Tackling the global crisis

THE “decoupling” hypothesis has proved wrong. The financial crisis that erupted in September 2008 in the US quickly spilled over to the real sector and transformed into an “economic crisis” of a global scale not seen since the 1930s. South Asia, which benefited from its impressive integration with the world economy over the last two decades, is being hit by external shocks stemming from the crisis. Its economies are slowing down. Exports, remittances and foreign capital flows are under strain and the resultant micro-level impacts are alarming. For example, as the UN reports, a significant number of workers, mostly female, in garment factories in Bangladesh and Sri Lanka, diamond cutters in India, and overseas migrant workers from the region are all bearing the brunt of the crisis and facing severe human development challenges. The social dimensions of the crisis are already evident in reduced household income, increased unemployment and underemployment, and adverse impacts on education, health, etc. All these are a recipe for social strife and, in particular, endanger progress towards the MDGs. So much so that the substantial progress made in income poverty reduction is being reversed. South Asia is paying for the sins committed by “others”.

Mitigating the impacts of the crisis calls for the extension and implementation of targeted social security programmes, for example, those relating to income and employment generation, and food security. Effective policy reforms and increased spending to shore up the economies are also critical. Substantial fiscal stimulus packages are required, but South Asian governments may not have the leverage for such stimulus spending. Monetary policy too has its limitations. Hence, there has to be a greater amount of external assistance and cooperation. Collectively, South Asian governments should seek assistance from SAARC observers—Australia, China, the EU, Japan, South Korea and the US. However, such assistance and cooperation need to be supported by productive use and management of aid, foreign direct investment and other resource flows such as remittance.

The external assistance and cooperation also need a special focus on how to strengthen and streamline the multilateral trade reform agenda and ensure better trade conditions for South Asian countries. The Doha Round of trade negotiations under the WTO has a major role to play in this regard. Increased market access, effective operationalization of the aid-for-trade initiative, and the liberalization of services trade under Mode 4 (temporary movement of natural persons) are essential. If the multilateral trading system fails to represent a global public good in substance, together with many other developing and least-developed countries, South Asia will continue to remain vulnerable to external shocks, including those generated by the global economic crisis.

Similarly, within the region, South Asian countries should address their supply-side constraints to trade. While lack of export diversification and capacity to export enhances the severity of external shocks, addressing supply-side constraints is crucial for export diversification and the mitigation of the impacts of future crises. They can promote South-South cooperation, and also intensify regional trade and economic integration, as they are still more integrated with the rest of the world than with each other. Deeper regional integration will help cushion the impacts of crises as well as promote their collective development interests. The inclusion of services and investment issues within the Agreement on South Asian Free Trade Area and bringing down existing trade barriers are essential.

However, all these efforts of South Asian countries will not achieve the desired goals if they are not complemented by substantial reforms in global economic governance architecture.
Is the WTO a global public good?

Can the multilateral trading system be considered a global public good when the WTO lacks legitimacy and is plagued with democratic deficit?

Realization of Farmers’ Rights

Does the new resolution on farmers’ rights hold any significance without global support for its implementation?
THE likelihood of a new global climate change deal by 2009 as envisioned by the Bali Roadmap is diminishing. Two weeks of talks in Bonn in June showed how far apart countries were on various issues. As per the Bali Roadmap, the 15th session of the Conference of the Parties to the the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen in December should yield a deal to replace the Kyoto Protocol, set to expire in 2012.

Although the 30-page draft negotiating text grew to 200 pages during the 12-day talks, there was no progress on how to share the burden of future emissions cuts. Developed countries have not offered emissions reduction commitments to the extent required to stabilize the atmospheric concentrations of greenhouse gases (GHGs). Many developing countries have demanded that rich countries take the lead by cutting their emissions by 25–40 percent by 2020 over 1990 levels.

The US, which had stayed out of the Kyoto Protocol, wants fast developing countries such as Brazil, China and India to also make emissions reduction commitments.

However, hopes that the US under Barack Obama’s leadership would offer significant reduction commitments are increasingly giving rise to doubts. A watered-down climate change bill was passed by the US House of Representatives on 26 June by a narrow 219-212 margin.

The bill, if approved by the Senate, would cut US emissions by 17 percent by 2020 over 2005 levels using a cap-and-trade system. This approach would translate into a reduction of only 4 percent compared to 1990 levels. Though the bill entails an 83 percent reduction by 2050, many developing countries counter that given the urgency of the crisis, the woefully inadequate short-term target divests the otherwise impressive long-term commitment of meaning.

Furthermore, the provisions in the US bill that allow the application of border measures to imports from countries that fail to take measures to reduce GHG emissions could further deepen divisions between the US and the developing world, and trigger disputes at the World Trade Organization.

Thus, a deal whose implementation will be effective in combating climate change can emerge only if developed countries and fast developing countries budge from their current stance (Adapted from Trade and Development Monitor, July 2009).
7th WTO Ministerial

FOLLOWING a four-year hiatus, the 7th World Trade Organization (WTO) Ministerial Conference is going to be held from 30 November to 2 December 2009 in Geneva, Switzerland.

Due mainly to the continued divergence on negotiating issues of the Doha Round of trade talks, unlike previous editions, this Ministerial is going to be just a “regular” one, not a “negotiating session”, according to WTO General Council Chairman Mario Matus. No Ministerial Declaration is expected in what Matus terms a “scaled-down, no-frills, low-key” meeting. The general theme for discussion is “The WTO, the Multilateral Trading System and the Current Global Economic Environment”.

Chairman Matus indicated that the Ministerial would be conducted based on the guiding principles of “FIT”—full participation, inclusiveness and transparency—and, adhering to these principles, it will be centered around plenary sessions in which all Ministers can participate equally. In the past, small-group discussions characterized such meetings. The last Ministerial of the multilateral trade body was held in 2005 in Hong Kong. WTO rules require “regular sessions” of the Ministerial Conference to be held at least once every two years (Adapted from www.wto.org, accessed 20.06.09).

Russia drops unilateral WTO bid

AFTER 16 years of trying to join the World Trade Organization (WTO) as an individual country, Russia on 9 June announced that it would seek membership as part of a customs union with Belarus and Kazakhstan, to be launched on 1 January 2010. The announcement came on the heels of high-level meetings where Russia generated strong political support for a quick WTO accession, with both the top trade officials of the European Union and the United States (US) reiterating their commitment to Russia’s entry to the WTO. Russia had completed mandatory bilateral negotiations with 60 countries. A number of trade and political issues stood in its way, including disagreements over state monopolies, Russia’s ban of US pork, and tense relations with neighbour and WTO member Georgia.

Russia, whose main exports are oil and gas, is the world’s only major economy that is still outside the WTO (Adapted from http://en.rian.ru, accessed 24.06.09; The Journal of Commerce, 24.06.09).

WTO approves import restrictions for Ecuador

IN a move hailed by developed and developing countries as proof that the World Trade Organization (WTO) can tackle the needs of developing countries in difficulties, the members of the WTO’s Balance-of-Payments Committee on 4 June agreed to allow Ecuador to continue to impose import restrictions while the country struggles to bring its finances under control.

The General Agreement on Tariffs and Trade, and the General Agreement on Trade in Services allow WTO members struggling with balance-of-payments difficulties to hike tariffs or impose import quotas and raise revenue to help them get through the crisis. This was the first time in 10 years that a member had sought such an exemption, although Bangladesh received one in 2007 in a follow-up to a previous request.

Ecuador introduced its import restrictions in January, raising tariffs and imposing import quotas on a wide range of goods to cut its ballooning trade deficit, forecast this year at an unsustainable US$3.97 billion, which Ecuador says must be cut to US$2.69 billion. Following the committee meeting, Ecuador agreed to replace the quotas with price-based measures by 1 September 2009, and promised to do away with all of its restrictive trade measures no later than 22 January 2010 (Adapted from Reuters, accessed 06.06.09).
**BRIC asserts its role**

The first-ever summit of the BRIC group—Brazil, Russia, India and China—held on 16 June in Yekaterinburg, Russia, discussed issues ranging from the current financial crisis to food and energy security, and public health.

While promising to strengthen cooperation, the leaders of the quartet called for stepping up the implementation of the agreements reached at G20 summits, and the reform of international financial system, as well as safeguarding and promoting the interests of developing countries. To facilitate international economic and financial reforms, the four leaders asked all participating parties to adopt democratic and transparent policies; abide by relevant laws and regulations; enhance financial supervision and risk control; protect a healthy international trade and investment environment; and firmly oppose trade protectionism. The summit also put special emphasis on world food security, among other long-term issues such as energy safety and public health. The summit was seen as a concerted effort of the four countries, which together account for 42 percent of the world’s population, comprise 15 percent of the global economy and have over 40 of global currency reserves, to assert their weight in the global economic and financial arena. However, in the summit’s official statement, BRIC leaders treaded cautiously on how best to diversify their assets away from the dollar while trying to avoid disrupting markets amid attempts at global economic recovery. While the joint statement from the meeting called for a “diversified, stable and predictable currency” system, it made no direct challenge to the dollar as the world’s global reserve currency (Adapted from Xinhua, 17.06.09; www.marketwatch.com, 16.06.09).

**EU, US blamed for FOOD CRISIS**

**POLICIES** enacted by the United States (US) and the European Union (EU), and aggressively pushed through global institutions during the last several decades, laid the ground for the ongoing food crisis, finds a new report by CIDSE, an international alliance of Catholic development agencies, and the Institute for Agriculture and Trade Policy (IATP).

The report highlights policy failures, including neglected agricultural programmes, ill-advised economic adjustment policies, commodity speculation and unjust trade rules as causes of a vulnerable global food system. The report’s key recommendations for US and EU policy makers include: an inclusive and binding global partnership for agriculture and food security that strengthens United Nations agencies, involves non-state actors and has a strong mandate; a substantial increase in aid for agriculture, delivered in line with the right to food; respect for the multifunctionality of agriculture, including ecological and social sustainability, access to land and water for small-scale producers and greater use of local seed varieties; measures to address price volatility, including food reserves and tight regulation on speculation; and a shift in trade policies away from the quest for market access for European and US agribusiness firms (Adapted from www.iatp.org).
Alternatives to IMF

THE global financial crisis has prompted developing countries to seek a regional alternative to the International Monetary Fund (IMF). Finance ministers from China, Japan, South Korea and the 10 members of the Association of Southeast Asian Nations (ASEAN) agreed on 3 May to set up a US$120 billion emergency forex liquidity fund by the end of this year to help counter the global financial crisis.

The fund will offer a contingency credit line should any of the 13 Asian countries come under speculative attacks, as they did in the 1997 Asian financial crisis. Japan, South Korea and China will provide 80 percent of the funding and ASEAN members the remaining 20 percent. Both Japan and China (including Hong Kong) will contribute US$38.4 billion each, while South Korea will provide US$19.2 billion. The forex pooling programme is part of the Chiang Mai Initiative, which aims to create a network of bilateral currency-swap arrangements among ASEAN and the three East Asian countries. Smaller economies will be able to borrow larger amounts in proportion to their contributions than the more developed economies.

Likewise, in May, seven Latin American countries—Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela—committed US$7 billion for the Bank of the South (Banco del Sur), an institution to fund infrastructure projects and development in the region, and also agreed on its charter.

Unlike the IMF, the Banco del Sur, to be headquartered in Venezuela, will give its members equal voting power, regardless of the size of their financial contribution to the institution. But decisions concerning loans worth more than US$70 million will require the approval of countries that represent at least two thirds of the bank’s total capital (Adapted from Beijing Review, Vol. 52, No.20; www.ft.com, accessed 03.05.09; online.wsj.com, accessed 04.05.09; Bridges Weekly Trade News Digest, Vol. 13, No. 17).

Nepal fares poorly in South Asia

NEPAL’S efforts to accelerate economic growth and reduce poverty are being hampered by political instability, poor infrastructure, and other critical obstacles, a new study has found.

The study, Nepal: Critical Development Constraints, is a collaborative effort by the Asian Development Bank, the United Kingdom Department for International Development and the International Labour Organization. According to the study, Nepal has underperformed all other South Asian economies and in terms of per capita gross domestic product, it is now where Sri Lanka was in 1960, Pakistan was in 1970, and India and Bhutan were in 1980. The study notes that the unstable political environment, infrastructure shortcomings, labour market rigidities, problems in industrial relations, and inequitable access to opportunities have undermined growth and poverty reduction.

In order to address these obstacles, the report suggests stronger governance, accelerated infrastructure development, particularly in the power, road and irrigation sectors, labour market reforms and greater efforts to ensure all sectors of society have access to productive assets, education and other key social services (Adapted from www.adb.org, accessed 29.06.09).
The Global Crisis and the WTO

Shifting the focus from the shortcomings of the WTO to its values, the global economic crisis has reemphasized the relevance, credibility and working of the regular functions of the multilateral trading system.

Steffen Grammling

The world is in the middle of the worst economic crisis since the Great Depression of the 1930s. Following the deepening of the financial crisis, any hope that the real economy would get off lightly has been squashed. World gross product is expected to contract for the first time since World War II. While developed countries are facing the greatest downturn percentage-wise, developing countries have been affected more severely. Exports, migrants’ remittances and foreign direct investment have already dropped significantly.

The World Bank, the International Monetary Fund, the Organisation for Economic Co-operation and Development and United Nations agencies paint a gloomy picture of a deep and prolonged recession. For instance, the International Labour Organization estimates a rise in global unemployment of up to 50 million people in 2009.

The current crisis is not the first one and certainly not the last one. However, it marks probably the largest economic depression in a century. Professor Jean-Pierre Lehmann of the International Institute for Management Development, Switzerland has rightly called it a “seismic shock”. It has put into question the fundamentals of economic theory and global governance and illustrated the limitations of the prevailing economic ideology. The crisis has also revealed the deficiency of the current global economic governance and made clear that different elements of the world economy, such as finance, trade and employment, are more closely connected than many would have liked them to be. It has shown that the international financial system is much less regulated, supervised and transparent than the international trading system, and its fundamental failures have not only triggered severe economic, social and human disasters but also affected trade and the liberalization process. All these underline the need for a more coherent, efficient and comprehensive global economic governance architecture.

Trade and protectionism

According to a forecast by the World Trade Organization (WTO), global trade volumes will decline by 9 percent in 2009, the biggest contraction in 60 years. With a range of implications for developing countries, this downturn is caused mainly by the following three factors.

First, global demand has fallen dramatically, particularly in major importing countries such as the United States (US). Developed countries, and a few emerging powers, first and foremost China, have tried to revive demand with huge stimulus and consumption packages. These measures have, however, exerted trade-distorting effects, given that they were primarily targeted at rescuing national companies—for example, the “Buy American” provisions in the American Recovery and Reinvestment Act 2009. By contrast, smaller developing countries that are strongly linked to world production, with their enterprises being part of the global value chain, lack the necessary resources to both stimulate the declining national production and provide social safety nets for the increasing number of unemployed people.

Second, trade finance instruments have become more costly and caused a major gap between demand and supply. Despite various efforts by multilateral and regional development banks as well as major economies to address the liquidity issue, the WTO has warned of a gap in the trade finance market in developing countries of up to US$300 billion.
Third, various governments have increasingly taken protectionist and other trade-distorting measures since the end of 2008. The WTO has reported the imposition of new import and export restrictions, trade-related subsidies, and trade remedies such as anti-dumping duties. Developing countries have criticized, in particular, the reintroduction of export subsidies for dairy products by the European Union and later by the US.

In the light of these developments, a rapid global trade and economic recovery seems unlikely. This will aggravate the situation of various industries and complementary services, such as the transportation sector. Moreover, many developing countries will be confronted with a worsening trade balance that finally could lead to balance-of-payments (BoP) problems.

**WTO reactions**

The economic crisis has shifted the focus from the shortcomings of the WTO to its values. It is worth recalling that the WTO’s main function is to provide a stable, open and rules-based trading system, backed by a forceful dispute settlement mechanism. The crisis has reemphasized the relevance, credibility and working of the regular functions of the system. WTO members have refrained from taking WTO-incompliant measures, although protectionist pressures are strong. While some minor “tit-for-tat” skirmishes have already taken place, for instance, between the US and Mexico, the disastrous “beggar-thy-neighbour” trade fights of the 1930s have been avoided so far.

The WTO Secretariat has reacted actively to the crisis by implementing more vigorously its monitoring and surveillance mandate under the Trade Policy Review Mechanism. Since January, two reports on trade policy developments during the crisis have been conducted and this practice will be continued. Enhanced transparency is crucial, particularly in times of crisis, to assure that members do not infringe on their obligations, simply because of the incapacity of the system to exert effective controls.

A major part of the WTO’s legitimacy arises out of the strong enforcement of its rules and regulations. Given that a variety of protectionist measures have been taken, disputes are expected to increase, especially on anti-dumping, although attempts are made to avoid formal dispute settlement cases. In this context, it is remarkable that WTO members granted Ecuador the requested waiver to impose temporarily higher tariffs and other protectionist measures by referring to a BoP crisis, according to Article XVIII of the General Agreement on Tariffs and Trade (GATT) 1994. It was reportedly the first time in the last decade that this exemption was used, demonstrating the flexibility and functioning of the system. However, it remains to be seen if it opened the door for countries in a similar situation to follow suit.

Although the crisis has raised doubts about the excessive reliance on export-oriented development strategies, trade has been providing a strong impetus to economic growth in many countries and thus could also play an important role in the recovery process. This makes the fulfilment of Aid for Trade commitments even more important. Building productive capacities could turn into a major stimulus package for poor developing countries. Moreover, it could provide the opportunity to diversify production patterns, invest more sustainably and build up regional trade networks.

**Doha “Development” Round**

WTO Director-General Pascal Lamy has argued that the Doha “Development” Round would be a good solution to the global economic crisis, by stating that it would be “one of the most appropriate collective stimulus packages”. However, the existing nature and the current trend of negotiations under the Round indicate that most of its effects will be long-term. Moreover, the net benefits for individual countries remain ambiguous. Nonetheless, it is important to note that the crisis has changed the negotiation dynamics of the Doha Round, mainly in two respects.

First, domestic problems have drawn off the attention from the Doha Round. Short-term fire-fighting has prevailed over negotiations on long-term financial regulation, much less on a reform of international trade rules. Furthermore, governments have used their flexibilities in their WTO commitments to limit imports, promote exports and subsidize national companies in desperate attempts to secure domestic jobs. This has made it even more difficult to build support for deeper trade liberalization.

Second, the reactions to the crisis have shown that the “water in tariffs” (WTO terminology) or “policy space” (terminology of the United Nations Conference on Trade and Development) as well as the level of allowed subsidies constitute a strong economic value and, therefore, also important bargaining chips. From the perspective of developing countries, it is crucial to retain flexibility in their tariff systems, as long as developed countries possess and exercise the option of increasing their already huge amount of agricultural subsidies.

The conclusion of the Doha Round would definitively send a strong political signal against protectionism. This requires responsible leadership, the willingness to compromise and a shared vision about a sustainable future. The political climate of the negotiations has turned slightly more favourable, although much insecurity remains and a final Doha deal is not in sight yet.

**Conclusion**

The WTO has proved to be a fairly robust system during the global economic crisis but the future of its functioning and the successful handling of the crisis depends very much on the political leaders of today and on whether they have learnt the lessons of the past. Critical preconditions are to restore mutual trust, agree on common values, and show the political will to act resolutely, even against the interests of strong lobby groups.

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Is the WTO a global public good?

Looking at the multilateral trading system through the lens of the “triangle of publicness”, there are reasons to believe that the system fails the test of publicness in substance.

Ratnakar Adhikari

Public goods, as opposed to private goods, are “non-rival” in consumption and have “non-excludable” benefits. The distinction between private and public goods concerns the restriction or freedom on modes of access, control and ownership. Whereas it is possible to exclude the non-paying actor from the consumption of private goods, which are consequently most efficiently provided by the market, it is not possible to exclude the non-paying or even non-cooperating member (“free rider”) from the consumption of public goods.

Since the market cannot price public goods, they are often seen as examples of market failure, and justified cases for government intervention. Given the collective process of policy determination required for the provisioning of public goods, it is predominantly the responsibility of the state, armed with the monopoly of coercive power, to deliver these goods.

The provisioning of public goods at the global level is much more difficult than that at the local/national level. Global public goods, defined as “goods whose benefits extend to all countries, people and generation”, are different than their local counterparts in that the state does not have any coercive power to collect taxes and make provision of public goods. Since the collective action and coordination problem assumes a much more magnified proportion at the global level, international cooperation is vital for the provisioning of global public goods.

Of late, there is an emerging discussion on whether or not the multilateral trading system is a global public good. Pascal Lamy, Director-General of the World Trade Organization (WTO), seems fully convinced that the multilateral trading system is a global public good. Although mentioned in a different context and in a relative sense, Ernesto Zedillo and his team too aver that: “The WTO is the only instrument that can be used to deliver the global public good of non-discriminatory multilateral trade liberalization.”

It is not clear whether these statements view the public good character of the multilateral trading system as a positive or a normative issue. However, a few studies portray the WTO either as a “club good”—where it is possible to exclude certain members from participating in and obtaining benefits—or as a “public good”, though merely in a formal, and not substantive, sense. This article uses the conceptual framework looking at the multilateral trading system through the lens of the “triangle of publicness”, there are reasons to believe that the system fails the test of publicness in substance.

Ratnakar Adhikari

Figure

Triangle of publicness

PC: Publicness in consumption
PD: Publicness in decision making
PB: Publicness in the distribution of benefits


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of “Triangle of Publicness” (see figure), developed by Kaul and Mendoza (2003)12 albeit in a different context, to examine whether the WTO is a public good.

WTO as a global public good

Kaul and Mendoza have pointed out some of the discernible weaknesses in the WTO system. However, they seem to only capture the deficiency in publicness in benefit sharing and not in consumption and decision making. Using the very triangle developed by them, one can clearly capture these shortcomings, and argue that the WTO, as it currently stands, fails the test of publicness in substance.

Publicness in consumption

In a formal sense, the criterion of publicness in consumption is epitomized by the rules-based non-discriminatory nature of the WTO. For example, due to its most-favoured-nation (MFN) principle, it is not possible to exclude any WTO member from the benefits of trade liberalization offered by any other member.11 Again, in a formal sense, it is possible for any WTO member to initiate actions against any other member violating WTO rules and causing “nullification and impairment” of the benefits provided by WTO agreements to the former.

However, in a substantive sense, many WTO members have not been able to use the system to their advantage. For example, due to the absence of missions in Geneva, a large number of developing countries and least-developed countries (LDCs) cannot make the required contribution to the WTO discussions, some of which are vital to their national interests.12

Likewise, due to limited capacity and prohibitive costs, some of the weaker members have not been able to use the WTO’s Dispute Settlement Understanding, though it provides a platform for the resolution of disputes among members. For example, the inability of Ecuador to use sanctions against the European Communities even after being authorized to do so by the WTO has cruelly exposed the limitation of the system.13 In a similar vein, Petersmann (2007) argues that small developing countries and LDCs lack “sanctioning potential” to use the provision of “retaliation”, which is considered an effective means to compel the member violating WTO provisions to bring its measures in conformity with WTO agreements.14 The weakness of the system is also reflected in the fact that no LDC member has so far been able to lodge a dispute as a complainant and complete the entire dispute settlement proceedings in the WTO.

Publicness in decision making

Since the WTO’s decision-making process is based on consensus and every member is entitled to one vote, irrespective of its share in global trade or financial contribution to the institution, it meets the formal requirement of publicness in decision making. However, in a substantive sense, several scholars have argued that the WTO lacks legitimacy and is plagued with democratic deficit.15 Although this is the case with most global governance institutions, Higgott (2007) argues that the legitimacy of the WTO should be judged not only by how it achieves the objective of efficiency-based delivery of public goods in a strictly “technical” sense, but also by how it ensures equity- and justice-based and more inclusive global governance.16

The WTO is considered an institution that compromises the issue of deliberative democracy at the altar of promoting efficiency in the decision-making process.17 The practice of informal consensus building, including through the green-room process, mini-ministerials and coalitions of “interested parties”, has had a role in decision making in the WTO.18 The officials of the WTO and its powerful members claim that these processes do not compromise the consensus-based principle of the WTO because decisions are eventually made by all the members. However, in reality, weak and vulnerable members cannot block decisions even if they run counter to their national policy objectives.19 These practices have led Stienberg (2002: 365) to surmise that the principles of “sovereign equality” and “consensus-based decision-making process” in the WTO are nothing more than “organized hypocrisy” in the procedural context.20

Publicness in the distribution of benefits

In a formal sense, publicness in the distribution of (net) benefits is reflected in the ability of members to export their goods and services to, as well as protect their intellectual property rights in, other members’ markets with a reasonable degree of certainty.21 Distribution of benefits means that the system should be able to ensure equity for all its members and promote distributive justice if equity is lacking. In order to promote equity in the global trading system, it is necessary to provide equality of opportunity. Discriminatory preferential trading arrangements and selective protection mean that LDCs’ goods face higher trade barriers in the markets of the Organisation for Economic Co-operation and Development.22 At the same time, some of the positive discrimination treatments provided in the WTO system under the rubric of special and differential treatments are either mere transitional arrangements or “best-endavour” promises. Moreover, due to supply-side constraints, LDCs in particular have not been able to utilize the market access opportunities offered under the WTO.

In relation to distributive justice as a vehicle for promoting equity within the multilateral trading system, Kapstein (1999) views that distributive policies have the character of a global public good, but they are
under-provided so far. Therefore, he advocates the need to “address these concerns at the international level.”

In line with this thinking, a measure taken by the WTO to promote equity within the system is the Integrated Framework (IF), a trade-related technical assistance programme. However, this programme has only met with partial success. The current efforts at introducing Enhanced IF and Aid for Trade to help LDCs and developing countries facilitate domestic adjustments and overcome supply-side constraints have some merit and are worth pursuing.

Way forward

Zedillo (2007: 12), making an observation in the context of the multilateral trading system, suggests that global public goods in general are in short supply and that this insufficiency “not only distorts and threatens the process of global integration but also undermines each country’s individual effort to procure the well-being of its citizen”. He further observes that this is mainly due to the lack of support extended by its members, in particular the major powers, for strengthening the system, although these powers have benefited from the system. This creates a vicious cycle because such lack of support restricts the ability of members to perform, creates a credibility crisis for the system, and leads to reduced support from members.

He argues that this cycle can only be broken if rich and powerful nations recognize their responsibility for improving cooperation in this area. They should not only take the leadership and become more accommodative of the grievances as well as demands of weak and vulnerable members, but also commit resources and actions to make the system work. In the present context, this is the responsibility of the United States and the European Union with active support and cooperation from emerging powers such as Brazil, China and India. However, given the fact that countries are essentially motivated by their national interests, it might be a tall order to demand such generosity of them. Therefore, it is possible to correct the malaise only if concerted efforts are made to convince these powerful members that it is in their collective interest to transform the WTO into a truly global public good.

Notes

18. See, for example, UNDP. 2003: 5. Note 17.
20. See also ibid.
24. ibid.: 67.
The financial crisis that erupted in September 2008 is extraordinary by any standard since the 1930s, including the debt crisis of the 1980s and the Asian and Russian crises of the late 1990s. Its epicentre has been the United States (US)—the centre not the periphery in neo-Marxian terminology. The debate over whether it is a crisis of the capitalist system itself or a regulatory crisis of the capitalist system remains germane for time to come. But the reality is that the financial crisis and its upshot, namely a huge financial meltdown and a string of bankruptcies, have already spilled from the financial sector to the real economy.

At the start of the financial crisis, first observed in July 2007, there was a firm view in some quarters, including the US Treasury, that it would not cross the financial frontier. Some believed that developing countries were “decoupled” from the financial crisis as their banking systems were barely exposed to toxic assets and their economies had a comfortable foreign exchange position. But, as the vicious circle between the financial and real sectors intensified, the so-called “decoupling” hypothesis proved wrong. For example, the International Monetary Fund (IMF) sharply revised its growth projection for emerging and developing economies for 2009 from 6.7 percent in July 2008 to 1.5 percent in July 2009.

Following the crisis, growth in virtually all countries has decelerated sharply from the rates observed during the last five years. The IMF projects the global output to shrink by 1.4 percent in 2009, the deepest global recession since the 1930s. The brunt of the crisis is here to stay for some time as the IMF states that “the world economy is stabilizing, however, the recession is not over and the recovery is likely to be sluggish.”

Casualties of the crisis
During the five years preceding the crisis, developing countries as a group experienced an impressive economic boom, growing at a rate of 7 percent per year. It was driven by a mix of increased integration with the global economy, exceptional financing with low interest rates, high commodity prices, and, in particular, for a significant number of countries, large flows of remittances.

The impacts of the crisis on developing and least-developed countries are evident in the reversal of the factors that led to their impressive growth, as well as the progress made in the achievement of the Millennium Development Goals. Although developing
countries were not significantly exposed to the first round of the financial crisis, its second round, turning into an “economic crisis”, has hurt them through various channels, including collapsing trade, volatile commodity prices, capital flow reversals, increased borrowing costs, declining remittance incomes, and strains on official development assistance (ODA).

The Director-General of the World Trade Organization (WTO) announced that trade has become a casualty of the global economic crisis. While the WTO projects that the volume of world merchandise trade could plunge by 9 percent for 2009, the United Nations predicts an even steeper fall of 11 percent. Likewise, the World Bank projects the volume of world trade to decline by 9.7 percent in 2009—the first fall after 27 years of uninterrupted expansion and the worst decline since the 1930s—and exports of developing countries by 6.5 percent. The United Nations Conference on Trade and Development projects a disappointing trade performance of least-developed countries (LDCs) in 2009 with a decline of exports by 9–16 percent. Landlocked developing countries could experience an export fall in the range of 9–13.5 percent.

The decline in international trade is due not only to contractions in economic activities and declines in export prices but also the protectionist measures adopted by developed and developing countries through financial, investment, job protection and trade measures, and the collapse of financing of trade credits. The availability of trade finance has declined substantially in the aftermath of the crisis and the World Bank estimates that 85–90 percent of the fall in world trade since the second half of 2008 is due to a fall in international demand, and 10–15 percent due to a fall in the supply of trade finance.

Similarly, another casualty of the crisis is the resource flows to developing countries. In 2008, total net international flows of private capital to the developing world fell by 39 percent and net portfolio equity flows by 90 percent. Similarly, private debt flows declined substantially. Although net foreign direct investment (FDI) flows increased, the growth rate has slowed markedly.

There is strong evidence of reduced dynamism of remittance flows to developing countries. The growth rate fell and its importance relative to GDP reduced in 2008. The World Bank estimates that although remittance flows to developing countries increased, their share in GDP declined from 2.1 percent in 2007 to 1.9 percent in 2008. Future flows are bound to be affected by the simultaneous economic recession in high-income countries and lower growth in developing countries.

The impact of the present crisis on remittance is unique. The simultaneous economic slowdown in both source and destination countries appears to be ending the counter-cyclical character of remittance. With rising unemployment, many host countries have tightened immigration controls and introduced tougher requirements for migrant workers due to public pressures and national policy priorities.

Historically, developed countries failed to keep their word on ODA to developing countries. Even before the onset of the financial crisis, developed countries as a group were falling short by around US$39 billion a year of their Gleneagles commitments to significantly increase aid. Along with a fear that aid flows may come under pressure in view of declining gross national income in donor countries, a few donors have already signaled their intention to scale back their ODA budgets.

### Table 1

<table>
<thead>
<tr>
<th>Projections for the global economy</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>World trade volume (growth in %)</td>
<td>7.5</td>
<td>3.7</td>
<td>-9.7</td>
</tr>
<tr>
<td>Export growth in advanced economies (growth in %)</td>
<td>6.2</td>
<td>2.0</td>
<td>-15.0</td>
</tr>
<tr>
<td>Export growth in emerging and developing economies (growth in %)</td>
<td>9.5</td>
<td>4.1</td>
<td>-6.5</td>
</tr>
<tr>
<td>Manufacturing unit export prices (growth in %)</td>
<td>5.5</td>
<td>7.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Net private inflows to developing countries (US$ billion)</td>
<td>1,157.5</td>
<td>706.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Private debt flows to developing countries (US$ billion)</td>
<td>498.9</td>
<td>107.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net FDI inflows to developing countries (US$ billion)</td>
<td>520.0</td>
<td>583.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net portfolio equity inflows (US$ billion)</td>
<td>138.6</td>
<td>15.7</td>
<td>n.a.</td>
</tr>
<tr>
<td>Workers’ remittances (US$ billion)</td>
<td>265.0</td>
<td>305.0</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* forecast

able growth rates of more than 5 percent, except for Afghanistan and Nepal, with decent integration into the global economy through goods and services trade, foreign aid, FDI, remittance and tourism (Table 2).

The dependence on export earnings is high for small economies, for example, Bhutan, the Maldives and Sri Lanka, whereas the dependence on remittance is high for Bangladesh and Nepal. Similarly, foreign aid is crucial for conflict-ridden countries such as Afghanistan and Nepal. All these indicate how South Asia has been affected by the global crisis. However, these countries had experienced net deficits in exports of goods and services (except for Bhutan), increasing budget deficits, and swelling external debts limiting the policy option to abate the adverse impacts of the crisis.

The World Bank estimates that South Asia achieved respectable growth in 2008,14 compared to other regions, for example, East Asia and Pacific’s 3.4 percent, and Central Asia’s 2.9 percent. However, as consumption and investment demand contracts, the growth rate for 2009 is projected at 4.6 percent, almost half the rate achieved two years ago. The projected growth rate for the Maldives is negative and less than 5 percent for India, Nepal, Pakistan and Sri Lanka.

The banking sector in South Asia has remained unscathed during the financial crisis. Thanks to the relatively closed capital accounts and minimal exposure to toxic assets, the immediate impact was on capital markets, partly due to psychological impacts on investors and deleveraging by commercial banks in developed countries.

Private capital flows to South Asia collapsed in the aftermath of the crisis. Net capital inflows, inclusive of public and private flows, declined, the decline being sharper in private capital flows (Table 3). The contraction was led by the halving of portfolio equity inflows plunging private creditor bond issuance and syndicated bank loans, which reduced by 84 percent and 67 percent, respectively.15

In contrast, net FDI inflows registered a growth of 59 percent in 2008 and contributed about nearly two thirds of total net inflows. This sharp increase in net FDI inflows was driven by surges in FDI to India and Pakistan—largely accumulated prior to the onset of the crisis—which registered gains of 52 percent and 59 percent, respectively.16

South Asia registered export growth of 15.1 percent in 2008. However, as the export structure is highly income elastic, with the collapse in demand in destination countries, exports are projected to shrink by 2.6 percent in 2009. Data for the first quarter of 2009 show different levels of contraction. In India, Pakistan and Sri Lanka, exports contracted at double-digit annual rates of 33 percent, 27.5 percent (both as of March 2009) and 11.6 percent (as of February), respectively. In Bangladesh, exports increased by 3 percent during the first three months of 2009, and, in Nepal, by 19.8 percent, measured in domestic currency, during July 2008 to April 2009.17

Similarly, merchandise imports have also contracted sharply due to declining domestic demand and steep fall in international commodity prices, particularly oil. As a result of a relatively worse export performance, current account deficits are projected to increase.

Despite the contraction in global economic activities, South Asia registered growth in remittance inflows in 2008; although the pace of growth declined to 27 percent in 2008 from 31 percent in 2007. Such growth could be a temporary phenomenon since migrant workers who have lost jobs have returned home with accumulated savings, and declining com-

### Table 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports of goods and services (%) of GDP</th>
<th>Imports of goods and services (%) of GDP</th>
<th>Budget balance (%) of GDP</th>
<th>Foreign aid (%) of GDP</th>
<th>External debt (%) of GDP</th>
<th>Net FDI flows (%) of GDP</th>
<th>Workers’ remittances (%) of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>12a</td>
<td>56a</td>
<td>-1.7b</td>
<td>35.70b</td>
<td>19.69b</td>
<td>2.88b</td>
<td>n.a.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>20</td>
<td>27</td>
<td>-1.3</td>
<td>2.19</td>
<td>32.20</td>
<td>0.95</td>
<td>9.59</td>
</tr>
<tr>
<td>Bhutan</td>
<td>58</td>
<td>51</td>
<td>1.9c</td>
<td>n.a.</td>
<td>70.45</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>India</td>
<td>21</td>
<td>24</td>
<td>-1.4</td>
<td>0.11</td>
<td>18.77</td>
<td>1.95</td>
<td>2.99</td>
</tr>
<tr>
<td>Maldives</td>
<td>87d</td>
<td>65d</td>
<td>-8.8</td>
<td>3.49</td>
<td>53.02</td>
<td>1.41</td>
<td>0.22</td>
</tr>
<tr>
<td>Nepal</td>
<td>13</td>
<td>31</td>
<td>n.a.</td>
<td>5.79</td>
<td>35.31</td>
<td>0.05</td>
<td>16.80</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14</td>
<td>21</td>
<td>-4.1</td>
<td>1.54</td>
<td>28.46</td>
<td>3.73</td>
<td>4.19</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>29</td>
<td>40</td>
<td>-6.5</td>
<td>1.82</td>
<td>43.33</td>
<td>1.86</td>
<td>7.81</td>
</tr>
</tbody>
</table>


modernity prices, in particular oil prices, along with the contraction in investment demand in destination countries may result in a further slowdown, or even a decline, in remittance inflows.

Data for the first quarter of 2009 show that although remittance flows to Bangladesh continued to grow, the rate of increase declined sharply from an annual rate of 50 percent in August 2008 to 9.6 percent in 2009. In Nepal, the flow registered a growth rate of 55.5 percent, measured in domestic currency, during the period from July 2008 to April 2009, compared to the corresponding period of 2007/08. In Sri Lanka, net remittance inflows declined by 3.8 percent in March 2009 over a year ago.

Tourism also registered a sharp decline in 2009. However, the decline was mostly due to the domestic environment in some countries. In Bhutan, where tourism contributes 7 percent of GDP growth, tourist arrivals declined by 37.8 percent (year-on-year) in March 2009, compared with the growth of 40 percent in 2008. In the Maldives, tourism declined by about 10 percent. In Sri Lanka, the recently ended civil war contributed to an 11 percent fall in tourist arrivals in 2008. Nepal experienced a highly volatile tourist flow in the first quarter of 2009, a decline of 17.6 percent in March 2009 over the previous year and a growth of 15.8 percent in April.

National responses

National policy responses in South Asia should focus on a mix of financial, fiscal, monetary and trade policies. However, the availability of policy instruments depends on balance-of-payments situations, recent fiscal stances, the status of public-sector debts and the stage of development of capital and bond markets. South Asian countries fall in different scales on the above parameters and, thus, the policy package to be adopted varies accordingly.

Countries with weak external and fiscal indicators, for example, Pakistan and Sri Lanka, have limited headroom for counter-cyclical measures and huge stimulus pack-

ages. For countries with a strong debt and foreign exchange reserve position but a relatively weak fiscal stance (for example, India), the room for manoeuvre lies more in monetary than in fiscal policy. It may include easing domestic financing, facilitating private-sector access to foreign exchange, and reducing interest rates.

Nonetheless, South Asian countries need fiscal adjustments to avoid pro-cyclical fiscal impacts and to ratchet up domestic demand. Some countries have already announced stimulus packages. India and Bangladesh have announced stimulus packages equivalent to 3.5 percent and 0.7 percent of their GDP, respectively. However, these should focus on social-sector spending, including food security and employment-generating infrastructure development.

Since South Asian countries significantly depend on international trade, trade policy instruments may not be sufficient on their own to ease the adverse impacts of the crisis. An appropriate policy mix plays a significant role towards this end.

First, non-traditional exports can be encouraged, through a mix of exchange rate depreciation and sectoral incentives. Second, backward and forward linkages of existing manufacturing activities can be strengthened. Third, bilateral and regional trade can be encouraged. Payments agreements among central banks can also facilitate such trade without the need for hard currencies. Fourth, the role of domestic markets can be reassessed and recognized in the industrialization process. Fifth, the countries should refrain from resorting to protectionism. Finally, they should learn from the global financial crisis how regulatory failure creates a domino effect in the economy. They must rebuild and strengthen their regulatory systems to ensure confidence in the market mechanism, establish transparency in corporate governance, and dismantle flawed incentives.

Regional responses

The global crisis has compelled South Asian countries, which in general have stronger extra-regional than intra-regional trade and financial ties, to critically assess the development in South Asian Association for Regional Cooperation (SAARC). Had there been more intense economic relations among SAARC members in areas of trade and investment, the prospect of “decoupling” from the crisis would

Table 3

South Asia indicators (annual % change)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at market prices (at 2000 US$ prices)</td>
<td>8.4</td>
<td>6.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Private consumption</td>
<td>7.3</td>
<td>3.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Public consumption</td>
<td>6.3</td>
<td>17.5</td>
<td>8.9</td>
</tr>
<tr>
<td>Fixed investment</td>
<td>13.6</td>
<td>11.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Exports</td>
<td>8.1</td>
<td>10.4</td>
<td>-2.6</td>
</tr>
<tr>
<td>Imports</td>
<td>8.0</td>
<td>15.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Current account balance/GDP ratio (%)</td>
<td>-20.5</td>
<td>-59.1</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net private and official flows (US$ billion)</td>
<td>116.5</td>
<td>77.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net private flows (US$ billion)</td>
<td>112.5</td>
<td>66.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net FDI inflows (US$ billion)</td>
<td>29.9</td>
<td>47.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Workers’ remittances (US$ billion)</td>
<td>52.1</td>
<td>66.0</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* forecast

have been better. Therefore, it is imperative that they intensify regional trade and economic integration.

First, they must downsize the sensitive lists under the Agreement on South Asian Free Trade Area (SAFTA) and dismantle non-tariff barriers. Second, they need to strengthen regional trade linkages, including by reshaping the existing production supply chain and promoting intra-industry trade. Third, they should finalize the agreement on investment cooperation. Fourth, they have to establish a mechanism for monetary cooperation and the harmonization of macroeconomic policies. Fifth, they should further intensify cooperation in the services sector, for example, by including services in SAFTA.

Global responses

In order to mitigate the impacts of the crisis, a total of US$18 trillion has so far been mobilized by the international community to recapitalize banks, nationalize financial institutions, and provide guarantees on bank deposits and other financial assets. As of April 2009, fiscal stimulus plans totaled US$2.7 trillion, to be spent over 2009–2011.21

G20 leaders at their London Summit in April 2009 pledged to address the recession by, among others, restoring confidence, growth and jobs; repairing the financial system to restore lending; strengthening financial regulation to rebuild trust; funding and reforming international financial institutions; promoting global trade and investment; and rejecting protectionism. They also pledged US$1.1 trillion in financing, of which US$50 billion is for social protection, trade and development in low-income countries.22

Nobel laureate Joseph Stiglitz has rightly identified the causes of the financial crisis as “the fruit of a pattern of dishonesty on the part of financial institutions, and incompetence on the part of policymakers.”23 The global response should include not only reinvigorating economic activities but also correcting the systemic failure in the market mechanism, in particular the financial architecture.

First, the magnitude of the current crisis is clearly associated with inadequate regulation and supervision of banks and financial markets. Therefore, a new financial architecture with adequate representation of developing countries should be designed to create a stronger, broader and more globally consistent macro-prudential supervisory, regulatory and oversight framework.

Second, the stimulus packages, announced on an unprecedented scale, need to be implemented without any protectionist intent, in a coordinated and harmonized manner, to promote sustainable and inclusive development. In the implementation process, it should be ensured that developing countries benefit from the stimulus packages.

Third, it is essential that the commitment repeatedly made by G20 leaders to avoid protectionist measures, including creating new barriers to investment and export restrictions in the immediate future, is fulfilled. A successful conclusion of the Doha Round of trade negotiations under the WTO is also essential. Importantly, it is imperative to ensure that LDCs reap net benefits of duty-free and quota-free arrangements. The exercise of WTO-consistent rights to utilize the policy space by developing and least-developed countries should not be interpreted as protectionism. The trade finance needs of such countries should also be addressed with improved lending terms.

Fourth, there should be improved commitments on the assistance to needy developing and least-developed countries. In addition, conditionalities on access to resources should be relaxed and debt relief programmes need to be accelerated.

Dr. Pandey is President, SAWTEE.

Notes


15 ibid.


22 See www.londonsummit.gov.uk.

The sharp contraction in global trade triggered by the global financial crisis has resulted in the reduction of most of the major merchandise exports of Bangladesh. In terms of both volume and value, the leather, jute, tea and frozen food industries experienced negative growth rates—up to -38.75 percent—during July 2008 to February 2009 compared to the same period in 2007/08.

However, the readymade garment (RMG) industry, the largest export sector and top foreign exchange earner, has maintained solid rates of export growth (over 20 percent in volume and value terms in the same period). But it must be noted that there has been a significant decline in orders since the beginning of 2009.

**Status of the RMG sector**

Within a decade or so of its establishment in the early 1980s, the RMG industry in Bangladesh became the most dominant sector of the economy. While export earnings from the sector were as low as US$32 million in 1983/84, they increased to a staggering figure of around US$10 billion by 2007/08, accounting for more than three fourths of the country’s total export earnings (Table 1). There has been a significant rise in the number of RMG factories over the period. Currently, the sector employs around 2.5 million workers, 80 percent of them female.

The RMG sector managed to benefit from the protectionist policies pursued in major export markets, most notably in the European Union (EU). The quotas put in place under the Multi-fibre Arrangement (MFA) and subsequently under the Agreement on Textiles and Clothing (ATC) of the World Trade Organization (WTO) not only restricted supplies from the most efficient global producers, but also helped keep prices higher than what would have been possible under competitive conditions.

At the same time, favourable domestic trade policy reform through the use of a set of generous support and promotional measures for exports proved instrumental in the expansion of the RMG industry. In general, Bangladesh’s RMG export growth rate has been on a rising trend in the new millennium. Interestingly, the expiry of the ATC did not have any negative impact on the growth of the sector.

The future of the RMG industry will be critical for Bangladesh’s socio-economic development. Although the evidence on trade-growth and trade-poverty relationships as found in academic studies is far from conclusive, there is no denying that the growth of RMG exports has been associated with the overall economic growth of the country accompanied by a remarkable progress in poverty alleviation by creating massive employment opportunities, mostly for unskilled workers.

The period 2000–2005 experienced a fall in headcount poverty ratio by 9 percentage points in tandem with the robust performance of the RMG sector. Raihan and Khondker (2008), using a computable gen-

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of factories</th>
<th>Employment in million</th>
<th>Exports of RMG in US$ million</th>
<th>% of total exports</th>
<th>Value addition (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983/84</td>
<td>134</td>
<td>0.04</td>
<td>31.57</td>
<td>3.89</td>
<td>n.a.</td>
</tr>
<tr>
<td>1990/91</td>
<td>834</td>
<td>0.402</td>
<td>866.82</td>
<td>50.47</td>
<td>n.a.</td>
</tr>
<tr>
<td>1994/95</td>
<td>2,182</td>
<td>1.2</td>
<td>2,228.35</td>
<td>64.17</td>
<td>17.7</td>
</tr>
<tr>
<td>2000/01</td>
<td>3,480</td>
<td>1.8</td>
<td>4,860.12</td>
<td>75.15</td>
<td>46.53</td>
</tr>
<tr>
<td>2004/05</td>
<td>4,107</td>
<td>2.1</td>
<td>6,417.67</td>
<td>74.15</td>
<td>64.67</td>
</tr>
<tr>
<td>2007/08</td>
<td>4,740</td>
<td>2.5</td>
<td>10,699.8</td>
<td>75.83</td>
<td>70</td>
</tr>
</tbody>
</table>

eral equilibrium (CGE) model, found that the growth in RMG exports contributed to a fall in poverty by more than 1 percentage point out of the 9 percentage points fall in headcount poverty ratio.1

With Bangladesh’s export basket highly concentrated in RMG, its export sector is extremely vulnerable to external shocks. The figure alongside depicts the channels through which a negative RMG export shock affects sectoral prices and output in the economy.

**Ex-ante analysis of export shock**

The global financial crisis and the resultant economic downturn in developed-country markets have raised serious concerns over the possibility of falling earnings from RMG exports. In this context, the macro-economic impacts of a 20 percent fall in woven and knit RMG exports are calculated through a simulation exercise using a CGE model for Bangladesh (Table 2).

The scenario results in a negative growth in real GDP compared to the base year. The manufacturing sector as a whole contracts. On the other hand, agricultural and services sectors register a low positive growth. The consumer price index rises and aggregate consumption falls. Exchange rate depreciates, and imports and exports fall. The wage rates of agricultural labour rise while those of non-agricultural labour fall. Returns to non-agricultural capital and land fall while those to agricultural capital rise.

The sectoral effects suggest that the fall in export demand for woven and knit RMG results in production declines in these two sectors by almost the margin. This also leads to a decline in production in sectors that have strong linkages with woven and knit RMG, such as mill cloth and other textiles. Because of the depreciation of the domestic currency, import prices rise, leading to a fall in imports in general.

Similarly, the demand for imported raw materials also declines, further contributing to the reduction in import demand. The free-on-board export prices of woven and knit RMG rise, implying a loss of competitiveness of such exports from Bangladesh. It also appears that there is a contraction of domestic demand for manufacturing and services products, which is a result of falling household incomes. Such a scenario implies a fall in welfare and real consumption for all households, with poor households suffering more than non-poor households.

Nearly 90 percent of Bangladesh’s RMG exports are destined for developed-country markets, mostly the United States (US) and the EU. With the ongoing recession in the US and the EU, it is likely that such exports will be hurt. However, there are some moderating factors that should be considered. Since the country’s RMG exports mainly cater to the low price segment of the apparel market, the current slowdown may exert a relatively less impact on such exports.

With incomes falling, even some diversion of demand from the high-end garment segment to the low-end one may take place. But consumers may also adjust themselves to lower incomes by not opting for low-end clothing and just buying far less high-end clothing. Major purchasers of RMG products may take advantage of the market situation by negotiating less favourable order contracts with suppliers from least-developed countries (LDCs). There are also recent evidences that negotiations for orders are being diverted from India, Turkey, Indonesia and Cambodia.

**Unimpressive stimulus package**

Although official data indicate a 20 percent increase in RMG exports during July 2008 to February 2009, the extent to which the crisis will hurt Bangladesh’s RMG exports is still unclear. There is a concern that difficult days are ahead if the recession in the major markets prolongs. Therefore, the Bangladeshi government cannot remain complacent.

Timely policy adjustments will have to be made as demanded by the depth of the crisis. A high-profile taskforce, in addition to the routine monitoring by technical groups, will have to function continuously to provide necessary guidelines to policy makers so that there is no scope of complacency, and hence inaction, in any quarter.

Recently, the government announced a stimulus package for some export sectors. But it was not well-received by the business community. In particular, the RMG sector complained about its complete exclusion from the cash incentives,

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1. Figure: RMG export shock transmission mechanism

- Decline in RMG production
- Fall in demand for factors used intensively in RMG and associated sectors
- Expansion of sectors that do not have strong linkages with RMG as falling factor prices
- Fall in imports because of less import demand for RMG raw materials as well as depreciation of domestic currency
- Fall in overall exports as RMG constitutes over 75 percent of total exports
- Fall in returns to factors that are used intensively in RMG and associated sectors
- Fall in demand for sectors that have strong linkages with RMG
though there were some policy supports for them. Moreover, the proposed policy supports for the RMG sector in the stimulus package are somewhat ambiguous in nature. There is no detailed work plan on how they will be actually implemented. Reduced orders for RMG mean that smaller firms, in particular sub-contracting firms, will be the most severely affected. These sub-sectors have not been identified for more focused government aid.

In contrast to the stimulus packages of neighbouring countries such as China and India, Bangladesh’s package is short-sighted in nature. It does not emphasize long-term investments in education, health and social welfare necessary to increase workers’ productivity.

Besides targeting long-term gains in competitiveness and productivity, the government must also correctly identify the sub-sectors that are currently affected and could be affected in the near future. Private-sector involvement in stimulating the economy should be encouraged. In the current stimulus package, policy support to encourage investment is weak. This must be addressed. Most importantly, a workable plan to implement the support measures is urgently needed.

Need for DFQF in the US

The need for duty-free and quota-free (DFQF) market access for Bangladesh’s RMG exports to the US market has never been so critical. RMG exports originating in Bangladesh are subject to the full US most-favoured-nation (MFN) tariff rate. About 32 percent of all US Harmonized Tariff Schedule (HTS) lines at the 8-digit level are subject to a tariff range of 5–9.9 percent. While another 18 percent of HTS lines face 10–15 percent tariffs, tariff rates higher than 15 percent comprise 18 percent of HTS lines.

In particular, products that are of export interest to Bangladesh are more concentrated in the higher tariff brackets. Thus, while products with tariff peaks (i.e., products with tariff rates higher than 15 percent) constitute 42 percent of all HTS items that Bangladesh exports, the comparable figure for the rest of the world is only 18 percent. About 27 percent of Bangladesh’s products face a tariff range of 15.1–20 percent, and another 14 percent are subject to rates in excess of 25 percent.

Raihan and Razzaque (2007) show that improved market access is likely to have favourable impacts on the Bangladeshi economy. Real GDP and aggregate welfare increase quite substantially, while both exports and imports show a robust performance in response to DFQF access.

More importantly, increased employment through better export opportunities for labour-intensive garments helps raise the wages of unskilled workers, thereby benefiting the poorest households most significantly. The impact on poverty incidence is rather remarkable, as estimates show that in the long run, between 200,000 and 300,000 households in Bangladesh are likely to graduate out of poverty as a direct consequence of unrestricted market access.

In sum, it can be argued that any negative shock to Bangladesh’s RMG sector will have profound impacts on its economy, poverty situation and human development status, including gender development.

Table 2

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Macroeconomic effects of RMG shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change from the base year value</td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>-0.55</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-1.88</td>
</tr>
<tr>
<td>Services</td>
<td>0.48</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>0.18</td>
</tr>
<tr>
<td>Consumption</td>
<td>-0.39</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>4.93</td>
</tr>
<tr>
<td>Imports</td>
<td>-6.83</td>
</tr>
<tr>
<td>Exports</td>
<td>-13.09</td>
</tr>
<tr>
<td>Return to labour (agricultural unskilled)</td>
<td>0.40</td>
</tr>
<tr>
<td>Return to labour (agricultural skilled)</td>
<td>0.70</td>
</tr>
<tr>
<td>Return to labour (non-agricultural unskilled)</td>
<td>-1.10</td>
</tr>
<tr>
<td>Return to labour (non-agricultural skilled)</td>
<td>-0.80</td>
</tr>
<tr>
<td>Return to capital</td>
<td>-0.60</td>
</tr>
<tr>
<td>Return to land</td>
<td>-0.20</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on simulation results.

Notes


The business process outsourcing (BPO) industry, along with telecom, is one of India’s biggest and brightest success stories. It has been a major growth driver, contributing substantially to the sharp pick-up in the gross domestic product (GDP) growth rate in recent years. No less important from India’s perspective is the role played by the industry in ensuring that the benefits of this growth are spread more evenly across the country. By expanding employment opportunities beyond metros and big cities to smaller towns and cities, the BPO sector has played a stellar role in transforming the hinterland around big cities. Its contribution to the country’s export earnings has been no less significant.

Trends in business outsourcing
Some numbers might help illustrate just how vital the sector has become for India’s economic wellbeing. According to the latest Nasscom Strategic Review 2009, the Indian information technology (IT)-BPO industry is estimated to have grown 12 percent during the year ended March 2009. Total revenues touched US$ 72 billion, with software and services exports (exports of IT services, BPO, engineering services and R&D, and software products) growing even faster (16 percent) to touch US$47 billion (Table 1).

As a proportion of GDP, revenues have grown from 1.2 percent in Fiscal Year 1997/98 to an estimated 5.8 percent in 2008/09, while net value-added by this sector to the economy is estimated at 3.5–4.1 percent. The sector’s share of total Indian exports (merchandise plus services) has increased from less than 4 percent in 1998 to almost 16 percent in 2009 even as direct employment is expected to reach nearly 2.23 million (Table 2). In addition, indirect job creation is estimated to have touched 8 million.

Threat from protectionism
Unfortunately, such scorching pace of growth is now being threatened by the global economic crisis. The opening salvo was fired by United States (US) President Barack Obama while announcing a major international tax policy reform at the White House earlier this year. “We will stop

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Revenue of Indian IT-BPO industry (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>IT services</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>13.5</td>
</tr>
<tr>
<td>Domestic</td>
<td>3.5</td>
</tr>
<tr>
<td>BPO</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>5.2</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.6</td>
</tr>
<tr>
<td>Engineering services and R&amp;D, software products</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>3.8</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.7</td>
</tr>
<tr>
<td>Hardware</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>5.6</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>28.1</td>
</tr>
</tbody>
</table>

letting American companies that create jobs overseas take deductions on their expenses when they do not pay any American taxes on their profits. We will use the savings to give tax cuts to companies that are investing in research and development here at home so that we can jump start job creation, foster innovation, and enhance America’s competitiveness,” said Obama, setting off alarm bells in many countries in the developing world.

For India, worse was to come. Singling out India’s Silicon Valley, Bangalore, Obama criticized the earlier system of taxation, saying, “It’s a tax code that says you should pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, New York.” He could just as well have said Bucharest or Manila but the fact that he said Bangalore suddenly seemed to make the Indian IT-BPO sector seem much more vulnerable to protectionist pressure.

And that brings us to the crux of the problem for this sunrise sector. As countries, reeling under growing job losses, turn more protectionist—Obama is not the only Western political leader worried about protecting domestic jobs, though others have been less explicit—and companies fearing a backlash from their political masters cut back on outsourcing, will the success of the past few years prove a flash in the pan? Or has BPO become a tried and tested means of cutting costs?

Addressing the problem
To answer the above question, one needs to consider two things. First, the outlook for technology spending. Second, the response of the corporate sector to the downturn. Let’s take them one by one.

Today, BPO is an integral part of the global delivery chain and is increasingly involved in mission-critical applications. Consequently, though worldwide spending on technology products and related services is expected to decline in the first half of 2009 due to the economic slowdown, it is expected to pick up towards the latter part of the year and grow more strongly in 2010. Overall technology spending is estimated to cross US$1.6 trillion in 2009, with BPO spending accounting for a significant share of this expenditure. The global BPO market is expected to grow 12 percent, the highest among all segments, to reach US$181 billion by 2012.

As the recession in Western economies begins to bite, it is true companies might try to cut back on their technology spending. But given how integral technology has become to most businesses, it is unlikely that they will be able to cut back very much. On the contrary, greater focus on cost and operational efficiencies could well have the opposite effect. The pressure on their bottom lines means companies will increasingly look to new ways of cutting costs of existing delivery and production lines. Outsourcing is a tried and tested means of cutting costs. As a result, companies are, perhaps, likely to resort even more to outsourcing than in the past.

Even US companies that will henceforth be denied the tax breaks enjoyed in the past are likely to weigh the higher cost of producing at home vis-à-vis the higher tax burden they will incur if they outsource some of their production and then decide their course of action. After all, the steady growth in outsourcing spending was driven by increased adoption of global sourcing and this trend is unlikely to change.

Consequently, the mere fact of tax changes in the US or protectionist moves elsewhere need not necessarily translate into reduced opportunities for the Indian BPO sector. Remember, while the global sourcing market size increased threefold in the period 2004–2008, the addressable market, in the range of US$500 billion in 2008, is more than five times the current market size, signifying the immense opportunities at hand.

Can India cash in on this? Yes, but only if it focuses on some aspects of its BPO industry that at times seem to act as impediments to the growth of the sector.

The biggest drawback is the skewed geographic focus (Table 3). The US, with a 60 percent share, remains the largest export market for Indian IT-BPO services. Although companies have been consciously trying to diversify and incremental growth is being driven by the European market—with the United Kingdom and Continental Europe growing by a compound annual growth rate of over 40 percent over the last five years—the US remains overwhelmingly the main market. To the extent the US economy remains mired in recession, this is bound to act as a brake on the growth of Indian BPO, though it could well be that

| Table 2 |
| Knowledge professionals in IT-BPO industry (in ‘000) |
| 2005 | 2006 | 2007 | 2008 | 2009 |
| IT exports and services exports | 390 | 513 | 690 | 860 | 946.8 |
| BPO exports | 316 | 415 | 553 | 700 | 789.8 |
| Domestic market | 352 | 365 | 378 | 450 | 500.0 |
| Total | 1,058 | 1,293 | 1,621 | 2,010 | 2,236.6 |

Source: www.nasscom.org.

Table 3
<table>
<thead>
<tr>
<th>Services</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT exports and services exports</td>
<td>390</td>
<td>513</td>
<td>690</td>
<td>860</td>
<td>946.8</td>
</tr>
<tr>
<td>BPO exports</td>
<td>316</td>
<td>415</td>
<td>553</td>
<td>700</td>
<td>789.8</td>
</tr>
<tr>
<td>Domestic market</td>
<td>352</td>
<td>365</td>
<td>378</td>
<td>450</td>
<td>500.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,058</td>
<td>1,293</td>
<td>1,621</td>
<td>2,010</td>
<td>2,236.6</td>
</tr>
</tbody>
</table>
Indian companies gain at the expense of Indian arms of foreign companies.

Another drawback is the excessive dependence on specific verticals. The banking, financial services and insurance segment remains the biggest sector with over 41 percent share, though verticals like hi-tech/telecom, manufacturing and retail are increasingly gaining share.

The quality of the workforce is also a constraint. Though India turns out a large number of graduates and post-graduates, including engineers, a very large proportion of them are simply unemployable. This means companies have to incur additional expenditure to train them to bring them up to scratch.

What is encouraging is that despite these challenges, the Indian outsourcing industry is still seen as inherently strong. According to the May 2009 edition of A T Kearney’s Global Services Location Index, India remains at the forefront of the outsourcing industry and has actually become an enabler for industry growth through the expansion of Indian offshoring firms into other countries. The survey adds that while the global financial crisis has slowed recent offshoring moves, the percentage of companies’ staff offshore may very well increase as a result of the crisis. Layoffs at home are not translating into layoffs among offshore workers as companies go the extra mile to try to reduce costs to cope with the slowdown and remain competitive in the coming days.

According to Norbert Jorek, a partner with A T Kearney and managing director of the firm’s Global Business Policy Council, “While cost remains a major driver in decisions about where to outsource, the quality of the labour pool is gaining importance as companies view the labour market through a global lens driven by talent shortages at home, particularly in higher, value-added functions”.

This point is corroborated by a well-known Indian columnist, Swaminathan Aiyar, who, writing in The Times of India (31 May 2009), argues that Obama’s moves could unwittingly facilitate the takeover of US firms by Indian ones as the former become less competitive vis-a-vis their Indian counterparts.

He argues that since Obama’s tax change affects all outsourcing by US companies, it does not affect India’s competitive advantage vis-a-vis other countries. It only makes US companies less competitive, giving Indian companies an edge over US companies. There is already some evidence of this. Financial data provider Bloomberg estimates the price-earnings ratio for the coming years at 11.4 and 11.5 respectively for Accenture and IBM as against 17.2 and 22.0 for India’s Infosys and Wipro.

Indeed, as with many other sectors where India’s large domestic market is likely to cushion the impact of the slowdown, the Indian BPO industry is likely to gain from increased domestic spending. IT spending in India is growing at a pace faster than in any other country in the Asia Pacific region. Domestic IT-BPO revenues are expected to grow almost 20 percent this year, driven by increased acceptance of IT as a growth enabler and a competitive tool for Indian corporations looking to compete in an increasingly globalized environment. Indian IT majors are expected to gain directly from this.

Add to this the increased adoption of e-governance by the government as a means to ensure greater transparency and better delivery of public services, and the outlook is pretty robust.

Strong fundamentals, a robust enabling environment, and enhanced value delivery capability have been the hallmark of the Indian IT-BPO industry. These are not going to change as a result of the global slowdown. India’s fundamental advantages—abundant talent and cost—are sustainable over the long term. A young demographic profile, with over 3.5 million graduates and post-graduates being added annually to the talent base, gives it a tremendous advantage over other countries. No other country offers a similar mix and scale of human resources.

True, there are some issues about the quality of the workforce (necessitating additional expenditure by the industry to train them), but even so, India is estimated to enjoy a cost advantage of around 60–70 percent compared to source markets. Additional productivity improvements and the development of tier 2/3 cities as future delivery centres are expected to enhance India’s cost competitiveness.

There is no gainsaying that markets penalize companies that fail to outsource. According to Nasscom, over 400 of the Fortune 500 companies now have operations in India. It is only a matter of time before the rest follow if they do not wish to lose competitiveness and get priced out of the market.

Ironically, protectionist measures intended to benefit companies in advanced countries may well end up benefitting India much more!

---

**Table 3**

<table>
<thead>
<tr>
<th>Export markets of IT-BPO industry</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>68.3%</td>
<td>67.2%</td>
<td>61.4%</td>
<td>60.0%</td>
</tr>
<tr>
<td>Europe</td>
<td>23.1%</td>
<td>25.1%</td>
<td>30.1%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>8.6%</td>
<td>7.7%</td>
<td>8.5%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Source: www.nasscom.org.

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As with many other sectors where India’s large domestic market is likely to cushion the impact of the slowdown, the Indian BPO industry is likely to gain from increased domestic spending.

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The author is Consulting Editor, The Economic Times, New Delhi.
Remittance in Nepal

Remittance, growing at a compound annual rate of 20.1 percent between 2001/02 and 2007/08 to reach NRs. 142.68 billion¹, has been a critical source of financing the savings-investment gap and trade deficit in Nepal (see graph). In addition, the rising inflows of remittance have not only addressed, to a great extent, unemployment and related problems, but have also been credited with contributing significantly to the decline of the headcount poverty ratio from 41.8 percent in 1995/96 to 30.9 percent in 2003/04.

At a time when there is a need to devise measures and strategies to streamline the use of remittance in productive sectors for more meaningful outcomes, the global economic crisis has generated several challenges for the economy, as well as the management and use of remittance.

The International Organization for Migration has warned that the global financial crisis will have a major impact on international migration since countries have begun to restrict immigration to combat the crisis. Several countries in the West and the Middle East have started imposing restrictions on new admissions of migrants. Over 1,500 visas are being cancelled per day in Dubai, which has about 3.6 million expatriates and only 864,000 nationals. Similarly, the World Bank reports that Malaysia has cancelled work visas for some 55,000 Bangladeshi workers.

In the case of Nepal, media reports indicate not only thousands of migrant workers returning home but also a reduction in the outflow of workers. For instance, during the period from mid-December 2008 to mid-June 2009, the number of Nepali workers going abroad for employment dropped by 23.5 percent to 94,749 as compared to the corresponding period in 2007/08.

Malaysia, Qatar, Saudi Arabia and the United Arab Emirates (UAE) absorb more than 90 percent of Nepali workers going abroad. As compared to the period from mid-December 2007 to mid-June 2008, while the absorption of Nepali workers in Saudi Arabia increased by 21 percent in the corresponding period of 2008/09, it dropped by 63.3 percent, 46.1 percent and 70 percent in Malaysia, Qatar and the UAE, respectively.

However, despite such trends continuing to impact the remittance sector, it is interesting to note that remittance inflows expanded from NRs. 108.77 billion during the period from mid-December 2007 to mid-June 2008, while the absorption of Nepali workers in Saudi Arabia increased by 21 percent in the corresponding period of 2008/09, it dropped by 63.3 percent, 46.1 percent and 70 percent in Malaysia, Qatar and the UAE, respectively.

A real estimation of the effects of the global recession on remittance demands an analysis of the impacts of currency depreciation, formalization of remittance transfers and savings of returnees.

Bishwambher Pyakuryal

* Data for 2008/09 are for the first 10 months and are provisional.

Source: www.nrb.org.np.
The depreciation of the Nepali rupee vis-à-vis the US dollar is partly responsible for the increase in remittance inflows to Nepal.

The author is Professor, Central Department of Economics, Tribhuvan University, Kathmandu.

Note

1 US$1 equals approximately NRs. 78.
The global financial crisis struck the Pakistani economy like a bolt of lightning. Already reeling from internal conflict, bad economic policies and mounting debt, Pakistan was struck hard by the credit crunch. Just like many other developing economies, its exports saw a steady decline from 2007 onwards, with a massive plunge in the textiles and garment manufacturing sector, leading to a heavy loss in its foreign exchange reserves.

As international financial market conditions worsen, statistics of the State Bank of Pakistan reveal that foreign investment inflows to the country reduced by 42.7 percent during July-April 2008/09 on top of the 35 percent fall recorded in the corresponding period of 2007/08. The Bank cites lower inflows of foreign direct investment (FDI) and net outflows of portfolio investment as major reasons for this decline. In particular, FDI declined from US$3.7 billion in July-April 2007/08 to US$3.2 billion in the corresponding period of 2008/09 (see table).

Increased risk aversion
Although the global crisis made a large dent in the Pakistani economy, the decline in FDI cannot be attributed to the global crisis alone for two main reasons. First, a combination of internal and external factors such as a worsening law and order situation, an absence of privatization proceeds, a fall in reinvested earnings in the face of lower profitability, and continued global liquidity constraints have affected FDI inflows. Second, FDI inflows are long-term in nature, depending largely on the time for feasibility studies, applications, approvals and agreements. Thus, in order to capture a more realistic scenario of the crisis’s implications for FDI inflows, one has to examine the developments in these factors in the wake of the crisis.

The most devastative hit to the economy, specifically investment opportunities, came from internal factors, the most important being the security risk that had grown rapidly over the last few years. The conflict in the north-west region of the country as well as the military operations on the Afghan border—which continue unabated—exacerbated the security situation.

This, coupled with the political instability during 2007 and 2008, kept potential investors at bay. Even though the government tried to im-

### Table

<table>
<thead>
<tr>
<th>Net inflow of foreign investment (US$ million)</th>
<th>FY08 (July–April)</th>
<th>FY09 (July–April)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investment</td>
<td>3,862.5</td>
<td>2,212.9</td>
<td>-42.7</td>
</tr>
<tr>
<td>Private investment</td>
<td>3,818.0</td>
<td>2,753.9</td>
<td>-27.9</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>3,719.1</td>
<td>3,205.4</td>
<td>-13.8</td>
</tr>
<tr>
<td>of which: Privatization proceeds</td>
<td>133.2</td>
<td>0</td>
<td>-1</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>98.9</td>
<td>-451.5</td>
<td>-556.5</td>
</tr>
<tr>
<td>Equity securities</td>
<td>98.9</td>
<td>-451.5</td>
<td>-556.5</td>
</tr>
<tr>
<td>Debt securities</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Public investment</td>
<td>44.5</td>
<td>-541</td>
<td>-1,315.7</td>
</tr>
</tbody>
</table>

lement an investment-friendly policy that offered, among other things, tax holidays, ownership rights and freedom of capital movement, FDI did not flow in as hoped.

Countries and regional blocs like the United States, the European Union, China, Saudi Arabia, the United Arab Emirates, Canada and Japan that are big sources of FDI globally are providing financial assistance for development works in Pakistan, but they shy away from investing directly in businesses as they deem the risk to be too high.

The global crisis has made investors risk-averse in general, to the detriment of developing countries desperately needing FDI. For example, although the Gulf states are flush with money due to high commodity prices in the last two years, they choose to invest the windfall gain in developed countries rather than in developing ones.

This increased risk aversion has served to magnify the unfavourable investment climate of Pakistan that existed well before the global crisis struck.

**Grim outlook**
The United Nations Conference on Trade and Development predicts that FDI flows to Pakistan will fall from US$5.3 billion in 2007–2008 to US$4 billion in 2009–2010. This prediction is in line with the projected drop in international FDI from US$1,500 billion to about US$1,100 billion due to the global crisis (see figure).

The projected reduction in international FDI means that developing countries would be furiously competing with each other to attract such investment in order to boost their economies. This would require every-thing from investor-friendly policies to excellent infrastructure facilities to political stability and security. Such a competitive environment puts Pakistan at a disadvantage vis-à-vis other developing countries. Specifically in South Asia, Pakistan stands to lose out to Sri Lanka and Bangladesh, which provide similar investment incentives but have a much better political stability rating.

**Way forward**
Pakistan’s focus needs to shift from securing FDI to building a strong base to attract FDI once the dust settles on the economic crisis. In order to build the groundwork for future investments, the government needs to be creative in capitalizing on the country’s inherent strengths such as its location, terrain, weather and skilled workforce.

Agriculture, precious stones, textiles and large-scale manufacturing merit special government attention as these sectors have the potential to cash in on the inherent strengths of Pakistan. Large swaths of empty land could potentially be used for large-scale farming with FDI and technology transfer. Large-scale manufacturing units for the production of automobiles and heavy equipment could be set up as there is ample space and workforce for them. This, combined with Pakistan’s location, can potentially make the country a viable offshore production facility for exports intended for the Middle East and Africa.

Innovative and liberal investment policies could provide a much-needed boost to the economy to weather the crisis and develop an attractive investment regime. To reiterate, the focus needs to shift from surviving the global economic downturn to creating investment-friendly policies. Three factors will have to be kept in mind to rescue the economy from its dire straits—finance, trade, and internal consumption.

Strong financial institutions and laws are necessary for long-term FDI. Banks should be encouraged to expand consumer base and build stronger balance sheets. Such an exercise would give potential investors confidence as well as offer them investment opportunities. A stronger financial system would also encourage trade, as it would be crucial for investors in production facilities that seek to export their products.

As regards trade, stronger integration into the South Asian economy needs to be pursued, as that would allow trade to boom even when global trade hits a tailspin. Likewise, increased internal consumption would contribute to enhancing Pakistan’s attractiveness as an investment destination. With the right innovative policies and groundwork in place, Pakistan could potentially attract the post-recession investments that would be made by investors looking to diversify their portfolio and increase their presence in emerging markets.

*The author is associated with Sustainable Development Policy Institute (SDPI), Islamabad.*
As the financial crisis emerged in mid-2007, there was optimism in Sri Lanka that given the relatively unsophisticated financial market in the country, the probability of evading the negative impacts of the crisis was high. This optimism was indeed justified until the crisis began to affect the real sector, and the events that followed 15 September 2008, when Lehman Brothers declared bankruptcy, triggering a crisis of confidence in the global economy.

As credit markets froze and the real economy in the major markets—the United States (US) and the European Union (EU)—ground to a halt, the crisis started affecting Sri Lanka. Since exports directly contribute to about 20 percent of Sri Lanka’s gross domestic product (GDP) and 60.3 percent of the country’s export value arises from the US and the EU, the economies most affected by the crisis, the potential damage to Sri Lanka remains substantial.

Thus far, however, garment exports—which make up 40 percent of Sri Lanka’s total export value—have remained buoyant, particularly in the European markets, supported by the Generalized System of Preferences-plus provision that Sri Lanka enjoys. However, some other sectors have experienced marked downturns. The tea sector has suffered a 20.8 percent contraction in its export earnings in the first quarter of 2009, and industrial products other than garments have shrunk by 29.3 percent in the same period.

Likewise, tourism, an important sector in the Sri Lankan economy, has also suffered from the global economic crisis.

Economic significance of tourism
Tourism has always been an important economic sector in Sri Lanka, even though it has not lived up to its full potential. In 2007, foreign exchange earnings from the sector amounted to US$384 million (equivalent to 5 percent of total export earnings) and the sector provided direct employment to 60,516 and indirect employment to 84,723 workers. Furthermore, the multiplier impacts of tourism are substantial, with several sectors such as transport, food and beverages benefitting from the sector. More indirectly, the agricultural, fisheries and livestock sectors in rural Sri Lanka that cater to tourism also benefit.

The military conflict in Sri Lanka from 1983 to 2009 resulted in the tourism sector not being able to realize its full potential as insecurity and negative perceptions of the country deterred tourists. It has been estimated that the loss of potential earnings from tourism between 1983 and 1996 was equivalent to 17 percent of the 1996 GDP. Therefore, if not for the conflict, tourism could have made a far greater contribution to the Sri Lankan economy.

Impact of the crisis on tourism
Tourism had been booming globally until mid-2008 when the global crisis began to adversely affect the world tourism industry. In the first half of 2008, global tourist arrivals grew by 5 percent, but in the second half of the year, tourist arrivals contracted by 1 percent. As a result, the overall growth of tourist arrivals in 2008 was 2 percent, with global tourist arrivals in the year totalling 924 million. All regions except Sub-Saharan Africa, South America and North Africa have seen declines in tourist arrivals.

Falling global incomes and the depreciation of many currencies against the US dollar, combined with the high oil prices in the first half of the year, contributed to the collapse of global tourism in the latter half of 2008. Despite some encouraging signs in recent months, the global economy in 2009 is projected to shrink for the first time since World War II. Uncertainty remains high, and this crisis of confidence is likely to curtail tourism through much of 2009 as well. The United Nations World Tourism Organization projects that world tourism will decline by 2–3 percent in 2009.

Reflecting the global tourism crisis, the intensification of the civil war was also responsible for the downturn in Sri Lanka’s tourism in the last one and a half years.
downturn, Sri Lanka saw a decline in tourist arrivals in 2008 and in the first four months of 2009. In 2008, tourist arrivals in Sri Lanka were 438,475, a fall of 11.2 percent from 494,008 in 2007. Employment arising from tourism also declined. In 2008, direct employment from tourism was 51,857 compared to 60,516—a fall of 14.3 percent. Indirect employment also declined by the same percentage. The decline in arrivals continued into 2009, with the first four months of the year witnessing an almost 20 percent fall in arrivals compared to the same period last year (Table 1).

Clearly, Sri Lanka’s tourism sector has had a very difficult one and half years. Many factors have contributed to this downturn, and the external shock through the global economic crisis is one of them. As shown in the figure on page 30, Sri Lanka’s major tourism market is Western Europe. The economies of the EU are expected to contract by 4.2 percent in 2009.4 In 2007, Sri Lanka received 94,060 tourists from Britain, whose economy is expected to contract by 4.1 percent in 2009. With unemployment in the 27-member EU running high, at 8.9 percent, it is expected that the demand for tourism from Western Europe will remain depressed.

Along with declining incomes, the Sri Lankan rupee, soft pegged to the US dollar through much of 2008, has appreciated against the sterling pound and the euro. Between March 2008 and March 2009, the Sri Lankan rupee appreciated by 23 percent against the sterling pound, 8.7 percent against the euro and 15.9 percent against the Indian rupee5. However, in recent months, the central bank has allowed the Sri Lankan rupee to float freely in the wake of a sharp downturn in foreign reserves. As a result, the Sri Lankan rupee has depreciated to a more realistic value as of June 2009.

Arrivals from all the major source markets declined in the first four months of 2009 compared to the same period in 2008 (Table 2). The number of tourists from Western Europe fell by 15.4 percent over the same period.

It is interesting to note that arrivals from India, Sri Lanka’s largest source of tourists from a single country, declined very sharply in 2009, despite India not being as severely affected by the crisis as Europe and the US. Tourist arrivals from Pakistan declined by 51 percent in the first quarter of 2009 compared to the same period in 2008. While the economic uncertainty related to the global crisis partly explains such a contraction in arrivals, it is likely that other factors such as security have also contributed to the decline in tourism.

Role of security
The civil war in Sri Lanka between the government and the Liberation Tigers of Tamil Eelam (LTTE) increased in intensity from July 2006 as the Sri Lankan military launched a fresh offensive to defeat the LTTE following the failed peace talks. During this period, the LTTE increased the frequency of attacks in the capital, Colombo, particularly on public transport and targets of military and commercial value. The LTTE also became the first terrorist organization to successfully maintain a rudimentary air force and was able to strike the capital city in several nocturnal air raids. Many countries issued travel advisories to their citizens against visiting Sri Lanka. Furthermore, the conflict received substantial news coverage, particularly in Southern India, resulting in negative perceptions about Sri Lanka. As the conflict reached its climax in the latter half of 2008 and the first five months of 2009, the security situation in the country deteriorated, deterring tourism. At the same time, major terror attacks in India (Mumbai) and in Pakistan, heightening regional awareness of terrorism, could have created a general sense of pessimism, insecurity and reluctance to travel within the region.

Therefore, when considering a response to the downturn in tourism over the preceding one and a half years, it is important to look beyond
the global economic crisis in assessing the causes.

Way forward

While the outlook for the global economy remains uncertain well into the second half of 2009, the prospects for Sri Lanka’s tourism industry have improved considerably in the medium and long term. The 26-year-old military conflict finally came to an end in May 2009 as the LTTE was militarily defeated by the Sri Lankan government forces. Although security remains tight in Colombo and the conflict zones to the north remain out of bounds for most civilians, the general security in the country has improved remarkably since the end of the war.

As security improves, airlines are likely to ease insurance surcharges and will be more comfortable directing flights to Sri Lanka. This would reduce the cost of travel to Sri Lanka and improve Sri Lanka’s global connectivity, both important for the expansion of tourism. It is important that increased flexibility in air traffic regulations follows. Greater air connectivity within South Asia is a measure that would be beneficial to all countries in the region.

The conflict resulted in many tourist attractions being inaccessible, particularly in the Eastern Province of the country where many beaches as well as other natural and cultural attractions can be found. With the conclusion of the conflict and return of normalcy, these places will once again be accessible.

The best season for visiting the Eastern Province beaches is between May and October, while the best season for visiting the Western and Southern beaches is between November and April. This new window will enable the attraction of tourists from the Southern hemisphere during the Eastern Province beach season.

Furthermore, domestic tourism can play an important role in reviving the fortunes of the industry in the short term, particularly given the fact that a negative external environment will, to an extent, mute international tourism. Domestic tourism will be viable especially because the Eastern and Northern parts of the country have been out of bounds for the last three decades and a general economic downturn in Sri Lanka (GDP growth in 2009 is projected to be 2.5 percent) may result in substitution of domestic travel for foreign travel by Sri Lankans.

Tourism could also be an important source of livelihood and economic activity in the post-conflict environment, providing both employment and an opportunity for interaction between Sri Lankans from the South and the North, a key ingredient for post-conflict economic and social recovery. Tourism played an important role in post-conflict recovery in countries such as Viet Nam, Cambodia and Rwanda.

In the longer term, it is essential for Sri Lanka to seek new tourist markets. There has been success in this regard in the last decade, particularly through the extension of visa-on-arrival facility to South Asian countries (later extended to a total of 73 countries), which contributed to a substantial increase in Indian tourist arrivals.

Given the rapid economic growth, until the recent downturn, in emerging economies such as China and India, as well as Southeast Asian economies, Sri Lanka is in an ideal position in terms of geographic and cultural proximity to attract the potential outbound tourists from these regions. Sri Lanka’s tourism policy needs to take this perspective into account in designing long-term plans for the sector.

With the end of the conflict, Sri Lanka should expect a substantial increase in tourist arrivals from 2010. It is, therefore, important that there is sufficient investment in tourism infrastructure, particularly in terms of accommodation and services delivery.

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Notes

Climate change, technology transfer and South Asia

Unless South Asian countries develop national-level plans and regional strategies, it will be difficult to achieve technology transfer goals to adapt to and mitigate climate change.

Krishna Ravi Srinivas

Technology transfer is a contentious issue in climate change negotiations. The United Nations Framework Convention on Climate Change (UNFCCC) and the subsequent Kyoto Protocol have provisions on technology transfer to developing countries and least-developed countries (LDCs). Yet, neither the UNFCCC nor the Kyoto Protocol has been successful in ensuring technology transfer to these countries. Similarly, the Clean Development Mechanism has also not facilitated technology transfer, as envisaged.

Enhanced action on technology development and transfer was identified as a key element of the Bali Action Plan of 2007. In subsequent meetings and conferences, concerns are being expressed about the barriers to technology transfer and the ways to overcome them but as of now, there has not been any breakthrough.

The North-South divide on technology transfer is not unique to the UNFCCC. This divide had been persistent for many years, even before the Rio Summit of 1992. The Agenda 21 envisioned transfer of Environmentally Sound Technologies (ESTs)/Climate-Friendly Technologies (CFTs) as key to sustainable development.

Post-Bali 2007, countries have debated various proposals. The draft text for future negotiations that was circulated in the Bonn Conference held this June reveals that there are differences on technology transfer issues. Although it is easy to label it as another North-South divide, the reality is complex. Technology transfer is linked to various other issues, including commitments on emissions, strategies for mitigation, financing mechanisms for mitigation and adaptation, and international trade. Thus, unless all these are addressed, technology transfer issues will continue to remain unresolved.

Negotiation issues

Although the scientific assessment after the 4th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) has confirmed that the impacts of global warming will perhaps be more severe than what the IPCC Report has projected, countries have not agreed upon any concrete and time-bound measures on emissions reductions.

The time horizon within which solutions have to be implemented is hardly four decades. Within this span, several objectives have to be achieved simultaneously. For example, energy consumption in developing countries has to go up while energy efficiency is enhanced. Similarly, economic development has to be linked with de-carbonization of economic growth. In achieving all these objectives, technology is bound to play a key role.

Whether the currently available technologies are adequate for these purposes or new and radical technologies are needed is a contentious question. Likewise, whether technologies like nuclear energy and biofuels are really ESTs is a matter of debate.

Irrespective of these questions, the harsh fact is that technologies already developed and deployed have not been transferred or uniformly deployed throughout the world. Thus, even when new technologies are developed, transferred and put to use, technology transfer and diffusion of existing technologies is a must. In many instances, the most recent technology may be a breakthrough, but not many countries will be able to use it, for example, due to lack of capacity to absorb it. Thus, while...
technological leapfrogging is highly desirable, it may not be feasible in many countries. But this does not mean that countries should opt for a slow technological transformation. Rather, the solution lies in the transfer, use and diffusion of relevant and appropriate technologies.

The need to increase funding for research and development (R&D) in many sectors, particularly energy and transportation, is obvious. Yet energy subsidies are in the range of US$150 billion to US$250 billion per annum while investments in clean energy R&D are much lower, about US$33 billion per annum, including nuclear energy. There are many multilateral and bilateral R&D projects for clean technologies. But most of them are not under the auspices of the UNFCCC. The private sector is the dominant player and commercial interests play an important role in these projects.

Thus, after technologies are developed and commercialized, they are made available under commercial terms, including restrictions on transfer and use. While the public sector is also involved in R&D in the energy sector, “crossing the valley of death” and successful commercialization are two issues that cannot be wished away. Though many technologies may look promising in the conceptual and pilot project stage, scaling them up and enhancing their efficiency to meet the needs of the real world is a challenging task.

Many technologies often die while crossing the valley between the conceptual and pilot project stage, and successful implementation in the real world. Even if this valley is crossed, commercialization of technologies is another task that has to be performed. This involves applying different skills, including marketing, arranging for financial tie-ups, and after-sales services. Thus, technology development, deployment and diffusion call for different types of investments, skills and strategies.

South Asian concerns
For South Asia, while the global dimensions of technology transfer are important, the regional and national dimensions also need attention. South Asian countries are in different stages of economic development and their capacity to develop technologies, utilize them and put them to the best use varies.

There is no need for them to opt for similar technologies or seek the transfer of the most recent and advanced technologies in all sectors. The Technology Needs Assessments (TNAs) done under the UNFCCC indicate the needs of countries and the options available. While clean coal technology is important for India, harnessing its huge hydro-electricity potential with minimal environmental impact is important for Nepal.

In agriculture, the need for drought-resistant, heat-tolerant and water-tolerant crops is obvious. Though this is a common challenge for South Asia, crops should be region-specific as impacts are not going to be uniform, nor all crops have the same economic significance in all countries. Since South Asia has traditional varieties that are drought-tolerant and water-resistant, it can examine the potential for using these varieties as a strategy to minimize the negative impacts of climate change on crop productivity.

Importantly, there is enormous scope for collaborative research on variety development. For example, a variety that is in vogue in some areas of Bangladesh may be useful for the development of seawater-tolerant varieties that can be used elsewhere in South Asia.

Increasing energy efficiency is again a common objective that offers immense scope for regional-level R&D.

While clean coal technology is important for India, harnessing its huge hydro-electricity potential with minimal environmental impact is important for Nepal.

In international forums, particularly with respect to climate change, South Asian countries have taken positions that are consistent with the positions of the G77 group of developing countries. In fact, India has made many significant proposals on technology development and transfer. Capacity building in South Asia is important for technology transfer and diffusion. LDCs like Nepal and Bangladesh can benefit immensely from assistance in capacity building in technology use and diffusion.

The countries can use TNAs and identify the best sources for the technologies they need. Here, the scope for South-South cooperation can be explored. Biofuels constitute a promising technology that can be profitably used by almost all countries in South Asia. The countries can also think of setting up joint mechanisms to acquire relevant technologies and use them.

Intellectual property rights (IPRs) are a barrier to technology transfer. All South Asian countries except Afghanistan and Bhutan are members of the World Trade Organization and hence bound by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Although LDCs can delay the full implementation of TRIPS, this flexibility may not be of much use to them with regard to ESTs/CFTs. Using TRIPS flexibilities, including compulsory licensing, is an option. But at present compulsory licensing can be invoked in the cases of ESTs/CFTs only if they have been patented in the respective countries.

Unless South Asian countries come up with national-level plans for meeting the challenges of climate change, they will not be able to achieve much in technology transfer. While such plans themselves will not guarantee access to technology or its transfer, their development will be essential to assess the need for different types of technologies in different sectors, and match the identified needs and stated goals of such plans.

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REALIZATION OF Farmers’ Rights

A new resolution on farmers’ rights does not in itself address the challenges developing countries are facing. They need continued support from both national and global actors and agencies.

Kamalesh Adhikari

Over the past few decades, the use of modern biotechnology in plant variety development and the application of intellectual property rights (IPRs) for plant variety protection have strongly favoured the global corporate seed sector to monopolize seed markets. Together with “broad patent” laws in many countries, since 1961, the International Union for the Protection of New Varieties of Plants (UPOV) has advanced the institutionalized cooperation among seed corporations and helped them extend IPRs over the production, reproduction and sale of protected seeds.

Following the establishment of the World Trade Organization (WTO) in 1995, the multilaterally binding IPR rules of the Agreement on Trade-Related Aspects of Intellectual Property Rights have further strengthened the corporate sector to entrench their monopolies over seeds.

WTO/TRIPS-plus conditions, including the obligation to join UPOV, have also enabled the corporations to transform farmers from seed owners to mere licencees and consumers of IPR-protected seeds. Much to the dismay of biodiversity-rich and traditional agriculture-driven countries, such conditions are not confined to bilateral and regional trade agreements they pursue with technology-rich countries, but are also imposed during WTO accession negotiations.

Many African, Asian, the Caribbean and Latin American countries have expressed reservations about these developments. They have argued that the IPR laws, together with corporate interest-driven seed regulations, create restrictions on farmers’ rights to, among others, save, use, exchange and sell farm-saved seed. In addition, some of their other major concerns relate to biopiracy—the use of IPRs for the commercialization of products/processes derived from farmers’ resources and knowledge without “prior informed consent” and “benefit sharing” agreements.

These countries have thus called for the disapproval of such IPR applications that do not fulfill “disclosure requirement”—the requirement to disclose the source and origin of genetic resources and knowledge used in inventions; and to provide evidence of prior informed consent and benefit sharing in cases of the use of farmers’ resources and knowledge.

Global efforts towards equity

Since the 1980s, within the Food and Agriculture Organization of the United Nations (FAO), countries have been debating the ways to balance the interests of the corporate seed sector and farmers. In this regard, the adoption of the Convention on Biological Diversity (CBD) in 1992 has been an important outcome. While according states sovereign rights over their biological resources, the CBD obliges them to facilitate access to genetic resources to other states and devise national measures to protect the rights of local and indigenous communities, for example, through the implementation of the two equity principles—prior informed consent and benefit sharing.

However, the CBD was not the answer to all the concerns raised by the international community. Particularly North-South divisions were still apparent on some issues concerned with access for research and development of plant genetic resources for food and agriculture (PGRFA). It was for this reason that, when the CBD was under consideration and even after it was adopted, negotiations within the FAO continued to focus on outstanding matters concerning PGRFA. In particular, countries focussed on how they were to deal with access to ex-situ collections not acquired in accordance with the CBD (for example, pre-1992 collections of genetic resources at international gene banks), and the question of farmers’ rights.

Recognition of farmers’ rights

In 1989, farmers’ rights were first introduced by FAO Resolution 4/89 and were further defined by FAO Resolution 5/89 as: “rights arising from the past, present and future contributions of farmers in conserving, improving, and making available plant genetic resources, particularly...
those in the International Community, as trustee for present and future generations of farmers, for the purpose of ensuring full benefits to farmers, and supporting the continuation of their contributions.”

As the introduction of this concept of farmers’ rights was perceived to have provided a counterbalance to IPRs, it became a major source of intense debate on the ways to balance the rights of plant breeders and farmers. While IPR systems were clear about how to reward plant breeders, the ways to reward traditional farmers for their contribution to agricultural biodiversity were still a matter of negotiations.

Hence, along with the adoption of the CBD in 1992, a resolution on the interrelationship between the CBD and the promotion of sustainable agriculture was tabled. The resolution urged the FAO to commence negotiations for a legally binding international regime on access to and the use and management of PGRFA. Importantly, the resolution also urged the FAO to address the issue of farmers’ rights.

Finally, in 2001, the negotiations within the FAO led to the adoption of the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA). This Treaty, representing a legally binding, international commitment to implement a multilateral system for access to the world’s key food and feed crops genetic resources, provides for farmers’ rights in its preamble, in a separate chapter and in two other articles.

In particular, in its Article 9, the Treaty recognizes the enormous contribution that farmers have made and will continue to make for the conservation and development of PGRFA. The Article recognizes the following farmers’ rights:

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

With regard to their implementation, the ITPGRFA, however, gives the responsibility to national governments. This is considered one of the weakest aspects of the Treaty. Moreover, not all countries that ratify the Treaty have the obligation to implement farmers’ rights. The Treaty states, “...in accordance with their needs and priorities, each Contracting Party should, as appropriate, and subject to its national legislation, take measures to protect and promote Farmers’ Rights...”.

Due to these fundamental weaknesses, ever since the adoption of the ITPGRFA in 2001 and its entry into force from 2004, the realization of farmers’ rights has remained a major issue of concern. The divisions among its Contracting Parties with regard to the interpretation and the implementation of the provisions on farmers’ rights are not near convergence.

Negotiations on farmers’ rights

At the First Session of the Governing Body of the ITPGRFA, held in Spain on 12–16 June 2006, Norway, together with a group of developing countries, proposed the inclusion of the topic of farmers’ rights on the Working Agenda of the Governing Body. At its Second Session, held from 29 October to 2 November 2007 in Italy, the Governing Body adopted its first resolution on farmers’ rights. The initial resolution text, proposed by developing countries (G77 and China), had come under sharp criticism from several industrialized nations, and to finalize the resolution, intense negotiations had to be conducted in a contact group.

Finally, acknowledging that there was uncertainty in many countries as to how Farmers’ Rights can be implemented and that the challenges related to the realization of Farmers’ Rights are likely to vary from country to country;

(i) Recalling the recognition in the International Treaty of the enormous contribution that local and indigenous communities and farmers of all regions of the world have made, and will continue to make, for the conservation and development of plant genetic resources as the basis of food and agriculture production throughout the world;

(ii) Recalling the importance of fully implementing Article 9 of the International Treaty;

(iii) Recalling also that according to Article 9 of the International Treaty, the responsibility for realizing Farmers’ Rights, as they relate to plant genetic resources for food and agriculture, rests with national Governments and is subject to national law;

(iv) Acknowledging that there is uncertainty in many countries as to how Farmers’ Rights can be implemented and that the challenges related to the realization of Farmers’ Rights are likely to vary from country to country;

(v) Recognizing that exchange of experiences and mutual assistance between Contracting Parties can significantly contribute to making progress in the implementation of the provisions on Farmers’ Rights in the International Treaty;

(vi) Recognizing the contribution the Governing Body may give in support of the implementation of Farmers’ Rights;

(vii) Recalling Resolution 2/2007 adopted by the Second Session of the Governing Body, in which Contracting Parties and relevant organizations were encouraged to submit their views and experiences on Farmers’ Rights as set out in Article 9 of the International Treaty;

(viii) Recalling also that the Governing Body through Resolution 2/2007 decided to consider these
The Secretariat of the Governing Body was requested to collect these views and experiences as a basis for an agenda item for its Third Session.

More recently, in the Third Session of the Governing Body, held on 1–5 June 2009 in Tunisia, the implementation of farmers’ rights was again a major issue for discussion. Although the number of submissions of the views and experiences on the implementation of farmers’ rights were limited, Brazil, on behalf of Africa, Latin America and the Caribbean, proposed a new resolution on farmers’ rights on 4 June 2009.

In this resolution, these countries called upon the Governing Body to consider ways to support national efforts so that farmers’ rights are protected and promoted. However, Canada criticized this idea and, together with Australia, stressed that as per the Treaty, the responsibility for realizing farmers’ rights rests with national governments.

Similarly, on another point made by the group led by Brazil—in which the Governing Body had been requested to invite “the Contracting Parties to review, and as appropriate, adjust seed regulations with a view to ensuring the Farmers’ Rights to save, use, exchange and sell farm-saved seed…”—Canada and a few other Parties such as European countries and Saudi Arabia made some reservations.

While Saudi Arabia wondered how the Governing Body could ask countries to change national seed laws, the negotiations with European countries led to the removal of the text that highlighted farmers’ rights to save, use, exchange and sell farm-saved seed. Similarly, after Canada’s reservations, the text that highlighted seed regulations was removed.

Finally, the consensus among all Parties was reached on the following text: “The Governing Body invites each Contracting Party to consider reviewing, and, if necessary, adjusting its national measures affecting the realization of Farmers’ Rights as set out in Article 9 of the International Treaty, to protect and promote Farmers’ Rights.”

Conclusion

Despite the deletion of “seed regulations” and “farmers’ rights to save, use, exchange and sell farm-saved seed” from the text submitted by developing countries, the above text in the new resolution is not weak. In fact, the agreed text does not limit countries to address farmers’ concerns, including in relation to seed regulations. The inclusion of “national measures” in the text of the new resolution means that all Contracting Parties can review and adjust national measures, including seed regulations.

Likewise, the inclusion of “Article 9” means that Contracting Parties have every flexibility to address national measures that affect farmers’ rights, including the rights to save, use, exchange and sell farm-saved seed. Besides, other decisions and requests made by the Governing Body and Contracting Parties in the resolution also hold tremendous potential for the realization of farmers’ rights (see sidebar on pp. 34–35). Therefore, countries would do well if they capitalize on the resolution to work out strategies needed to protect and promote farmers’ rights.

However, since the ITPGRFA itself does not oblige all Contracting Parties to implement farmers’ rights, and there are still such Contracting Parties which do not want to see others implementing the same, the interests of countries willing to protect farmers’ rights are at stake. Strong support from national as well as global actors and agencies, including developed countries, is, therefore, increasingly important. Let’s hope that in the run-up to the Fourth Session of the Governing Body, to be held in Indonesia in 2011, countries become more organized in protecting and promoting farmers’ rights, both nationally and internationally.

Note


views and experiences as a basis for an agenda item on its Third Session to promote Farmers’ Rights at the national level;

(x) Based on the received views and experiences from Contracting Parties and other organizations;

(xii) Encourages Contracting Parties and other relevant organizations to continue to submit views and experiences on the implementation of Farmers’ Rights as set out in Article 9 of the International Treaty, involving, as appropriate, farmers’ organizations and other stakeholders;

(xiii) Requests the Secretariat to convene regional workshops on Farmers’ Rights, subject to the agreed priorities of the Programme of Work and Budget and to the availability of financial resources, aiming at discussing national experiences on the implementation of Farmers’ Rights as set out in Article 9 of the International Treaty, involving, as appropriate, farmers’ organizations and other stakeholders;

(xiv) Requests the Secretariat to collect the views and experiences submitted by Contracting Parties and other relevant organizations, and the reports of the regional workshops as a basis for an agenda item for consideration by the Governing Body at its Fourth Session, and to disseminate relevant information through the website of the International Treaty, where appropriate; and

(xv) Appreciates the involvement of farmers’ organizations in its further work, as appropriate, according to the Rules of Procedure established by the Governing Body.
Anti-Dumping Agreement

Binding tariffs, and applying them equally to all trading partners (most-favoured-nation treatment, or MFN) are key to the smooth flow of trade in goods. Agreements under the World Trade Organization (WTO) uphold the principles, but they also allow exceptions. One exception is related to the practice of dumping. Dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country.

Article VI of the General Agreement on Tariffs and Trade (GATT) 1994 explicitly authorizes the imposition of a specific anti-dumping duty on imports from a particular source, in excess of bound rates, in cases where dumping causes or threatens injury to a domestic industry, or materially retards the establishment of a domestic industry. The Agreement on Implementation of Article VI of the GATT 1994, commonly known as the Anti-Dumping Agreement (AD Agreement), provides further elaboration on the basic principles set forth in Article VI itself, to govern the investigation, determination, and application, of anti-dumping duties.

Basic principles
Dumping is defined in the AD Agreement as the introduction of a product into the commerce of another country at less than its normal value. WTO members can impose anti-dumping measures, if, after investigation in accordance with the Agreement, a determination is made that dumping is occurring; the domestic industry producing the like product in the importing country is suffering material injury; and there is a causal link between the two.

Thus, the WTO allows governments to act against dumping if it is able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter’s home market price), and show that the dumping is causing injury or threatening to do so (See Box 1 for anti-dumping trend).

Determination of dumping
The AD Agreement provides three methods to calculate a product’s “normal value” in order to determine the dumping margin. The main one is based on the price in the exporter’s domestic market. When this cannot be used, two alternatives are available—the price charged by the exporter in another country, or a calculation based on the combination of the exporter’s production costs, other expenses and normal profit margins.

The Agreement also specifies how a fair comparison can be made between the export price and what would be a normal price. The basic requirements for a fair comparison are that the prices being compared are those of sales made at the same level of trade, normally the ex-factory level, and of sales made at as nearly as possible the same time.

The Agreement contains rules governing the calculation of dumping margins. In the usual case, the Agreement requires either the comparison of the weighted average normal value to the weighted average of all comparable export prices, or a transaction-to-transaction comparison of normal value and export price (Article 2.4.2). A different basis of comparison can be used if there is “targeted dumping”: that is, if a pattern exists of export prices differing significantly among different purchasers, regions or time periods.

The AD Agreement requires members to collect duties on a non-discriminatory basis on imports from all sources found to be dumped and causing injury, except with respect to sources from which a price undertaking has been accepted (if the exporting country raises the price to an agreed level). Moreover, the amount of the duty collected may not exceed the dumping margin, although it may be a lesser amount.

Box 1

Anti-dumping trend

After peaking in 2001, the number of anti-dumping investigations at the WTO was showing a declining trend in general until it registered an increase of about 27 percent in 2008 to touch 208. Likewise, since 2003 the number of final anti-dumping measures declined till 2007 except for a year, but it saw a 29 percent increase in 2008 to reach 138. In particular, coinciding with protectionist pressures generated by the financial crisis, during July–December 2008, 15 WTO members reported initiating a total of 120 new investigations, compared with 103 initiations reported by 14 members for the corresponding period of 2007. Similarly, a total of 11 members reported applying 81 new final measures during the second semester of 2008, 45 percent higher than the 56 new measures reported by 14 members for the corresponding period of 2007.

Source: www.wto.org, accessed 29.06.09.
The Agreement specifies two mechanisms to ensure that excessive duties are not collected. The choice of mechanism depends on the nature of the duty collection process. If a member allows importation and collects an estimated anti-dumping duty, and only later calculates the specific amount of the duty to be paid, the Agreement requires that the final determination of the amount must take place as soon as possible, upon request for a final assessment. In both cases, the Agreement provides that the final decision of the authorities must normally be made within 12 months of a request for refund or final assessment, and that any refund should be made within 90 days.

The Agreement requires that, when anti-dumping duties are imposed, a dumping margin be calculated for each exporter. However, it is recognized that this may not be possible in all cases, and thus the Agreement allows investigating authorities to limit the number of exporters, importers, or products individually considered, and impose an anti-dumping duty on uninvestigated sources on the basis of the weighted average dumping margin actually established for the exporters or producers actually examined.

The investigating authorities are precluded from including in the calculation of that weighted average dumping margin any dumping margins that are \textit{de minimis}, zero, or based on the facts available rather than a full investigation, and must calculate an individual margin for any exporter or producer who provides the necessary information during the course of the investigation. The method of calculating dumping margin used by the United States (US) has been a source of controversy and legally challenged by several countries at the WTO (Box 2).

\section*{Injury and causal link}

The Agreement provides that, to impose anti-dumping measures, the investigating authorities of the importing member must make a determination of injury. The Agreement defines the term “injury” to mean either: material injury to a domestic industry; threat of material injury to a domestic industry; or material retardation of the establishment of a domestic industry, but is silent on the evaluation of material retardation of the establishment of a domestic industry. The domestic industry should be producing the like product.

\section*{Procedural requirements}

The AD Agreement sets out detailed procedures on how anti-dumping cases are to be initiated, how the investigations are to be conducted, the conditions for ensuring that all interested parties are given an opportunity to present evidence, the imposition of measures, and the duration and review of measures.

Anti-dumping measures must expire five years after the date of imposition, unless an investigation shows that ending the measure would lead to injury. Anti-dumping investigations are to end immediately in cases where the authorities determine that the margin of dumping is insignificantly small (defined as less than 2 percent of the export price of the product). Other conditions are also set.

For example, the investigations also have to end if the volume of dumped imports is negligible, that is, if the volume from one country is less than 3 percent of total imports of that product (although investigations can proceed if several countries, each supplying less than 3 percent of the imports, together account for 7 percent or more of total imports).

The Agreement says members must inform the Committee on Anti-Dumping Practices about all preliminary and final anti-dumping actions. They must also report on all investigations twice a year. When differences arise, members are encouraged to consult each other. They can also use the WTO’s dispute settlement procedure.

Based on information available at www.wto.org.

\section*{Box 2}

\section*{The “zeroing” controversy}

A major sticking point in the Doha Round of trade negotiations on WTO rules is the practice of “zeroing”. Used by the US Department of Commerce, it refers to a method of calculating anti-dumping duties that only takes into account those occasions where a given good is sold for less in an export market than in the country of origin. The method assigns a value of “zero” to those instances where the opposite is true and thus increases both the likelihood of a positive dumping finding and the value of the punitive duty.

In cases brought against the US by the European Union (EU), Japan, Canada, Ecuador, Brazil, Thailand and others, the WTO has ruled that zeroing is contrary to anti-dumping rules because it distorts the prices of certain export transactions by not considering all comparisons of normal value and export price. On 4 February 2009, the Appellate Body (AB) for the first time ruled against “ongoing conduct” in the application of zeroing, rather than specific reviews where the method had been used. The case was brought by the EU following a panel ruling that had found the use of zeroing permissible in anti-dumping order reviews. Two other panel decisions with similar conclusions have also been overturned on appeal. However, the US refuses to change the way it calculates dumping margins, charging the AB with judicial overreach. US negotiators maintain that the AD Agreement does not specify whether “non-dumped comparisons” (those that are now zeroed out) must be “offset” when calculating anti-dumping margins.

Source: http://ictsd.ne, accessed 29.06.09.
Return of depression economics

Chandan Sapkota

Depression economics is back and is more relevant than ever to ensure that the gains in prosperity achieved in the past several decades do not evaporate in a few months. Countering Robert Lucas’s claim at an American Economic Association presidential lecture in 2003 that the “central problem of depression-prevention has been solved for all practical purposes”, Paul Krugman, the 2008 Nobel Laureate in economics, argues that the problem is far from being solved.

In The Return of Depression Economics and the Crisis of 2008, the Princeton University professor contends that economists and policy makers ignored warnings about bubbling sectors and believed in “a set of foolish ideas” and “crank doctrine” like supply-side economics that only appealed to editors and wealthy men who succumbed to the flawed ideology. Rightly invoking John Maynard Keynes’s ideas and relating them to the crises since the 1930s, Krugman shows that depression economics, which is “the study of situations where there is free lunch because there are unemployed resources that could be put to work”, is still relevant and we are far from fully fathoming business cycles.

In 10 chapters covering the ideological battle, the crises in Japan, East Asia and Latin America, the bubbles created by Alan Greenspan while at the helm of the United States (US) Federal Reserve, the shadow (parallel) banking system and the present crisis, Krugman offers a compelling case for the relevance of Keynesian economics and the need to stimulate aggregate demand and restore market confidence, by all possible means (even short-term nationalization of banks and more government spending than tax cuts), when the economy is in a deep financial slump and a liquidity trap. He lucidly explains the persistent slump in the Japanese economy—which he says is a classic case of liquidity trap and bears a striking resemblance to the present economic crisis—and the waves of currency crises, from the tequila crisis in 1994 to the East Asian crisis in 1997.

Perhaps the most important point is Krugman’s emphasis on the fact that warnings about bubbles were missed (or ignored) and it is entirely possible to have an economic crisis, triggered by a crisis of confidence, even in a stable market economy. Even the most promising economies were vulnerable to self-fulfilling panics. Krugman argues that the policy response to big crises was not enough in the crisis affected countries. He argues that Japan failed to act quickly and decisively in restoring market confidence and recapitalizing the banking system. While the crisis was brewing since 1990, it was only in 1998 that Japan’s legislature passed a US$500 billion bank rescue plan. Similarly, Mexico failed to devalue its currency enough to avoid fertile playing field for speculators and engaged in irresponsible politics that further disturbed investor’s confidence. He believes that the current fiscal rescue package in the US (around 1 percent of gross domestic product) is short of the expenditure required to stimulate demand in a recession of this severity and magnitude—a point contested by conservative economists and policy makers. He also comes down heavily on investors like George Soros, the International Monetary Fund (IMF) and the US Treasury for fuelling crises and advocating counterproductive policies during distressed times.

Krugman argues that to get out of a slump, it is necessary to heat up an economy, even by excessive government spending, i.e., it is okay to have moderate inflation. Krugman’s critics disagree, arguing that exclusively focusing on “Keynesian compact” would leave the economy vulnerable to disturbances in aggregate supply caused by expectations of inflation. However, this should be of a secondary concern at a time when the credit market is frozen, producers are closing factories, consumers are not spending, and there are unused resources that could be properly put to work.

There are talks about a second stimulus package in the US (Krugman wants it to be 4 percent of gross domestic product). Along with other countries, China, Japan, India, and the European Union are spending billions of dollars to stimulate their economies. And, the IMF is armed with US$500 billion to stimulate developing economies. The world has listened to Krugman’s call for resorting to the good “old Keynesian fiscal stimulus”. The tide is on Krugman’s side. Only time will tell how strong the tide will be in pulling the global economy out of the recession.

The author is based in Washington, D.C., and has recently been appointed as Junior Fellow for Trade, Equity and Development Programme at Carnegie Endowment for International Peace.
CGE Training for South Asian Researchers

SAWTEE and South Asian Centre for Economic Journalists (SACEJ) organized the “South Asia Media Training on Trade and Development Issues” in Kathmandu, Nepal on 24–26 April 2009. The major objectives of the three-day training were to enhance the knowledge and capacity of South Asian media persons and to contribute to wider sensitization on trade and development issues in the region. Spread over 12 sessions, the training covered a variety of subjects: trade, growth, poverty and economic welfare; trade policy and instruments; bilateral, regional and multilateral trade agreements; regionalism and development issues; regional cooperation; the Doha Round of World Trade Organization negotiations; least-developed countries’ concerns on regional and multilateral agreements; intellectual property rights, agriculture and public health issues; food and financial crises and climate change; and gender, trade and development issues.

Some 20 journalists from the region, including SACEJ members, participated in the training. The resource persons were leading economists, trade and development experts, and journalists of the region.

SAWTEE, in collaboration with South Asian Network on Economic Modeling (SANEM), Dhaka, Bangladesh organized the “South Asian Training Programme on CGE Modelling” from 18–23 April 2009 in Kathmandu, Nepal. The training was held in view of the growing demand for ex-ante economic analyses and the increasing use of computable general equilibrium (CGE) models in this regard, especially in trade policy analysis.

The objectives of the training were to build the capacity of researchers in South Asia, providing them with basic knowledge of CGE modelling using GAMS software; and to contribute to informed trade policy making and implementation in South Asia, and help the region in its pursuit of an effective and meaningful integration into the global economy, not least the multilateral trading system. Altogether 26 researchers from South Asia participated in the training. The instructors were two leading CGE modellers of South Asia: Dr. Bazlul Haque Khondker, Professor of Economics at University of Dhaka, and Chairman of SANEM; and Dr. Selim Raihan, Associate Professor of Economics at University of Dhaka, and Executive Director of SANEM. It was the second time SAWTEE and SANEM organized such a training. The first one was held in July 2008.

South Asian Media Training

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Trade, Development and Poverty

CONSUMER Unity & Trust Society-International (CUTS-International) organized the “International Conference on Trade, Development and Poverty Linkages: Lessons and Future Directions” on 23 June 2009 in Jaipur, India. The conference explored three issues: the role of trade liberalization for poverty alleviation; the use of trade policy to foster external discipline for insulating economies against shocks; and the equitable distribution of gains from trade.

Congratulations!

ON 29 April 2009, Dr. Atiur Rahman, founder and Chairman of SAWTEE’s Dhaka-based member institution “Unnayan Shamannay”, was appointed as the governor of Bangladesh Bank, the central bank of the country. He is the 10th governor of the Bangladesh Bank. Also a professor at the Department of Development Studies at Dhaka University, he worked at the Bangladesh Institute of Development Studies in different capacities for nearly 28 years. He also served as Director of the state-owned Sonali Bank, the largest bank in Bangladesh. In 2001, he was appointed as Chairman of the Board of Directors of the Janata Bank. He has played a major role in the microcredit revolution in Bangladesh, serving in Mohammed Yunus’s National Task Force on Poverty Eradication. Since 1994, Unnayan Shamannay is working as a centre of excellence for research and development in Bangladesh.
Authors: Regine Andersen and Tone Winge
Publisher: SAWTEE

Research Brief: Access and Benefit Sharing Laws in South Asia: Enforcement, Implementation and Monitoring Challenges
Author: Robert J. Lewis-Lettington
Publisher: SAWTEE

Policy Brief: Implementing the ITPGRFA: Developing-Country Concerns
Author: Lim Eng Siang
Publisher: SAWTEE

South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 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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