirm their past commitments, and provide assurances that they would pave the way forward for deeper integration in South Asia to ensure prosperity and well-being of all people. It is high time that they walked the talk. ■

Deeper integration with human face



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2. Sustainable Development Policy Institute (SDPI), Islamabad

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

Differences over food stockpiling issue resolved



AFTER months of disagreements over certain clauses in the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA), India has announced that it has successfully resolved its differences with the United States (US), removing a major hurdle in the implementation of the landmark agreement. Expressing happiness over the resolution of the differences, India's commerce and industry minister has urged the WTO to take this forward in the General Council on behalf of the Ministerial Conference and pave the way to spurring the WTO to more such successes.

The breakthrough was achieved after US President Barack Obama held extensive discussions with Indian Prime Minister Narendra Modi in Myanmar. "Both countries have reached an understanding on implementation of a December 2013 WTO decision regarding specific food security programs maintained by some developing countries," a statement released by the Office of the United States Trade Representative said. "The bilateral agreement makes clear that a mechanism under which WTO members will not challenge such food

security programs under WTO dispute settlement procedures will remain in place until a permanent solution regarding this issue has been agreed and adopted." Earlier, the WTO deal had proposed that the food security programmes of nations would not be reviewed till 2017.

The TFA, part of a broader reform to boost global trade, was formulated in December 2013 during a WTO conference in Bali. The agreement, through a worldwide reform in international trade, mainly through reducing red tape at international borders, aims to ease trade relations between countries. According to some estimates, the TFA could add US\$1 trillion in new trade globally and create 20 million new jobs worldwide.

The deadline for ratification of the deal was 31 July. However, India, backed by Cuba, Venezuela and Bolivia, had refused to sign the agreement, citing concerns over clauses limiting government food subsidies and stockpiling of food. India had reportedly alleged that the agreement could hamper its massive US\$1 trillion food security programme (www.ibtimes.com, 13.11.14). ■

South Asia performs better in hunger index

ACCORDING to the 2014 Global Hunger Index (GHI) report, South Asia saw the steepest absolute decline in GHI scores since 1990. The region reduced its GHI score by three points between 1990 and 1995—mainly through a decline of almost nine percentage points in "underweight in children"—but made considerable progress again since 2005. The decrease of more than five points in South Asia's GHI score since 2005 can be largely attributed to recent successes in the fight against child undernutrition.

Among the South Asian countries, Sri Lanka has the least number of hungry people, and the number has steadily declined over the years. With a score of 15.1, the country secured 39th position in the GHI. Among other South Asian countries, India made some progress in reducing poverty level, and ranked 55th out of 76 countries, thus remaining ahead of Bangladesh (57th) and Pakistan (57th), but behind Nepal (44th).

According to the report, significant progress has also been made in the fight against hunger globally, especially since 1990. Yet, the number of hungry people in the world remains unacceptably high. Between 2012 and 2014, about 805 million people globally were chronically undernourished.

What is also alarming is the case of hidden hunger, which, according to the report, is a critical aspect of hunger that is often overlooked. To eliminate hidden hunger, governments must demonstrate political commitment by making fighting it a priority, notes the report (www.ifpri.org). ■

Three separate SAARC agreements to be signed

THREE separate agreements will be signed during the 18th Summit of the South Asian Association for Regional Cooperation (SAARC) to be held in Kathmandu on 26–27 November. They include the SAARC Railway Agreement, SAARC Motor Vehicle Agreement and SAARC Framework Agreement on Energy Cooperation.

This is in line with the agreement made during the 17th SAARC Summit held in Addu, Maldives to conclude the regional railways agreement and

to convene the expert group meeting on the Motor Vehicles Agreement before the next session of the council of ministers, and to direct the early conducting of a demonstration run of a container train between Bangladesh, India and Nepal.

According to experts, the agreements truly reflect the theme of the 18th SAARC summit, which aims at further deepening integration among member states for peace and prosperity. The 31-point draft declaration

of the Summit covers issues such as trade, investment, infrastructure development, South Asian Free Trade Agreement, SAARC Development Fund, youth employment, reduction of telecom tariffs in the region, regional connectivity, promotion of innovative and reliable technology, social security for elderly people, fight against terrorism, eradication of illiteracy from the region and transforming SAARC into South Asian Economic Union by 2030 (www.myrepublica.com, 03.11.14). ■

Climate change a critical development challenge

ADDRESSING vulnerabilities is critical to ensuring equitable and sustainable human development, according to the 2014 Human Development Report. The report, titled *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, identifies climate change as one of the most critical challenges to the global development agenda. It highlights the under-provision of climate stability and resulting vulnerability to extreme weather events and food crises as a recurring threat around the world. It recommends urgent action on climate change, underscoring the need for multilateral action and a comprehensive approach. The report calls for improving global governance, arguing that “larger, first-order changes to governance architectures may be needed before progress is likely to be made on...climate change”.

Stronger collective action and improved global coordination and

commitment on enhancing resilience is necessary to respond to vulnerabilities that are global in origin and impact and address transnational threats, according to the report. It describes how transnational threats from climate change and conflicts result in local and national effects.

The report recommends reducing poverty and people’s vulnerability to falling into poverty as a central objective of the post-2015 agenda. It also calls for greater efforts to strengthen national and regional early warning systems for disaster risk reduction (climate-l.iisd.org, 24.07.14). ■





EU removes yellow flag from Pakistani mangoes

THE European Union (EU) has removed the yellow flag from Pakistani mangoes. According to the statement issued by Pakistan's Ministry of Commerce, last year, 237 consignments of Pakistani mangoes were rejected by the EU authorities, mainly due to fruit fly infestation. The situation was

worse for India, as the EU banned the import of Indian mangoes. Pakistani mangoes were placed under strict observation, and the critics feared a similar ban on the export of Pakistani mangoes to the EU.

Subsequently, Pakistan's Ministry of Commerce and Ministry of National

Food Security quickly took necessary measures to ensure pest-free export of mangoes to the EU. The government made it obligatory for mango exporters to follow hot water treatment procedures to free the mangoes of fruit fly. Similarly, the Department of Plant Protection started registration of mango orchards, which followed all the standard practices to remove the remnants of any pest. As a result, this year, the occurrence of fruit fly infestations in mangoes exported to the EU reduced from 237 to two, and exports rose by about 10 percent compared to the previous year.

Pakistan's Ministry of Commerce has decided to lease out imported Vapour Heat Treatment (VHT) plant in a transparent manner so that it may be made operational before the start of the next mango export season. Some high-end markets like Japan allow only vapour heat-treated fruits, which are not yet available in Pakistan. With the government-imported VHT plant in place, exporters will have a great opportunity to enhance their profits. This will also prompt the private sector to invest in this advanced treatment technology (www.thenews.com.pk, 14.10.14). ■

Sri Lankan goods get tariff concessions in Pakistan

PAKISTAN has announced tariff concessions on the import of 993 items from Sri Lanka under a Free Trade Agreement (FTA). However, according to the notification, the imports have to be in conformity with the "rules of Determination of Origin of Goods under the Free Trade Agreement between Pakistan and Sri Lanka (Pakistan-Sri Lanka FTA Rules of Origin)" and the operating "Certification Procedure for the Rules of Origin". The rates of tariff concessions are different for different products (www.southasianmedia.net, 12.04.14). ■

Bangladesh, Bhutan to expand trade agreement

BANGLADESH and Bhutan are set to expand the remit of their bilateral trade agreement to include trade in services and multi-modal transportation of goods. The bilateral agreement, first signed in 1980, expired on 7 November.

According to a senior official at the Commerce Ministry in Bangladesh, "The proposed amendment will soon be placed at the cabinet division for approval, as the commerce ministries of both countries have already agreed in principle, in April, to bring the changes". Under the amended agreement, any

means of transport can be used to exchange goods or services. The new agreement also comes on the back of a number of meetings between the Telecommunications Ministries of the two countries to accommodate Bhutan's interest in importing broadband internet from Bangladesh.

The two-way trade between Bangladesh and Bhutan has long been negligible. In the fiscal year 2012/13, Bangladesh exported goods worth US\$1.82 million to Bhutan against imports of US\$24.7 million (www.southasianmedia.net, 13.09.14). ■

Huge cost to lower carbon emissions by 2030

INDIA will have to invest US\$834 billion in the two decades ending 2030 to reduce its emissions intensity to gross domestic product by 42 percent over 2007 levels, according to a report of an expert group formed by the country's Planning Commission. One of the ways of reducing the emissions intensity is through bringing about a massive change in the energy mix by 2030. This would result in lower demand for coal at 1,278 million tons from an estimated 1,568 million tons, and lower demand for crude oil at 330 million tons from an estimated 406 million tons by 2030. However, the low carbon emissions strategy would increase the consumption of gas in the energy mix.

Under the low carbon energy mix, the installed capacities of wind

and solar power need to increase to 118 GW and 110 GW, respectively, by 2030. The report also highlights the importance of more efficient coal power plants and the use of renewable energy resources. It suggests that the aim should be to have at least one third of power generation by 2030 to be fossil-fuel free. It also suggests the government to allocate more resources to the "Green India Mission" to enhance the stock of growing forests, and to improve the provisioning of ecosystem goods and services in the country.

However, according to the Head of the expert group, the huge investments in low carbon strategy would have little impact on economic growth (*articles.economictimes.indiatimes.com*, 19.05.14). ■

New WTO Facility to support LDCs and developing countries

A new initiative unveiled at the World Trade Organization (WTO) will help developing countries and least-developed countries (LDCs) reap the benefits of the WTO's new Trade Facilitation Agreement (TFA), which was agreed at the Bali Ministerial Conference in December 2013. The aim of this new initiative, entitled the WTO Trade Facilitation Agreement Facility (TFAF), is to help ensure that assistance for the implementation of trade facilitation measures is provided to all those who require it.

The new Facility will complement existing efforts by regional and multi-lateral agencies, bilateral donors, and other stakeholders to provide trade facilitation-related technical assistance and capacity-building support. It will act as a focal point for implementa-

tion efforts. It will become operational when the protocol to insert the TFA into the existing regulatory framework is adopted by WTO members.

Meanwhile, the World Bank has recently launched a new Trade Facilitation Support Programme, which will help developing countries reduce costs and improve speed and efficiency of trade at their borders by simplifying their customs procedures. The Programme, supported by Australia, the European Union, the United States, Canada, Norway and Switzerland, will make US\$30 million available in assistance for developing countries to help them devise and implement large scale reform programmes, leading to increased trade, investments and job opportunities (*www.wto.org*, 22.07.14; *www.worldbank.org*, 17.07.14). ■

Resolution on SDG report adopted

THE United Nations (UN) General Assembly has adopted a resolution that paves the way for the incorporation of sustainable development goals (SDGs) into the post-2015 development agenda.

In adopting the "Report of the Open Working Group on Sustainable Development Goals established pursuant to General Assembly resolution 66/288" the Assembly decided that the Open Working Group's outcome document would be the main basis for integrating the SDGs into the future development agenda. At its 13th and final session in July 2014, the Open Working Group on SDGs had completed its report containing proposed SDGs—a set of 17 goals that span the three pillars of sustainable development: economic, social and environmental areas.

The post-2015 development agenda is the successor of the Millennium Development Goals, and will be the official global template informing international development policy, and to some extent, national development planning. Each goal is accompanied by a set of targets and means of implementation.

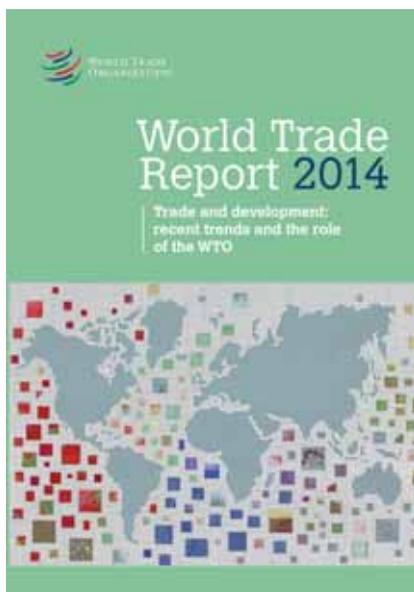
The post-2015 sustainable development agenda is expected to be adopted by UN member states at a summit in September 2015. By the end of 2014, the Secretary-General will produce a synthesis report bringing together the results of all the different work streams on the post-2015 development agenda to facilitate the General Assembly's further deliberations. The report of the Open Working Group on SDGs will be among the inputs to the synthesis report (*www.sidint.net*, 21.07.14; *www.un.org*, 17.09.14). ■

World Trade Report 2014

ACCORDING to the World Trade Report 2014, titled *Trade and Development: Recent Trends and the Role of the WTO*, the World Trade Organization (WTO) has enabled developing countries to take advantage of, adapt to, and mitigate the risks arising from some major economic trends, namely the economic rise of developing economies, the expansion of global value chains (GVCs), the higher prices for commodities, and the increasing interdependence of the world economy. The Report looks at how least-developed and developing countries have adapted to the four major trends to pursue economic growth.

One of the most striking features of the global economy in recent years has been the increasingly large role played by developing economies. Driven largely by trade, some developing countries have made significant progress in recent years. Many have experienced unprecedented growth in the last decade, and have integrated increasingly into the global economy. Between 2000 and 2012, the share of developing economies in world output has increased from 23 percent to 40 percent, while their share in world trade has risen from 33 percent to 48 percent. Developing country G-20 members such as China, India and Brazil have done particularly well. These development patterns have been transforming the world's income distribution. Since 2000, gross domestic product (GDP) per capita of developing countries has grown by 4.7 percent, compared to 0.9 percent in the developed world.

Moreover, the global trade scenario is now increasingly defined by the fragmentation of global production. Since GVCs provide the opportunity to integrate into the global economy at lower costs and can lead to productivity enhancements through technology and knowledge transfers, developing countries are now increasingly



involved in international production networks, including through services exports. Today, more than half of developing countries' total exports in value-added terms are related to GVCs, and in developing countries like India, trade in services within GVCs account for nearly 17 percent of national exports. But it is important to note that participation in GVCs may also involve risks.

The strong growth exhibited by many developing countries has, to some extent, been driven by rising commodity prices. Commodity prices have roughly doubled since 2000, and developing countries have been able to leverage the agricultural and natural resource export potential in this high-price environment to underpin their development. Considering that the agriculture sector is important in terms of employment, production and consumption, the sector should be emphasized in development strategies in the developing world. Meanwhile, the social and environmental impacts of natural resource extraction as well

as economic diversification remain significant challenges for many resource-rich countries.

As the global economy continues to pull itself out of the global recession, the 2008–2009 collapse and the subsequent ongoing recovery has revealed the growing interdependence within the global economy through trade and financial links, in particular the role of global supply chains. Moreover, despite the severity of the global economic crisis, the world did not resort to large-scale protectionism, likely due to the spread of GVCs, which has increased linkages among countries. But, while deeper integration into the global economy allows countries to exploit growth in other parts of the world, it can also transmit external shocks across borders.

Against this backdrop, many developing countries will have to formulate strategies to address the development challenges and opportunities presented by the four global trends. Moreover, the trends show that trade is one of the key enablers of development, which can uplift millions of people out of poverty. Though faster GDP growth in developing countries has increased the rate of convergence with developed countries in terms of per capita income, much still needs to be done, especially in South Asia, where millions continue to remain in poverty. Moreover, considering the increasing integration of many South Asian countries into GVCs, South Asian governments should not overlook the risks brought upon by such integration, and thus work to remain competitive in the global market. In addition, South Asian countries should look to address the increasing prices for agriculture goods since higher prices can cause strains for many net importers like Bangladesh and Nepal, and threaten to push millions back into poverty. ■

Time to move beyond SAFTA

South Asia should now enter into a new regime of regional integration, for which pro-active and visible leadership is essential.

Selim Raihan

There are strong arguments for deeper regional economic integration in South Asia, as it is believed to generate significant intra-regional trade and welfare gains for the countries involved. Deeper regional integration is supposed to provide countries in the region improved market access in each other's markets, and thus help boost their exports, which would augment the significance of intra-regional trade and associated investment flows. That would, on the other hand, generate more trading opportunities among the countries involved since there will be tariff dif-

ferentials due to the most favoured nation (MFN) vis-à-vis regional tariff regimes. These are static gains that the countries involved would be able to realize. Dynamic gains could be even greater due to the possible expansion of the scale of operation owing to easy access to the large regional market buoyed by increased investment and more efficient allocation of resources.

There are also convincing evidences that deeper regional integration is needed for generating and sustaining economic growth in South Asian countries. In a region that is home to a significant share and the highest density

of poor people in the world, sustainable economic growth can ensure employment creation and contribute to poverty alleviation. Moreover, South Asia is one of the most food insecure regions in the world where ensuring food security continues to remain an insuperable challenge. Consequently, intra-regional trade in agriculture and food products is crucial to improve the situation of food security in the region.

Inarguably, deeper regional integration through trade and transport facilitation, along with the presence of efficient regional supply chains, will dramatically improve intra-regional



trade and increase the competitiveness of South Asian countries to better participate in the global market. Meanwhile, peace dividends of intra-country stable political relations—a pre-requisite for regional integration—will also be immensely high.

Regrettably, intra-regional trade in South Asia has hovered around 5 percent for the past decade, which is significantly lower when compared to other regional arrangements such as the North American Free Trade Area (NAFTA), Association of Southeast Asian Nations (ASEAN), and the European Union (EU). Such inferior performance is despite the focus of the current regime of regional integration in improving intra-regional trade in goods. There is, however, a growing perception that South Asia's intra-regional trade is underestimated since a large volume of informal trade among South Asian countries is not fully captured. Additionally, while formal intra-regional trade is low in the region as a whole, bilateral trade among South Asian countries, namely between India and other smaller countries such as Bhutan and Nepal, is exceptionally high. Furthermore, trade in services is vibrant at best, but is not recorded well.

In their pursuit to improve intra-regional trade, South Asian countries crossed an important milestone in regional integration with the implementation of the Agreement on South Asian Free Trade Area (SAFTA) in 2006. SAFTA is a landmark achievement, but sadly, it has thus far failed to bring about significant changes in the status of intra-regional trade. Hence, for a deeper integration in South Asia, countries in the region have to first fully implement SAFTA and then move beyond it.

New regime of regional integration

South Asia is at the verge of a new regime of regional integration, which involves four integration processes, namely: i) market integration: integration of trade in goods and services; ii) growth integration: integration

of economic growth processes; iii) investment integration: promotion of regional investment and trade nexus; and iv) policy integration: harmonization of economic and trade policies.

The new regime of regional integration should focus more in promoting regional investment and trade nexus. Promoting intra-regional investments and attracting extra-regional foreign direct investments (FDIs), particularly in energy and infrastructure sectors, should be the key features of the new regime. Additionally, it is necessary to link intra-regional trade liberalization with enhanced intra-regional investments in different services sectors. Regional focus should include the development of efficient regional supply chains to gain competitive edge in the international market. In addition, the new regime should re-emphasize the importance of concrete regional efforts to diversify the export structures of the weaker economies for their effective integration into the regional economy. Notably, realistic short- and medium-term targets should be set to ensure timely progress in achieving the ultimate goal of deeper regional integration for shared regional prosperity.

In that context, there is a need to further reduce intra-SAARC tariffs and sensitive lists, relax rules of origin (RoO), and establish effective mechanisms to deal with non-tariff measures (NTMs). Moreover, a proactive policy initiative should be taken for SAFTA to match extensive tariff reductions under the bilateral free trade agreements (BFTAs) within the region. Accordingly, a review of all current commitments under SAFTA should be initiated with the objective of converging SAFTA's tariff reductions to match those provided under the BFTAs. In addition, RoO under SAFTA should

The new regime of regional integration should promote trade and investment nexus.

also be made consistent with those that are now in force under the BFTAs, in which the rules are often more liberal than those in SAFTA.

Some of the important elements of regional integration in South Asia, which exist today, but need serious revisiting, are briefly discussed below.

Addressing NTMs

One of the crucial factors that have largely rendered SAFTA ineffective is the various types of NTMs imposed by countries in the region. According to a recent study¹, there are many products in which SAARC countries have high export potential, but intra-SAARC trade of these products are absent due to the presence of various NTMs. In order to effectively deal with existing NTMs, the SAARC Secretariat should take inventories on NTMs of the SAARC member states into cognizance and endorse the many initiatives taken by the private sector and development partners in reducing them. Importantly, prominent NTMs should be reviewed and analysed to identify their impact on trade.

Subsequently, to reduce the trade-impeding effects of NTMs, SAARC countries should sign mutual recognition agreements. They should accept certificates issued by the competent authorities of other SAARC member countries, for which the laboratories issuing the certificates should be accredited. Accreditation bodies or agencies may set up accreditation centres in collaboration with a designated national agency. It is also important to strengthen the SAARC Regional Standards Organization and allocate adequate human and financial resources to make it function effectively. Importantly, focused interactions on NTMs between the private sector and the government should be conducted regularly in each SAARC country.

Deepening customs cooperation

In order to facilitate regional trade, customs valuation should be strictly in line with the WTO Customs Valuation Agreement, and the certificates issued

by designated national institutions should be accepted by all ports of entry. Fees levied should be based only on the cost of services rendered. Additionally, considering the importance of automation of customs in trade facilitation, SAARC members should expedite and prioritize the introduction of increased automation of their customs clearance procedure under the harmonized Automated System for Customs Data (ASYCUDA).

Promoting services trade

Considering the rising prominence of global trade in services, deeper regional integration in South Asia requires more integration of services in the region. Deeper regional integration in services trade would provide huge welfare gains for South Asian countries as almost all of them are net importers of services.

SAARC countries have signed the SAARC Agreement on Trade in Services (SATIS), which awaits implementation. Unfortunately, many South Asian countries lack established and well-functioning regulatory and institutional frameworks that support services trade liberalization, and hence effective implementation of SATIS. Therefore, considering their specific economic requirements and the necessary technical assistance for capacity building, SAARC countries should frame appropriate domestic regulations without delay. But, they should also ensure adequate regulatory flexibilities to promote services trade liberalization.

Enhancing investment cooperation

South Asia lacks adequate investment in different sectors. While much of such investments need to be attracted from countries outside the region, there is ample scope for intra-regional investments too. However, for that to materialize, effective domestic regulatory frameworks need to be harmonized with the regional investment framework, taking into account the country-specific priorities in different sectors. That will require streamlining

of investment regulations, improving the business environment, enhancing institutional and regulatory capacities, making regulatory cooperation effective, and enhancing people's mobility. Notably, a regional investment treaty and double taxation treaties among SAARC countries are needed to remove existing barriers to investment.

Smoothing trade and transport facilitation

Studies have shown that development of economic corridors among South Asian countries would help them better integrate regionally and globally. This necessitates harmonization of laws and processes related to transport networks, and transit and trade facilitation among them.

South Asian countries suffer from excessive direct costs and time taken to cross borders, and from inefficiency in cross-border transactions. Trade in the region is also constrained by the poor conditions of trade- and transport-related infrastructure, congestions, high costs, and lengthy delays. 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 transshipment and manual inspection at the border, which imposes serious impediments to regional and multilateral trade. The problem is further compounded by the lack of harmonization of technical standards.

Studies have shown that improved trade facilitation in South Asia would increase the volume of intra-regional trade by reducing the transaction costs of trade, thus making exports more competitive and imports less expensive. Therefore, reduction of transaction time through simplification of documentation and promotion of paperless trade should be a priority. To reduce trade-related transaction costs, governments must collaborate on a trade facilitation agenda that encompasses procedures, regulations and processes, which impose costs on cross-border commercial transactions

such as customs, standards and movement of people, among others.

Promoting energy cooperation

South Asian countries have wide variations in energy resource endowments and energy demand. Hence, they can immensely benefit from efficient sharing of their energy resources through a wider energy system integration. Regional cooperation is thus needed in the areas of increased energy production, expanded energy trade infrastructure, promotion of a regional power market, and harmonized legal and regulatory frameworks, together with an improved investment environment.

Conclusion

SAARC leaders have visioned an Economic Union in South Asia. To materialize this vision, SAARC should now enter into a new regime of regional integration. Building on past experiences and effectiveness of the existing regional integration regime, the new regional integration regime will require pro-active and visible leadership, mainly from India, in taking the agenda forward. The success and the effectiveness of the new regime will largely depend on the delicate balance between what each country can offer and what it can expect in the deeper integration process. Moreover, regional institutions, like the SAARC Secretariat, have to be institutionally reformed and reoriented. Business associations and civil society organizations have to understand and participate in the political economy process of pursuing regional integration agenda in South Asia more than ever under the new regime. ■

Dr. Raihan is Professor, Department of Economics, University of Dhaka, and Executive Director, South Asian Network on Economic Modeling (SANEM), Dhaka.

Note

- ¹ Raihan, S., M. A. Khan and S. Quorshi. 2014. *NTMs in South Asia: Assessment and Analysis*. Kathmandu: SAARC Trade Promotion Network.

SAARC Agreement on Trade in Services

A note on the progress

Saman Kelegama

At the 13th Summit of the South Asian Association for Regional Cooperation (SAARC) held in Dhaka in 2005, a regional agreement on services trade was, for the first time, listed under the SAARC agenda. Then, after years of negotiations, the SAARC Agreement on Trade in Services (SATIS) was signed at the 16th SAARC Summit in Thimphu in 2010. Along with signing the Agreement, SAARC leaders, as usual, called for an early conclusion of negotiations on the schedule of specific commitments under the Agreement. The progress, however, has been rather slow.

The Agreement came into effect in November 2012 after its ratification by all SAARC members, and the Expert Group on SATIS has only met 10 times so far. Such a slow headway made by members in the implementation of the Agreement is in line with the overall

sluggish progress towards regional economic integration in South Asia.

GATS-minus commitments

SATIS is pursuing a “positive list” approach¹ for the liberalization of trade in services among member countries, taking into consideration the heterogeneous character of South Asia, which consists of both developing countries and least-developed countries (LDCs). For example, Afghanistan and Bhutan—two SAARC LDC members—are not yet members of the World Trade Organization (WTO); therefore, they are given the flexibility under SATIS to submit their individual offer list based on their level of comfort. The other LDC members, on the other hand, are requested to submit their offer list by including additional sectors than what is included in their offer lists submitted to the WTO under

the General Agreement on Trade in Services (GATS). Concomitantly, the developing country members—India, Pakistan and Sri Lanka—are requested to submit their offer lists by going beyond their commitments in the WTO, which are reflected in the lists submitted under the Doha Development Agenda.²

All SAARC member countries have now submitted their offer lists. An analysis of these lists shows that the submissions by some member countries under SATIS have been GATS-minus because certain services offered under GATS have not been offered under SATIS. In the case of India, its submission under SATIS is GATS-plus, but falls far short of its GATS-plus submissions under its bilateral free trade agreements (BFTAs) with South Korea, Singapore, Malaysia and Japan, among others.

Request lists

Under SATIS, along with the offer lists, member countries are also required to submit the request lists to other SAARC member countries, in which they include those services sectors and sub-sectors that are of their export interest. In submitting the request lists too, members are provided flexibilities. But, despite the flexibilities, Afghanistan, the Maldives and Pakistan are yet to submit all their request lists. While the Maldives and Pakistan have submitted their request lists only to India, Afghanistan has not submitted any request list to any



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member country so far. The request lists of member countries are fairly extensive compared to their offer lists. Business services, transport, tourism, education and financial services appear common in almost all the request lists. Given its long experience in services negotiations under various BFTAs compared to other SAARC member countries, India's country-specific request lists are the most comprehensive.

Background to SATIS

All members are expected to submit their final offer lists and schedules of specific commitments before the 11th meeting of the SATIS Expert Group. But the long time period taken by the members to submit their offer and request lists has raised questions about members' commitments to fully implement SATIS. However, it is important to realize that the delays could be for genuine reasons. For example, Afghanistan and Bhutan probably did not have any offer and request list in place at the commencement of SATIS negotiations owing to the fact that they are not members of the WTO, and thus did not have any previous list to build upon.

The preparation and submission of offer and request lists under SATIS has proven to be a highly time-intensive activity, though substantial background work related to the liberalization of services trade in South Asia was concluded before the signing of the Agreement in 2010.

As per the request of the SAARC Heads of State at the 13th SAARC Summit in 2005, the SAARC Secretariat had assigned the Research and Information System for Developing Countries (RIS), a Delhi-based organization, to conduct a study to examine the possibility of services trade under the Agreement on South Asian Free Trade Area (SAFTA). RIS completed the study in 2009 and published a report titled "SAARC Regional Study: Potential for Trade in Services under SAFTA". Subsequently, many comprehensive studies on the subject were also conducted.³

Implementation of SATIS has been affected by the cautious approach taken by SAARC members to liberalize services trade.

Despite the availability of many comprehensive studies on the subject, the Expert Group requested for additional information on services before deciding on the offer and request lists. Thus, the Asian Development Bank (ADB) provided financial assistance for a study on "Development of Institutional Framework for Data Collection on Trade in Services, including Capacity Building". The study was conducted and presented to the Expert Group, which suggested that the study be extended to prepare a regional common schedule for SATIS negotiations in sectors like tourism, health, education, telecommunication, power and construction, for consideration by member states. Accordingly, the study was extended, which facilitated the preparation of a regional common schedule by national experts. The schedule is currently under consideration by the member states.

The ASEAN experience

While the progress made thus far in the implementation of SATIS since it was first proposed in 2005 has been dismal, the progress pattern of services trade liberalization among member countries of the Association of Southeast Asian Nations (ASEAN) during the post-1995 period has been impressive. The ASEAN Framework Agreement on Services (AFAS) was concluded in 1995 to eliminate restrictions on trade in services within the ASEAN region. The Agreement included sectors such as business services, professional services, construction, distribution, education, environmental services, healthcare, maritime transport, telecommunication and tourism, while financial services were

treated separately. AFAS pursued a GATS-plus model to expand the scope of services trade liberalization beyond those under GATS. Table (next page) provides the approach to negotiations on services trade liberalization in ASEAN.

To date, ASEAN Trade Ministers have signed eight packages of commitments concluded from six rounds of negotiations. Besides, there have also been a number of commitments in financial services signed by the ASEAN Finance Ministers, not to mention the commitments in air transport services signed by ASEAN Transport Ministers. Following up on its commitment to fully liberalize priority integration sectors by the end of 2010, logistics services by 2013 and all other services sectors by the end of 2015, ASEAN has maintained an impressive pace of progress since the conclusion of AFAS.

SATIS as it stands

Full implementation of SATIS has largely been affected by the cautious approach taken by SAARC members to liberalize services trade in South Asia. Smaller SAARC member states continue to argue that regulatory and other institutional frameworks should be in place before embarking on services trade liberalization. Such perceptions are not necessarily correct because regulatory and institutional reforms are most often triggered by first liberalizing services trade.

SAARC members also argue that liberalizing services trade could result in excessive delivery of services through Mode 4 (movement of natural persons), thus flooding the domestic market with foreign nationals and rendering domestic nationals jobless. Such perceptions are also misplaced since all liberalization under GATS-plus format will link Mode 3 (commercial presence) with Mode 4, as is the case under the existing unilateral liberalization regimes. Furthermore, considering that linkage is not a compulsion under GATS-plus liberalization, members have the flexibility to delink Mode 3 and Mode 4 at their own discretion.

Table

Approaches to negotiations on services trade liberalization in ASEAN

Round	Approach	Description
Period: 1996–1998	Request and offer	Similar to GATS, including exchange of information on services regime of member countries.
Period: 1999–2001	Common sub-sectors	Common sub-sector = a sub-sector where four or more member states had made commitments under GATS and/or previous AFAS packages. Member states were requested to make offers for these sub-sectors.
Period: 2002–2004	Modified common sub-sector approach	Same as above, but threshold was modified to three or more member states (instead of four).
Period: 2005–2006	Two tables of sub-sectors	Table 1 = Mandatory 65 sub-sectors (priority sectors + modified common sub-sector approach). Table 2 = Minimum five out of 19 sub-sectors.
Onwards	ASEAN Economic Community (AEC) Blueprint*	Follow requirements listed in the AEC Blueprint

* clear targets and timelines (in 2003, four priority areas were identified: air travel, e-ASEAN, healthcare and tourism; in 2006, logistics services were added); pre-arranged flexibilities, strategic schedules with key milestones, and implementation by relevant sectoral ministerial bodies.

Source: Mikic, Mia. 2010. "ASEAN Experience with Services Trade Agreements and Lessons Learned." Presented at the Central European Free Trade Agreement Week, Belgrade, Serbia, 10–11 November.

Sadly, extensive discussions of the aforementioned issues during Track II dialogues has made only a little impact on Track I thinking. Owing to the rigid stance taken by member states, SAARC has failed to stay true to its 2010 Declaration, in which members had promised for early conclusion of services negotiations.

There are some arguments in favour of the cautious approach taken by member states in liberalizing services trade in South Asia. For instance, some argue that the anomalies of the SAFTA Agreement should be rectified first before fully implementing SATIS. This argument too is without good reasoning for many of the impediments to cross-county movement of goods will automatically be addressed with the liberalization of services trade due to the strong inter-linkage between trade in goods and trade in services in the increasingly globalized world. Moreover, services trade liberalization is an incentive for attracting foreign direct investment (FDI) in the region's services sectors. In fact, with the unilateral liberalization of trade in services among SAARC member states, intra-regional trade in services is already taking place in the region, and is likely to increase through further liberalization. For example, a bulk

of the Indian FDI in some SAARC countries is in the services sector, despite the absence of services trade liberalization at the regional level.

Conclusion and way forward

For smaller South Asian economies in particular, binding commitments related to the liberalization of trade in services under SATIS will go a long way in attracting FDI from larger economies, India in particular. But, more importantly, any delay in the implementation of SATIS will force South Asia to trail further behind other regional blocs in the progress made towards the liberalization of trade in services.

According to the study conducted by RIS, services trade among SAARC countries is more effective in addressing asymmetries that exist in goods trade among them because the smaller SAARC countries generally enjoy lower trade deficit or surplus with the larger countries when existing services trade is also taken into consideration. Moreover, the study shows that there are more complementarities in the services sector among SAARC countries when compared to the goods sector. Considering the positive aspects of services trade liberalization, negotiations to further liberalize it within the

SAARC region should be expedited taking due account of the risks associated with it and identifying mitigating measures. A notable first step in that direction would be the full implementation of SATIS, which will reinforce SAARC's commitment of greater regional economic integration and importantly, facilitate the path to an Economic Union in the near future. ■

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Notes

- 1 Under a "positive list" approach, members offer the list of services sectors and sub-sectors that they would liberalize.
- 2 Around the mid-2000s, these countries added more services sectors for liberalization in their initial GATS offer list to reflect their commitments to the Doha Development Agenda of the WTO. Under SATIS, they are asked to go beyond that list.
- 3 See, for example, Ghani, Ejaz, edit. 2010. *The Service Revolution in South Asia*. Oxford: Oxford University Press; Kelegama, Saman. 2009. *Trade in Services in South Asia: Opportunities and Risks of Liberation*. London: SAGE Publications; Raihan, Selim, edit. 2008. *Domestic Preparedness for Service Trade Liberalization: Are South Asian Countries prepared for further Liberalization?* Jaipur: CUTS International.

Towards a regional transit agreement in South Asia

Purushottam Ojha

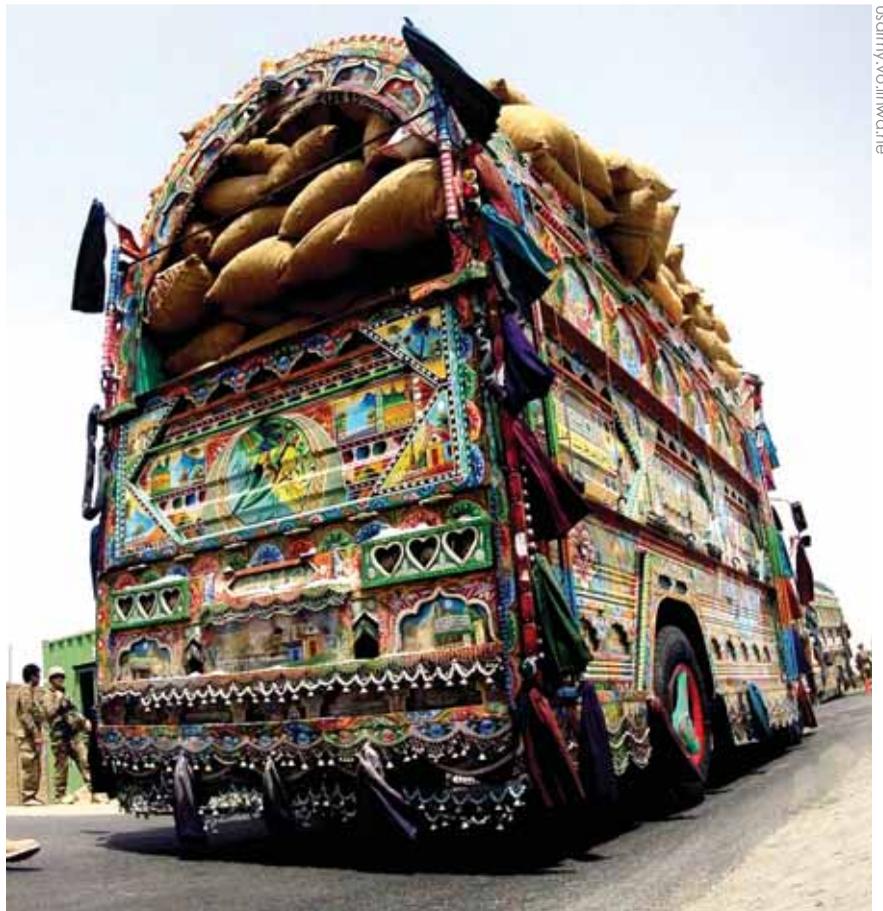
Transit movement of traded goods among South Asian countries are normally guided by the bilateral transit agreements concluded between the landlocked countries and their immediate neighbours. Such agreements exist between India and Nepal, Bhutan and India, and Afghanistan and Pakistan. However, transit agreements are also concluded between countries that are not immediate neighbours. For example, Nepal has a separate transit agreement with Bangladesh, signed in 1976, to conduct its trade with third countries using Bangladesh's ports. Mere existence of these transit agreements has not helped ease the movement of goods in transit in South Asia for a number of reasons.

First, the protocols laying down the procedures and number of documents required for transit have made transit movements costly. Second, lack of effective governance, particularly transparency and accountability in the work processes of regulatory agencies; inefficiency of logistics services; and poor infrastructures have hindered transit trade. Third, the traditional transit countries—Bangladesh, India and Pakistan—have their own economic and social nuances which have impeded effective transit trade. This article discusses the status of transit trade in South Asia and argues for the need to have a regional transit agreement.

Transit as part of trade facilitation

Transit, in the conventional sense, is a deal between a landlocked country and a coastal country that are

neighbours to avail the former with unhindered access to the sea and marine resources of the latter. It also provides the landlocked country the freedom of the high seas. But with the



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proliferation of free trade agreements and customs union in recent decades, transit has evolved from merely an arrangement that connects landlocked countries with the sea, to include the facilitation of movement of third country goods through the territory of a country providing the transit. Also, it is not only the landlocked countries that require transit facilities from their coastal neighbours; even coastal countries need transit facilities through their neighbours for various reasons.

Cooperation on transit and transport constitutes an important component of many regional economic blocs. For example, the Association of Southeast Asian Nations, Greater Mekong Sub-region and South African Development Community have concluded cross-border transport agreements for establishing transit transport networks. Member countries of the European Union have integrated their road and rail networks and follow a common transport policy. Similarly, the United States and Canada, as members of the North American Free Trade Area (NAFTA), follow harmonized transport and competition policies.

Article V of the General Agreement on Tariffs and Trade of the World Trade Organization (WTO) stipulates the right of every WTO member to transit; however, implementation of this Article remains much to be desired. Another important development in the history of transit cooperation is the Almaty Programme of Action, which was adopted in 2003 to establish a new global framework for developing efficient transit transport systems in landlocked and transit developing countries.

Trade facilitation, on the other hand, was first taken on board as an important issue for global trade negotiations at the first WTO Ministerial in 1996. Later, it was included in the Doha Development Agenda (2001), and was also a part of the WTO's July Package (2004), which gave new direction to the negotiations on trade facilitation by articulating its modality. The long and arduous journey

took a monumental turn at the Ninth WTO Ministerial in Bali in December 2013 when WTO members signed the multilateral Trade Facilitation Agreement (TFA).

Freedom of transit is one of the important pillars of the TFA. As stipulated in the Agreement, duties and charges cannot be levied on goods in transit, except the charges directly related to the cost of services. It has also provisioned for advance filing of transit documents to facilitate traffic in transit. The Agreement further lays ground in establishing an efficient transport system to reduce trade costs.

Connectivity in South Asia

Fragmentation of surface transport is a major factor behind poor economic linkages among South Asian countries. For example, a container shipped in New Delhi takes 35 days to reach Dhaka via sea, and requires transshipment either at Colombo or Singapore. This journey could be completed in five days if there was a direct rail service between the two cities. Similarly, transportation of goods from Lahore to Dhaka has to embark on a 7,162 km journey by sea, in addition to some inland road and rail transportation. This could be reduced to 2,300 km if there was an overland passage via India.¹

As an effort towards improving regional connectivity among the countries in the region, member countries of the South Asian Association for Regional Cooperation (SAARC) initiated a SAARC Regional Multimodal Transport Study (SRMTS), which was completed in 2006. The study has identified 10 road corridors, five rail corridors, two inland waterways transport corridors, 16 aviation gateways and 10 maritime gateways as important transport hubs in the region.

Transport infrastructure is a prerequisite to create an inter-connected regional market.

It has also assessed existing physical and non-physical barriers to connectivity and suggested measures to overcome them. Moreover, the study has focused on integration of existing transport infrastructures in facilitating cross-border movement of goods and vehicles within South Asia with minimum commitment of economic resources.²

The road and rail corridors proposed under SRMTS are important for increasing overland intra-regional trade in South Asia, while improvement in maritime gateway services is necessary to connect the island nations, namely Sri Lanka and the Maldives, with their regional counterparts. Considering the efficiency, feasibility and importance of all proposed corridors, their development can effectively facilitate the integration of regional transport network in South Asia.

Transport infrastructure is a prerequisite to create an inter-connected regional market. However, it must be complemented by protocols on facilitating the cross-border flow of goods, such as harmonization of customs documentation and procedures, road and railway standards, traffic signalling, and technical arrangements like uniformity in railway gauge, axle load limits, carrying capacity of railway wagons, load bearing capacity of roads, etc. Moreover, proper documentations and seals that ensure safe passage of transit goods, as well as guarantee payment of customs duties if the goods are lost in transit, are of equal importance considering the landlockedness of some South Asian countries.

Proliferation of transit services within South Asia could trigger the integration of trade and economies not only among South Asian countries, but also with countries beyond the region. For instance, transit of goods through the north eastern region of India would enable many South Asian countries to easily access markets in Myanmar, Thailand and China. Similarly, Nepal can provide transit services between China and India,

while Afghanistan could provide over-land transit routes to connect South Asia with Central Asia and Caucasus region. Therefore, in addition to the development of trade corridors proposed under SRMTS, there is a need of a regional trade and transport agreement that would cover transit and all other relevant protocols to successfully facilitate seamless cross-border movement of goods in South Asia and beyond.

Regional transit and transport agreement

With the advent of the Agreement on South Asian Free Trade Area (SAFTA) in 2006, discussions were initiated on creating necessary conditions to achieve the goal of free trade area by reducing tariffs, and para-tariff and non-tariff barriers, and introducing trade facilitation measures. The framework governing SAFTA stipulates that the regional trading arrangement will adopt trade facilitation and related measures, along with progressively harmonizing legislation of the member states.

Specifically, the SAFTA Article on additional measures spells out the kind of trade facilitation measures to be implemented to support and complement trade liberalization in South Asia. Such measures include better transit facilities for efficient intra-SAARC trade (especially for the landlocked members), simplification and harmonization of customs documentation and procedures, development of transport infrastructures and visa facilitation, among others. Implementation of these measures is supposed to create synergy among SAARC countries in creating a vibrant transit transport network in the vast swathes of South Asia.

Poor infrastructures, combined with the lack of proper inter-modal linkages, are the structural constraints and the causal factors for high transaction costs and low volume of intra-regional trade in South Asia. Hence, SAARC leaders decided to conclude two regional agreements, namely the Regional Motor Vehicle Agreement

SAARC should have a regional transit and transport agreement to facilitate intra-regional trade.

and the Railway Agreement, for which the Inter-Government Group (IGG) formed expert groups in July 2009 to negotiate the two agreements. These agreements, if concluded and implemented, would provide thrust to the economic integration process in South Asia.

The agreements were supposed to be presented at the 16th SAARC Summit in Thimphu in 2010. Unfortunately, the deadline was missed, and it could not be presented at the 17th SAARC Summit in Addu also. It is encouraging to note that these agreements will be signed at the 18th SAARC Summit in Kathmandu.

In addition to the Motor Vehicle Agreement and the Railway Agreement, South Asia needs a regional transit and transport agreement, which should be built on four pillars: i) development of transport network infrastructure for better connectivity and inter-modal linkages between national, regional and international sea ports, land ports and cargo clearance facilities; ii) trade facilitation through the simplification/harmonization of documents and procedures, application of uniform and transparent transit and cargo clearance system, along with facilitation of cross-border movement of people; iii) better transport security and safety along the regional supply chains through capacity building initiatives, technical networking and regular exchange of relevant technologies, best practices and information; and iv) involvement of the private sector in the provisioning and operation of transport infrastructure and logistic services. In addition, it should strive for greater integration of transport systems by introducing multi-modal transport systems, upscaling transit and transport

infrastructures, and improving the efficiency of their operations.³

Conclusion and way forward

Facilitation of cross-border transport and transit is one of the most important factors for enhanced trade. The case for increasing connectivity between countries through enhanced collaboration between customs, harmonization of documents and procedures, development of dedicated freight corridors, introduction of single window, and institutionalization of cross-border trade facilitation dialogue mechanisms is more pronounced in the recently concluded TFA. Considering the commitments made by South Asian countries under the TFA, and the utmost urgency to improve regional connectivity for better economic integration, they need to put in place a regional transit and transport agreement at the earliest possible.

The regional transit and transport agreement should take a holistic approach in facilitating the cross-border flow of goods, vehicles, finances and movement of people. Facilitation of visa for those involved in cross-border transportation of goods, currency swap up to a limited amount for transport operations, and the introduction of business travel card for traders and business persons are some features that could be considered to be included in the regional transit and transport agreement. ■

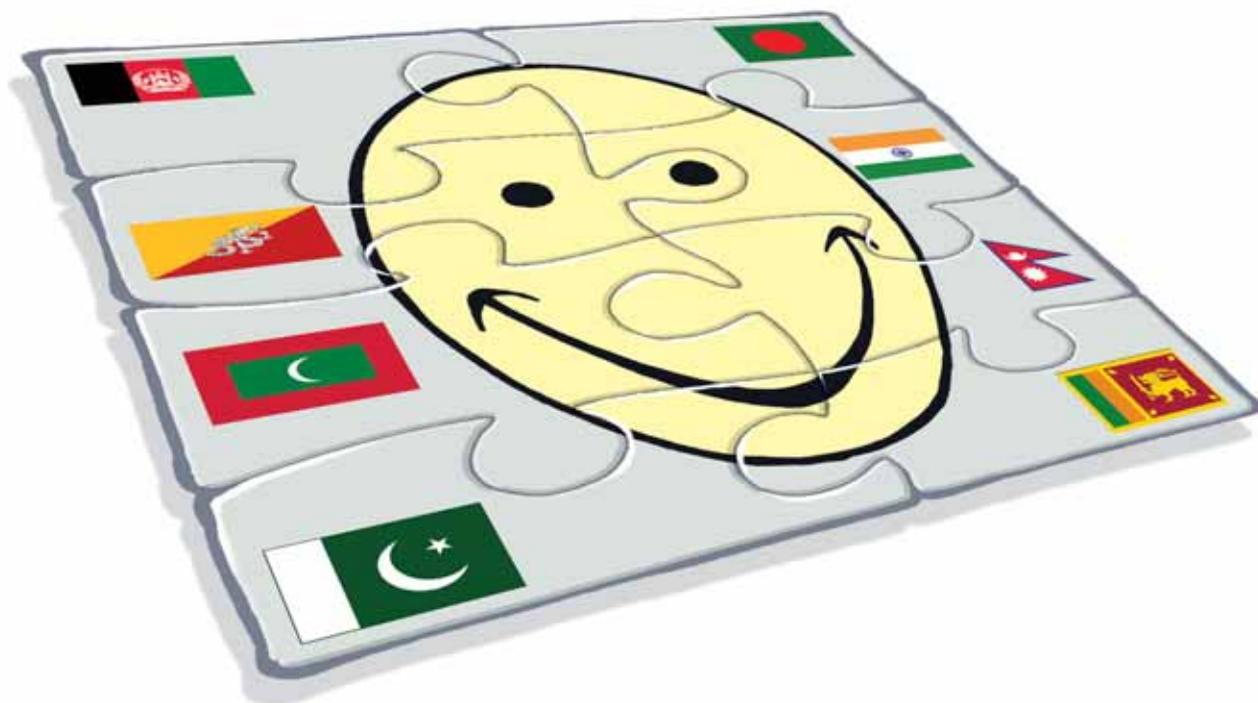
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Notes

¹ Rahmatullah, M. 2010. "Transport Issues and Integration in South Asia." In *Promoting Economic Cooperation in South Asia: Beyond SAFTA*, edited by Sadiq Ahmed, Saman Kelegama and Ejaz Ghani. New Delhi: Sage Publications Pvt. Ltd.

² *ibid.*

³ Proceedings of the Eastern Asia Society For Transportation Studies, Vol. 5, pp. 1728-1741, 2005.



Deeper integration with human face

Agenda for SAARC

Posh Raj Pandey

In the past three decades, member countries of the South Asian Association for Regional Cooperation (SAARC) have mooted a wide range of areas for cooperation, such as gradual liberalization of trade in goods and services, promotion of intra-regional investment, customs cooperation and harmonization of standards, elimi-

nation of non-tariff and para-tariff barriers, and cooperation on transport connectivity, energy, food security, climate change, agriculture and rural development, among others. However, South Asia is still the least-integrated region in the world, and suffers from slow pace of economic growth, rising unemployment, widespread

poverty and environmental degradation. Against the backdrop of the 18th SAARC Summit, this article identifies the priority areas for deeper integration with human face.

[Cooperation for energy security](#)

South Asia's energy consumption is very low, ranging from 204.7 kilogram

of oil equivalent (kgoe) per capita for Bangladesh to 970 kgoe per capita for the Maldives, while the world average stood at 1,890 kgoe per capita in 2011. Barring Bhutan, all countries are net importers of energy with high levels of import dependency. Rising economic growth, coupled with increasing population and the drive for universal electrification in all member countries have put pressure on regional energy demand. Such increasing demand further deepens import dependency on energy, exposing economies to external supply shocks and the vagaries of international markets.¹

Energy reserves of South Asian countries indicate huge scope for regional cooperation in the energy sector (Table 1). India has significant coal deposits; Bangladesh is rich in natural gas; and Bhutan and Nepal have enormous hydro potential. For Bhutan and Nepal, their seasonal variations in demand and hydropower generation capacities complement the seasonal demands of electricity of other South Asian countries. But existing intra-regional trade in energy among SAARC countries is limited to electricity trade between Bhutan and India, and India and Nepal, and trade in petroleum products between India and four South Asian countries, namely Bangladesh, Bhutan, Nepal, and Sri Lanka.

South Asian countries could develop a regional power market, a regional refinery, a regional liquefied natural gas plant and a regional power plant.² However, in order to integrate the energy market, South Asian countries need to cooperate on electricity or gas interconnections, provide open access to energy transmission infrastructure transparently, devise a common protocol, and standardize rules and procedures to simplify transaction mechanisms to reduce energy trade costs through a regional energy trading and development agreement.³ Moreover, energy integration also requires joint mobilization of resources for power generation, transmission and distribution. More importantly, countries could also cooperate in shar-

ing information, technology transfer, rural electrification and energy efficiency.

Advancing trade liberalization

South Asia has taken the initiative to liberalize intra-regional trade for more than two decades. The latest milestone is the Agreement on South Asian Free Trade Area (SAFTA), which was signed in 2004, and entered into force on 1 January 2006. SAFTA has envisaged reducing tariffs in a phased manner through the Trade Liberalization Programme (TLP), and abolishing non-tariff and para-tariff barriers to intra-regional trade. It has also provisioned the adoption of additional measures to promote trade such as trade facilitation, customs cooperation, transit facilities and the simplification of visa procedures, among others. But despite the commencement of the TLP from 1 July 2006 and the reduction of tariffs to zero percent by India, Pakistan and Sri Lanka under the TLP, intra-regional trade in South Asia still hovers at around 5 percent of the region's total trade.

Long sensitive lists and a plethora of non-tariff barriers (NTBs) are the major reasons for such low level of intra-regional trade in South Asia. Although India provides duty free access to all products originating in SAARC least-developed country (LDC) members, its sensitive list constitutes

about 12 percent of the tariff lines for non-LDCs. In the case of Bangladesh, Nepal, Pakistan and Sri Lanka, their sensitive lists make up more than 16 percent of the tariff lines for both LDC and non-LDC members. It is estimated that nearly 57 percent of the potential intra-SAARC trade remains to be exploited due to sensitive lists and other restrictive measures.⁴ While sanitary and phyto-sanitary (SPS) measures and technical barriers to trade are the most frequently imposed restrictive measures,⁵ imposition of quotas, anti-dumping and countervailing measures, license requirements, documentation procedures, rules of origin (RoO) certification and restrictions to entry through any port are some other restrictive measure in regional trade.⁶

Therefore, to promote intra-SAARC trade, it is desirable to limit the number of items in the sensitive lists to 100–125 tariff lines within a specified time period. Also, Pakistan and Sri Lanka could emulate India's initiative to provide virtually duty-free market access to goods originating in LDC member countries. Meanwhile, para-tariffs should be prohibited and the RoO need to be made more liberal, at least at par with existing bilateral trade agreements within the SAARC region.

With regard to non-tariff measures, SAARC members should agree that no SPS measures and technical standards

Table 1
Energy reserves of SAARC countries

Country	Coal (million tons)	Oil (million barrels)	Natural gas (trillion cubic feet)	Hydropower (megawatts)	Biomass (million tons)
Afghanistan	440	NA	15	25,000	18–27
Bangladesh	884	12	8	330	0.08
Bhutan	2	0	0	30,000	26.60
India	90,085	5,700	39	150,000	139
Maldives	0	0	0	0	0.06
Nepal	NA	0	0	42,000	27.04
Pakistan	17,550	324	33	45,000	NA
Sri Lanka	NA	150	0	2,000	12
Total	108,961	5,906	95	294,330	223

Source: Rahaman *e.al.* (2011). Note 3.

shall be adopted which are incompatible with the World Trade Organization (WTO) provisions, including most-favoured nation and national treatment. Members also need to work towards concluding mutual recognition agreements and strengthening national capacities, including regulatory, infrastructural and technical capacities, for technical and phyto-sanitary standards. Customs-related barriers should also be addressed through effective implementation of the SAARC Agreement on Mutual Administrative Assistance in Customs Matters.

Concluding services negotiation

With the exception of Afghanistan, the services sector accounts for over 50 percent of the national output of all SAARC countries. Except in the Maldives and Nepal, the sector has been growing faster than the countries' overall gross domestic product, and also more rapidly than in the previous decade.⁷ As a result, the sector has been contributing more to employment generation.

In recognition of the role of the services sector in the economy and the need for its liberalization, SAARC countries signed the SAARC Agreement on Trade in Services (SATIS) at the 16th SAARC Summit in Thimphu in April 2010. The Agreement entered into force from 29 November 2012 following its ratification by all member states. SAARC leaders expected SATIS to open up new vistas of trade cooperation and further deepen the integration of the regional economies, and thus called for the early conclusion of negotiations on the schedules of specific commitments under the Agreement.⁸ However, progress in negotiations on the specific commitments has been slow. Member states have submitted their initial offer lists, but are yet to schedule their specific liberalization commitments under SATIS. An analysis of the initial offer shows very restrictive approach taken by member countries, and in some instances, the offers are much less than what they have offered under the Gen-

eral Agreement on Trade in Services (GATS) of the WTO.

If SATIS is to be effective in facilitating services trade, South Asian countries need to move beyond GATS, for example, by including energy services. They also need to offer concessions at least equivalent to what they have offered under their other bilateral and regional trade agreements. Similarly, they should avoid inter-mode linkages, for example, de-linking movement of natural persons (Mode 4) from commercial presence (Mode 3). Additionally, member countries may adopt common sectoral schedules, for instance, on telecommunication, financial services and business services, among others. As trade in services could support the promotion of trade in goods, it is high time to conclude the SATIS negotiation and make the Agreement operational as early as possible.

Improving trade facilitation

Available literature shows that, for most developing countries, trade expansion no longer depends only on tariff reductions.⁹ Tariff costs account, on average, for only 13 percent of comprehensive trade costs.¹⁰ There are various at-the-border and beyond-the-border trade costs, such as poor transport connectivity, burdensome procedures, transit bottlenecks and absence of certification agencies that have significant impact on the volume of trade.¹¹ Thus, the benefits of addressing these trade facilitation issues

are likely to be higher than reducing trade policy barriers.¹²

In South Asia, the cost of trade is very high (Table 2), and more surprisingly, the cost of intra-regional trade is higher than trading with the rest of the world.¹³ High border transportation costs act as a serious constraint to enhancing merchandise trade flow in the region.¹⁴ Limited intra-regional connectivity and inadequate trade infrastructure, coupled with poor institutional and procedural support such as the lack of e-filing of trade documents and the absence of a regional transit trade are prohibiting the growth of intra-regional trade in South Asia. De (2011)¹⁵ estimates that a 10 percent fall in transaction costs at borders would increase a country's exports by about 2 percent.

Realizing the need for better intra-regional connectivity in South Asia, many initiatives have been taken so far. Among others, the SAARC Regional Multimodal Transport Study was carried out in 2006, drafts of the regional motor vehicle and railway agreements were prepared and circulated among the member countries, and the decade 2010–2020 was designated as the "Decade for Intra-Regional Connectivity in SAARC". While these are steps in the right direction, SAARC also needs to take an integrated and comprehensive step in strengthening transport, transit and trade facilitation. Regional transport and transit agreement, investment in upgrading infrastructure at the land

Table 2
Documents, cost and time to export

Country	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)
Afghanistan	10	85	5,045
Bangladesh	6	28.3	1,281
Bhutan	9	38	2,230
India	7	17.1	1,332
Maldives	7	21	1,625
Nepal	11	40	2,545
Pakistan	8	20.7	765
Sri Lanka	7	16	560

Source: World Bank (2014). Note 7.

customs stations, adoption of a single window approach to customs procedures, and moving towards international standards and harmonized conformity assessment procedures would go a long way in increasing connectivity and reducing trade costs in SAARC countries.¹⁶

Adopting regional investment promotion agreement

Since most SAARC countries had not opened their capital accounts and allowed the outward transfer of capital on a large scale, SAARC initiatives for regional economic cooperation in the 1990s and 2000s were largely trade-led. At the 7th SAARC Summit held in the Maldives, fast-tracking of the regional investment treaty was called for, along with the creation of regional production chains. Consequently, though limited in scope, a draft Investment Promotion Agreement was circulated in 2007, which is yet to be endorsed by the member states. While there is an urgent need to sign the Investment Promotion Agreement, based on the experiences of other regional groups, SAARC could also adopt a regional industrial cooperation scheme under which goods produced by regional joint venture enterprises would be accorded duty-free market access in the home country without waiting for the implementation of the SAFTA schedule of trade liberalization.¹⁷

Embracing common stand on climate change

The Inter-governmental Panel on Climate Change (IPCC) reports that in South Asia, climate change impacts are seen in the form of inter-decadal variability in rainfall with more frequent deficit monsoons, increase in the number of monsoon break days, increasing frequency of heavy precipitation events and decreasing light rain events.¹⁸ In addition, there have been increased salinity in coastal regions due to rising sea levels and reduced discharge from major rivers, weakening ecosystems, receding glaciers in the Himalayas, mountain and

For SATIS to be effective, South Asian countries need to move beyond GATS, for example, by including energy services.

coastal soil erosion, and increased frequency/severity of extreme weather events such as floods, cyclones and droughts.¹⁹ IPCC projects with high confidence that there will be an overall increase in precipitation and rise in temperature in the future.

To address climate change challenges in South Asia, a special ministerial meeting was held in 2008 and the SAARC Action Plan on Climate Change was adopted, which was later endorsed by the 15th SAARC Summit in August 2008. The 16th SAARC Summit held in Thimphu in 2010 issued a separate statement on climate change besides the regular Summit declaration. Among others, the Thimphu Statement called for knowledge sharing on climate-related issues, cooperation in green technology, and SAARC inter-governmental initiatives on monsoon, mountain, marine and disaster. An Inter-governmental Expert Group on climate change was also established to develop a clear policy direction and guidance for regional cooperation on climate change. The work of the Export Group has failed to meet expectations, while the various other initiatives are yet to materialize.

It is thus imperative that SAARC countries translate the declaration into pragmatic and implementable programmes of action. Regional institutional mechanism for knowledge and information sharing, establishment of regional climate fund, regional cooperation on climate research, sharing of best practices and technology transfer are some of the initiatives that need to be taken with urgency. However, the role of the private sector and non-state actors also need to be integrated into

government actions, and regional initiatives should be backed up with effective monitoring and evaluation systems.

Enhancing food security

South Asia has the largest concentration of poverty in the world. The region is home to nearly 40 percent of the world's poor.²⁰ However, there has been improvement in the state of food security in the region in recent years. The Global Hunger Index (GHI) shows that the situation of hunger has moved from the state of "alarming" in 2000 to the state of "serious" in 2013.²¹ Moreover, significant achievement has been made in reducing under five mortality in the region. But the large prevalence of underweight children and the widespread undernourishment of the population continue to affect the overall food security situation of the region. Moreover, since growth in food production is higher than population growth in most South Asian countries, the poor state of food security is an issue of food distribution and nutritional value rather than that of food production.²²

Regional cooperation on food security and nutrition is not a new SAARC agenda. Member states had signed the Agreement on Establishing the South Asian Food Security Reserve at the 3rd SAARC Summit in 1987, which was operationalized from 12 August 1988, but without much success. Then, the regional initiative on nutrition was adopted in 1997, which was followed by the signing of the Agreement Establishing the SAARC Food Bank in 2007. Subsequently in 2008, the Colombo Statement on Food Security and SAARC Declaration on Food Security were adopted, which recognized the strategic importance of food security and affirmed to ensure region-wide food security. Later in 2011, the Agreement on Establishing the SAARC Seed Bank was signed and the Framework for Material Transfer was agreed upon. Despite all these initiatives, of the 842 million people estimated to be undernourished in the world, 295 million reside in South Asia.²³ Lack of

action-oriented measures and non-operationalization of some of the agreements at the regional level, together with inadequate policies, weak institutions and poor regulatory frameworks to address food security challenges at the national level are largely responsible for the current state of affairs.

The primary responsibility to ensure food security is that of national governments; regional initiatives only complement national efforts. Nonetheless, there are many areas where South Asian countries should take action at the regional level. First, the SAARC Food Bank needs to be operationalized by addressing its in-built weaknesses such as inadequate reserves, impractical withdrawal conditions, ambiguous pricing system, and distribution mechanism, including defining the role of the private sector in food distribution. Similarly, the SAARC Seed Bank Agreement needs to be implemented, ensuring that the regional seed bank will be harmonized with national seed banks in member countries.

Intra-regional trade of food products plays an important role in achieving food security. Therefore, food items should be removed from the SAFTA sensitive lists, along with dismantling NTBs on these products and adopting trade facilitation measures. Similarly, collaborative agriculture research, cooperation in early warning systems and information sharing, integrated use of international river waters, sharing of research-based technologies and exchanging experiences related to agriculture, collaboration in improving health, and adopting regional intellectual property rights policy are some of the areas for regional cooperation to ensure food security in the region.

Putting social agenda upfront

Objectives of regional cooperation should not stop at promoting trade and enhancing economic growth. Cooperation efforts should also be sustainable and must improve the living standard of the people. Regrettably, despite the signing of the SAARC

Social Charter and priority given to social issues in SAARC conventions, declarations and protocols, South Asia remains one of the regions with lowest human development index, widespread poverty and persistent socio-economic inequalities. Social protection coverage in terms of its depth and width is low, while various forms of discriminations are still prevalent and human rights continue to be violated. Notably, the incidence of violence against women remains alarming. Thus, social agenda along with economic issues should get prominence in SAARC deliberations. Food, energy and environmental securities need to be ensured, and the coverage and depth of social security should be increased. Human resources, particularly in light of the bulging youth population and potentials of high "demographic dividend" should be harnessed through increasing investment in human resource development. ■

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Regional cooperation for food security

South Asian governments play a major role in managing food markets, and food distribution and assistance, but hunger and malnutrition still exist in the region.

Nagesh Kumar and Matthew Hammill

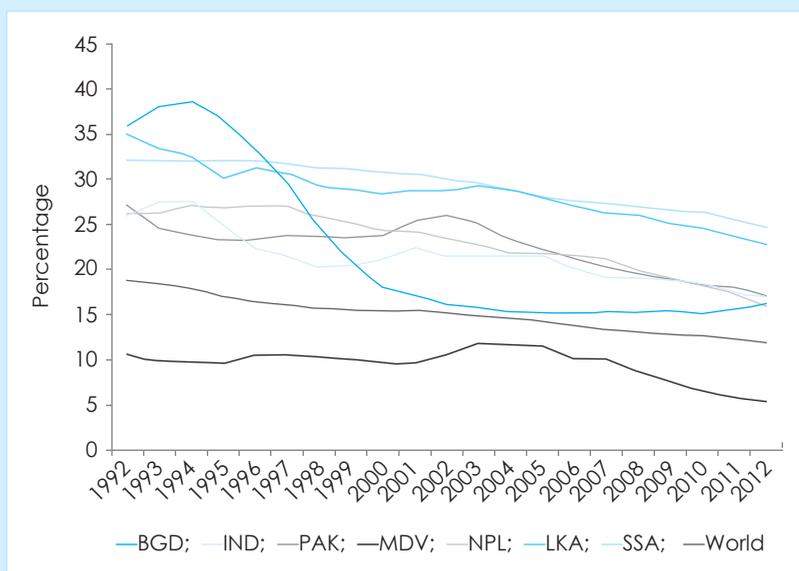
Despite the dynamism and structural transformation of the South Asian economy, and remarkable achievements in poverty reduction and socio-economic development over the past decades, South Asia still has the largest concentration of hunger and malnutrition in the world. With nearly one fifth of the region's population living in hunger,¹ food security is one of the most important development priorities in South Asia.

Aware of the urgent need to ensure food security of their people, successive governments in South Asian countries have, over the years, prioritized issues related to addressing the food security challenge. Consequently, some progress has been made and large-scale famines are largely relegated to the past, but malnutrition levels in South Asia are still at unacceptably high levels (Figure, next page). Persistent malnutrition and food insecurity hobbles labour markets and limits human capital investment through adverse effects on health and education.

Moreover, supply shocks and food price volatility have a direct impact on regional food security, which consequently contributes to global food price volatility. Hence, there is a need



Figure
Prevalence of undernourishment in South Asia (1992–2012)



Note: BGD- Bangladesh; IND- India; PAK- Pakistan; MDV- Maldives; NPL- Nepal; LKA- Sri Lanka; SSA- Sub-Saharan Africa. Source: FAOStat (2014).

to deepen cooperation to address food insecurity in South Asia.

South Asia's food security challenges

Declining agriculture productivity, output volatility due to the growing impact of climate change, and persistent labour-intensive agriculture growth are the attributes of South Asia's agriculture sector. While the agriculture sector is still a dominant source of employment in South Asia, its share in the regional gross domestic product has dropped in recent years. Notably, the vast majority of South Asia's agriculture output is currently produced by smallholder farmers with limited opportunities for economies of scale, and without economic and climate buffers.

South Asia's food production system often represents inefficient utilization of agriculture inputs due to existing infrastructure challenges, mainly energy security and access to water resources. Food wastage and post-harvest losses are also enormous challenges in the region.²

Governments across the region play a major role in the management of food markets, food distribution and assistance, but they have not succeeded in eradicating hunger and malnutrition in the region. Nor have they been able to improve people's access to food from the market and decrease their reliance on food assistance programmes. In addition, the current national food distribution and market management systems across the region have not delivered desired outcomes in terms of lower food price inflation and insulation from regular international food price volatility. Instruments such as national buffer stocks are utilized with little transparency or obvious intention for resilience, while policies seem underdeveloped in applications of buffer stocks. At the regional level, while the agreements to establish the SAARC Food Bank and the SAARC Seed Bank are important initiatives, they are yet to become effective instruments in dealing with food shortages and emergencies.

If the region is to embrace what economists call the "Lewisian turning

point"—a point when cheap labour is not forthcoming from the agriculture sector, thus forcing wages to rise—and move away from the agriculture sector towards modern sectors like manufacturing and services, the region has to effectively address food insecurity. With the growing number of young and working age population in South Asia, it is imperative to ensure greater food security for it can provide a huge multiplier effect in terms of productivity and future growth. However, if the population continues to be plagued by food insecurity, the region could be stuck in the vicious cycle of hunger and poverty with detrimental impacts on health, human capital and productivity.

Leveraging regional cooperation for food security

In South Asia, regional cooperation can strongly complement national strategies to address food security challenges—both in the short run and long run. Regional efforts can effectively ramp up greater international linkages in food production systems and value chains, and contribute to greater resilience and better management of both internal and external shocks to food supply and prices. Importantly, regional cooperation can act as a buffer against exposure to volatility in international food markets. Therefore, South Asia can benefit from a more homogeneous group of preferences and structural similarities in food production to close supply and demand mismatches.

A 10-point agenda for regional cooperation on food security

In August 2013, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) hosted the "South Asia Policy Dialogue on Regional Cooperation for Strengthening National Food Security Strategies".³ One key outcome of the policy dialogue was the identification of 10 specific regional priorities for strengthening regional cooperation for food security in South Asia. These are discussed briefly below.

Making agriculture sustainable and climate resilient, and focusing on agriculture intensification

Effects of climate change on agriculture in South Asia are already becoming evident. Recent estimates suggest that, compared to baseline projections, increased temperatures could decrease annual agriculture production in Bangladesh, Bhutan, India and Sri Lanka by 23 percent by 2080.⁴ Therefore, South Asian countries need to invest in enhancing climate resilience of agriculture, promoting sustainable agriculture practices and increasing smallholder productivity and efficiency through agriculture intensification. Given the similar geo-climatic conditions in South Asian countries, sharing of good practices and lessons learned among them may be helpful.

Operationalizing the SAARC Food Bank and SAARC Seed Bank

Regional cooperation can be a mechanism to improve the management of food reserves and buffer stocks. Physical buffer stocks are an essential tool of food management in South Asia; hence, there is a need to effectively implement the SAARC Food Bank and SAARC Seed Bank. Other instruments such as virtual buffer stocks should serve as complements to physical buffer stocks and can assist in addressing the volatility of food prices.

Liberalizing intra-SAARC trade within the framework of SAFTA

South Asian countries should engage and cooperate with each other to increase intra-regional trade, particularly of agriculture and food products. Efforts to enhance intra-regional trade for food security should focus mainly in reducing non-tariff barriers, and in reducing the number of agriculture items from the sensitive lists maintained under the Agreement on South Asian Free Trade Area (SAFTA).

Engaging in joint research and development, and promoting technology transfer

Common regional platforms for fostering joint research and devel-

opment should be established and scaled up in South Asia. The SAARC Agriculture Centre is an existing focal institution whose role and resources could be multiplied in conjunction with national agriculture universities and technology research centres. SAARC countries should also promote the transfer of relevant technologies among themselves.

Creating effective regional knowledge networks for sharing of good practices

Regional cooperation can assist in sharing of good practices in food distribution systems, and in investigating applications of alternative mechanisms such as cash transfer programmes to decrease the dependence on and fiscal impact of food subsidies. For example, it is necessary to ensure that targeted populations have access to adequate information and government services. The design of one-stop shops is one good practice in that regard which could be scaled up across the region.

Greater regional cooperation on knowledge and information sharing can assist in increasing policy makers' capacity to design appropriate policy mix of food distribution systems, cash transfer programmes, education and health interventions, and broad social protection programmes to increase effectiveness in addressing hunger and food insecurity.

Ensuring greater efficiency in logistics, and reducing waste and post-harvest losses

Through regional cooperation, countries should make greater investments in agricultural and rural infrastructure, especially in terms of connectivity, transport and logistics to reduce wastage and post-harvest losses. Large-scale infrastructure investments should be prioritized for those projects which could make a bigger impact in ensuring food security compared to the others. Importantly, regional cooperation is also essential to maintain the food supply chain, including using the cold chain facilities across borders, that help ensure better food standards and reduce food waste.

Having coordinated positions in international forums and multilateral negotiations

India's recent decision to not support the Protocol of Amendment of the Trade Facilitation Agreement finalized at the Bali Ministerial of the World Trade Organization unless all issues concerning agriculture and development, mainly the concerns on public food stockholding are addressed along with the Protocol, highlights the need for South Asian countries to work together to ensure that national and regional food security priorities are addressed when in conflict with multilateral priorities. Moreover, collective efforts to bring about reforms in intellectual property rights regime so as to provide incentives for innovation to small scale producers and innovators from developing countries are essential to maintain food productivity growth in the region.

Harmonizing regulations and specifications

South Asian countries should engage in greater regional cooperation for livestock and trans-boundary disease management, including developing common biosafety and monitoring standards through regional agreements and forums. Harmonization of standards would allow faster responses and more active disease management, and also help promote intra-regional trade.

Collectively managing natural resources, including water and energy resources

Regional cooperation on efficient management of agriculture inputs; and sustainable use of water and energy resources should be scaled up in South Asia. Increased cooperation in the management of shared natural resources, including water and energy, can offset severe supply and demand mismatches in South Asia.

Implementing Integrated Food Security Phase Classification

The Integrated Food Security Phase Classification (IPC) is a set of stan-

standardized tools that aims at providing a “common currency” for classifying the severity and magnitude of food insecurity. It is an evidence-based approach that uses international standards which allow comparability of situations across countries and over time. It is based on consensus-building processes to provide decision makers with a rigorous analysis of food insecurity along with objectives for response in both emergency and development contexts.⁵ Thus, South Asian countries should adopt this approach to uniformly measure the severity of food insecurity across all countries in South Asia, and to devise appropriate response mechanisms. In particular, governments should invest in capacity building for designing policy triangulation strategies when identifying food insecure populations, applying diverse instruments and data to capture the multiple dimensions of food insecurity, and identifying appropriate targeted assistance and services.

Conclusion and way forward

Ensuring food and nutrition security of all people is an epic challenge for all South Asian countries. In light of the urgent need to address food security concerns throughout the region, the 18th SAARC Summit is an opportunity for governments in the region to take a series of concrete steps that will result in better food security across South Asia. The Summit can provide an important stimulus and direction to move ahead and adopt a common regional agenda for strengthening the situation of food security in the region. A regional approach to food security can help identify common priority areas for food security interventions, and subsequently lead to the formulation of national and regional policies and a framework needed for cross-sectoral policy coordination.

In that context, South Asian countries should undertake the following immediate actions, through SAARC, to commit to increased regional cooperation for food security.

- Members should adopt the

A regional approach to food security can help identify common priority areas for food security interventions.

above-mentioned 10 point priority agenda for food security, or a modified form of the agenda, at the 18th SAARC Summit. In doing so, they should prioritize particular aspects of the agenda.

- Members should invest in connectivity for food security logistics and agree to assign priority to infrastructure that will increase agriculture productivity and at the same time promote sharing of energy and water. Connectivity linkages and investments should focus on food waste reduction and transportation linking food production systems.
- Members need to increase investment in the agriculture sector, and revisit negotiations on removing food items from SAFTA sensitive lists. Importantly, members should avoid using negotiations on sensitive lists in trade-offs with other unrelated diplomacy triangulation.
- Members should form appropriate committees to recommend, by the 19th SAARC Summit, a common standard for food security classification following the IPC, and standards for food safety regulations, and management of veterinary diseases.
- Members should call for a special meeting of food, agriculture and finance ministers to operationalize the SAARC Food Bank and other such initiatives to address the shortages and supply mismatches in food products availability across South Asia.
- Members should strengthen the SAARC Agriculture Centre. The Centre should have more expertise and a higher leadership role in food security investments

and responsibility for managing technology transfer. The Centre should also provide key resources to policy makers regarding climate change adaptation strategies for agriculture and food security.

- Members should strengthen partnerships with international and regional organizations working on food security issues, such as the UNESCAP, Food and Agriculture Organization of the United Nations, Asian Development Bank and World Bank, among others.
- Members should set hunger reduction and eradication targets based on the existing SAARC Development Goals and recent draft proposals of the Open Working Group on Sustainable Development Goals. Members should also mainstream food security and hunger eradication priorities across all ministries. ■

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Notes

- ¹ According to the Global Hunger Index 2013, 20.7 percent of South Asia's population is living in hunger (www.ifpri.org/publication/2013-global-hunger-index). Meanwhile, a FAO report states that 16.8 percent of South Asia's population is living in hunger (www.fao.org/publications/sofi/2013/en/).
- ² It has been estimated that up to 40 percent of the total food production in South Asia is lost before consumption.
- ³ UNESCAP. 2014. “South Asia Policy Dialogue on Regional Cooperation for Food Security.” sswa.unescap.org/meeting/2013/south_asia_policy_dialogue_on_regional_cooperation_for_food_security.html. Accessed 3 September 2014.
- ⁴ Mahfuz, Ahmed, and Suphachol Suphachalasai. 2014. “Assessing the Costs of Climate Change and Adaptation in South Asia.” Manila: Asian Development Bank.
- ⁵ <http://www.ipcinfo.org/>

South Asia and climate change

A way forward

SAARC countries have failed to effectively implement the commitments made in the Dhaka Declaration and the Thimphu Statement on Climate Change.

Md. Golam Rabbani and Mohiuddin Ahmed Shuvo

South Asia's high vulnerability to climate change has been reinforced by its recent experiences of the catastrophic impacts in the form of cyclone, flood, temperature and rainfall variation, drought, salinity intrusion in water and soil, water logging, and sea level rise, among others. Such climate-induced events are threatening to push millions of people in South Asia back into poverty.¹ In addition, loss of biodiversity is expected to worsen due to extremely large-scale disasters like the 2013 flooding in India, and 2007 and 2009 cyclones in Bangladesh.²

Moreover, climate change is predicted to intensify water crisis in the region and consequently affect crop yields and overall agriculture production. Since a stable regional economy and livelihoods of a vast majority of South Asian population is highly dependent on the availability of water and growth of the agriculture sector,³ there is an urgent need to undertake measures to adapt to and mitigate the impacts of climate change.

Aware of the real threat of climate change, member countries of the

South Asian Association for Regional Cooperation (SAARC) have taken several initiatives to combat its adverse impacts. But unfortunately, they have not been effective. Although some mitigation and adaptation strategies are being employed to combat climate change in South Asian countries, residual negative impacts are and will be evident to some extent.⁴

Regional policy and strategy on climate change

In November 1987, SAARC commissioned a study titled "Protection and Preservation of the Environment and Causes and Consequences of Natural Disasters" to reduce human sufferings from natural disasters like floods, droughts, cyclones, landslides, etc. The research aimed at strengthening regional disaster management schemes and focused on the strategies to monitor the progress made in the implementation of the recommendations made. Since then, SAARC has taken several measures—most notably the Dhaka Declaration on Climate Change (2008) and the Thimphu Statement on Climate Change (2010)—directed to-

wards its commitment to preserve and protect the environment, and reduce climate change impacts.⁵

Dhaka Declaration (2008)

The Dhaka Declaration was adopted on 3 July 2008 to combat climate change issues at national, regional and global levels.⁶ The primary objective of the Dhaka Declaration was to build regional capacity to reduce climate change impacts in South Asia. To this end, the Declaration required member countries' capacity building through the development of Clean Development Mechanism projects, exchange of information on disaster preparedness and management procedures both at national and regional levels, exchange of meteorological data, extensive monitoring and evaluation of climate change impacts, intensive international negotiations on climate change issues, and media support when required.

Thimphu Statement (2010)

At the 16th SAARC Summit held in Thimphu on 28–29 April 2010, the Heads of State or Government of

SAARC member countries adopted a historic document titled “Thimphu Statement on Climate Change”. They agreed to undertake a set of 16 different activities to promote resilience towards climate change. Some of the key commitments under the Thimphu Statement are as follows:⁷

- Establish an Inter-governmental Expert Group on Climate Change to develop clear policy direction and guidance for regional cooperation, as envisaged in the SAARC Plan of Action on Climate Change.
- Commission a study on “Climate Risks in the Region: Ways to Comprehensively Address the Related Social, Economic and Environmental Challenges”.
- Employ advocacy and awareness programmes on climate change, while promoting green technology, and encouraging low-carbon, sustainable and inclusive development of the region.
- Conduct a study on the feasibility of establishing a SAARC mechanism, ultimately providing funding for projects that promote low-carbon and renewable energy. Furthermore, commission a low-

NGOs and the private sector also have important roles to play in addressing climate change issues in South Asia.

carbon Research and Development Institute at the South Asian University.

- Develop national plans, and where appropriate regional projects, on protecting and safeguarding the archeological and historical infrastructure of South Asia from the adverse effects of climate change. Building resilience towards climate change, building capacity and stimulating transparent negotiations between SAARC member countries have been part of the regional agenda, as is evident from the commitments made under the Dhaka Declaration and the Thimphu Statement. However, progress towards the fulfillment of the commitments made has been disappointing. According to an assessment conducted by Climate Action Network South Asia (CANSAs) to sur-

vey practical and sustainable solutions proposed by the Thimphu Statement, the commitments made under the Thimphu Statement fail to address the need for monitoring and evaluation of projects that are to be undertaken as per the Thimphu Statement.⁸ It was also evident that project-based approach for policy implementation was rather ineffective, likely due to the lack of financial capital and ineffective leadership.

SAARC and climate change

South Asian countries together emit only 6.7 percent of the total global carbon-dioxide emissions.⁹ Therefore, they view climate change as an external threat, largely caused by developed countries, which together are the largest contributors to global carbon di-oxide emissions. Thus, SAARC countries have always demanded support from developed countries, mainly for climate adaptation. While this is a rightful demand, SAARC should also develop a clear line of action to address climate issues in South Asia.

Among the SAARC member countries, India is the single largest emitter of greenhouse gases. Of the



Table 1
Sector-specific implementation mechanisms

Sector	Implementation mechanism
Energy	<ul style="list-style-type: none"> • Detailed mapping of potential energy resources, knowledge, information and areas of regional expertise. • Dedicated focus on clean development and green technologies to ensure an environment-friendly society. • Promotion of joint development of technologies.
Agriculture	<ul style="list-style-type: none"> • Ensuring participation of stakeholders, mainly vulnerable communities, in implementation. • Operationalizing the SAARC Food Bank. • Establishing an institutional framework for capacity building. • Ensuring that agriculture is not linked to carbon market trading systems.
Disaster Management	<ul style="list-style-type: none"> • Ensuring regional and cross-territorial cooperation in terms of sharing of knowledge and research that will potentially reduce impacts of future climate change implications. • Commissioning the launch of an integrated strategy towards climate change adaptation, disaster management and disaster risk reduction.
Knowledge Management	<ul style="list-style-type: none"> • Disseminating information related to climate change issues to raise awareness. • Strengthening institutions conducting climate change research. • Developing a "Climate Change Knowledge Exchange and Communication Hub" to help parliamentary bodies promote climate resilient development programmes. • Introducing most recent research on climate change in educational curricula.

Source: Hasemann et al. (2014). Note 2.

6.7 percent share that South Asia has in global carbon di-oxide emissions, India's share alone is 4.6 percent. India is now making huge investments in improving energy efficiency, rather than strategizing alternatives to limit greenhouse gas emissions. This is not a wise alternative because residual impacts will tend to increase with this approach.¹⁰

Way forward

Commitments made by SAARC countries to address climate change challenges should be appreciated. Their commitments show that they are well aware of the challenges posed by climate change to the region. They have also put in separate efforts at national

levels to adapt to, and to some extent mitigate, the adverse effects of climate change. However, combined regional efforts as per the commitments made have not been enough. Therefore, the following could be some way forward for SAARC to address climate change impacts in the region through regional collaboration.

Development of implementation mechanism

Non-implementation of the commitments that SAARC countries have made time and again to address various regional challenges, including climate change, is a major issue in South Asia. Therefore, there is a need to develop effective implementation

mechanisms for SAARC to address common regional challenges collectively. An Asian Development Bank report suggests that established operative strategies to transform policies and programmes into implementation will help reduce trust deficit between member countries.¹¹ The CANSA assessment report also indicates that sector-specific implementation schemes for combating climate change are fruitful pathways to combat distress (Table 1).

Monitoring and Evaluation

There is a strong need to improve the effectiveness of the monitoring and evaluation works of the SAARC implementation mechanism. Thus, close monitoring and evaluation of climate change mitigation and adaptation efforts is critical for the successful implementation of all employed strategies. An assessment of how SAARC could benefit if an established monitoring and evaluation mechanism was employed to evaluate the implementation mechanisms is provided in Table 2 (next page).

Involvement of NGOs and the private sector

Non-government organizations (NGOs) and private sector organizations have a significant role to play if South Asian countries are to meet the targets on climate change set forth by SAARC. Active private sector involvement and improved governance can immensely decrease climate vulnerabilities of the people in the region.¹²

There is a need to educate people about the effects of climate change, and the need to undertake adaptation and mitigation measures. It is also necessary to stimulate interest among the private sector in climate proof projects and encourage them to increase investments in such projects. Affiliated SAARC organizations should establish linkages with regional research-based organizations to exchange and disseminate information available from the government and non-government organizations. Most importantly, research conducted by NGOs should be

Table 2
Benefits of a monitoring and evaluation mechanism

Monitoring and evaluation	Benefits
Monitoring the goals	<ul style="list-style-type: none"> Identifying gaps between targets and outcomes. Understanding the aspects responsible for observed development trends.
Monitoring the implementation strategies	<ul style="list-style-type: none"> Tracking of key inputs, namely, activities, processes, budgets, outputs and outcomes across different sectors (Table 1). This is imperative to understand whether SAARC's employed policies work in practice and whether or not the policies are likely to meet the targets. Identifying the right strategies—which work and which do not.
Evaluation of impacts	<ul style="list-style-type: none"> Tracking of final indicators. Evaluating whether sectoral policy or implementation mechanism would help in achieving the targets and goals.
Evaluation through generation of reports	<ul style="list-style-type: none"> Cost-effective way to analyse whether implementation strategies have been strengthened. Opportunities to further develop implementation strategy. Informing future policies in areas related to climate change.

Source: Developed from SAARC (2007), Note 5; and DECC. 2010. "DECC Evaluation Guide." Department of Energy and Climate Change, United Kingdom.

forwarded to the SAARC Secretariat for consideration before any future planning, implementation, and monitoring and evaluation is carried out.

In a nutshell, SAARC should provide greater scope for NGOs and the private sector to play effective roles in policy development and implementation. Greater coordination between the government, NGOs and the private sector will ultimately enhance the effectiveness of national and regional policies, and climate change adaptation and mitigation measures, consequently enabling SAARC members to efficiently achieve regional climate change related targets.

Establishment of SAARC Climate Fund

Considering the gravity of the problem unleashed by climate change in South Asia, there is a need to establish a fund devoted specifically to climate change related issues. In this regard, South Asian countries should identify innovative sources of funding to create a South Asian Climate Fund to support the implementation of regional climate change action plans.

Common position on climate change

Governed by the principle of equality and common but differentiated responsibilities, South Asian countries should take a common position on climate change in global climate discourse. The SAARC Secretariat should facilitate the process, and involve relevant SAARC affiliated organizations, NGOs and the private sector in such negotiations.

Conclusion

While SAARC leaders have committed time and again to address climate change issues facing the region through regional cooperation, they remain mere rhetoric. With the realization that effective implementation of commitments made is not possible in the absence of political commitment, focus should now be on the development of mechanisms for coordination between relevant sector agencies in all countries, and management of common resources to implement thematic programmes. Although SAARC has failed to act as a strong regional force thus far, there are prospects for it to

develop into a robust force for the future, including on climate change issues. ■

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Plant Variety Protection India's experience in the post-TRIPS world

Yogesh Pai

Plant innovation plays a quintessential role in promoting sustainable agriculture.¹ Plant breeding has been in practice since the dawn of agriculture societies.² This has endowed the human society with a diverse genetic pool and new plant varieties and seeds for agriculture and non-agriculture purposes. With new advances in plant

biotechnology, technological innovation in plant variety is also considered essential for climate change adaptation, among others.³ Agriculture biotechnology has pushed the frontiers of research, and new genetically modified crops are now available, subject to regulations pertaining to its commercial exploitation.⁴

Largely being an agrarian economy, India has, and continues to be, involved in plant innovation, mainly through active collaboration between academia, farmers and the industry.⁵ Private investment and the transfer of relevant technology and knowledge associated with plant innovation is also increasing.⁶ Since technology



and technical knowledge underlying such innovations are susceptible to duplication, it is generally argued that some form of intellectual property (IP) protection must be offered to plant breeders.⁷ But at the same time, the classification of knowledge as a public good presents greater questions on the possibility of monopolistic pricing and access-related issues.⁸

Historically, and even more recently, IP protection for plant innovation has generated phenomenal interest on the availability of and access to monopolistically priced plants and seeds.⁹ Some commentators opine that laws on IP protection must not be rigid in providing rights to breeders, but should also consider farmers' rights to avoid under-utilization of plant genetic resources, lest it would lead to "tragedy of anti-commons".¹⁰ Although such protection in India is available primarily through a *sui generis* Protection of Plant Variety and Farmers' Rights Act (PPVFRA) 2001,¹¹ concurrent protection may be available to a limited extent by way of patents and the common law protection for trade secrets.¹² Additionally, the Trademark Law allows differentiation of brands and hence contributes to the outer-layer of protection available to plant innovation.

The existing legal and policy basis for plant variety protection in India has been an outcome of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO). Much has been written about the nature of the TRIPS mandate under Article 27.3(b) and the implications of providing a new set of rights to plant varieties.¹³ India decided to opt for a *sui generis* system for protecting plant varieties, and has excluded protection of "plants 'in whole or part thereof'" and "varieties" of plants and "seeds", in line with its Patent Act (1970).¹⁴ However, as will be discussed below, such overlaps between the Patent Act and PPVFRA are not free from conceptual ambiguities.

Another exclusion for plant varieties in the Patent Act pertains to exclu-

Indian government's efforts to balance farmers' and breeders' rights are against UPOV rules.

sion of inventions based on traditional knowledge.¹⁵ Such efforts of the Indian government to balance protection of breeders' rights while protecting certain rights of farmers comes against the rules set by the International Union for the Protection of New Varieties of Plants (UPOV), which are not mandatory, and the TRIPS Agreement, which has offered some flexibilities.¹⁶

Working of the PPVFRA

The PPVFRA is considered to be one of the most noteworthy legislation with regard to providing rights to farmers and breeders alike. As stated in the preamble of the Act and its objectives, the legislation serves to "recognize and protect the rights of the farmers in respect of their contribution made at any time in conserving, improving and making available plant genetic resources for the development of new plant varieties". It also aims to "protect plant breeders' rights to stimulate investment for research and development, both in the public and private sector, for the development of new plant varieties". Protection provided by the legislation to farmers and plant breeders is expected to "facilitate the growth of the seed industry in the country which will ensure the availability of high quality seeds and planting material to the farmers".

After the enactment of the PPVFRA, the Government of India formulated the Protection of Plant Varieties and Farmers' Rights Rules (2003) and the Protection of Plant Varieties and Farmers Rights Regulations (2006). The Act, along with the rules and regulations, substantially and extensively provides protection for plant varieties.

Section 2(za) of the Act broadly defines variety as "a plant group-

ing except micro organism within a single botanical taxon of the lowest known rank, which can be: i) defined by the expression of the characteristics resulting from a given genotype of the plant grouping; ii) distinguished from any other plant grouping by expression of at least one of the said characteristics; and iii) considered as a unit with regard to its suitability for being propagated, which remains unchanged after such propagation, and includes propagating material of such variety, extant variety, transgenic variety, farmers' variety and essentially derived variety."

Thus it protects not only new varieties, but also four other varieties as mentioned. However, any new variety (excluding farmers' and extant varieties) is registered under the Act only if it conforms to the criteria of novelty, and distinctiveness, uniformity and stability (DUS). The intent to protect extant variety and farmers' variety is specifically owing to protection of existing varieties, and hence such varieties need not meet the criteria of novelty. On the other hand, essentially derived variety is with respect of initial variety, and may not require fulfilling the DUS criteria, but will be approved on a case-by-case basis. All these criteria have been discussed widely in literature owing to its general origins in the UPOV Agreement.¹⁷ However, it is important to note that the PVP regime is still evolving with respect to the application of DUS.

The PPVFRA is considered an important legislation in view of the protection it has provided to farmers' rights. Section 39(1)(iv) of the Act is an important and unique provision in relation to farmers' rights that pertain to saving of seeds. In the words of a commentator, "Permitting farmers to save and re-sow seeds, rather than mandating the repurchase of seeds from the market in each season is very important in the Indian context: the large percentage of farmers who are small, marginal or subsistence farmers cannot afford to buy proprietary seeds (and the associated inputs such as fertilizers and pesticides) from

the market each season. Further, the public and the private seed sector together currently do not fulfill the seed requirement of the Indian farmers and the farming community is itself India's largest seed producer. In the course of saving seeds, farmers have also traditionally engaged in selective re-sowing of seeds derived from that part of the harvest that has desirable traits such as pest resistance, large size etc.¹⁸ Unlike the UPOV 1991 model, this provision is generally based on the UPOV 1978 model, which allowed the saving, exchanging and reusing of seeds.¹⁹ Most importantly, Section 29 of the PPVFRA has provisions which prohibit the registration of Genetic Use Restrictive Technologies (GURTS) or terminator technologies.

In 2012/13, the Plant Variety Authority of India received a total of 785 applications, representing 30 crops, for plant variety protection under the Act. Of the total applications, 176 were for new varieties, 243 for extant varieties, 359 for farmers' varieties and seven for essentially derived varieties (EDV).²⁰ Moreover, 128 applications were received from the public sector, 297 from private firms and 360 from farmers.²¹ Interestingly, "rice breeding" is popular among farmers and applications in this category reached 368 in 2012/13.²²

Patent vs Plant Variety Protection

A cursory reading of Article 27.3(b) of the TRIPS Agreement clearly allows WTO member countries to exclude patenting plants and animal varieties, owing to the contentious nature of patenting life forms, which dominated the debate during the Uruguay Round. However, microorganisms must be protected under Article 27.3(b). This creates some amount of ambiguity regarding the overlapping nature of protection, especially where transgenic crops are involved. Furthermore, if such exclusions in a member country's laws are not based on Article 27.2 or 27.3, Article 27.1 mandates "any invention" to be protected through patents, provided they are "new", involve an "inventive step" and are "capable

Box

Maharashtra Hybrid Seed Co. Vs. UOI and Ors Case.²⁸

In a case brought forward by the Maharashtra Hybrid Seed Co. Ltd. and a number of other seed companies before the Plant Varieties Registry in New Delhi regarding whether parental lines should be considered as new variety or extant variety about which there is common knowledge, more particularly when such parental lines have been utilized for development of hybrid and such hybrid has been applied under extant variety, the Registrar conducted a public hearing. The question owed merit not due to the difference in the term of protection as the period of registration is the same for both the categories; but due to the difference in registration criteria that may be advantageous to applicants at the time of registration.²⁹ An extant variety is exempt from the criteria of novelty for such parental lines have secured protection traditionally by way of trade secrets; however, with the PPVFRA in place, firms seek registration for enhanced protection.³⁰ The Registrar, in a reasoned decision, interpreted the term "otherwise disposed off" to offer an expanded meaning of the scope of the pertinent provision beyond mere transaction of "sale" so as to include the utilization of seeds that involve parental lines for making other seeds. This decision is important for the reason that it tends to clarify the requirements in the Act concerning the nature of requirements for those varieties which include parental lines and their criteria for protection.

An expert commentator on this subject has noted that "if one does not accept this unsubstantiated view of the Registrar, we might be in an uncomfortable situation where parental lines of extant hybrids can neither be categorized as new, nor as extant, unless the company in question has not taken adequate steps to protect the secrecy of its parental lines—in which case, they can arguably be considered being in the public domain."

of industrial application". However, it is not clear whether disallowing patent protection for inventions, which may not in themselves be plant varieties but related to plant innovation, would violate the TRIPS Agreement because, in several jurisdictions, there are provisions for the protection of gene patents, mainly expression sequence tag (EST) of plants and animals.²³

The Indian Patent Act (1970) clearly excludes, inter alia, plants and parts thereof from patents under Section 3(j). However, it is not clear whether the term "thereof" includes ESTs of plants having new genetic traits, which may otherwise qualify under the patentability criteria. Considering the developments in the global debate on patent protection of genes, the lack of clarity about the definition of "in-

vention" under the Patent Act Section 3(j) is bound to be mooted.

A decision made in 2013 by the Supreme Court of the United States (US) in "Association for Molecular Pathology vs. Myriad Genetics, 569 US 12-398 (2013)" case unsettled an important paradigm in patent law wherein the court disallowed patenting of human genes in their isolated form. The court held that "A naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated, but complementary DNA (cDNA) is patent eligible because it is not naturally occurring." This is a significant decision which can have tremendous implications on the availability of plant patents or related inventions, not only in the US, but also in other parts of the world.

In the Indian context, the decision to be taken to clarify Section 3(j) of the Patent Act will prove to be pivotal in defining the direction of patent protection of genes. But importantly, it should be noted that the US provides utility patent protection²⁴ to plant-related inventions along with the *sui generis* Plant Variety Protection Act of 1970.²⁵ This distinction may hold significant bearing for any outcome under the Indian law, since the Biotechnology Guidelines released by the Indian patent office in 2013 does not offer any guidance.

The Indian Biotechnology Guidelines note that “fragments/ESTs are allowable, if they, in addition to other conditions, satisfy the question of usefulness and industrial application. An EST, whose use is disclosed simply as a “gene probe” or “chromosome marker” would not be considered to have an industrial application. A credible, specific and substantial use of the EST should be disclosed, for example use as a probe to diagnose a specific disease.”²⁶

Because it is possible, in cases of ESTs related to plant varieties, to show that new traits lead to specific functional utility, it is questionable whether the Indian law can exclude ESTs, specifically those related to plants, from Section 3(c) or 3(j) of the patent law.²⁷ Moreover, it remains to be seen whether patent applications on genes concerning plants will be disqualified based on the understanding of “plants... or parts thereof” or will qualify as some composition of matter under “microorganisms”.

Conclusion

India is not yet a member of UPOV 1991; therefore, it can sufficiently manoeuvre its PVP law to create bright line exceptions to protect farmers' rights. Accordingly, complying with Article 27.3 of the TRIPS Agreement, India has devised an “effective” *sui generis* system that balances both breeders' rights and farmers' rights. However, considering that India's patent law does not encompass such an exception, it is possible to use the pat-

In India, it is possible to use the patent law in a limited context to subvert the scope of the PPVFRA.

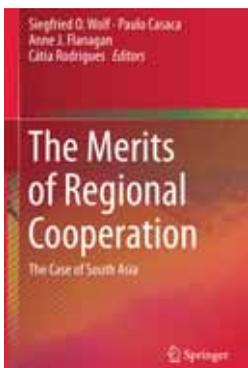
ent law in a limited context to subvert the scope of the PPVFRA by seeking protection on plant genes that are responsible for specific traits. Nonetheless, there has been an increase in applications made to the PPVFRA. But the authorities' decisions under the Act by toeing a balanced line have also produced a lot of certainty for breeders. The effectiveness of the PPVFRA is yet to be tested. ■

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The Merits of Regional Cooperation

Title: The Merits of Regional Cooperation: The Case of South Asia

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Nisha Taneja

The book, *The Merits of Regional Cooperation: The Case of South Asia*, edited by S.O. Wolf, P. Casaca, A.J. Flanagan, and C. Rodrigues, covers a wide range of issues in international relations, strategic affairs, environment, politics and economic issues related to regional integration and cooperation in South Asia. The book puts forward positive ramifications of an integrated South Asia for Europe. Overall, the book is a commendable attempt for it pulls together the European and South Asian perspectives on South Asian integration.

Part I of the book examines issues such as terrorism, governance and educational policies. Although the chapter on terrorism does not dwell at length the South Asian context, it provides important pointers as to how South Asia can take a regional approach on terrorism. Notably, it suggests that pooling civil society energies in South Asian countries to develop counter-narratives will have a greater impact in combating terrorism. On cultural unity, the book suggests that deploying multi-cultural educational frameworks in South Asian countries will go a long way in strengthening regional cooperation.

In Part II, economic cooperation aspects of India–European Union (EU) trade negotiations have been dealt with in a balanced manner, highlighting the sticky issues concerning both countries, mainly those related to high tariff sectors. The book also focuses on the trade and investment nexus between India and the EU, but is largely silent on integration between the EU and South Asian Association

for Regional Cooperation (SAARC).

Despite the discussion on the causes of low trade and poor regional integration among SAARC countries, the book fails to provide a way forward to achieve greater regional integration in South Asia. Also, it does not take into account the possible impact of the changed economic relation between India and Pakistan—a development that could lead to a paradigm shift in South Asia and facilitate greater intra-regional integration, and the region's integration with the EU. Two important lessons that the book suggests that SAARC can learn from the EU in terms of greater economic and monetary integration are the establishment of the European Central Bank and the creation of the Euro as the official currency.

Part III of the book discusses how South Asia can use its resources—mainly energy, information technology (IT) and those related to food production—more efficiently. In South Asia, food production has been keeping pace with population growth and yet the region is among the most food insecure regions in the world. The problem lies in food distribution rather than food production, thus calling for improved food distribution mechanisms and networks.

Regarding energy, considering energy deficiency in all countries of the region, and the growing concern for global warming, the book touches upon the energy policy goals of maintaining security/energy independence, protecting health and transforming energy systems to combat global warming. Accordingly, the book suggests

collaboration between South Asia and the EU through joint research, joint policy solutions and joint trans-sector training programmes.

On IT, the book argues that low income countries face the threat of a new international IT regime as it enforces additional regulations that raise costs. New telecommunication regimes also hamper chances of people to overcome disadvantages arising from gender, income and location via the internet.

The book concludes with an overview of the political relationship between the EU and all South Asian countries. Importantly, differences in terms of “strategic thinking” and overlapping interests such as the need to act as security providers in the Indian Ocean region between the EU and India are mapped. Reflecting on “state-building”, interesting contrast between the United States’ approach, i.e., trading democratization for cooperation on terrorism, and the EU approach of focusing on developing stable state institutions is revealed. This indicates the possibility of alternative regional approaches to state-building, combating terrorism, conflict management and ensuring the safety of global commons.

Often, books on regionalism tend to be segmented as they either deal with economic dimensions of regional cooperation or with security aspects. This book breaks free from the endemic, and is thus an interesting read and valuable addition to the existing literature on regional cooperation. ■

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SAARC Development Fund

Asish Subedi

The SAARC Development Fund (SDF) is the “umbrella financial mechanism” for all projects and programmes of the South Asian Association for Regional Cooperation (SAARC). It finances projects and programmes aimed at improving the quality of life of people in SAARC countries through sustainable economic growth, social progress and poverty reduction. The SDF primarily finances social sector projects related to diverse issues such as women empowerment, health care, and violence against women and children in South Asian countries.

Genesis

The SDF is a successor to the South Asian Development Fund (SADF), which was established in 1996 by merging the SAARC Fund for Regional Projects (SFRP) and the SAARC Regional Fund (SRF). The basic objective of the SADF was to finance projects aimed at industrial development, poverty alleviation, environment protection and balance of payments support in South Asia.

During 2002–2005, SAARC member states considered instituting various sectoral funding mechanisms such as the Poverty Alleviation Fund, Infrastructure Fund, South Asian Development Bank, Media Development Fund and the Voluntary Fund for the differently-abled persons. However, under the existing funding mechanism, the SADF was felt to be inadequate in terms of required quantum of funds and the scope of its work. Therefore, it was reconstituted into the SDF primarily to look at the entire gamut of issues related to funding of SAARC projects and programmes, and

also to avoid proliferation of funds within the SAARC process.

At the 13th SAARC Summit held in Dhaka on 12–13 November 2005, the decision to establish the SDF was endorsed by all member states. However, the SDF Secretariat was inaugurated only in April 2010 at the 16th SAARC Summit in Thimphu after the Charter of the SDF was ratified by Parliaments of all SAARC member states.

Objectives

As per the Charter of the SDF, primary objectives of the SDF are:

- to promote welfare of the people in the SAARC region;
- to improve their quality of life;
- to accelerate economic growth, social progress and poverty alleviation in the SAARC region;
- to serve as the umbrella financial institution for SAARC projects and programmes that meet the objectives of the SAARC Charter; and
- to contribute to regional cooperation and integration through project collaborations.

Institutional mechanism and operational modality

The Governing Council (GC), comprising of SAARC Ministers of Finance, is the apex management body of the SDF, under which the Board of Directors (BoD) comprising of members nominated by each member state, functions. The BoD meets at least twice a year and submits the Fund’s annual report to the GC for guidance and approval. The Chief Executive Officer (CEO) of the SDF is appointed by the GC and acts as the legal representative of the Fund.

The key feature of the SDF is its project-based support. It has been mandated to identify, study prospects and finance projects falling under any of its three financing windows (Box, next page). It basically provides financial grants and technical assistance to projects of strategic importance to SAARC. Specifically, the SDF only funds projects that involve more than two SAARC member states and/or are based in one or more SAARC countries. It also funds projects that are of significant economic interest to at least three SAARC countries. In all, only projects that are strongly focused on a SAARC country and have thematic linkages with more than two SAARC member states as part of a sub-regional project get support from the SDF.

Projects

As of 30 November 2014, there are nine different running projects, while two more are in the course of implementation. The projects that SDF has funded so far are designed to meet the socio-economic needs of SAARC member states, and are in line with the SAARC Social Charter, SAARC Development Goals, SAARC Plan of Action on Poverty Alleviation, and other plans, programmes and instruments agreed and endorsed by SAARC. The project portfolio of the SDF ranges from strengthening the livelihood of home-based workers, addressing the needs of small farmers, expansion of rural connectivity, e-governance, reducing infant mortality and ending violence against children.

Problems

The SDF was established against the backdrop of the need for a sound,

predictable and adequate funding mechanism for diverse and long-term SAARC projects. Regrettably, the multi-million dollar funding mechanism is experiencing the fate of SAAARC, which has thus far failed to prove itself as an effective organization built to ensure socio-economic development across South Asia.

It took five long years since the decision to establish the SDF was endorsed at the 13th SAARC Summit in 2005 for the SDF to get institutionalized. Since its formal inauguration, the SDF has been implementing one project each year and started two in 2013. Spending by the fund has been dismal, and its performance has been labelled as sub-optimal partly due to its vague mandate to look after diverse sectors falling under the purview of its different windows.

The SDF's economic and infrastructure windows continue to lay dormant since it has repeatedly failed to activate the two windows due to its

inability to identify relevant projects. While on the one hand the SDF has not been able to efficiently spend its budget, on the other its monetary reserve is insufficient to finance infrastructure projects that demand huge investments and which are likely to be implemented under the purview of economic and infrastructure windows. Nonetheless, the SDF could have activated the economic and infrastructure windows by funding small- to middle-range projects, and could have later partnered with the private sector and donors—both bilateral and multilateral—to raise its capital base to finance larger projects.

The overarching problem that has crippled the SDF since its genesis has been its inability to chart a sound strategy to strengthen its operational capabilities in terms of project selection, project funding mechanism and project implementation. In particular, working under the stipulation of the Charter has largely limited SDF's

effectiveness since it can only fund projects that are implemented in at least three SAARC countries. Thus, the SDF should be provided more flexibility to fund projects which may cover less than three member countries. Similarly, project funding should not be limited to public institutions, but should be open to entities that can prove commercial viability of their proposals. Additionally, despite the provision to levy interests on borrowings by member countries, the SDF is yet to work out the interest rates. It is, therefore, imperative that the SDF Secretariat take radical steps to improve the efficiency of its funding mechanism, develop a comprehensive project monitoring and evaluation framework, and more importantly, conduct an assessment of its financial and human resources.

SAARC Development Bank

In 1998, a report titled "SAARC Vision Beyond the Year 2000" of the SAARC Group of Eminent Persons (GEP) had highlighted the need for a regional development bank in South Asia. Considering the ineffectiveness of the SDF, the 8th meeting of South Asian Free Trade Area (SAFTA) Ministerial Council held in Thimphu in July 2014 agreed to establish a regional development bank in South Asia. The recommendation to establish a regional bank primarily to finance commercially viable infrastructure projects and trade-creating joint venture projects is now taking shape in the form of SAARC Development Bank (SDB).

It is, however, not known whether the SDF would be transformed into the SDB. What is known is that the infrastructure window of the SDF will be taken over by the SDB. The SDB, with a clear mandate of building infrastructure to support trade, might be more effective in discharging its duties than the SDF, which never utilized the infrastructure window in its near decade long existence. ■

The author is Programme Officer, SAW-TEE. Information on the SDF, operational modality, projects, funding, etc. is based on www.sdfsec.org.

Box

SDF's financing windows

Social window

The social window primarily funds projects, *inter alia*, on poverty alleviation and social development with major focus on education, health and human resource development. Additionally, it supports projects which aim to bring about positive changes in the lives of vulnerable/disadvantaged people. Micro-enterprises and rural infrastructure development projects are also supported through this window.

Economic window

The economic window primarily funds non-infrastructure projects related to trade and industrial development, agriculture, service sector, science and technology, and other non-infrastructure areas. It can also be used to fund activities such as identifying, studying, developing and/or sponsoring commercially viable programmes/projects of regional priority, including their pre-feasibility and feasibility studies. Moreover, any project not covered explicitly by the other two windows can be supported through this window.

Infrastructure window

The infrastructure window primarily funds projects in areas such as energy, power, transportation, telecommunications, environment, tourism and others.

Stakeholder dialogue in view of the 18th SAARC Summit

OXFAM, in collaboration with SAWTEE and other like-minded organizations, organized a “South Asia Regional Policy Forum on Disasters, Climate Change, and Agriculture and Food Security” on 9–10 November in Kathmandu. Emphasizing the vulnerability of South Asia to climate change, natural disasters and food insecurity, participants lamented the slow pace of implementation of the commitments that SAARC leaders have made on these issues in the past, and urged South Asian governments to seriously implement their commitments. In addition, they provided some concrete suggestions regarding mechanisms on responding to disasters, operationalizing the SAARC Food Bank and SAARC Seed Bank, and addressing



climate change, among others. Earlier, Oxfam country offices in select South Asian countries, in collaboration with various partner organizations, had organized national level consultations on the same theme.

SAWTEE partnered with Oxfam in Nepal to organize the national consultation in Kathmandu on 16 October. Deliberations of the national consultations provided a good basis for the regional consultation. ■

Trade, Transport and Transit Facilitation in South Asia

CUTS International and the Federation of Indian Chambers of Commerce & Industry, in collaboration with SAWTEE and the Asia Foundation, organized a conference titled “Trade, Transport and Transit Facilitation in South Asia: Imperatives of Bridging Macro-Meso-Micro Gaps” on 29–30 October in



Kolkata. It focused on issues related to trade, transport and transit facilitation in South Asia, and discussed ways and means on how to address the challenges and avail opportunities thereof.

While the need to expedite the on-going discussions on regional

integration of South Asia was emphasized by participants, the importance of developing trade corridors was further stressed upon. The participants highlighted the significance of India’s northeast region with regard to greater connectivity and trade facilitation

between India and its neighbours Myanmar and Bangladesh, and further with southeast Asia. They also emphasized the importance of the SAARC Multimodal Transport Agreement and how it could play a crucial role in trade, transport and transit facilitation in South Asia.

Over 130 stakeholders comprising of SAARC Secretariat officials, policy makers, private players, multilateral agencies, subject experts, business associations and chambers, academicians, civil society and media representatives from Bangladesh, Bhutan, India and Nepal participated in the conference. ■

Environmental management practices in the hotel sector

THE Institute of Policy Studies of Sri Lanka (IPS) organized a dissemination workshop on Environmental Management Practices in the Hotel Sector in Sri Lanka on 14 October in Colombo. The objectives of the workshop were to disseminate the findings of a study undertaken by IPS and discuss policy implications for improving environmental management in hotels in Sri Lanka. Also, it aimed to discuss the areas where future research should be focused in promoting sustainable tourism in Sri Lanka.

The participants of the workshop highlighted that given the notable expansion in the accommodation sector in Sri Lanka, it is high time that adequate attention is paid in promoting good environmental management practices among the hotels.

The workshop was attended by a number of eminent experts in the tourism sector in Sri Lanka. Key stakeholders and experts from environment, energy, water and waste sectors, and hoteliers also participated in the workshop. ■

Seventh South Asia Economic Summit



RESEARCH and Information System for Developing Countries (RIS), in association with prominent think-tanks of South Asia, including SAWTEE, organized the 7th South Asia Economic Summit (SAES) in New Delhi on 5–7 November. The theme of the Summit was “Towards South Asia Economic Union”. It was inaugurated by India’s Vice President Mr. M. Hamid Ansari.

Participants discussed the challenges and tasks that lie ahead for

South Asia to progress towards an economic union. Other issues discussed during the three-day event included regional cooperation on connectivity, investment, India-Pakistan cooperation, strengthening value chains, food security, post-2015 agenda, energy cooperation, among others. SAWTEE made a lead presentation on the food security theme. SAWTEE shall host the 8th SAES in Kathmandu next year. ■

Nepal’s revised Agro-biodiversity Policy approved

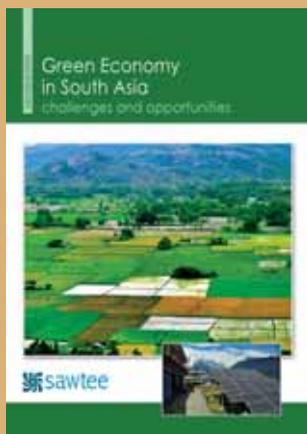
A revised version of the Agricultural Biodiversity Policy 2007 was approved by the Government of Nepal on 14 November. A major focus of the revised policy is to suggest policy options to implement the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA). Experts working in this area have opined that the revised policy paves the way to introduce a national legislation to implement the crucial provisions of the ITPGRFA, including Farmers’ Rights to plant genetic resources for food and agriculture, and traditional knowledge.

The Ministry of Agricultural Development had formed a task force comprising of representatives of key governmental and non-governmental organizations, including SAWTEE, to revise the policy. After rounds of meetings and discussions on the first draft at different levels, the revised policy was finally approved due to a collaborative effort of the Ministry and the Genetic Resources Policy Initiative-II Project. ■

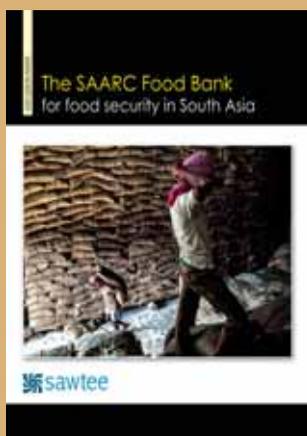
Seventeenth SDC

THE 17th Sustainable Development Conference (SDC) will be held in Islamabad during 9–11 December. Organized by the Sustainable Development Policy Institute (SDPI), the theme of this year’s conference is “Pathways to Sustainable Development”.

The Conference will build on the outcomes and policy recommendations of the 16th SDC held in 2013. Discussions will focus on issues related to climate change, economic growth, trade, etc. ■



Discussion Paper: Green Economy in South Asia : Challenges and opportunities
Authors: Arabinda Mishra, Shally Kedia and Madhumita Mishra
Publisher: SAWTEE



Discussion Paper: The SAARC Food Bank for food security in South Asia
Author: Krishna Prasad Pant
Publisher: SAWTEE



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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