A dialogue on trade and development in South Asia
Vol. 6, No. 1, 2010

TRADE insight

Special Briefs for the **16th SAARC Summit**

SERVICES TRADE IN SOUTH ASIA

ENVIRONMENTAL GOODS AND SERVICES | CARBON TRADE | FOOD SECURITY AND HUMAN RIGHT

A dialogue on trade and development in South Asia Vol. 6, No. 1, 2010
TRADE insight

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

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT

P.O. Box: 19366
254 Lamtangeen Marg
Baluwatar, Kathmandu, Nepal
Tel: +977-1-4415824/4444438
Fax: +977-1-4444570
E-mail: sawtee@sawtee.org
Web: www.sawtee.org

Published with support from
Oxfam Novib

editors' note

16th SAARC Summit

AT a time when the South Asia region is under attack from climate change impacts and struggling to come out of the global environmental and economic crises, the theme for the 16th Summit of the South Asian Association for Regional Cooperation (SAARC) is "Climate Change". The Summit, which is being organized four months after the 15th Session of the Conference of Parties to the United Nations Framework Convention on Climate Change, is taking place in Thimpu, Bhutan from 28–29 April 2010.

Geography coupled with high levels of poverty, food insecurity and population density has rendered South Asia especially vulnerable to the impacts of climate change. Several environmental, human and social concerns in relation to climate change such as water scarcity, reduced agricultural productivity, loss of biodiversity and the displacement of the poor and marginalized, mainly farmers, are well documented and need attention in the Summit. Since there are direct as well as indirect inter-linkages between trade and climate change, regional attempts must be made to harness the potential of trade in overcoming the challenges unleashed by climate change, and to make trade and climate change policies mutually supportive.

Looking at the history of regional actions on climate change, it seems that SAARC has been proactive in adopting resolutions for initiating actions to address the regional challenges of climate change. However, the regional body has not been as forthcoming as stakeholders would like to see in terms of the implementation of its declarations and commitments. Besides, there are a number of other issues that need to be tackled upfront by the heads of states or governments meeting in Thimpu.

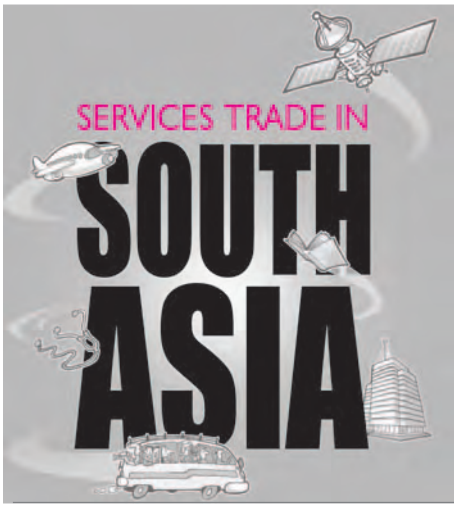
One such issue relates to the deepening and broadening of regional economic cooperation. In particular, the least-developed countries (LDCs) of South Asia have not only failed to benefit from the Agreement on South Asian Free Trade Area (SAFTA), but are also being further marginalized, which is evident from the trends of their exports and imports in the last few years. Yet, little efforts have been made for their meaningful integration into the regional trading system.

For instance, despite the need for a systematic research on their supply-side constraints (such as lack of infrastructure, finance, technology and human capital) and for enhanced technical and financial support to help them address such constraints, the SAARC process has not taken up any serious policy and institutional initiative. They would, therefore, do well to agree to create and mobilize an "LDC Integration Fund" within the SAFTA framework in the upcoming Summit. Similarly, the inclusion of services in the SAFTA framework is long overdue. With the December 2009 deadline for completing the negotiations on the SAARC Framework Agreement on Services missed, a further political push is required from the Summit to conclude the negotiations on time. This will help South Asian countries, including the LDCs that have higher comparative advantage in services than in goods, benefit from the regional trading system.

In order to unleash the trade potential of the region, the SAARC Summit should also commit for increased cooperation on improving regional connectivity and energy supply. While improved connectivity is critical for better transport and communication links as well as transit facilities, especially for the region's landlocked countries, without the construction of a regional grid and a regional pipeline for the supply of petroleum products, energy supply cannot be improved.

As its chosen theme is climate change, the SAARC Summit's decisions are likely to be heavily dominated by climate change issues. The challenge before the Summit is to deal with climate change with a comprehensive understanding of its linkages with broader development issues and implications for all sectors of the economy, the environment and society. ■

contents



SAARC countries will not benefit from a services agreement without making the regional market more attractive for intra-regional trade and investment flows.

COVER FEATURE 14

CARBON TRADE in South Asia

www.thisday.co.tz

CARBON TRADE 11

Protection of smallholder farmers
the need for a resource rights approach

FARMERS' RIGHTS 32

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

SAARC SUMMIT 4
Climate Change in SAARC

IN THE NEWS 5

TRADE AND CLIMATE CHANGE 8
South Asian LDC Issues in Environmental Goods and Services Liberalization

COUNTRY CASES
Bangladesh's Experience in Services Trade 18
India's Services Trade in South Asia 20
Services Trade Issues for Nepal 22
Pakistan's Potential in Trade in Services 24
Prospects for Services Trade in Sri Lanka 26

FOOD SECURITY 28
Food Security: A Fundamental Human Right

NORTH-SOUTH FTA 30
Campaign on US-Nepal Trade and Investment Framework Agreement

CLIMATE CHANGE 35
COP15: Let-down through a Secretive Process

UNDERSTANDING WTO 36
General Agreement on Trade in Services

BOOK REVIEW 38
The Sinking of the World Economy

NETWORK NEWS 39

SAWTEE NETWORK

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

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

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

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

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

climate change in SAARC

www.doinepal.gov.np

www.distantocean.com

The 16th Summit of the South Asian Association for Regional Cooperation (SAARC) is scheduled for 28–29 April 2010 in Thimpu, Bhutan. The theme of the Summit is “Climate Change”, and it is going to take place four months after climate change talks in Copenhagen.

For SAARC countries, which are facing a number of common challenges due to climate change, the upcoming Summit is an opportunity not only to recommit for collaborative efforts to address the challenges, but also to come up with a meaningful common agenda for the 16th Session of the Conference of Parties to the United Nations Framework Convention on Climate Change (UNFCCC) to be held in Mexico later this year.

The issue of climate change was first taken on board by the SAARC member countries during the Fifth SAARC Summit held in Male in 1990. Noting with alarm the unprecedented climatic changes predicted by the Intergovernmental Panel on Climate Change, SAARC countries had urged the international community to mobilize additional finances and to make available appropriate technologies to enable developing countries to face the new challenges arising from climate change and sea-level rise. They had also agreed that SAARC countries should coordinate their positions at international forums on this issue. The Seventh Summit held in Dhaka in 1993 recognized that the completion of the Regional Study on the "Greenhouse Effect and its Impact on the Region" was a significant step forward in promoting regional cooperation in this vital area. However, the recommendations of the study were not implemented in earnest.

SAARC countries adopted a common position prior to the Third Session of the Conference of Parties to the UNFCCC and welcomed the adoption of the Kyoto Protocol to the UNFCCC in December 1997. All these show that climate change used to remain one of the core agendas of SAARC summits until the late 1990s. It lost fervor starting from the early 2000s, although “environment” has remained a core agenda of discussion since the early years until today.

Of late, the issue of climate change has gained prominence in South Asia along with growing global concerns on the subject. The 29th Session of the Council of Ministers of SAARC countries held on 7 December 2007 in New Delhi adopted the SAARC Declaration on Climate Change, following which the SAARC Environment Ministers issued the Dhaka Declaration and the SAARC Plan of Action on Climate Change in July 2008.

As a continuation of their earlier efforts, the Eighth Meeting of SAARC Environment Ministers held in New Delhi on 20 October 2009 also discussed the agenda of climate change and recalled the earlier declarations and plan of actions on the subject. Underlying the crucial importance of close regional cooperation in the run-up to the 15th Session of the Conference of Parties to the UNFCCC, the Meeting decided to have a common South Asian statement in Copenhagen. However, by the time SAARC countries were in Copenhagen, they were less interested in the common statement than in their individual national interest.

Climate change is going to have severe impacts on various aspects of development and the economy, some of which include food security, biodiversity and trade. These issues have a direct bearing on the livelihoods of a vast majority of people, mostly the poor and vulnerable, living in South Asia. Therefore, the theme “Climate Change” for the upcoming SAARC Summit is appropriate. There are a number of measures that South Asian governments can adopt to tackle the challenges posed by climate change on these different areas. However, it remains to be seen whether South Asian governments will implement those measures in earnest, or render the commitments that they are going to make in the upcoming 16th Summit mere empty rhetoric as in the past. ■

BASIC countries emphasize "two-track" process in climate negotiations

http://beta.thehindu.com

BRAZIL, South Africa, India and China—the so-called BASIC group—have underscored their support for the Copenhagen Accord (CA) produced by the Copenhagen climate change meet under the United Nations Framework Convention on Climate Change (UNFCCC).

In a joint statement issued after their second meeting, held on 24 January 2010 in New Delhi—the first since the 15th Session of the Conference of the Parties (COP15) to the UNFCCC—the environment ministers of the BASIC group recalled the "important and constructive contributions" of the group at the COP15 and in the finalization of the CA, and re-emphasized their commitment to working together with all other countries to ensure an agreed outcome at the COP16 in Mexico later this year.

While describing the CA as a high-level political agreement, the BASIC ministers underscored the centrality of the decision in the CA to carry forward negotiations under the two tracks of Ad hoc Working Group on Long-term Cooperative Action under the UNFCCC and the Ad hoc Working Group on Further Commitments of Annex I Parties under the Kyoto Protocol in 2010 leading up to the COP16. The ministers of the four emerging economies reiterated that all negotiations must be conducted in an inclusive and transparent manner.

The strong backing of the two-track negotiation process by these economies has raised hopes that the process would not be abandoned. They also called for the ad hoc working groups to meet at least five times before the COP16, emphasizing that these meetings are essential to make progress towards an agreed outcome at the COP16.

On finance, the BASIC environment ministers called on developed countries for an early flow of the pledged US$10 billion in 2010 with a focus on least-developed countries, small island developing states and African countries, as proof of their commitment to urgently address the global challenge of climate change *(Adapted from Trade and Development Monitor, SAWTEE, January 2010).* ■

Bangladesh advised to sign bilateral FTAs

A CORE Group, formed by the Bangladeshi government, has recommended that the country sign bilateral free trade agreements (FTAs) with India, Pakistan and Sri Lanka on goods in the first phase and similar deals on services and investment in the second phase.

Under the proposed FTAs, the Core Group strongly suggested that the government seek zero-duty facility for all Bangladeshi exports to these countries' markets and demand national treatment at the local level to avoid any additional duties and charges.

Bangladesh has not been able to reap benefits from the duty-free access facility offered by India as extra levies like education tax, central value added tax, special central value added tax and additional countervailing duty are levied on products originating from Bangladesh. National treatment at the local level means no additional duties and charges will be levied on Bangladeshi products which are not levied likewise on Indian, Pakistani or Sri Lankan products in their respective markets. Presently, exports from Bangladesh to India, Pakistan and Sri Lanka constitute less than 3 percent of its total annual export earnings while its imports from these countries represent about 13 percent of its total imports *(Adapted from Financial Express, www.bilaterals.org, 08.12.09).* ■

WTO members quietly drop 201

WORLD Trade Organization (WTO) members tacitly dropped a deadline for a new trade deal on 26 March, at the end of a week-long "stocktaking" exercise among senior trade officials in Geneva.

The decision to pursue the talks into an uncertain future came as the WTO forecast that global trade volumes would expand by 9.5 percent this year, after contracting by 12.2 percent in 2009, shrugging off halting progress on the Doha Round of talks.

When trade ministers announced at the Seventh WTO Ministerial in late 2009—held after a four-year hiatus—that there would be a stocktaking in late March, the unspoken hope was that it would be the occasion to clinch an outline deal. The G20 had called on trade ministers to reach a Doha agreement by 2010.

The push to finalize a new global trade accord by that time had effectively died several weeks before the stocktaking. Thanks to the complexities of the global trading system, it would take WTO members roughly nine months to "schedule" all of the tariff commitments that would be required under any new deal. If an agreement were to be in place before the end of the year, trade ministers would need to agree on the broad outlines of a trade deal before the end of the first quarter. So when WTO Director-General Pascal Lamy announced in late February that the stocktaking meeting would be for senior officials only, rather than ministers, it became clear that an agreement on modalities was not within immediate reach. No one who spoke at the opening of the stocktaking made any mention of a deadline, let alone the 2010 deadline.

It was clear from the reports presented by the chairs of the various negotiating groups that serious differences persist. David Walker, the chair of the negotiating group on agriculture, said members have not been able to "substantively resolve matters", noting that divisions persist over cotton subsidies, sensitive products, tariff caps, special products and the special safeguard mechanism. Likewise, the chair of the industrial goods talks, Luzius Wasescha, provided a similarly downbeat appraisal of his area of negotiations. He said that the "main

http://picasaweb.google.com

Germany tops logistics performance

GERMANY is the top performer among the 155 economies ranked in the Logistics Performance Index for 2010 (LPI 2010).

The index produced by the World Bank Group is based on a world survey of international freight forwarders and express carriers who are asked to rate the performance of countries in six areas of the current logistics environment: efficiency of the customs clearance process; quality of trade and transport-related infrastructure; ease of arranging competitively priced shipments; competence and quality of logistics services; ability to track and trace consignments; and frequency with which shipments reach the consignee within the scheduled or expected time.

The score for each indicator and the overall index ranges from 1 to 5, with higher score indicating better performance. According to the LPI 2010, high-income economies dominate the top logistics rankings, with most of them occupying important places in global and regional supply chains. By contrast, the 10 lowest performing countries are almost all from the low-income and lower middle-income groups.

The report notes that among developing economies, logistics performance transcends the level of per capita income: Many countries perform better than what their income level would suggest. The 10 most significant over-performers include China (27), India (47), Uganda (66), Vietnam (53), Thailand (35), the Philippines (44), and South Africa (28).

Likewise, the countries with significant improvements in performance between the two LPI surveys in 2007 and 2010 are often those which implemented comprehensive logistics and trade facilitation reforms earlier, such as Colombia, Brazil, and Tunisia. In South Asia, the performance

www.hapag-lloyd.com

of Afghanistan, Bangladesh, Bhutan, India and Nepal improved in terms of absolute score compared to the LPI 2007, while that of Pakistan and Sri Lanka worsened. India tops South Asian countries, followed by Bangladesh (79), Pakistan (110), Bhutan (128), Sri Lanka (137), Afghanistan (143) and Nepal (147).

The score of all South Asian countries except India is below three. The Maldives is not covered in the survey *(Adapted from www.worldbank.org, 27.02.10).* ■

010 Doha deadline

http://picasaweb.google.com

gap" is a mismatch in members' levels of ambition. The debate over sectorals—schemes that would slash tariffs on goods across an entire industry—has been particularly fierce *(Adapted from www.reuters.com, 26.03.10; Bridges Weekly Trade News Digest, Vol. 14, No. 11).* ■

Brazil, India for duty-free schemes

BRAZIL and India informed the Committee on Trade and Development of the World Trade Organization (WTO) that they are pushing ahead with commitments to provide duty-free and quota-free (DFQF) treatment to imports from the least-developed countries (LDCs). Brazil said that an inter-ministerial working group is finalizing implementation of the commitment made by Foreign Minister Celso Amorim at the WTO Ministerial last year for DFQF. It said that the preferential treatment will initially cover 80 percent of the tariff lines by mid-2010, and will be expanded to reach 100 percent. Noting that it was the first developing country to offer DFQF to the LDCs in 2008, India said it is working to ensure that the scheme provides effective market access, covering important LDC products like cotton, cocoa, cane sugar and readymade garments *(Adapted from www.wto.org, 20.03.10).* ■

Post-crisis prospects for South Asia

WITH sound economic policies, India, Bangladesh and Bhutan are expected to emerge from the global economic crisis with stronger growth performances in South Asia, according to the World Bank's Global Economic Prospects 2010. These three countries generally have sound economic policies and greater resilience of trade, investment and remittances, the report said, noting that growth has been weakest in countries that entered the crisis with large internal and external imbalances, such as Pakistan, Sri Lanka and the Maldives.

In general, South Asia appears to have escaped the worst effects of the global economic crisis. The region's gross domestic product (GDP) growth of 6 percent in 2009 remains unchanged from 2008.

The global crisis contributed to deceleration in real GDP growth in South Asia, from 8.7 percent in 2007 to 6 percent in 2009. This was largely driven by a pronounced decline in investment growth and private consumption.

However, the slowdown in regional GDP growth was the lowest among all developing regions, the report noted. Some sectors demonstrated marked resilience during the crisis, such as readymade garments in Bangladesh, Sri Lanka's partnerships with mid-to high-end retailers in the United States and the European Union, and India's information technology industry. Overall, the combination of a sharp fall in the value of imports, a less steep decline in exports, and resilient remittance inflows have mitigated the negative effects.

Remittance, a key source of foreign exchange for South Asia, declined in 2009 due to decline in economic activities and rise in unemployment in migrant host countries. Remittance inflows, however, remained relatively strong compared with other sources of foreign exchange, and are above their 2007 levels.

Although regional GDP growth is projected to accelerate, a return to boom-period growth rates is not expected in near future. The regional fiscal deficit is projected to narrow on reversal of stimulus measures introduced to support demand during the crisis *(Adapted from IANS, http://economic-times.indiatimes.com, 24.02.10).* ■

South Asian LDC issues in environmental goods and services liberalization

Fahmida Khatun

Liberalization of environmental goods and services (EGS) is part of the single undertaking of the Doha Round of talks at the World Trade Organization (WTO). Though least-developed countries (LDCs) do not need to make tariff reduction commitments, negotiations on EGS can impact them. This article identifies EGS issues for South Asian LDCs and suggests negotiation strategies based on the case studies of Bangladesh and Nepal.

Current state of play

There is at present no international consensus on the definition of EGS. In the Committee on Trade and Environment in Special Session (CTESS) of the WTO, a number of members have referred to the work done by the Organisation for Economic Co-operation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) on EGS. The OECD classification of environmental goods (EGs) includes three broad groups with different categories and sub-categories covering 164 environmental products. The APEC list includes 109 items within 10 broad categories.

In addition, of late, the WTO '153' list has been at the centre of discussions on EGs at the CTESS. The list was submitted by the "Friends of EGs"— a group of countries including Canada, the European Communities, Japan, Korea, New Zealand, Norway, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Switzerland, and the United States (US). The list comprises 12 broad categories of products.

Several approaches have been proposed for EG liberalization in the WTO. Developed countries are advocating a "list-based approach" while developing countries are for alternative approaches, particularly those that would tie liberalization with EGs associated with a specific environmental project. The list-based approach has been criticized on the ground that it may lead to the liberalization of goods that have both environmental and non-environmental end uses.

Under the "project approach" advocated by India, imports of goods and services at concessional terms would be allowed for environmental projects approved by a designated national authority based on criteria developed by the WTO's Committee on Trade and Environment. This approach has been criticized by developed countries, however, for failing to provide predictable, binding and permanent trade concessions, questioning its consistency with WTO rules.

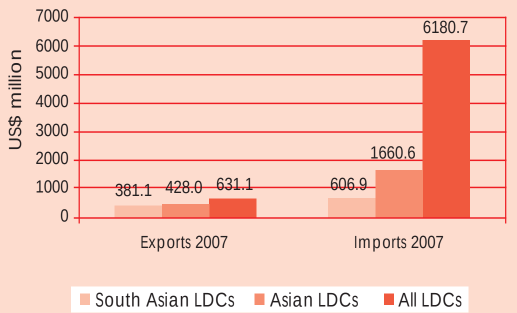
Another alternative is an integrated approach requiring the CTESS to multilaterally pre-identify categories of environmental projects such that EGs used under the projects would benefit from concessions on tariffs and not face non-tariff barriers (NTBs). Yet another option is a "request-and-offer approach" which would allow each country to propose goods it believes contribute to the environment and also goods for which it is prepared to assume liberalization commitments.

In the context of environmental services (ES) negotiations, WTO members have proposed to categorize ES using a "core and cluster approach". The European Union (EU) has proposed, for instance, a classification of "core" services which encompasses those that can undisputedly be classified as "purely" environmental. Such services can further be categorized according to the environmental media, i.e., water, noise, solid and hazardous waste, etc. The EU has also proposed that services that can be termed conceptual services—such as design, engineering, research and development, and consulting services—be considered a special cluster since they have environmental end use.

South Asian LDCs in EG trade

Based on the data of the Trade Map of the International Trade Centre, UN Comtrade and the World Integrated

Figure
LDC trade in EGs



Source: Based on UN Comtrade and ITC Trade Map.

Trade Solution, it is estimated that total global exports and imports of EGs—as defined in the WTO '153' list—stood at US$783.2 billion and US$753.8 billion, respectively, in 2007.

In 2007, the share of LDC exports of EGs in total global EG exports was 0.08 percent and the share of LDC imports of EGs in total global EG imports was 0.82 percent. Asian LDCs accounted for 67.8 percent and African LDCs 32 percent of total EG exports of LDCs. Asian and African LDCs accounted for 26.9 percent and 72.22 percent of total LDC imports of EGs, respectively.

South Asian LDCs account for a whopping 89.03 percent of total EG exports of Asian LDCs, and 36.55 percent of EG imports of the same group (Figure). Bangladesh dominates both EG exports and imports. In 2007, its share was 29.38 percent and 82.03 percent of total EG exports and imports of Asian LDCs, respectively.

While jute and other textile fibres comprise 54.16 percent of Bangladesh's EG export basket, they do not feature in Nepal's top 10 EG exports. With a share of 45.68 percent in the country's total EG exports, tubes, pipes and hollow profiles and iron are the dominant EG exports of Nepal. Sacks and bags for packaging of goods, of jute or of other textile fibres, are the second important EG exports of both Bangladesh (23.44 percent) and Nepal (30.03 percent).

The top 10 EG exports contribute almost 95 percent of total EG exports of Bangladesh and 97.63 percent of total EG exports of Nepal, implying that they export only a few items on the '153' list and their export baskets are relatively small. Three items—sacks and bags, for packaging of goods, of jute or of other textile fibres; machines and mechanical appliances having individual functions; and articles of iron or steel—are common to the major EG export baskets of both countries.

On the import front, machinery and mechanical appliances having individual functions, parts of electric motors, laboratory equipment, static converters, air or gas compressors, parts for diesel and semi-diesel engines, filtering or purifying machinery and apparatus for water, and primary cells and primary batteries, etc. dominate EG imports of South Asian LDCs. Compared to exports, the import baskets of Bangladesh and Nepal are more diversified.

For Bangladesh, the top 10 EG imports comprise 45.51 percent of its total EG imports, and the share is 53.78 percent in the case of Nepal. Three EG imports are common to both countries' lists: machines and mechanical appliances having individual functions; static converters; and parts of electric motors, generators, generating sets and rotary converters.

The effective applied tariffs in high-income countries on EGs that are on the list of the top 10 EG exports of South Asian LDCs are in the range of 0–2 percent, except for twine, cordage, ropes and cables, of jute or other textile fibres, which face an effective tariff of 9.47 percent (Table, next page). Though tariffs on EGs in developed countries are very low, South Asian LDCs will benefit from EG liberalization since their EG exports are destined to a number of developing countries where they face high tariffs.

In developing countries such as China, India, Mexico, Syria and the United Arab Emirates, the major EG exports of Bangladesh and Nepal face tariffs of 4.7–30.3 percent. On the other hand, import tariffs in Bangladesh and Nepal are not insignificant. Their top five EG imports face tariffs ranging from 1.67 percent to 9.13 percent.

Strategies for South Asian LDCs

As LDCs are not bound to make any liberalization commitments in the Doha Round, South Asian LDCs should adopt a wait-and-watch strategy in EGS negotiations. However, as liberalization of EGS is part of the single undertaking, South Asian LDCs

Table

Tariffs on major EG exports of South Asian LDCs by major importers

Product description and HS code	Exporter	Major export destination and tariff rates (%)
Jute and other textile bast fibres, raw or retted (530310)	Bangladesh	China (6.1); India (9.6); Pakistan (duty-free)
Sacks & bags, for packg of goods, of jute or of other textile bast fibres (630510)	Bangladesh, Nepal	India (9.8); Syria (30.3); Sweden (0.8)
Twine, cordage, ropes and cables, of jute or other textile bast fibres (560710)	Bangladesh	India and Mexico (not available); Malaysia (duty-free)
Machines & mechanical appliances having individual functions (847989)	Bangladesh, Nepal	Netherlands (0.1); India (3.6); Italy (0.1); Mexico (11.4); Philippines (0.8); United Arab Emirates (4.7); Kenya, Nigeria, Russian Federation (duty-free)
Tubes, pipe & hollow profiles, iron or welded, of circ cross sect (730630)	Nepal	India (9.8)

Source: UN Comtrade and ITC Trade Map.

should participate actively in the discussions in order to ensure that the negotiations result in an outcome that is conducive to their export interests and sustainable development.

First, since the export interest of South Asian LDCs in EGs lies in environmentally preferred products (EPPs) which are agriculture- and natural resource-based, they should emphasize that the negotiating list of EG trade in the WTO include products of their interest. Further, in the case of determining EPPs, processes and production methods for examining how products are grown, extracted, manufactured and provided in a sustainable manner in all or some stages of their life cycle should be reviewed to prevent environmental protectionism.

Second, South Asian LDCs should emphasize the project approach as proposed by India which offers better opportunities to these countries in terms of market access. This approach is supposed to enable technology transfer which can in turn help improve their compliance with technical and sanitary requirements. This is important because most industrial units in LDCs such as Bangladesh and Nepal are small and medium enterprises (SMEs) which lack financial and technological capability to comply with developed-country requirements.

Third, elimination of NTBs such as environmental and production regulations and standards, certification and subsidies should be advocated. The export interest of Bangladesh and Nepal in EGs lies in the area closer to agricultural goods, which could face the most harsh forms of NTBs.

Fourth, in order to address the possible preference erosion resulting from multilateral tariff cuts on EGs, South Asian LDCs should demand duty-free and quota-free market access for all products of their export interest immediately in all developed countries as well as in developing countries in a position to do so. Concurrently, they should also demand special and differential treatment for improved market access for their products which have less negative environmental impacts and which are derived in an environment-friendly way.

Fifth, the issue of affordability of essential ES should be a priority. Though commercial presence of foreign enterprises under Mode 3 may contribute to increased investment and capital formation, improvements in the coverage and quality of ES, and transfer of technology and capacity building, South Asian LDCs should not make any commitments without assessing the implications of liberalization of essential environmental infrastructural services such as water.

Sixth, South Asian LDCs should press for the removal of stringent immigration and recruitment policies in developed countries that constrain market access of service providers under Mode 4 (movement of natural persons). Commercially meaningful liberalization of environmental infrastructure services requires market access in environmental support services such as construction, engineering, and legal and consulting services. Though ES exports by South Asian LDCs are not significant as yet, they have the potential to reap economic benefits by exporting environment-related professional services in the form of studies, assessments and consultancies. For example, LDCs which suffer from environment-related natural disasters such as flood, cyclone and drought are better equipped with the expertise to deal with such catastrophes.

Seventh, South Asian LDCs should demand flexibilities in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to enable them to use patented climate-friendly technologies. Article 66.2 of the TRIPS Agreement, which mandates members to take measures to encourage technology transfer to LDCs, should be implemented for climate technologies. South Asian LDCs should also be watchful of any attempts to dump old technologies by developed countries in the name of technology transfer.

Finally, LDCs should submit proposals to receive support under the WTO's aid-for-trade initiative. Such assistance is needed not only for acquiring clean technologies but also for addressing any probable negative impacts of liberalization. This is because SMEs, which dominate the industrial sector in LDCs, are not in a position to purchase clean technologies to comply with environmental regulations. ■

The author is Additional Director, Centre for Policy Dialogue, Dhaka. This article is based on a study "Trade Negotiations on Environmental Goods and Services in the LDCs Context" conducted by the author for the UNDP, Switzerland.

www.ingpedia.com

CARBON TRADE in South Asia

Excluding India, countries in South Asia have been focusing almost entirely on adaptation and shy to invest in promoting the Clean Development Mechanism, despite its potential to support broader development objectives.

Bishal Thapa

One of the most spectacular aspects of the climate agenda has been the emergence of carbon markets. Today, carbon markets are valued at over US$130 billion. The Clean Development Mechanism (CDM) provides an opportunity for developing countries to participate in carbon markets. Certified Emissions Reductions (CER) from CDM projects in developing countries can be used to meet reduction commitments in developed countries. Except for India, the benefits from carbon markets through CDM have largely bypassed the South Asian region.

Despite some high-profile projects—Nepal's biogas programme, for example, went on to be the prototype for programmatic CDM and a brick kiln project in Bangladesh went on to help make the Copenhagen talks climate neutral—broad-based capacity to take advantage of carbon market opportunities has failed to emerge. Expansion of CDM to allow for programme-based approaches could facilitate a new wave of opportunities that can help overcome the constraints that have limited project development thus far.

Excluding India, countries in South Asia have been shy to invest in promoting CDM believing that their poverty and development needs require them to focus almost entirely on adaptation. They are wrong.

Promoting CDM and access to carbon markets are not merely about mitigation strategies but also about building alternate gateways to financing and technology that could be leveraged to support the broader development objectives. Mitigation efforts linked with international carbon markets and built around programmes aimed at sustainable growth and enhanced livelihoods must form an integral part of the climate response strategy.

Climate vulnerabilities

At the heart of the vulnerability in South Asia are the 600 million people who live below the poverty line. Even minor natural disasters could severely disrupt their livelihood. Over 70 percent of the population derives livelihoods from agriculture that is largely dependent on natural precipitation. More frequent and intense variations in rainfall will not only jeopardize livelihoods but also diminish the future prospects of agriculture and economic growth.

More than 700 million people in South Asia depend on the Himalayan ecosystem. Climate change is likely to induce long-term changes in hydrological systems that will threaten water supply and increase the risks of water-related conflicts. Furthermore, population growth will compound the pressures on an already fragile ecosystem, while increased urbanization in habitations without adequate protection against natural disasters will magnify the risks of large-scale catastrophes.

According to a World Bank report, over the last two decades, natural disasters have affected more than half the population and resulted in over US$45 billion in damages in South Asia. In many ways, climate change simply deepens existing vulnerabilities that reflect past failures in reducing poverty, diversifying economic activity and building a robust disaster management system.

South Asian countries have placed the need for adapting to the impacts of climate change at the centre of their response strategy. Adaptation requires a two-pronged approach: first, the ability to predict disasters and respond quickly when it does strike,


www.thisday.co.tz

and second, the resilience to return to normalcy quickly after a catastrophe has occurred. But how should investment choices between the first and the second be made; and which is more appropriate given the broader development imperatives?

Broad simple observations of the impacts that may arise from increased flooding, droughts, salination of inland waterways and extreme weather events do not provide a sufficient basis to estimate the cost of building adaptive capacity or to facilitate the investments that will be needed. There is an urgent need to translate the global understanding of climate change into detailed assessments of localized impacts and vulnerabilities that can then form the basis for adaptive policy measures.

Regional collaboration in South Asia is extremely necessary because many of the countries are connected through the same regional ecosystem and most issues will have significant transboundary dimensions. India, Bangladesh and Sri Lanka have already announced networks of climate research institutes, but without a regional institutional framework for coordination, studies from such research centres will remain piece-meal at best or, more importantly, could provide an incorrect picture of the longer-term impacts.

Although South Asian countries have correctly recognized the nexus between climate risks and poverty, response strategies should not remain limited to the standard approach for enhancing livelihoods. The strategies should also focus around climate resilience so that even while livelihoods are temporarily disrupted from the climate shock, it does not end up eroding the gains of poverty reduction.

So far, vulnerabilities to natural disasters have largely been dealt with prevention and disaster relief, without adequate attention to bringing communities, services and systems back to normal quickly after a natural disaster. As a result, with every disaster, the gains from poverty reduction were erased and the poor remained forever vulnerable. Responses to climate risks, therefore, provide a new opportunity to address a systematic failing of poverty alleviation approaches in South Asia.

For South Asian countries, there are two primary reasons why an emphasis on climate resilience will represent a new and meaningful front in the battle against poverty.

- First, in parts of the region where service delivery and infrastructure connectivity remain weak or are failing, building climate resilience simply means establishing better delivery and infrastructure networks. Such climate resilient networks implicitly work as a strong safety net for the poor and can, therefore, supplement the broader development strategy.
- Second, building climate resilient systems will require significant investments that are unlikely to be sufficient from public funds alone. Many of these new systems will require financing models that allow the private sector to play a greater role, and more importantly, develop the gateways for services, like crop and weather insurance, to more effectively reach rural communities.

International carbon markets

Carbon markets have registered spectacular growth over the last decade and now represent a distinct industry segment. Despite the recession, the value of carbon markets increased to over US$135 billion in 2009. Though carbon prices, measured by the European Union Allowances (EUA) in the EU Emissions Trading System (ETS), lost two thirds of its value and declined to under €10 per tonne in 2009, the overall market value continued to increase on the back of increased traded volumes, rising from approximately 5 billion tonnes in 2008 to over 8 billion tonnes in 2009. The failure of the Copenhagen meet notwithstanding, the value of carbon markets is likely to grow further this year as prices edge up from the lows of last year.

Carbon markets have also matured within a short period. Climate exchanges have sprung up across the world to help enhance the liquidity of the carbon currency. Two of the commodity exchanges in India already trade CER products. Perhaps the best illustration of market maturity and depth is the emergence of carbon procurement vehicles—funds that have been established to invest in projects that generate emissions reductions.

Governments can integrate the benefits of CDM and carbon markets to advance their objectives for sustainable growth and enhanced livelihoods.

More than 90 such carbon funds with secured capital of over €12 billion have already been established. Initially, most carbon funds were public funds with a primary interest in wanting to secure emissions credits for their sponsors. Over time, private funds with greater flexibility on their investment models and more actively seeking capital gains account for a majority of the procurement vehicles.

Carbon markets are connected to developing countries through the CDM. Under the Kyoto Protocol, CDM allows emissions reductions from projects in developing countries to be used by developed countries to meet their reduction obligations. Emissions reductions projects that are voluntarily implemented, and that are additional to the baseline and result in real, verifiable reductions, are able to achieve CER which can then be sold in international carbon markets. Except India, where it has been a success story and Pakistan to a more limited extent, CDM has failed to make significant headway in other South Asian countries. India has approximately 41 million tonnes in annual CER, representing 12 percent of the 349 million tonnes of total CER expected annually. Other countries in the region account for approximately half a percent of the total annual CER. This is not entirely surprising.

Carbon markets are tilted in favour of projects that offer large volume reductions. The transaction costs on smaller projects often do not justify the investments. Excluding India, other countries do not have the capacity to generate enough large-scale projects to excite international carbon markets. Even within India, the average reduction volume continues to dampen project development. An Indian CDM project offers on average 30,000 tonnes of reductions annually, while the corresponding figure elsewhere might be close to 130,000 tonnes.

CDM projects in South Asia have failed to achieve scale because each project is individually too small and the projects are too scattered. Though CDM rules allowed for bundling of projects, it provided limited flexibility to overcome the transaction costs of developing such projects. With the design of new project mechanisms under programmatic CDM, all of that has changed now.

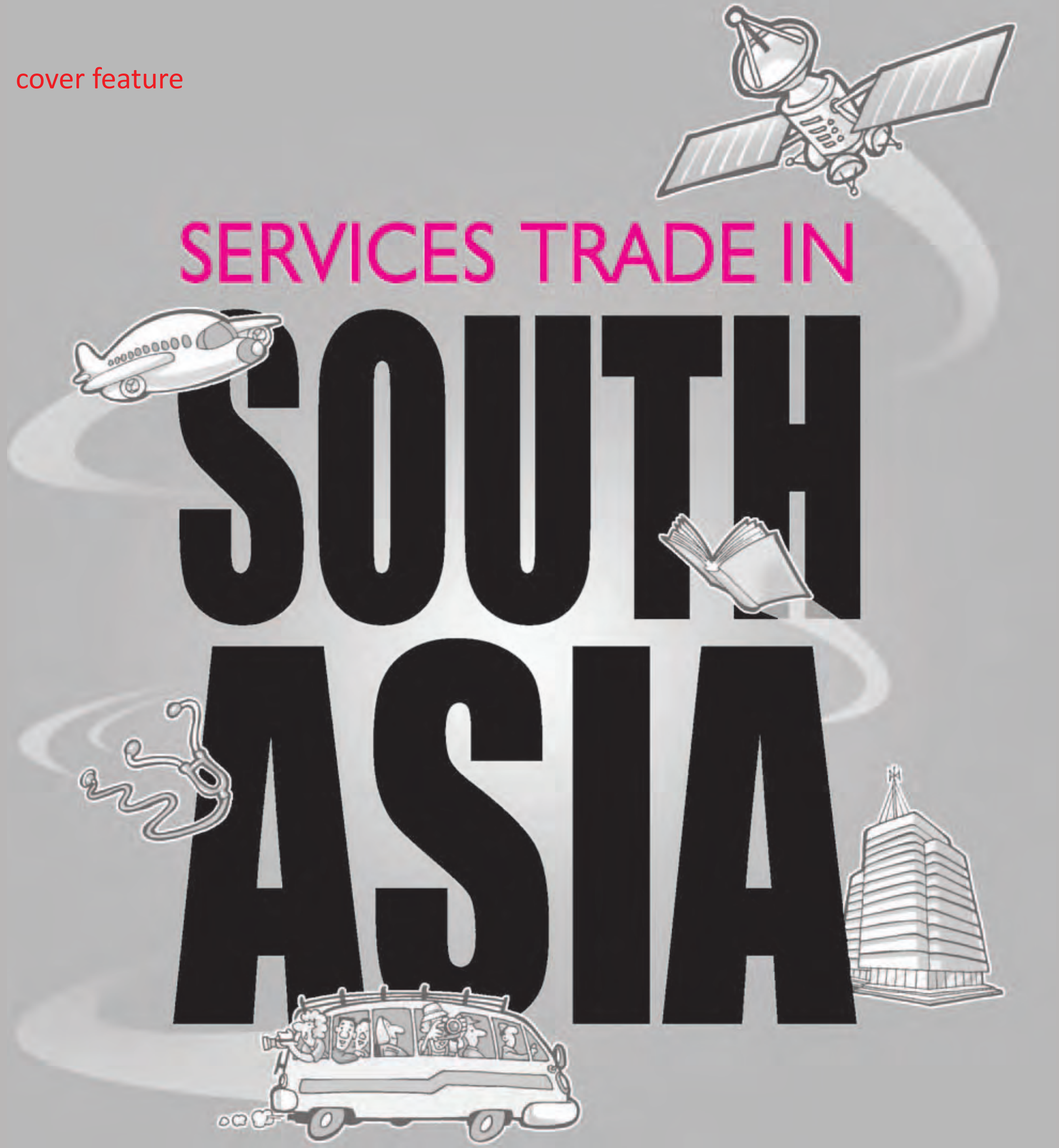
Programmatic CDM is a new approach that allows project developers to register a project design as the programme. Once registered, the programme remains in effect for 30 years. Individual projects can then be registered as a CDM project under the programme at any time during the 30-year period so long as the project satisfies the guidelines and methodologies established under the programme. The flexibility of programmatic CDM helps to reduce the transaction cost on the individual project, makes it easier to bundle scattered projects and helps achieve the reductions volume that will be interesting to international buyers and investors. Programmatic approach is already being used to great effect in implementing India's flagship energy efficiency programme seeking to replace incandescent lightbulbs with compact fluorescent lights.

Programmatic CDM provides an opportunity for project development in South Asia for three specific reasons. First, it can be written explicitly into policy design, as has been done in India's policies promoting the use of off-grid renewable energy generation. Second, programmatic approaches provide a clear role for the public sector to be involved in the development of the project. In most cases, the public sector will need to lead the development of programmatic CDM to help overcome the lack of awareness about CDM among domestic market participants. Third, and perhaps most importantly, programmatic CDM can offer ready gateways for access to technology and financing that can then be used to implement the underlying policy objective on which the programme is based.

However, the flexibility of programmatic approaches within CDM is not the final magic bullet that could overcome all existing constraints on project development. It is just that governments can integrate the benefits of CDM and carbon markets as a way to advance their own objectives for sustainable growth and enhanced livelihoods. Mitigation strategies that link to international carbon markets for financing and technology and contribute to sustainable growth must become an important part of the South Asian climate response. ■

The author is Vice President of ICF International and based in New Delhi.

SERVICES TRADE IN SOUTH ASIA



The growing importance of services, the higher comparative advantage in services compared to goods, and the existence of complementarities provide a case for integrating services into SAFTA.

Rupa Chanda

The South Asian Association for Regional Cooperation (SAARC)—which includes Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, and, more recently Afghanistan—has been much criticized for its failure to promote greater intra-regional trade and address key areas that underpin regional cooperation. Despite the introduction of the SAARC Preferential Trading Arrangement (SAPTA) in December 1995 and subsequently the Agreement on South Asian Free Trade Area (SAFTA) in January 2006, the share of intra-regional trade increased only marginally from 2.68 percent in 1990 to 4.8 percent in 2008. SAARC remains one of the most poorly integrated regions of the world. Intra-regional investment flows also remain limited.

The 14th SAARC Summit Declaration (2007) stated the need to integrate services into SAFTA and called for a collective vision of South Asia with a free flow of goods, services and ideas if SAFTA was to realize its full potential. It called upon member countries to work towards an early conclusion of a SAARC Framework

Agreement on Trade in Services (SAFAS). This point was also echoed at the subsequent 2008 SAARC Summit Declaration. In March 2008, the SAFTA Ministerial Council directed the drafting of SAFAS by 2009-end, though this target has been missed.

The case for services integration

The single most important factor is the dynamism exhibited by services in South Asia and the sector's growing importance in overall output, employment, trade and investment in the region. The services sector has experienced higher growth rates than other sectors in almost all South Asian countries, and compared to those seen in other parts of Asia and in other countries with comparable levels of development. Services constitute close to 50 percent or more of gross domestic product (GDP) in all South Asian economies. The higher capacity of SAARC countries in producing and trading in certain services, the availability of high quality services in the region, and the role of new economic geography in driving tradability of certain services create scope for trade and investment complementarities within the region.[1]

This potential is further enhanced by the fact that in the past decade, most South Asian countries have undertaken considerable opening up and deregulation of their services sectors, and have been focusing on the development of segments such as tourism, telecommunications, transport and energy services. Hence, there is a certain convergence of interests and approaches to the services sector and, therefore, possibly a greater willingness to negotiate regional liberalization and explore intra-regional collaboration possibilities in services.

There is the added benefit of geographic proximity as well as cultural and linguistic ties, as relationship-based marketing, social networks and cross-border movement of service providers play an important role in driving services trade and investment flows. The recent entry of some South Asian countries into extra-regional economic cooperation that extends beyond goods to services further highlights the growing recognition of the importance of services to these economies and the possibility of realizing their interests in services through more broad-based regional and bilateral arrangements.

The contribution of services to total trade in South Asia is comparable to that in developed regions such as the European Union.

Let us next consider specific facts and figures which argue for the inclusion of services and investment under SAFTA.

Services sector performance

Services have been a key driver of overall economic growth in South Asia since the 1990s. Services have consistently outperformed overall GDP growth and helped compensate for volatility in other sectors (Figure 1, page 16).[2] The average annual growth rate for services output has consistently moved upward, from a little under 4.5 percent in the 1970s to a little over 6 percent in the 1980s, to over 6.5 percent in the 1990s, and further to 8.3 percent during 2000–2007. Although the manufacturing sector in the region has also shown an upward trend in growth, its performance has been less steady than in the case of services, while agricultural growth has not only been much lower but also highly volatile.

This relatively superior performance of the services sector over the previous decades has led to its growing contribution to South Asia's GDP, from 36 percent to nearly 50 percent over the 1980–2006 period. Meanwhile, the industrial sector's contribution has been largely stagnant.

South Asia's services exports have similarly shown a steady upward growth trend through the 1980s and 1990s, with a compound annual growth rate (CAGR) of 23.5 percent during 2001–2007, higher than for the world and other high-growth regions.[3] Similarly, there has been an acceleration in services import growth with a CAGR of 13.6 percent during 2001–2007, again higher than for world services imports.[4] As a result, the contribution of services to the region's total trade has increased, constituting around one fourth of all trade flows (merchandise plus services) in recent years. This is comparable to the contribution of services to overall trade in developed regions such as the European Union. South Asia's contribution to world services exports and imports has risen from around 1 percent to 3 percent and 2 percent, respectively, during 1991–2007, indicating the region's growing integration with world services markets, which potentially creates opportunities at the intra-regional level as well.

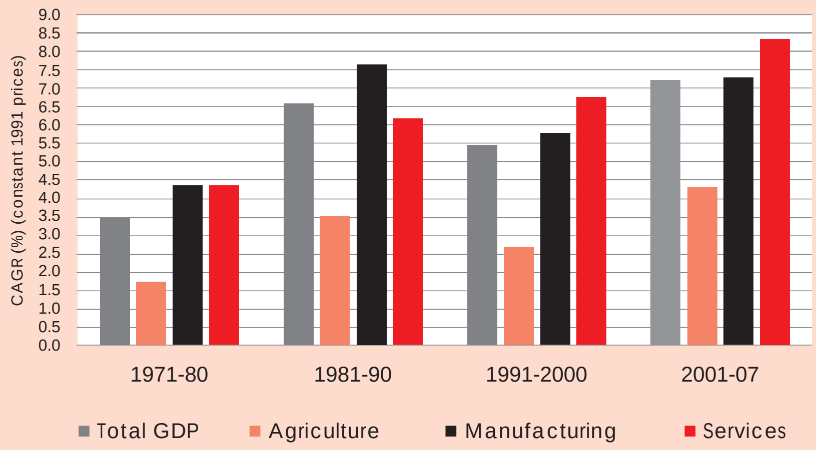
These trends are also reflected in South Asia's growing competitiveness in services. While South Asia's revealed comparative advantage (RCA) index for services has declined to less than 1 in the case of goods in the post-2000 period, it has increased and is close to 2 in the case of services during the same period (Figure 2, page 17). In fact, if one compares RCA indices across regions, South Asia emerges as one of only two developing-country regions which have seen an increase in the RCA index for services between 1995 and 2007 and is the region which has experienced the greatest increase during the period. Clearly, a sector that is experiencing rapid growth in trade, growing participation in world markets and rising competitiveness warrants serious discussion under SAFTA. It is, however, important to note that each country exhibits different trends in competitiveness across the different services sectors, and there is little overlap. For example, while India exhibits very high RCA indices

South Asia is one of only two developing-country regions which have seen an increase in the RCA index for services between 1995 and 2007.

in computer and information services, the Maldives and Nepal exhibit RCA indices over 1 in travel and tourism services, and Sri Lanka and Pakistan in transport services. [5]

Figure 1

Trends in overall and sectoral growth in South Asia



Note: CAGR = compound annual growth rate
Source: Author's calculations based on UN online statistical database.

Harnessing the asymmetries

A country-wise examination of services trade data shows that South Asia's growing competitiveness and penetration of world markets in services is largely driven by India's performance. India is the only country in the region to have significantly increased its share in world services exports as well as imports during 1990–2007 while the shares of others have remained at around the same levels. India's share in world services exports increased from less than 1 percent in 2000 to 2.5 percent in 2007 and, likewise, its share in world services imports increased from a little over 1 percent in 2000 to over 1.5 percent in 2007. The shares in world services exports and imports for all others in South Asia have remained negligible at 0–0.3 percent throughout this period.

Such asymmetries obviously raise questions as to whether there is a sufficient convergence of interest across South Asian countries to push for services integration. They also suggest that any attempts at regional integration in services would obviously involve asymmetries in trade potential and interests, and that the dominant player, India, would need to play an important role in driving the intra-regional integration process.

However, an examination of the trends in competitiveness in services vis-à-vis merchandise trade at the individual country level shows that, notwithstanding such asymmetries, for all the countries, the RCA for services exceeds that for merchandise trade (although only India has experienced an increase in RCA for services, and all countries other than Bangladesh have remained at similar levels of competitiveness over the 1995–2007 period). This suggests that most South Asian countries may have greater trade prospects in services compared to merchandise where the RCAs are much below 1. Thus, there may be more scope for intra-regional trade in services than in goods from a competitiveness point of view.

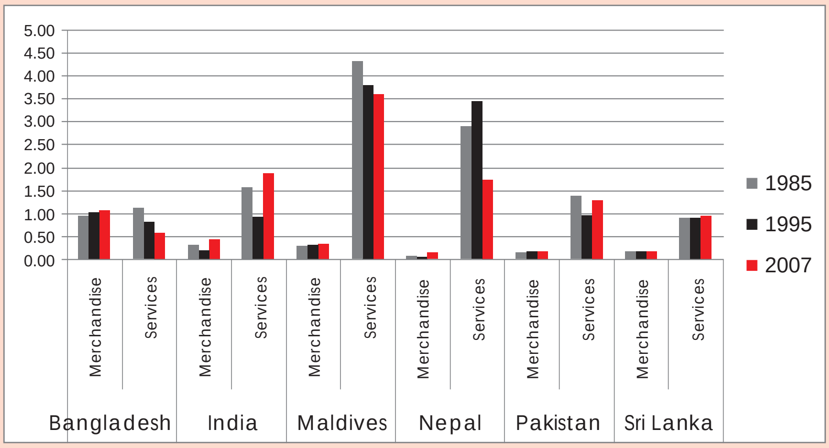
Furthermore, there are possible complementarities across the countries in terms of their services trade structure. This could provide a basis for promoting intra-regional trade in services, particularly through greater investment flows within the region. Consider the trends in the profile of services exports and imports.

India's services export basket has become more diversified over time and today includes traditional services such as transport and travel as well as new services such as computer and information technology and other business services. On the other hand, the services export basket for the remaining countries is much narrower, with the Maldives and Nepal relying mainly on travel and tourism services. The composition of services imports in these countries shows a gradual diversification of the import basket between 1995 and 2006. Although travel and transport services are the most important, services such as business, financial, insurance and communication services have increased in importance, reflecting the outcome of services sector liberalization and reforms.

If one juxtaposes these trends in the composition of services exports and imports, complementarities and commonalities emerge. For instance, given the importance of travel and transport services in exports and imports, tourism services is clearly one area where all countries have a common interest and there is scope for greater intra-regional trade and related cooperation. Likewise, business and professional services constitute an important export segment for India and an increasingly important import segment for some other countries.

Related to these categories is the scope for greater cooperation in air and land transport services, and facilitation of business and leisure travel. Another important feature of the services trade basket in the region

Figure 2
Trends in RCA indices for merchandise and services



Source: Author's calculations based on UNCTAD Handbook of Statistics (online version).

> The relatively small size of some South Asian economies and their low per capita incomes will affect intra-regional services trade and investment flows.

is the significance of government services, i.e., non-commercial services, in some countries. Although sub-classification of government services is not available, given the significance of public services in South Asia's trade basket, any regional agreement on services has the potential to explore possibilities for collaboration, capacity building, and regulatory cooperation in areas such as health care, energy, education, environment and infrastructure development.

The potential role of intra-regional investment flows is also indicated by the services trade profile. Growth in areas such as communication, finance and information technology services in the region is a reflection of the reforms undertaken in these areas within SAARC, in particular foreign direct investment (FDI) liberalization. Overall regional- and country-level trends for FDI indicate that FDI in services in most of the member countries is growing, with India also emerging as a potential exporter of FDI in areas such as tourism, telecommunications, energy and health services within the region. There are many cases of Indian companies which have bidden for regional projects or established their presence through subsidiaries and joint ventures in the services sector in the region. Thus, the asymmetry that exists in favour of India in terms of trade volumes and potential could actually be harnessed to get Indian investment in certain services sectors in the other member countries. Such investment could in turn help the other countries to develop their intra-regional and overall export prospects in areas such as tourism, energy and information technology services. Thus, there is scope for exploiting synergies in trade and investment flows in services within South Asia.

Conclusion

All these commonalities, complementarities, asymmetries and synergies need not necessarily mean that countries in South Asia would want to trade with one another or invest in each other's markets. They may be more interested in markets outside the region. The relatively small size of some of the South Asian economies and their low per capita incomes will remain an impediment to intra-regional services trade and investment flows.

However, this is where the architecture of SAFAS and the negotiating process will be critical for determining progress. It will be important to address critical issues such as investment regulations, taxes, mobility of business visitors and professionals, and regulatory cooperation if such inherent challenges are to be overcome and the regional market is to be made more attractive for intra-regional trade and investment flows. Given the complex nature of some of these issues, the negotiating process will need to be flexible, working through plurilateral and bilateral tracks alongside the regional track, at least in selected services, to achieve progress on critical issues where regional outcomes would be difficult to realize, and to provide sustained momentum to the services negotiations. ■

The author is Professor of Economics, Indian Institute of Management, Bangalore.

Notes

1 SATIN. 2008. Regional Trade in South Asia: Towards Stronger Linkages and Growth—Executive Summary and Special Focus on adding Services to the South Asia Free Trade Agreement. Policy Paper. Commonwealth Business Council and SAARC Chamber of Commerce and Industry, Kathmandu, July.

2 The sector "utilities", i.e. electricity, gas and water supply, has been included under the manufacturing sector. If utilities are to be considered as a part of the services sector, there will accordingly be changes in the relative shares of manufacturing and services sectors in South Asia's GDP.

3 Author's calculations based on UNCTAD Handbook of Statistics 2008 (online version).

4 Author's calculations based on UNCTAD Handbook of Statistics 2008 (online version).

5 Author's calculations for RCA indices in individual services sectors based on UNCTAD Handbook of Statistics 2008 (online version).

Bangladesh's experience in services trade

Sharifa Khan

Global trade in services has been growing rapidly, and now accounts for nearly 20 percent of global trade. The impressive growth of the sector inspired developed countries and many developing countries to opt for a faster opening of the sector. The General Agreement on Trade in Services (GATS) was thus agreed during the Uruguay Round of negotiations that led to the formation of the World Trade Organization (WTO), with the aim of progressively liberalizing trade in services through successive rounds of negotiations.

LDCs in services trade

Least-developed countries (LDCs) are severely lagging behind in the race to benefit from services trade. Services exports from 49 LDCs were US$16.9 billion in 2008, which accounted for merely 0.45 percent of global exports. Structural problems, scarcity of resources, limited knowledge and expertise, and complexity of rules and regulations in the importing countries, among others, are hindering the growth of services exports from LDCs. Moreover, low level of commitment in GATS under Mode 4 of services supply (temporary movement of natural persons) where LDCs have comparative advantages also deprived them of the opportunity to gain much from services trade.

LDCs, however, expect to gain from the "special priority" as mentioned in Article IV: 3 of GATS. As this legal provision would be in contradiction to the WTO's most-favoured-nation principle, a proposal was put forward for allowing special priority through a "waiver" option. Although progress in this area is far behind the expectations of LDCs, even if it is accepted, it will not guarantee market access opportunities for them. Unless LDCs, including Bangladesh, participate in the request-offer negotiations, there is a limited chance of them benefiting from services negotiations. LDCs should, therefore, be proactive in submitting their individual or plurilateral requests for the sectors and modes of supply where they have comparative advantages.

Case of Bangladesh

Like in other LDCs, the services sector dominates Bangladesh's gross domestic product (GDP). The share of the services sector in Bangladesh's GDP in 2008/09 was 49.62 percent, with five sub-sectors—construction; wholesale and retail trade; transport, storage and communications; real estate, renting and business activity; and community social and personal services—commanding a 28.17 percent share. Services sector employment has been showing a rising trend and employing 40.72 percent of the total work force, thus steadily keeping pace with its GDP contribution.

Although the domestic performance of the sector is satisfactory, commercial services exports have not kept pace with global trends. Commercial services exports from Bangladesh in 2008 were only US$891 million against imports of US$3.68 billion. The deficit of over US$2.79 billion clearly indicates the inability of the country to reap benefits from services trade. However, the remittance inflow of about US$9.69 billion has contributed significantly to reducing the current account deficit, importing foodstuffs for ensuring food security, purchasing raw materials and machinery for industrial development, and stimulating development efforts.

It should, however, be noted that most of the remittances earnings are the outcome of bilateral agreements or autonomous efforts; the commitment under Mode 4 in the WTO has little or no role in ensuring market access for Bangladeshi workers. Bangladesh has about 49.5 million active population; therefore, market access opportunities for less-skilled and semi-skilled workers would yield significant economic gains. These opportunities, however, are severely constrained by, among others, excuses of security, economic needs tests, language proficiency tests, The multilateral trading regime has hardly contributed to creating opportunities for less-skilled and semi-skilled service providers of LDCs.

www.constructionweekonline.com

cumbersome visa procedures, and discriminatory wage parity system. The multilateral trading regime has hardly contributed to removing these obstacles and creating opportunities for less-skilled and semi-skilled service providers of LDCs.

Bangladesh has so far received requests from nine different countries—Singapore, the European Community, Japan, Norway, Korea, Hong Kong (China), Malaysia, Sri Lanka and the United States—to liberalize 10 sectors and 127 sub-sectors. All these requests were received before the adoption of the LDC modalities in September 2003 which provided flexibilities to LDCs in opening up their services sectors. The modalities thus provided some breathing space in responding to the technical requests of WTO members.

Bangladesh has made limited commitments in opening its domestic markets to foreign services providers. It has undertaken specific commitments in two sectors—five-star hotel under tourism and travel-related services during the Uruguay Round, and telecommunication services after the completion of the Uruguay Round. Its commitments in all four modes of supply in both tourism and communication services are quite conservative.

While Bangladesh has not been able to attract much foreign investment in five-star hotels and the performance of the sector in terms of income and employment generation is poor, the telecommunication sector boasts some notable achievements. The sector has so far attracted Tk. 2295.60 million (US$1=Tk.69) worth of foreign investment, and contributed Tk. 56,390 million or 1.46 percent of Bangladesh's national income. Teledensity has increased from 7.25 percent in 2005 to 31.95 percent in 2009; the number of mobile phone users has increased to 45.8 million; average tariffs per minute has declined substantially from Tk. 11.37 in 2001 to Tk. 3.55 in 2005 to Tk. 0.88 in June 2008. This was accompanied by other social benefits—increased number of internet users, easy payment of bills, and improved access to health care, education and agricultural services, among others. It is estimated that an increase of 10 mobile phones per 100 people boosts GDP growth by 0.6 percent.

The experience of telecommunications may create a sense that the opening of the services sector would result in tremendous economic benefits to the country. This is not true for all other sectors, as is evidenced by the opening of five-star hotels. The positive performance of telecommunications is attributable to multi-dimensional advantages of technologies associated with the sector. It is the cheapest mode of communication, requires minimum investment to get access to various essential services, instantly integrates domestic sectors with the global economy, and can reach the poorer section of the community at a minimum cost. Moreover, in terms of profitability, foreign investors would obviously be willing to invest in this sector in a country that offers a market of 150 million-plus people.

In addition, domestic rules and regulations governing this sector were revised over the time to attract foreign investment. As a result, the country went beyond its WTO commitment with the intention of benefiting from digital technology.

On the flip side, the outflow of foreign exchange from the sector is quite high and adversely affecting the balance-of-payments position. In 2008/09, net outflow from the services sector was US$1.62 billion, which was mainly attributable to the telecommunications sector.

In conclusion, Bangladesh should adopt pragmatic and well-designed domestic policies and regulations to gain from services trade. Domestic policies should aim to promote foreign investment, but should be backed by sufficient safeguard provisions to protect the balance-of-payments. ■

The author is Deputy Secretary, WTO Cell, Ministry of Commerce, Government of Bangladesh.

INDIA'S SERVICES TRADE IN SOUTH ASIA

trends and prospects

India, South Asia's largest economy, has the most diversified and vibrant services sector in the region. It not only dominates the limited intra-regional services trade but is also a global player in services trade. India's share in world services exports increased from less than 1 percent in 2000 to 2.5 percent in 2007.

Trends in India's intra-regional services trade

Thanks largely to India's unique geographical position—it shares a border with all its South Asian neighbours—it accounts for the bulk of the intra-regional services trade, though it is below potential.

As on 30 November 2007, a total of 125 branches of Indian banks were spread across 29 countries. Out of them, 13 branches were located in South Asia. While seven branches were in Sri Lanka, four were in Bangladesh. Afghanistan and the Maldives had one branch each. While branches of other Indian banks such as ICICI and UTI are in the pipeline in Sri Lanka, India also has a commercial presence in the insurance business in Sri Lanka and Nepal. However, India does not have any formal trade in financial services with Pakistan.

Movement of workers (Mode 4) is a major mode of supply of services traded between India and its neighbours. For example, as many as 2–3 million Nepali men and women are working in India. Though average earnings of these workers are low and individual remittances relatively small, the aggregate value of money sent (or brought) back to Nepal from India has been estimated to be substantial—US$350 million in 2007.

Movement of people between these countries is not unidirectional, however. A treaty between Nepal and India provides for national treatment to each other's citizens with regard to movement of people, ownership of property and participation in trade and commerce, among others. Indian nationals are also employed in various sectors in Nepal in huge numbers.

India is also a popular educational destination for South Asian students. Bangladesh, Sri Lanka, Nepal and Bhutan are major sources of foreign students in India. Annually, some 50,000 Bangladeshis visit India to seek education in India. Nepali candidates are permitted to approach Indian educational institutions directly for general courses. As a result, every year hundreds of Nepali students obtain admission directly for general undergraduate courses in India. Likewise, Indian human resources and educational companies such as Institute of Chartered and Financial Analyst of India have entered the Sri Lankan market. In the other direction, Indian students constitute a major portion of international students in medical colleges in Nepal.

With regard to healthcare, India is an attractive destination for South Asian countries. For example, about 50,000 Bangladeshis visit India every year for medical treatment. Likewise, under Mode 3, India's Apollo Group, Asia's largest healthcare group, has a presence in Bangladesh and Sri Lanka, and Escorts in Nepal.

Tourism has also emerged as the dominant sector in bilateral services trade between India and three of its neighbours—the Maldives, Nepal and Sri Lanka. India is the largest source of tourists in these countries, where tourism is a mainstay of the economy. In addition, India has a significant commercial presence in tourism in Sri Lanka and the Maldives, e.g., the Tata Group's investment in hotels.

The limited intra-regional energy trade is basically between India and Bhutan, and India and Nepal. Bhutan exported 5,664 gigawatt hours (GWh) of electricity to India in 2007. The export was from three hydropower projects with a total generating capacity of 1,416 megawatts (MW), constructed with substantial grant assistance


www.sgrh.com

In health services, India has a strong comparative advantage by virtue of its top medical colleges and hospitals.

from India. On the other hand, Nepal imported 266.23 GWh from India, and exported 101 GWh to India.

Besides the trade in above-mentioned services, India has investments in other services such as engineering and construction (Larsen & Toubro, now Aditya Birla Group) in Sri Lanka.

Potentials of intra-regional services trade

India can play a leading role in increasing intra-regional trade in services and particularly contribute to the growth of its neighbours, because of its market size, experience in services trade and locational advantage.

A better cooperation on services such as transport and trade facilitation can address the landlocked problems of countries such as Bhutan and Nepal, and regions such as North-Eastern India. While India could be a gateway for all South Asian countries to access one another's market through the land route, Pakistan and Afghanistan can play an important role as transit states for the rest of South Asia to access Central Asia's market. Bangladesh can allow transit through its territory to India to access the latter's North-Eastern region, while India can provide an unfettered transit facility to Nepal to enable it to access Bangladeshi as well as overseas markets.

Regional cooperation on energy services can play an important role in addressing India's energy deficit. Energy resource-surplus countries such as Bhutan, Bangladesh and Nepal can benefit from energy export-led growth and implementation of large-scale regional projects. Bangladesh is richly endowed with natural gas, but infrastructural constraints and political sensitivities impede energy trade between Bangladesh and India.

Education, health, and information technology (IT) services are other sectors where India has comparative advantage in exporting to the rest of South Asia. India is ranked high in terms of the quality of science and mathematics education, the extent of staff training, and the availability of management education. India has the globally renowned Indian Institute of Technology and Indian Institute of Management and they, together with other colleges, have generated a critical mass of highly skilled people.

However, as in the case of India, the IT sector has not developed in other South Asian countries and India too has not been able to help them. The top 15 software and related services companies of India have all invested abroad, almost entirely in developed countries, with not a single one investing in South Asia. In addition, Indian call centres and business-process outsourcing companies are setting up foreign affiliates in countries like Mexico and the Philippines, but not in South Asia.

In health services, India has a strong comparative advantage by virtue of its top medical colleges and hospitals. Indian health institutions such as Apollo have set up subsidiaries in some South Asian countries. Indian hospitals are also providing services through Mode 1 to hospitals in Bangladesh and Nepal. Under Mode 2, patients from Bangladesh and Nepal visit Indian hospitals for specialized treatments.

Conclusion

Though India dominates services trade in South Asia, the above trends and potentials present a strong case for the liberalization of intra-regional services trade. In order to capitalize on India's growing services trade and harness one another's potentials, it is high time that South Asian countries finalized the SAARC Framework Agreement on Trade in Services and made efforts to strengthen their trade ties for the collective welfare of the region. ■

This article is based on a briefing paper "Services Trade under SAFTA" (No. 6, 2008) published by SAWTEE.

services trade issues for Nepal

http://airlineworld.files.wordpress.com

Nepal's services export potential stems from its natural advantages such as endowment of natural beauty, sites of cultural and religious importance, and ideal location between two economic giants, China and India.

Nephil Matangi Maskay

Globally, the nature of trade is evolving. This is reflected in the changing composition of trade, from merchandise to services. This dynamic is largely driven by technological revolutions. While the transport revolution reduced transport costs and facilitated trade in merchandise goods, the information technology revolution has resulted in decreasing communication costs and increasing quality levels, thereby causing trade in services to be the fastest-growing component of global trade.[1]

Given the landlocked nature and extreme geography of Nepal, the benefits of services trade are especially pronounced.[2] Nepal's economy is in the process of transformation. While in the 1970s it was predominantly agriculture-based, in 2008/2009, services constituted the largest sector contributing over 48 percent of gross domestic product (GDP), with the agriculture sector contributing only 36 percent. Nonetheless, it is important to note that the agriculture sector still employs 73.9 percent of the currently employed population.[3]

There has also been a change in the nation's external orientation, from being inward-looking to outward-focused. The shift in orientation is largely due to the acknowledgement of the benefits which will accrue from trade in terms of spurting economic growth leading to poverty reduction, as reflected in the continuous process of trade liberalization.[4] Suffice it to say that the country is becoming more liberal, which is saliently reflected in its 2004 accession to the World Trade Organization (WTO). In 2008/09 the contribution of trade to GDP was 36.4 percent for merchandise trade. In the same year, services trade contributed over 8 percent of GDP. The largest services sector contributing to trade is travel trade, with a 24 percent share in 2008/09.

With the composition of foreign trade dominated by merchandise goods, the Government of Nepal's (GON) trade policy focus thus far has been on merchandise goods. However, this focus is changing along with the acknowledgement of the benefits of services trade.

Diagnostic study

A diagnostic study to assess Nepal's export potential in health, education and high-end retail services—chosen in part due to their broad impact and role in contributing to poverty reduction—was conducted in 2008.[5] While the study explored all the four modes of services delivery[6], the commonality of tourism (Mode 2: consumption abroad) was highlighted. The study used qualitative (survey, interviews, focus group discussions) and non-qualitative (export potential framework) methodology.

Basically, the study highlighted that Nepal has many natural advantages such as endowment of natural beauty, sites of cultural and religious importance, and being ideally located between two economic giants, China and India. In addition to these natural advantages, the three services sectors are also found to be generally cost effective. The attraction of these services is also due, in part, to a high level of market integration with northern India, attributed to an open border to the south where both countries share many cultural and linguistic ties. The study thus concluded that "the country has comparative advantages for the export of these services".[7] Despite this rosy conclusion, the study also highlighted many disincentives that impede the harnessing of the services trade potential. The disincentives are grouped under three broad categories: lack of coordinated effort; poor infrastructure for trade in services; and unfriendly business environment.

Three issues

To harness the engine of services trade for Nepal, the above-mentioned three disincentives can be re-categorized more specifically as three issues.

Political issues

Presently, the situation in Nepal is quite fluid with the country in the midst of political transformation. The country is writing a new constitution and is in the process of state restructuring. The process aims at producing a "New Nepal", with a modern outlook and vision. This is a transitory stage in the political history of the country.

Economic issues

The external orientation of Nepal has been concretized with a favorable policy environment; this is reflected in GON's current Three-Year Interim Development Plan (2007/08–2009/2010) and the enactment of Commerce Policy, 2009. Unfortunately and despite this favorable policy environment for services trade, the political fluidity has resulted in an uncertain and unstable environment. This is especially important in areas like labour laws, property and market access rules, and environmental protection. All these affect the ease of doing business.

Technical issues

Technical issues can be lumped under trade facilitation issues, including lack of coordinated effort, in part resulting from an absence of a clear definition and scope of services trade; poor quality standards; and absence of necessary trade infrastructure. Trade facilitation measures have slowed down as focus is now on the ongoing process of political transformation.

> Lack of coordinated effort, poor infrastructure for trade in services, and unfriendly business environment have impeded the realization of Nepal's services trade potential.

As can be seen, while the above three issues are interlinked, at present the political issue is spilling over into the remaining two issues. But it is expected that the period of political transformation for Nepal is simply transitory, so it is opportune to prepare the foundation for services trade.

Conclusion

The above discussion calls for an effective time-bound road map. Given the expectation that Nepal will attain political stability in the near future, this roadmap should be created inclusively, involving all stakeholders for addressing the three issues. While the starting point for this important roadmap is unclear, it is suggested that this be timed to commence in 2011, declared as Visit Nepal Year for tourism promotion.

The author is Director, Nepal Rastra Bank, Kathmandu, and Visiting Research Economist, The SEACEN Centre, Malaysia. ■

Notes

1 www.wto.org

2 Maskay, Nephil Matangi. 2008. Calibrating Nepal's Trade Policy to Harness the Potential of Services Trade. *Vikas* [A Journal of Development] 28(1): 91–110. Kathmandu: National Planning Commission Secretariat, Government of Nepal.

4 Central Bureau of Statistics/Government of Nepal. 2008. *Nepal Labor Force Survey*. http://www.cbs.gov.np/

3 Karmacharya, Binod Kumar and Nephil Matangi Maskay. Nepal - Country Study. In Joseph Francois, Pradumna B Rana and Ganeshman Wignarajan (eds.). *National Strategies for Regional Integration: South and East Asian Case Studies*. Manila: Asian Development Bank, pp. 207–275.

5 SAWTEE. 2008. Nepal's Export Potential in Services: Health, Education and High-end Retail Services. Unpublished report submitted to Enhancing Nepal's Trade Related Capacity of Government of Nepal's Ministry of Industry Commerce and Supplies/UNDP.

6 Using the terminology of the General Agreement on Trade in Services (GATS), services trade takes place through four modes namely: Cross-border supply (Mode 1); Consumption abroad (Mode 2); Commercial presence (Mode 3); Movement of natural persons (Mode 4).

7 SAWTEE. 2008: p ii. Note 5.

Pakistan's potential in trade in services

Pakistan should expand its trade diplomacy to achieve greater market access for its services exports.

Vaqar Ahmed and Hamid Mahmood

Growing at an average annual rate of 5.5 percent during 2000–2009, the average annual share of Pakistan's services sector in the country's gross domestic product (GDP) during the period stood at 52 percent. In terms of providing employment, the sector stands second to agriculture.

In 2008, foreign direct investment (FDI) in the services sector in Pakistan touched US$4 billion. The main sectors that attracted this unprecedented level of FDI included financial business (US$1.9 billion) and telecommunications (US$1.4 billion). Such investments have led to increasing efficiency gains in these sectors which in turn are gradually embracing the opportunities to provide more value added services globally in a cost-efficient manner. Domestically too, during 2003–2008, there was a real increase of over 100 percent in fixed investment in the services sector in Pakistan.

Pakistan's exports of services in 2009 stood at US$4 billion, contributed mainly by transportation and government services (Table). But the import of services was recorded at US$7.5 billion, implying that Pakistan's trade deficit in services stood at US$3.5 billion. The reasons for such a huge services trade deficit vary from sector to sector.

Transportation

Given its strategic location, Pakistan has the potential to unleash its comparative advantage in transportation services. The country has long been regarded as a possible transit route for China, India, Iran, Afghanistan and Central Asian economies. However, the sector suffers from inadequate infrastructure, inadequate investment, low quality of services, less than desired maintenance of road and rail networks, archaic cargo and logistics systems, complex custom procedures and lack of innovative marketing strategies.

Table
Trade in services (US$ million)

	2005	2009
Export of services	*3,319*	*4,017*
Transportation	1,062	1,231
Government services	1,315	1,523
Others	942	1,263
Import of services	*6,612*	*7,488*
Transportation	2,280	3,633
Travel	1,172	1,003
Business services	2,502	1,648
Others	658	1,204

Source: State Bank of Pakistan.

Communication

Pakistan is the sixth most populous country in the world with a rising middle class. In 2009, the number of mobile phone subscribers in Pakistan was around 95 million. The country currently has the highest mobile phone penetration rate in South Asia. Promotion of competition policies, particularly in the telecom sector, has led to increased efficiency gains which have increased the quality of services as well as consumer surplus in Pakistan.

Foreign and local investments in the communication sector in Pakistan have increased in recent years and


http://propakistani.pk

the sector has also experienced major technology transfers. However, with a mere 5 percent share of overall services exports in 2009, exports of communication services from Pakistan have remained low. The reason, despite the transfer of major technologies so far, is the lack of other sophisticated technologies.

Information technology

Exports of computer softwares from Pakistan exhibited a promising growth of around 19 percent in 2009 compared to their exports in 2008. Currently, the country produces around 20,000 information technology (IT) graduates annually. But given the projected demand in this sector, there is a need to increase the number. Pakistan has the potential to increase that number because of the tremendous youth population with an average age of 18.2 years.

Financial and insurance services

In the financial and insurance-related services, Pakistan has shown an encouraging growth in the domestic market. Lately, it is projected that the banking sector may see increased gains given the rise in the inflow of foreign remittances through official banking channels. But the problem is that the country has been slow in embracing the application of internet-based services in these sectors.

The growth of the private sector in the insurance market of Pakistan has been very slow. The government owned State Life Insurance Corporation still remains the market leader with over 70 percent share. There is only one reinsurance company in the country which is also under government control. The prospects of private sector participation in this sector have also been dampened by the fall in industrial output seen in recent years in Pakistan.

Travel services

Travel services in Pakistan have been hit hard due to the security situation of the country. Increased number of physical checks, excessive documentation requirements and complex movement regulations both within the country and at the borders have increased transaction costs for these services. A large proportion of export earnings in this sector is derived from tourism services, which are also directly linked with the law and order situation. However, the public and the private sector have also been identified as being responsible for poor marketing of travel services in the country.

Conclusion

Despite its potential, Pakistan has not been able to gain much from trade in services. The Government of Pakistan has initiated a number of measures to give a boost to the services sector. For example, the Ministry of Industry has established a National Steering Committee to serve as a consultative body for the formulation of policies and strategies for services sector exports. The Trade Development Authority has set up a Services Export Development Cell which is working to identify key priority areas, particularly in sectors such as financial business, construction and architectural services, health and medical services, information technology and other professional services. However, there are still a number of measures that the government should initiate, both at the national as well as regional and multilateral levels, to harness the potential in the services sector.

For example, the communication sector in Pakistan is in need of technology augmentation in line with that of other regional competitors. Like China and India, it should also strive to establish Research and Development Centres for technology upgradation. The government should further expand IT-enabled services and network solutions through the development of IT parks. Pakistan Software Export Board should be given greater autonomy in providing guidance and facilitation to call centres, software houses, hardware units, and IT-enabled service providers.

In the insurance sector, there is a need to foster a culture of risk management by liberalizing the insurance sector. Pakistani financial institutions should also be quick in adopting innovative solutions to increase their competitiveness.

In a survey, about 40 percent of services exporters in Pakistan reported that they faced restrictions on temporary entry in partner countries due to burdensome visa and work permit processes. About 16 percent of the respondents reported that they faced discriminatory treatment abroad vis-à-vis a national firm. They also faced difficulties with regard to delays in accreditation procedures, obtaining operating permits, and non-recognition of professional credentials. Therefore, Pakistan needs to expand its trade diplomacy in order to achieve greater market access for Pakistani services and to stress the liberalization of services in a multilateral setting. ■

The authors are Economists at Planning Commission, Pakistan.

country case

Prospects for services trade in Sri Lanka

The liberalization under Mode 4, and of travel and tourism services can benefit Sri Lanka.

Chatrini Weeratunge

The services sector is emerging as one of the most dynamic sectors in South Asia. In Sri Lanka, the contribution of the services sector in the country's gross domestic product (GDP) in 2008 was 59.5 percent, and the sector has sustained its position as the largest contributor to GDP for over two decades. Telecommunications, financial services, retail, transport and tourism are the key services sectors in Sri Lanka.

The recent performance of trade in services in Sri Lanka shows that net earnings from services have increased steadily from US$257 million in 2006 to US$402 million in 2008.[1] The major drivers of this growth are transportation, information and communication, and construction services. Net income from transportation services—the largest sub-sector—increased from US$211 million in 2006 to US$299 million in 2008.

Remittances from migrant workers have been the source of second highest earnings of foreign exchange in Sri Lanka for more than a decade. Workers' remittances reached US$2,918 million in 2008 from US$2,502 million in 2007, with a growth rate of 16.7 percent.[2] Although Sri Lanka is considered a prime tourist destination and tourism is heavily promoted, earnings from tourism have been declining since 2004 due to the security situation of the country that resulted in the issuance of travel advisories by several countries, and, more recently, the global recession.

The majority of the service sectors have had positive impacts on many aspects of the Sri Lankan economy. For instance, the liberalization of telecommunications and financial services sectors has resulted in an increase in foreign investment and the development of the business process outsourcing industry in Sri Lanka. Similarly, remittances have made a significant contribution to the balance-of-payments.

Sri Lanka's services sector is one of the most liberalized in South Asia. The liberalization of the services sector in the country started with unilateral liberalization measures adopted in 1994, which included lifting up of exchange controls for cross-border trade and consumption abroad.[3] But the level of commitments undertaken by Sri Lanka under the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) is lower in comparison to the level of its unilateral liberalization measures. In 1994, GATS commitments made by Sri Lanka were restricted to the tourism and travel sectors. Financial services and telecommunications were included later in 1998.

At present, under Mode 3 (commercial presence) of GATS, foreign direct investment is permitted with automatic approval of up to 100 percent of equity in all sectors except for fishing, water supply, mass transportation, freight forwarding, professional services, travel agencies and shipping agencies. Under Mode 4 (movement of natural persons), the relevant ministry's approval is required for the employment of foreign service suppliers, and approval from the Board of Investment is needed for foreign investments employing foreign service suppliers.[4]

Travel and tourism, and Mode 4 have the greatest prospects for services trade in Sri Lanka. These prospects are examined below.

Travel and tourism services

Tourism is one of the most liberal sectors in South Asia. All countries of the region allow private participation of foreign and domestic service suppliers in this sector, although with varying

i34.tinypic.com

degrees of entry and other conditions. In the case of Sri Lanka, up to 100 percent of foreign equity is allowed in the hotel industry and approval for such investments is granted by the Ceylon Tourist Board. Foreign tour guides are allowed to work in Sri Lanka provided they have the same accreditation as local tour guides. The visa regime has also been liberalized, as is evident from the issuance of visa on arrival to citizens of South Asia, and 70 other countries.

From a Sri Lankan perspective, there is a considerable scope for enhancing trade in the tourism sector within the region. The hotel sub-sector can be developed further by encouraging investments through the provision of incentives to private companies in the region, and through Mode 3 liberalization in other South Asian countries. That would allow Sri Lankan firms to invest, including in providing travel and tour operator services, in other South Asian countries.

Similarly, services liberalization under Mode 4 would allow Sri Lankan tour guides to work in countries that are visited by Sri Lankan tourists, such as religious sites in India and Nepal. These would be mutually beneficial as it would enable the recipient country to improve infrastructure and services and the source country to expand its export markets. Barriers such as high travel costs; poor transport, especially air connectivity; cumbersome visa procedures; and complex tax structures in these countries would need to be addressed at the regional level in order to further develop intra-regional trade in the tourism sector.

Mode 4

Given the country's comparative advantage in exporting labour, Mode 4 can be considered one of the most important modes of service delivery for Sri Lanka, though at present unskilled workers constitute 68 percent of its total migrant workers. Since Sri Lanka also has a skilled and educated workforce, further liberalization of services under Mode 4 at the multilateral and regional levels would enable it to export more labour in higher skill categories such as medicine and accountancy.

Conclusion

The services sector in Sri Lanka has the potential to further enhance economic growth and development in the country. Therefore, regional cooperation in services trade in South Asia, which is progressing in the form of a negotiation on a South Asian Framework Agreement on Services, is going to be beneficial for Sri Lanka. Sri Lanka is also in the course of negotiating a services agreement with India as part of the Comprehensive Economic Partnership Agreement, which is expected to boost its services trade with India. Sri Lanka needs to harness these opportunities at the bilateral and regional levels, and focus more on sectors like tourism and services under Mode 4 in which it has tremendous growth potential and which also have intra-regional growth prospects. ■

The author is Research Associate, United Nations Development Programme (UNDP) Regional Centre for Asia Pacific, Colombo Office.

Notes

1 Central Bank of Sri Lanka. 2008. *Annual Report 2008*.

2 *ibid*.

3 With the exception of the insurance sector where only travel and health insurance are permitted.

4 IPS. 2007. *Study on Potential for Trade in Services under the SAFTA Agreement: Sri Lanka*. Colombo: Institute of Policy Studies.

FOOD SECURITY
a fundamental human right

A continued focus on the availability aspect of food security is important, but from a human rights perspective, South Asia should focus also on other dimensions, mainly access and utilization.

Puspa Sharma

Food security is a fundamental human right. Article 25(1) of the Universal Declaration of Human Rights, adopted and proclaimed by the General Assembly of the United Nations on 10 December 1948, states, "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing …". The International Covenant on Economic, Social and Cultural Rights (ICESCR) has expounded it further by stating that "The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent".

All members of the South Asian Association for Regional Cooperation (SAARC) are members of the United Nations; and except Bhutan, all are Parties to the ICESCR. Therefore, their implicit international commitments to ensuring the right to food of their citizens have added to their inherent obligations of ensuring welfare of their citizens.

In that regard, all countries except Afghanistan and Bhutan[1] have enshrined the right to food in their constitutions—some of them explicitly and the others implicitly. However, the status of South Asia as the region with the highest number of undernourished people in the world speaks itself regarding South Asian people's realization of that right.

Therefore, it is crucial that these countries implement their commitments and abide by the legal provisions on people's right to food. In that respect, although a continued focus on the availability aspect of food security is important, from a human rights perspective, it has become essential to focus also on other dimensions, mainly access to and utilization of food.

Access to food

Domestic food production in most SAARC countries has failed to keep pace with population growth. During 1995–2005, except in Bangladesh, Nepal and Sri Lanka, annual growth rates of cereal production were well below the annual population growth rates (Table, next page). But SAARC countries, as a group, are close to food self-sufficiency. And yet, food insecurity has remained an acute problem in the region.

The same is true in the case of food availability at the aggregate national level. For example, from 1999/2000 to 2004/2005, overall food production in Nepal was more than the national requirement, but people in chronically food-deficit districts, especially in the mid- and far-western regions of the country, lived in starvation. One reason of such a paradox is the inaccessibility to food by the lower rung of the populace.

South Asia is home to half the world's poor. About 30–40 percent of the population in the region lives below the poverty line. With such wide prevalence of poverty, and inequality in income and means of production

like land, the poor do not have the resources to have access to adequate and nutritious food at all times. Also, although agriculture is the major source of livelihood of a majority of people in almost all SAARC countries, a majority of farmers own less than a hectare of land. Agricultural production derived out of such small land holdings is not enough for subsistence for an entire year. Moreover, those who manage to have some surplus agricultural production do not receive a fair price for their produce, but have to pay hefty prices as consumers of other essentials. Such dual effects of low incomes and high commodity prices have limited people's access to safe and nutritious food.

Other inhibiting factors that have reduced people's access to food in South Asia are the topography and poor connectivity between the food-deficit and food-surplus regions, for example in Nepal; and the poor functioning of the public distribution systems owing to bad governance, for example in India.

Utilization of food

Food security is dependent not only on food intake; but also on the proper utilization of food. The latter is dependent on the handling of food and health conditions of the people. Therefore, besides availability and access, ensuring food security also requires nutrition education, especially among women, and good health conditions of the people. These factors, although showing an improving trend, are still poor in South Asia. For instance, as of 2006, the secondary and tertiary enrollment rates in the region were respectively 50 percent and 10 percent of the total SAARC population. Similarly, 41 percent of the children under the age of 5 years suffered from malnutrition.[2]

Improper food utilization in South Asia has also resulted from the lack of access to improved water source and sanitation facilities for a substantial portion of the population. Of late, the worryingly increasing numbers of HIV/AIDS affected people—currently about 5 million to 6 million in the region—have also affected the food utilization aspect of food security. That is because even in the early stages of HIV infection, the disease negatively affects the body's nutritional status through its deleterious effects on food intake, digestion and absorption.[3]

Table
Growth rates of cereal production and population in South Asian countries

Country	Annual growth rate of cereal production, 1995–2005 (%)	Annual population growth rate, 1994–2004 (%)
Bangladesh	4.4	1.56
Bhutan	-4.3	2.7
India	0.8	1.7
Maldives	-10.4	3.0
Nepal	2.4	2.3
Pakistan	2.1	2.6
Sri Lanka	2.3	0.9

Source: FAO and SAARC. 2008. Regional Strategies and Programme for Food Security in the SAARC Member States.

Conclusion

Food security is a multi-dimensional concept. Therefore, measures to address the problems of food insecurity do not just entail the provision of adequate availability of food at the regional and/or national level. They also include ensuring access to and proper utilization of food. These measures, together with the vulnerability aspect of food security, are all the more important when we view food security from a human rights perspective.

The primary responsibility of ensuring food security lies with national governments. However, in an extremely interdependent world in which we live today, the role of international and regional cooperation is no less important.

This is also evident from the importance that the ICESCR has given to international cooperation to reduce food insecurity, and to which the SAARC members have committed. SAARC countries have initiated some measures to address food insecurity at the regional level through regional collaborative efforts, but the measures have not been adequate and effective enough, more so when viewed from a human rights lens. And there are valid concerns that climate change is going to severely impact food security in the days to come.

Therefore, South Asian countries should take the upcoming Sixteenth SAARC Summit as an opportunity to reassess their collaborative efforts in ensuring food security in the region and take steps to implement some important measures in the light of these concerns. ■

Notes

1. Nepal currently has an interim constitution that has recognized the right to food.
2. http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WSP=N
3. FAO and SAARC. 2008. Regional Strategies and Programme for Food Security in the SAARC Member States.

Campaign on US-Nepal Trade and Investment Framework Agreement

Nepal should make every effort to assess the pros and cons of entering into a free trade agreement with the United States.

The predilection among developed countries for signing bilateral free trade agreements (BFTAs) with developing countries is explained by the slow pace of multilateral trade negotiations and their tacit foreign policy objectives. Developing countries, on the other hand, are pursuing such agreements mainly for enhanced market access as they encounter much higher most-favoured-nation (MFN) tariffs on products of their export interest to developed-country markets.

The United States (US), which remained an ardent supporter of the multilateral trading system until the early 1990s, has started pursuing BFTAs because it can oblige developing countries to agree to conditions that are stricter and higher than those under World Trade Organization (WTO) rules.

The US has so far concluded 20 BFTAs, out of which 17 are already in force. Similarly, it has signed Trade and Investment Framework Agreement (TIFA)—a precursor to BFTA—with 39 developing and 3 developed countries/groups.

Status of TIFA in South Asia

The US has signed TIFA with three South Asian countries: Afghanistan, Pakistan and Sri Lanka. While discussions with Bangladesh on a

proposed TIFA have been stalled, Nepal has been recently approached by the US to sign a TIFA. On the part of Nepal, its interest to sign a BFTA with the US is driven by the need to obtain greater market access, in particular for its moribund readymade garment industry, and to attract investment from the US, particularly in hydroelectricity.

A high-level delegation led by the Commerce Secretary of the Government of Nepal is leaving for the US in early April 2010 to further discussions on the proposed TIFA. While there will be several rounds of bilateral discussions before the TIFA is signed, it is necessary that a weaker partner like Nepal make every effort to assess the pros and cons of entering into the BFTA with the US, and accordingly negotiate the TIFA.

Multi-stakeholder consultation

Concerned that the draft TIFA in its current form contains provisions that could be deleterious to Nepal's interest, SAWTEE has launched an advocacy campaign to make the relevant stakeholders aware of the provisions of the agreement and their implications.

The campaign was initiated through an article in a leading national daily of Nepal. The article drew the attention of various stakeholders, including civil society activists, to the challenges Nepal faces in protecting its developmental interests while negotiating the TIFA and eventually the BFTA.

SAWTEE then started to identify and hold consultations with varied groups of stakeholders, including industry groups such as Garment Association of Nepal (GAN); consumer and public interest groups such as Forum for Protection of Public Interest (Pro Public); community organizations such as Local Initiatives for Biodiversity, Research and Development (LI-BIRD); and media associations such as Society of Economic Journalists of Nepal (SEJON).

Ultimately, these institutions undertook the responsibility of coordinating and organizing a national-level multi-stakeholder consultation in Kathmandu on 26 March 2010. This event proved to be a success on three grounds.

First, since the Ministry of Commerce and Supplies (MoCS) also agreed to become a co-organizer of the event, it demonstrated Nepali government's willingness to partner with non-government actors for a meaningful agreement with the US. Second, it involved representatives from different stakeholder groups, providing them an opportunity to share their views and concerns with the government, to provide inputs to the draft TIFA, and to agree on guiding principles for the negotiations (Box). Third, media coverage of the event was such that stakeholders across Nepal were informed about the proposed TIFA.

Follow-up strategy

It is encouraging that MoCS has expressed its willingness to work with SAWTEE and other stakeholders in all the stages of TIFA and BFTA negotiations. Based on SAWTEE's work and the outcomes of the consultation, SAWTEE has already provided its inputs to the government. In addition, SAWTEE plans to expand this campaign to ensure that the guiding principles agreed during the multi-stakeholder consultation are adhered to. As part of the campaign, among others, SAWTEE plans to:

- prepare and disseminate a policy brief on TIFA to make trade negotiators, policymakers and members of the Constituent Assembly aware of the policy options and strategies;
- organize follow-up multi-stakeholder consultations once the Nepali delegation attends the first round of TIFA negotiations with the United States Trade Representative; and
- seek partnership for research and capacity building with like-minded actors and agencies. ■

Box
Guiding principles for TIFA/BFTA negotiations

At the consultation, stakeholders called upon the government authorities of Nepal to carefully consider other TIFAs and consult with stakeholders while developing positions and strategies for negotiations. They also suggested that the government learn from the experiences of other countries such as Jordan, Malaysia, Peru, Sri Lanka and Thailand that have signed TIFA/BFTA with the US. In particular, they suggested that TIFA negotiators adhere to the following guiding principles.

- Given the different development levels of the two countries, and Nepal being the weaker partner, special and differential treatments should form an integral part of the agreement, and WTO-plus conditions that adversely affect Nepal's developmental interests should not be accepted;
- In addition to the reduction of tariff and non-tariff barriers for enhanced market access, the agreement should focus on helping the weaker partner overcome supply-side constraints;
- Policy space for industrial development should be maintained; services liberalization should be compatible with Nepal's multilateral commitments; and investment, environmental, labour, competition and government procurement issues should be in line with the spirit of the Doha Development Agenda;
- Technology transfer, technical assistance and space for all types of investment should be an integral part of the agreement; and
- Any provision on intellectual property rights should address social objectives. There should not be any compromise on the available policy flexibility for the protection of farmers' rights over seeds and traditional knowledge, as well as for meeting public health objectives.

Protection of smallholder farmers

the need for a resource rights approach

Krystyna Swiderska

Smallholder farmers, including millions of indigenous communities, have domesticated, conserved and improved thousands of crop varieties over millennia, which contain valuable traits like drought and pest resistance and which continue to be adapted to changing local conditions. A recent scientific study in Southwest China also shows that in-situ genetic diversity is far greater than that held in ex-situ gene banks.[1] Such wealth of agricultural biodiversity and traditional knowledge (TK) is vital for climate change adaptation and global food security since all countries are interdependent on genetic resources. However, it is estimated that three quarters of crop diversity has already been lost over the last century and that up to 90 percent of all languages—an indicator of TK—will be extinct or threatened with extinction by 2100.[2] The widespread adoption of a few modern crops has been a major driver of agricultural biodiversity loss.[3]

Disregard for farmers' rights

Since the rise of the Green Revolution in the 1960s, modern intensive farming has been promoted by agricultural policies, subsidies, and research and extension bodies (particularly in Asia and Latin America). Intellectual property rights (IPRs) in agriculture, state procurement policies and the media have created growing markets for modern varieties, while creating disincentives for farmers to sustain agricultural biodiversity and TK.[4] International drivers such as the Agreement on Agriculture of the World Trade Organization (WTO) and a perception that small-scale farming does not contribute to economic growth have also promoted commercial monocrop plantations.[5] At the same time, a host of other development and conservation policies have undermined land access, cultural values and customary laws that underpin traditional farming systems.[6]

IPRs in agriculture grant exclusive marketing rights over new varieties for a minimum period (18–20 years), and tend to create a market for seeds dominated by a few large companies.[7] Thus, plant breeders can protect their varieties through plant breeders' rights (PBRs), but farmers do not get their rights established even when breeders use farmers' varieties and knowledge to develop new varieties. Hence, farmers have no incentive to sustain their traditional varieties and knowledge.[8] Moreover, PBRs, particularly based on the Convention of the International Union for the Protection of New Varieties of Plants (UPOV) 1991, undermine farmers' seed systems by restricting the reuse of farm-saved seeds.

The International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) recognizes the enormous contribution of indigenous and local communities and farmers to the conservation and development of plant genetic resources (PGRs) which constitute the basis of agriculture worldwide. It requires parties to take measures to protect and promote farmers' rights, which include protection of traditional knowledge, equitable benefit sharing from the use of PGRs and participation in national decisions on PGRs. But the use of certain terms like "should", "as appropriate" and "subject to national legislation" in the Treaty have rendered the measures more like options than obligations. The Treaty also recognizes the rights of farmers to save, use, exchange and sell farm-saved seeds, but does not explicitly recognize farmers' rights over their landraces. Furthermore, the standard Material Transfer Agreement used under the Treaty's Multilateral System for PGR exchange does not clearly address the issue of rights over derivatives, and favours the use of patents.

The World Seed Conference

The second World Seed Conference (WSC) was organized by the Food and Agriculture Organization of the United Nations (FAO), the Organisation for Economic Co-operation and Development (OECD), UPOV and the International Seed Federation in September 2009. It sought to raise awareness of the importance of new plant varieties and high-quality seeds in addressing global challenges. Most of the presentations were made by the seed industry, some by governments and the FAO, and none by farmers' organizations.

> Food security of poor farmers and of the world as a whole depends on the protection of farmers' rights to biocultural systems as a whole.

The Conference concluded that stronger PBRs and increased investment in the seed sector are needed for food security in the context of global challenges such as increasing population and climate change. It also noted that IPRs are "a key enabler of investment in breeding and the development of new varieties" and that countries should participate in internationally harmonized systems such as UPOV "for the benefit of their farmers" (Box).

It is true that modern varieties have increased yields in many cases and hence food production. But they have not always benefited those vulnerable to food insecurity such as smallholder farmers. In fact, they have mainly benefited large-scale commercial plantations, which are replacing small-scale farming and which drive people away from their lands. This conversion process has also led many community members to migrate to urban areas, thus increasing the demand for food.[9] Modern agriculture has also eroded agricultural biodiversity, and the higher costs of external inputs have led to crippling debt in some cases, for example, cases of farmers committing suicide have continued to rise in India. At the same time, the introduction of PBRs has not spurred research and development activities as expected but has increased the costs of seeds.[10]

The WSC also stressed the contribution of new varieties to "sustainable agriculture" and of plant breeding to reducing input costs and greenhouse gas emissions. Yet most modern varieties are not likely to reduce input costs or greenhouse gases, given that they require high external inputs. Furthermore, yields have started to decline as environmental resources have been depleted.

Modern varieties and technologies may be able to speed up the adaptation process in the face of climate change, but claims that they are the answer to world hunger are somewhat undermined by the lack of dialogue with the poor and vulnerable groups. Agriculture policies and research over the last decade have become increasingly focused on commercial objectives, rather than on farmers' needs, as public funding has declined and private funding increased.

Smallholder farmers need support

The challenge of food security in the face of climate change cannot be met by either formal plant breeding or farmer knowledge systems alone—both systems need to be maintained and collaboration between them fostered, given the speed and uncertainty of change. This means that urgent action is needed to protect traditional farming systems that support agricultural biodiversity and adaptive management. This includes:

- reforming agriculture, economic, conservation and other policies and incentive measures which are driving their loss;
- introducing farmers' rights commensurate with breeders' rights;
- significantly increasing investment for traditional farming and in-situ agricultural biodiversity conservation;
- reforming agricultural research and extension to address farmers' needs and mainstreaming formal farmer sector collaboration, for example, participatory plant breeding; and
- creating space for smallholder participation in food security debates and agriculture policy and research governance.

Resource rights approach required

The concept of farmers' rights within the FAO has been developed with limited participation of farmers and community organizations. Experts in many fields now agree that farmers' rights should be collective rather than individual rights, given that genetic resources are developed cumulatively and collectively.[11] Many indigenous and local communities feel that the FAO's concept of farmers' rights is narrow as it does not recognize their rights over traditional resources, which is vital if they are to continue their role in genetic resource improvement and conservation. They are calling for recognition of their "traditional resource rights" or "biocultural heritage rights" as a whole—including rights over genetic resources and associated TK, landscapes, cultural values and customary laws. Research has shown that these elements of biocultural systems are closely interlinked and interdependent—not only in the indigenous holistic worldview, but also in practice.[12]

> The FAO's concept of farmers' rights originated with limited participation of farmers.

Thus, food security of poor farmers and of the world as a whole depends on the protection of farmers' rights to biocultural systems as a whole. Only such a holistic approach will enable farmers to sustain their TK and agricultural biodiversity in an overwhelmingly adverse context, with multiple national and international policies and processes driving their erosion. ■

The author is Senior Researcher, International Institute for Environment and Development, London.

Box
Conclusions of the second World Seed Conference 2009

- The critical role of new plant varieties and high quality seed in providing a dynamic and sustainable agriculture.
- Plant Breeding has significantly contributed and will continue to contribute to increased food security, whilst reducing input costs, greenhouse gas emissions and deforestation.
- Intellectual property protection is crucial for a sustainable contribution to plant breeding and seed supply, and is a key enabler of investment in breeding and the development of new varieties.
- Participation in internationally harmonized systems—including UPOV and International Seed Testing Association (ISTA)—is important to increase availability of germplasm, new varieties and high quality seeds for the benefit of farmers.
- Urgent government measures and increased public and private investment in the seed sector are required for the long term, if agriculture is to meet the challenge of food security in the context of population growth and climate change.

Source: http://www.worldseedconference.org

Notes

1 Song, Yiching. 2009. Presentation on Participatory Plant Breeding, organized by IIED, ANDES and Centre for Chinese Agricultural Policy, Guangxi, South West China, 10 November.

2 UNESCO. 2003. Language Vitality and Endangerment. Ad Hoc Expert Group on Endangered Languages. Submission to the International Expert Group on UNESCO Programme Safeguarding of Endangered Languages, UNESCO Paris, 10–12 March.

3 Millennium Ecosystem Assessment. 2005. Biodiversity Synthesis. Island Press.

4 IIED. 2009. Protecting community rights over traditional knowledge. Burnham Beeches, the United Kingdom.

5 UN-DESA. 2009. State of the World's Indigenous Peoples.

6 IIED, Asociacion ANDES, Fundacion Dobbo Yala, Ecoserve, Herbal and Folklore Research Centre, Centre for Chinese Agricultural Policy, ICIPE and Kenya Forestry Research Institute. 2009. Protecting Community Rights over Traditional Knowledge: Key findings and Recommendation 2005-2009; and United Nations Environment Programme. 2005. Composite Report on the Status and Trends Regarding Traditional Knowledge, Innovations and Practices of Indigenous and Local Communities Relevant to the Conservation and Sustainable Use of Biological Diversity. CBD Secretariat.

7 Dhar, Biswajit. 2002. *Sui Generis Systems for Plant Variety Protection. Options under TRIPS*. A Discussion Paper. Geneva: Quaker United Nations Office.

8 IIED *et al.* 2009. Note 6; and Andersen, Regine. 2006. Farmers' Rights and Agrobiodiversity. GTZ Issue paper on People, Food and Agrobiodiversity.

9 UN-DESA. 2009. Note 5.

10 Dhar, Biswajit. 2002. Note 7.

11 Andersen. 2006. Note 8.

12 Swiderska, Argumedo, Vedavathy Pant, Munyi Nellithanam, Song Mutta, and Herrera. 2006. Protecting Community Rights over traditional Knowledge. Interim Report 2005–2006.

COP15
Let-down through a secretive process

Paras Kharel

WHILE few had expected a binding agreement to emerge from the 15th Session of the Conference of Parties (COP15) to the United Nations Framework Convention on Climate Change (UNFCCC) held from 7–18 December 2009 in Copenhagen, developments just ahead of the event had raised hopes that the political agreement to emerge from the COP15 would be substantive. However, the COP15 could only narrowly escape a complete catastrophe when a three-page political agreement, called the Copenhagen Accord, was finally hammered out at the initiative of a few major emitters, including the United States (US), China, India, Brazil and South Africa.

Some see the Accord as a stepping stone towards a climate treaty, though it does not set a deadline for an internationally binding treaty. Others argue that the emissions reduction targets on offer do not go far enough to avoid the worst effects of climate change, and the Accord itself was a product of a very secretive, undemocratic process involving the leaders of just 26 of the 193 parties to the UNFCCC. The COP15 did not approve the Accord but only took "note of" it, with several countries rejecting it on procedural as well as substantive grounds.

The Accord states that global temperature rises should be curbed at 2 degrees Celsius from pre-industrial times, although a majority of the parties had demanded a 1.5 degree limit. It gave the parties until 31 January 2010 to submit their emissions reduction targets (Annex I parties) or mitigation actions (non-Annex I parties).

Among the major emitters to submit their reduction targets/mitigation actions within the deadline were the US, the European Union, India, Brazil and China, and the figures were the same as what they had publicly offered ahead of the Copenhagen conference. A team of US researchers has found that the pledges submitted under the Copenhagen Accord are in line with a global temperature rise of 3.9 degrees Celsius, a level considered disastrous for the environment and human life.

Developed countries have committed funding worth US$30 billion for the period 2010–2012 to assist developing countries in mitigation and adaptation, and also set a goal of US$100 billion in annual funding by 2020, with "balanced allocation between adaptation and mitigation". Funding for adaptation is to be prioritized for the most vulnerable developing countries.

However, the pledged support falls far short of the estimated required finance. It is also not clear how the funding is to be sourced on a sustainable basis and the shares of public and private funding are not specified, although the Accord says a significant portion of such funding should flow through the Copenhagen Green Climate Fund. Regarding monitoring, the Accord provides for measurement, reporting and verification of emission reductions, mitigation actions and financing.

In the Accord, the parties agreed on the need to provide positive incentives to actions that reduce emissions from deforestation/forest degradation and that remove greenhouse gas emissions through forests by immediately establishing a mechanism. The parties also decided to establish a technology mechanism to accelerate technology development and transfer in support of actions on adaptation and mitigation guided by a country-driven approach and based on national circumstances and priorities.

The parties also agreed to carry forward negotiations under the two tracks of the Ad hoc Working Group on Long-term Cooperative Action under the UNFCCC and the Ad hoc Working Group on Further Commitments of Annex I Parties under the Kyoto Protocol in 2010, leading up to the COP16 scheduled for 29 November–10 December 2010 in Mexico *(Adapted from Trade and Development Monitor, SAWTEE, various issues).* ■

The COP15 did not approve the Copenhagen Accord but only took "note of" it, with several countries rejecting it on procedural as well as substantive grounds.

General Agreement on Trade in Services

Services represent the fastest growing sector of the global economy and account for two thirds of global output, one third of global employment and nearly 20 percent of global trade. The importance of services is growing in the economies of South Asia too. Services have been a major driver of economic growth in the region in the last two decades. The sector's contribution to the region's gross domestic product is about 50 percent. Services have accounted for about one fourth of the region's total trade flows in recent years. All but two countries of the region are members of the World Trade Organization (WTO) and hence are parties to the General Agreement on Trade in Services (GATS), the first and only set of multilateral rules governing international trade in services, negotiated during the Uruguay Round (1986–1993).

Coverage

The GATS applies to almost all trade in services by WTO members. The exception is the services supplied in the exercise of governmental authority such as central banking services, which are neither supplied on a commercial basis nor in competition with other services suppliers. The agreement also excludes most of the air transport sector, but the exclusion is under review. GATS defines four ways (or "modes") of trading services:

- *Mode 1* (cross-border supply): services supplied from one country to another (e.g., international telephone calls)
- *Mode 2* (consumption abroad): consumers or firms making use of a service in another country (e.g., tourism)
- *Mode 3* (commercial presence): a foreign company setting up subsidiaries or branches to provide services in another country (e.g., foreign banks setting up operations in a country)
- *Mode 4* (movement of natural persons): individuals travelling from their own country to supply services in another (e.g., fashion models, construction workers)

Basic obligations

Most-favoured-nation treatment

Most-favoured-nation (MFN) treatment means treating one's trading partners equally on the principle of non-discrimination. If a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. This applies even to sectors where the country has made no specific commitment.

MFN applies to all services, but some special temporary exemptions have been allowed. In order to protect the general MFN principle, the exemptions could only be made once; nothing can be added to the lists. They are currently being reviewed as mandated, and will normally last no more than 10 years.

Commitments on market access and national treatment

Individual countries' commitments to open markets in specific sectors and modes—and how open those markets will be—are the outcome of negotiations. The commitments appear in "schedules" that list the sectors being opened, the extent of market access being given in those sectors (e.g., whether there are any restrictions on foreign ownership), and any limitations on national treatment (whether some rights granted to local companies will not be granted to foreign companies). So, for example, if a government commits itself to allow foreign banks to operate in its domestic market, that is a market access commitment. And if the government limits the number of licences it will issue, then that is a market access limitation. If it also says foreign banks are only allowed one branch while domestic banks are allowed numerous branches, that is an exception to the national treatment principle.

These clearly defined commitments are "bound": like bound tariffs for trade in goods, they can only be modified after negotiations with affected countries. Because "unbinding" is difficult, the commitments are virtually guaranteed conditions for foreign exporters and importers of services and investors in the sector to do business.

Transparency

GATS says governments must publish all relevant laws and regulations, and set up enquiry points within their bureaucracies. Foreign companies and governments can then use these enquiry points to obtain information about regulations in any services sector. And they have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

Regulations
Since domestic regulations are the most significant means of exercising influence or control over services trade, GATS says governments should regulate services reasonably, objectively and impartially. When a government makes an administrative decision that affects a service, it should also provide an impartial means for reviewing the decision (for example, a tribunal). A commitment to national treatment, for example, would only mean that the same regulations would apply to foreign suppliers as to nationals.

International payments and transfers
Once a government has made a commitment to open a services sector to foreign competition, it must not normally restrict money being transferred out of the country as payment for services supplied ("current transactions") in that sector. The only exception is when there are balance-of-payments difficulties, and even then the restrictions must be temporary and subject to other limits and conditions.

Negotiations

GATS commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively liberalize trade in services. Under the mandate of Article XIX, the latest round of negotiations began in January 2000. At the Doha Ministerial Conference in November 2001, the services negotiations became part of the "single undertaking" under the Doha Development Agenda, whereby all subjects under the negotiations are to be concluded at the same time.

The Hong Kong Ministerial Declaration of December 2005 reaffirmed key principles and objectives of the services negotiations and called on members to intensify the negotiations in accordance with the objectives, approaches and timelines set out in Annex C to the Declaration. The Declaration called for the expansion of sectoral and modal coverage of commitments and improving their quality, with particular attention to export interests of developing countries. The Declaration also established that least-developed countries (LDCs) are not expected to undertake new commitments in this Round. Negotiations in the Doha Round are being conducted essentially on two tracks.

> Negotiations to open up specific sectors are conducted mainly through a "request-offer" procedure.

Bilateral and/or plurilateral track
This track is aimed at improving market conditions for trade in services. It mostly involves improving specific commitments on market access and national treatment, and promoting MFN treatment.

Negotiations under this track are conducted mainly through a "request-offer" procedure. Members send requests directly to each other indicating what improvements they are seeking for their services and services suppliers; members specify in their initial offers how and to what extent they are willing to take binding commitments in response to these requests. Regardless of which member submits a request, the offer, in the form of an improved "schedule" of commitments, would apply to all members. As of end of June 2008, 71 initial offers and 31 revised offers had been submitted by WTO members.

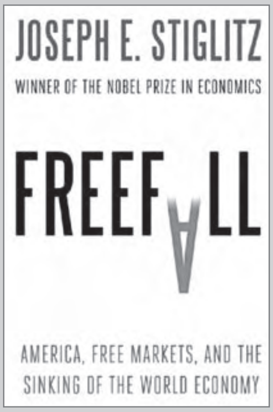
Multilateral track
Multilateral negotiations among all WTO members are aimed at establishing any necessary rules and disciplines which will apply to the whole WTO membership, with certain special provisions for developing and least-developed countries.

Negotiations are continuing since 1995 on the development of possible disciplines that are not yet included in GATS: rules on emergency safeguard measures, government procurement and subsidies. The relevant articles are 10, 13 and 15. Work so far has concentrated on safeguards—temporary limitations on market access to deal with market disruption—and the negotiations aim to set up procedures and disciplines for governments using these.

Negotiations are also taking place to establish disciplines on domestic regulations, a controversial area. The focus is on qualification requirements and procedures, technical standards, and licensing requirements. Since agreeing on disciplines on domestic regulations for the accountancy sector in 1998, members have been engaged in developing general disciplines for all professional services and, where necessary, additional sectoral disciplines. Developing countries are concerned over the possibility of new disciplines reducing their policy space (*Adapted from www.wto.org*). ■

Box
Basic principles of GATS

- Almost all services are covered
- MFN treatment applies to all services, except the one-off temporary exemptions
- National treatment applies in the areas where commitments are made
- Transparency in regulations, inquiry points
- Regulations have to be objective and reasonable
- International payments: normally unrestricted
- Individual countries' commitments: negotiated and bound
- Progressive liberalization: through further negotiations



the sinking of the world economy

Title: Freefall: America, Free Markets, and the Sinking of the World Economy
Author: Joseph E. Stiglitz, Publisher: W.W. Norton & Company, New York
ISBN: 978-0-393-07596-0

Chandan Sapkota

Joseph Stiglitz, a 2001 Nobel laureate in economics and a professor at Columbia University, had severely criticized the International Monetary Fund and the United States (US) Department of Treasury for their handling of the East Asian crisis in 1997, which cost him his job as Chief Economist at the World Bank. The global financial crisis of 2008, which he had predicted, has vindicated him of his incessant rant on and vilification of the "market fundamentalists" and their flawed models.

In his new book *Freefall: America, Free Markets, and the Sinking of the World Economy*, Stiglitz explains the causes of the Great Recession that started with the collapse of Lehman Brothers on 15 September 2008, exposes main players in the financial industry, berates the state of economics, and outlines what lies ahead for the global economy. Though the book is mostly about the US economy, it also contains interesting discussions about global economic challenges and their potential solutions.

He thinks that the unraveling of the causes of the global financial crisis is like "peeling back the onion", i.e., figuring out what lies behind each blunder. The markets failed because of the presence of large externalities, which in turn is caused by misalignment of incentives in the banking sector and information asymmetry in the asset market. Digging deeper would reveal that this was caused by blind faith in a flawed economic ideology about markets. He argues that "economics has moved—more than economists would like to think—from being a scientific discipline into becoming free market capitalism's biggest cheerleaders". Dancing to the tune of the market cheerleaders, the people responsible to oversee the financial industry either failed to see the crisis coming, or did nothing to stop it when warned, or did too little too late when the downward spiral began.

An advocate of a Keynesian fiscal stimulus to overcome the adverse impact of the economic crisis, Stiglitz is dissatisfied with the structure, size and progress of US President Barack Obama's stimulus package. An ideal stimulus is fast; effective in increasing employment and output; addresses long-term problems such as low savings, trade deficit, social security and infrastructure; investment-oriented; fair (relief for the middle-class, not the richest 5 percent); deals with short-run exigencies (insurance and mortgage-payment); and targets job loss (to retain skills and workers). Australia was the first country to design a stimulus package in line with these principles, and, no wonder, the first advanced country to emerge out of recession.

Stiglitz advocates a second round of stimulus in 2011 and a redistribution of income with progressive taxation in the US. He advises the US government not to "give into deficit fetishism" because as long as returns on investment in technology, education, and infrastructure are greater than the size of the deficit, it should not be a problem to roll out another stimulus. He also pitches for a coordinated global stimulus as global multiplier is greater than national multipliers.

The world has to address, argues Stiglitz, six economic challenges: (i) mismatch between global demand and supply; (ii) climate change because environment prices are distorted, leading to unsustainable use of resources; (iii) global imbalances due to excess consumption in advanced countries and excess savings in developing countries; (iv) manufacturing conundrum because there is increase in productivity but decrease in employment; (v) inequality because it is affecting overall aggregate demand as there is more money with the rich and less with the poor; (vi) and growing financial instability leading to unmanageable risks.

These challenges call for a new economic model, which should include a bigger role for government. It is the government's responsibility to ensure that errant markets do not lead to catastrophic social and economic situations. It should play a critical role in maintaining full employment and a stable economy; promoting innovation; providing social protection and insurance; and preventing exploitation by "correcting" market distortion of income distribution.

Stiglitz censures economists who pushed their model of rationality beyond its appropriate domain and blasts inflation-targeting ideology, predicting that it will die after this crisis. Even if this ideology persists, the crisis has revealed the limitation of markets and resurrected Keynesian economics. Indeed, "the fall of Lehman Brothers may be to market fundamentalism what the fall of Berlin Wall was to communism". ■

The reviewer is Junior Fellow for Trade, Equity & Development Program at Carnegie Endowment for International Peace, Washington, D.C.

Post-Copenhagen Dialogue

SAWTEE, in collaboration with Oxfam Novib, organized a regional policy dialogue on "Beyond Copenhagen: Agenda for South Asia" in Kathmandu on 28 December 2009.

Participants of the programme analysed the Copenhagen Accord from the perspective of the South Asian region; discussed how some of the provisions of the Accord that are in favour of vulnerable developing and least-developed countries can be effectively implemented; and provided indicative suggestions on the position that South Asian countries should take in achieving a legally binding international climate agreement by 2010.

The dialogue brought together a wide range of stakeholders, including climate scientists, economists, water resource experts, agriculturists, academicians, journalists and policymakers.

In particular, participants were disappointment at the lack of emissions reduction commitments in the Accord, and called for an immediate implementation of the financing commitments in the Accord. ■

SAWTEE in WTO Ministerial

FOLLOWING a decision of the Government of Nepal, SAWTEE participated in the Seventh WTO Ministerial Conference in Geneva from 30 November to 2 December 2009 as a member of the government delegation. This was the third time a SAWTEE representative was a member of the official delegation of the Government of Nepal in a WTO Ministerial. SAWTEE also delivered a speech on behalf of the government in a working session, which we consider an illustrative example of how the government and civil society organizations can collaborate for meaningful outcomes in global negotiations. On the sidelines of the Ministerial, SAWTEE also participated in Nepal government team's special meeting with Dr. Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development. ■

12th SDC in Pakistan

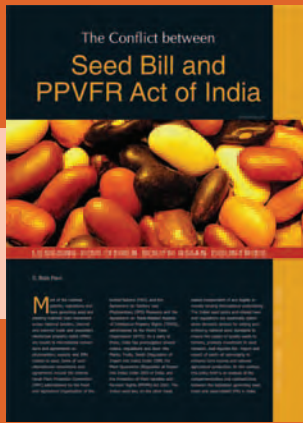
THE Sustainable Development Policy Institute (SDPI) held its Twelfth Sustainable Development Conference (SDC) from 21-23 December 2009 in Islamabad. The SDC's theme was **"**Fostering Sustainable Development in South Asia: Responding to Challenges" and it focused on the six "F" crises pertaining to food; fiscal; fuel; frontiers; functional democracy; and fragility of climate. Scholars from South Asia and other regions were invited to delve further on these issues. Over 92 delegates from 11 countries participated in the SDC and over 1400 audiences came to listen and participate in the 21 panels and two keynote plenary sessions. A book "Peace and Sustainable Development in South Asia: Issues and Challenges of Globalization", jointly published by SDPI and Sang-e-Meel Publications, was also launched at the inaugural session of the SDC. ■

Policy Discussion on Agricultural Biodiversity Policy

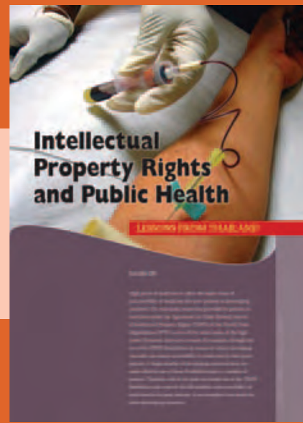
FOLLOWING the invitation from the Government of Nepal, Ministry of Agriculture and Cooperatives to participate as an expert organization in the 23 April meeting of the National Agriculture Biodiversity Conservation Coordination Committee and SAWTEE's inputs at the meeting, the Ministry, together with SAWTEE and Local Initiatives for Biodiversity Research and Development (LI-BIRD), organized a core group discussion programme among a nine member Technical Committee for the review and revision of Nepal's Agricultural Biodiversity Policy 2007. On 16-17 March 2010, the meeting of the Technical Committee, formed by the consensus of the National Agriculture Biodiversity Conservation Coordination Committee, discussed the policy options and guidelines for in-situ and ex-situ conservation and the protection of farmers' rights.

Since Nepal became a party to the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) on 10 January 2010, the meeting also discussed a number of pertinent issues in relation to the implementation of the Treaty provisions, including those on farmers' rights. The Ministry, together with SAWTEE and LI-BIRD, has also planned to organize a series of other events, including a policy seminar on Agricultural Biodiversity, Climate Change and Farmers' Rights, to celebrate International Year of Biodiversity 2010. SAWTEE is now also serving as a member in the Curriculum Development Committee for B.Sc. and M.Sc. courses on agricultural biodiversity of the Institute of Agriculture and Animal Science, Nepal. ■

Policy Brief: International Regime on Access and Benefit Sharing: Negotiation Dynamics and South Asian Issues
Author: Prabhash Ranjan
Publisher: SAWTEE



Policy Brief: The Conflict between Seed Bill and PPVFR Act of India: Lessons for Other South Asian Countries
Author: S. Bala Ravi
Publisher: SAWTEE



Policy Brief: Intellectual Property Rights and Public Health: Lessons from Thailand
Author: Cecilia Oh
Publisher: SAWTEE

Briefing Paper: Intra-regional Free Trade Agreements: Implications for Regional Trade Integration in South Asia
Author: Ratnakar Adhikari
Publisher: SAWTEE

Briefing Paper: Liberalization of Environmental Goods and Services: South Asian LDC Issues
Author: Fahmida Khatun
Publisher: SAWTEE

Issue Paper: FDI in South Asia: Scope for Cooperation
Author: Mythili Bhusnurmath
Publisher: SAWTEE

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT

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

www.sawtee.org

A dialogue on trade and development in South Asia
Vol. 6, No. 1, 2010
TRADE insight

Special Brief for the 16th SAARC Summit

Biodiversity, agriculture and farmers' rights

Biodiversity is crucial for farmers to sustain their livelihoods, breeders to access diversity of genetic resources for further research and breeding, and states to address developmental objectives such as food security and poverty reduction.

However, many of the biological resources that are crucial for agriculture and food security are already in danger of extinction. Moreover, as climate change continues to affect biodiversity and change the geography of agriculture all over the world, pressures are mounting for states as well as farmers and breeders to implement measures needed to address the implications of unpredictable and inconsistent climatic conditions for local biodiversity, including agricultural biodiversity.

The predictions made so far and the already-felt impacts of climate change indicate that a number of countries, including those in South Asia, are at higher risks. For example, the Food and Agriculture Organization of the United Nations (FAO) states that gradual changes in temperatures and precipitation as well as more frequent extreme weather are expected to result in crop failures, livestock deaths and other asset losses, thereby threatening food production, and access, stability and utilization of food resources. Similarly, there are estimates that in South Asia, climate change will: a) affect local ecosystems as well as species and genetic diversity; b) change cropping patterns; c) cause up to a 30 percent yield decline by the mid-21st century; and d) result in additional price increases for the most important agricultural crops—rice, wheat, maize, and soybeans.

Such implications mean that South Asian countries need to focus on effective measures for biodiversity conservation and agriculture promotion, including the development of seeds that not only adapt to harsh conditions and guarantee better yields, but also do not adversely affect biological diversity and the environment. In this regard, it is important to consider the following factors:

- First, farmers' contributions in addressing the adverse impacts of climate change should not be underestimated, and their rights to livelihoods must be protected. It is essential to note that historically, farmers have learned to cope with climate variability and adapted crops and farming practices to suit new and complex conditions for agriculture.
- Second, since the severity and pace of climate change is presenting new, unprecedented challenges, South Asian farmers—lacking resources and policy support—might face severe livelihood challenges. For example, their local genetic resources and the associated rights might be threatened more due to increased pressures for the use of external inputs, including commercial seeds.
- Third, with due consideration of the above-mentioned first and second factors, South Asian governments have the responsibility of ensuring such an enabling policy environment where both farmers and breeders are able to collaborate and make optimum use of biodiversity. This will not only facilitate the value addition and sustainable use of landraces but will also enable them to develop seeds that address climate change and food insecurity concerns.

Context

The heads of state or government of South Asian countries are meeting on 28–29 April 2010 in Bhutan for the 16th South Asian Association for Regional Cooperation (SAARC) Summit. At this crucial gathering, they will discuss climate change and other pertinent issues to come up with concrete resolutions for addressing the complex regional challenges of worsening conditions for biodiversity, agriculture and farmers' livelihoods.

Taking into account a number of national, regional and global challenges and the emerging opportunities, this Special Brief puts forward a set of following recommendations for SAARC governments and the Summit.

Recommendations

- Commit to mobilize financial, technical and human resources for in-situ and ex-situ conservation of biodiversity and for sustainable agriculture practices by, among others, operationalizing a "Regional Biodiversity Fund".
- Direct the relevant bodies to identify, develop and implement regional and sub-regional programmes such as "Regional and Sub-regional Community-based Biodiversity Management (CBM) Programmes" so as to contribute to: a) the value addition and market promotion of local genetic resources through "Regional and Sub-regional Participatory Plant Breeding and Participatory Variety Selection Projects"; b) the development and maintenance of a "Regional Database of Genetic Resources and Traditional Knowledge"; and c) the organization of "Regional and Sub-regional Biodiversity Fairs" where farmers are able to share their knowledge, practices and technologies.
- Direct the relevant bodies to identify, develop and implement regional and sub-regional projects for the identification, value addition and market promotion of bio-products such as medicinal and aromatic plans, and neglected and under-utilized species such as buckwheat, millets, horsegram, etc.
- Direct the relevant bodies to identify, develop and implement regional projects on bioprospecting through public-private partnership as well as regional and sub-regional CBM programmes, and express commitments to increase investment in agriculture, including in research and development on variety development through public research organizations.
- Direct Agriculture Ministers of Member States and the relevant bodies to work towards the creation and operationalization of a "SAARC Seed Bank" so as to: a) link it with national and community seed banks; and b) facilitate regional and/or sub-regional contracts/agreements for ensuring an effective long-term mechanism of production, exchange and sustainable use of community- and environment-friendly quality seeds.
- Express commitments for the operationalization of "Regional Strategic Guidelines on Biodiversity Management, Sustainable Agriculture and Climate Change" which, among others, address the critical regional concerns regarding the use of biotechnology in agriculture; the introduction of genetically modified organisms; the application of intellectual property rights (IPRs) in biological resources and agriculture; and the promotion of biofuels.
- Based on such guidelines, express commitments to operationalize a "Regional Access and Benefit Sharing (ABS) Regime" and a "Regional Plant Variety Protection and Farmers' Rights Policy Framework" so as to: a) facilitate the exchange and use of genetic resources within the region; and b) ensure that the IPR regime meets desirable economic, social and environmental objectives and protects the rights of local, indigenous and farming communities.
- Recognize that such Regional ABS Regime and Plant Variety Protection and Farmers' Rights Policy Framework be the basis of South Asian positions for future global negotiations and agreements, including those at the level of the World Trade Organization and the United Nations agencies such as the World Intellectual Property Organization and the FAO. ■

Author: Kamalesh Adhikari, Research Director, SAWTEE. Views expressed are personal. SAWTEE, P.O. Box: 19366, 254 Lamtangeen Marg, Baluwatar, Kathmandu, Nepal, Tel: +977-1-4415824/4444438, Fax: +977-1-4444570, Email: sawtee@sawtee.org, Web: www.sawtee.org, Design: Bipendra Ghimire (Effect), Printed at Jagadamba Press.

A dialogue on trade and development in South Asia
Vol. 6, No. 1, 2010
TRADE insight

Special Brief for the 16th SAARC Summit

LDC Integration Fund

Realizing the potential asymmetry in the distribution of benefits, various regional economic cooperation arrangements (RECAs) have created built-in mechanisms for the transfer of benefits and achieved a significant degree of success in operationalizing them. The European Union (EU), the most successful example of a RECA, is at the forefront of such initiative. A concrete example, provided by L. Alan Winters, shows that the EU created an European Regional Development Fund to assist relatively poorer countries (Greece, Portugal, Spain and Ireland, the late entrants to the Union) by making significant transfers of resources to help them improve their productive capacity, build credible institutions, and catch up with the rest of the members.

It is natural that gains are not shared equally among all the participating countries in a RECA. The asymmetric benefits within any RECA are a by-product of a large variation in the size of the economies of member countries, their economic structures, level of efficiency and productivity, institutional endowments and policy-intervention mechanisms in place.

The Agreement on South Asian Free Trade Area (SAFTA) recognizes such asymmetry as well as the need to accord special and differential treatments to the region's least-developed countries (LDCs). In a regional trading arrangement (RTA), where five (Afghanistan, Bangladesh, Bhutan, the Maldives and Nepal) out of eight members are LDCs, such a gesture is reflective of the salience of helping these countries catch up with the relatively better off countries (India, Pakistan and Sri Lanka).

Situation analysis

Though SAFTA is not expected to transform the historically tardy process of South Asian economic cooperation, nearly four years of its implementation record leave much to be desired. The problem is further exacerbated by increasing marginalization of the LDCs in the RTA. Their imports from the region are increasing more rapidly than their exports to the region, resulting in widening trade deficits (Table, next page).

Though Afghanistan is a recent entrant to SAFTA and the baseline data for Bhutan are not available, the table suggests that Bangladesh is the only LDC that has increased its exports to the region more than its imports from the region. The intra-regional exports of both the Maldives and Nepal have failed to keep pace with the rise in their intra-regional imports, with the result that LDCs' share in intra-regional exports has declined considerably between 2000 and 2008.

Several market access barriers such as lengthy sensitive lists, and para- and non-tariff barriers are partly responsible for the inability of SAFTA to harness the potential of increasing intra-regional trade, particularly the LDCs' export trade. However, often overlooked are the supply-side constraints faced by these countries, including lack of infrastructure, human capital, technology and finance that are needed to enhance the competitiveness of LDC exports.

A policy paper prepared by the Coalition for Action on South Asian Cooperation (CASAC) on regional integration identified these constraints as far as back in 2001, when it suggested the "creation of a reasonably large sized fund" for the development of LDCs' infrastructure, human resources, and export production and diversification capacity. However, not much attention has been paid to the significance of such fund.

Along these lines, this Special Brief recommends the 16th Summit of the South Asian Association for Regional Cooperation (SAARC) to create an LDC Integration Fund (LIF) and express commitments to develop modalities of its financing and operationalization.

Modalities

For the creation and mobilization of the LIF, as the "reasonably large sized fund" is not defined, it is important to first determine the size of the fund. Though it is difficult to quantify the size of the fund without adequate need assessments, an indicative portfolio with annual contribution of US$1.1 billion, calculated at 0.07 percent of the gross domestic product of SAARC Member States, can be created. The figure of 0.07 percent is 10 percent of what the United Nations has urged the "OECD Development Assistance Committee" to contribute in the form of Official Development Assistance (ODA). Similarly, with regard to its financing, the following modalities can be considered.

Core contributions: There are three major types of core contributions. First, Member States should contribute at least 50 percent of the resources based on their share in intra-regional trade. Second, SAARC observers can contribute 25 percent of the total requirement. Third, other multilateral and bilateral donors can contribute 25 percent of the total requirement. The last two contributions should be in addition to ODA commitments.

Project-based contributions: Since creating regional public goods such as cross-border road linkages, communication and trade facilitation are among the priority agendas of the World Trade Organization's aid-for-trade initiative, it would be possible to capitalize on this for project-based funding. Examples include: a multi-donor North-South corridor initiative, jointly implemented by three regional groupings in Southern Africa; and Asian Development Bank-funded Greater Mekong Sub-regional Project and South Asian Sub-regional Economic Cooperation Programme, though the latter is yet to show tangible results.

Though the Second Meeting of the Sub-group on Technical Assistance to Least Developed Contracting States under Article 11(d) of SAFTA has identified 10 areas and some of them can be counted as assistance for addressing the LDCs' supply-side constraints, progress on this front is minimal. While the non-implementation has its roots in the "best endeavour" nature of this provision, the areas identified do not include "hardware" components such as creating infrastructure. To make this initiative effective, it should be regionalized and merged with the proposed LIF, with the developing Member States in a position to provide such assistance making direct contribution to the LIF, over and above their core contributions.

While the operational modality could be decided once the funding issue is settled, entrusting a professional management team with the responsibility to manage the fund is a *sine qua non* for the successful implementation of the projects in priority areas.

The following represents an indicative list of priority areas at regional and national levels, in addition to what has already been identified by the above-mentioned Sub-group on Technical Assistance:

- Development of transport corridors to improve regional connectivity and rural access;
- Construction of a regional grid to facilitate trade in electricity and a regional pipeline to transport petroleum products;
- Trade facilitation, particularly modernization of customs;
- Construction of laboratories and testing facilities; and
- Construction of warehouses and cold storages to facilitate trade in agricultural products. ■

Table: Intra-regional exports and imports, and export share

	Exports to the region (US$ million)		**Imports from the region (US$ million)**		**Share in intra-regional exports (%)**		**% change**
Country	*2000*	*2008*	*2000*	*2008*	*2000*	*2008*	*2000–2008*
Afghanistan	60	175	169	2,331	2.09	1.18	-43.54
Bangladesh	93	431	1,050	3,916	3.21	2.92	-9.03
Bhutan	–	164	–	171	–	1.11	–
India	1,820	9,449	454	2,410	62.97	64.01	1.65
Maldives	14	18	90	216	0.48	0.12	-75.00
Nepal	309	881	587	2,110	10.7	5.97	-44.21
Pakistan	404	2,919	291	1,272	13.99	19.77	41.32
Sri Lanka	90	725	707	3,213	6.57	4.91	-25.27
Total	2,890	14,762	3,348	15,638	100	100	

Source: IMF Direction of Trade Statistics Online (accessed 31 March 2010)

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT
Author: Ratnakar Adhikari, General Secretary, SAWTEE. Views expressed are personal. SAWTEE, P.O. Box: 19366, 254 Lamtangeen Marg, Baluwatar, Kathmandu, Nepal, Tel: +977-1-4415824/4444438, Fax: +977-1-4444570, Email: sawtee@sawtee.org, Web: www.sawtee.org, Design: Bipendra Ghimire (Effect), Printed at Jagadamba Press.

A dialogue on trade and development in South Asia
Vol. 6, No. 1, 2010
TRADE insight

Special Brief for the **16th SAARC Summit**

Trade and climate change issues

The relationship between trade and climate change has come under increasing attention as the urgency of national, regional and global actions intensifies with predictions of climate change impacts getting ever grimmer. The relationship has several dimensions: for example, physical impacts of trade on climate change and vice versa; linkages between climate and trade rules and policies at national, regional and global levels; and the impact of measures to combat climate change on competitiveness.

Given the interlinkages, the need to make trade and climate rules mutually supportive has been recognized at multilateral levels, for example, at the United Nations Framework Convention on Climate Change (UNFCCC) and at the World Trade Organization (WTO).

While negotiations on the liberalization of trade in environmental goods and services are taking place in the Doha Round of WTO negotiations, the UNFCCC process also involves negotiations on the role of trade in addressing climate change impacts.

South Asia is a region that is especially vulnerable to the impacts of climate change, mainly due to geography coupled with high levels of poverty and population density. All eight countries in the region are parties to the UNFCCC, six are WTO members and two are WTO observers, and five are least-developed countries (LDCs).

At the regional level, under the auspices of the South Asian Association for Regional Cooperation (SAARC), they are pursuing economic integration through the Agreement on South Asian Free Trade Area (SAFTA). With a coverage limited to goods trade, SAFTA came into implementation in July 2006 and is now in the process of incorporating services trade. Recently, SAARC governments have also taken regional cooperation initiatives to address climate change implications for the region.

Despite over two decades of efforts at regional economic integration, South Asia is one of the least-integrated regions in the world, with intra-regional merchandise trade standing at less than 5 percent of its total merchandise trade.

Responding to climate change presents opportunities and challenges for, *inter alia*, intra-regional trade. A clear mapping of the opportunities and challenges within and outside the region is essential to make trade and climate policies mutually supportive.

It is the realization of the urgency of effectively responding to climate change through regional cooperation that climate change is the theme of the 16th SAARC Summit. While taking decisions on the issue of climate change, the Summit would do well to take a holistic approach, by taking into account the interlinkages between trade and climate change and the potential conflicts and complementarities of trade and climate policies.

This Special Brief puts forward the following recommendations for the Summit.

Recommendations

- Conduct a comprehensive regional study on the inter-relationship between trade and climate change, and the challenges and opportunities presented by it.

- Set a timeline for pruning sensitive lists under SAFTA with an emphasis on bioproducts and environmental goods; removing non- and para-tariff barriers to boost intra-regional trade; and institutionalizing the harmonization of standards, including sanitary and phytosanitary measures on these goods.

- Direct the relevant bodies to study the status of informal trade in organic agricultural products, bioproducts and environmental goods, and commit to identify and implement necessary measures to formalize such trade.

- Direct the relevant bodies to form a taskforce to assess the potential of the liberalization of trade in environmental goods and services under SAFTA, and to also study the potential of incorporating environmental services liberalization under the proposed SAARC Framework Agreement on Services.

- Commit to discourage the production and trade of those biofuels that negatively affect food availability and prices, and the resource base of the region.

- Direct the relevant bodies to conduct a regional comparative study on the nature and extent of shifting comparative advantage in agricultural production resulting from climate change within and across Member States, and assess possible changes in competitiveness and complementarities in regional trade.

- Direct the relevant bodies to identify, develop and implement regional and sub-regional projects on value addition, product diversification and market promotion of environmental goods, including organic agricultural products and bioproducts.

- Call for a fundamental change in the manner in which the Clean Development Mechanism (CDM) operates, in that its environment integrity is ensured, it supports the development objectives of Member States and it particularly benefits the LDCs and the poor. Also direct the relevant bodies to identify, develop and implement regional and sub-regional projects to benefit from the CDM, utilizing both public and private funding from within and outside the region.

- Direct the relevant bodies to conduct a regional study on the role of intellectual property rights in technology transfer, and launch a South Asian Climate Change Technology Initiative to document and promote the sharing of local and indigenous climate-friendly technologies; identify regional technology needs; and develop measures to promote the development, sharing and transfer of climate-friendly technologies from within and outside the region.

- Direct the relevant bodies to expedite regional cooperation on clean energy so that fossil fuels are gradually displaced by climate-friendly energy sources such as hydropower and solar energy.

- Institute a regional climate change adaptation and mitigation fund, and mobilize it to promote climate-friendly trade in the region.

- Commit to take a firm stand against climate protectionism that involves the adoption of unilateral trade measures to compel trading partners to take on emissions reduction commitments.

- Develop common understandings and positions on the liberalization of trade in environmental goods and services for multilateral forums, and lobby for outcomes that reflect the trade, development and environmental interests of Member States.

- Commit to adopt a united voice in global negotiations to call upon developed countries and those developing countries that are in a position to do so to provide concrete support measures for building the supply-side capacity of Member States, especially the least-developed ones, in environmental goods and services, including organic agricultural products and bioproducts. ■

Author: Paras Kharel, Senior Programme Officer, SAWTEE. Views expressed are personal. SAWTEE, P.O. Box: 19366, 254 Lamtangeen Marg, Baluwatar, Kathmandu, Nepal, Tel: +977-1-4415824/4444438, Fax: +977-1-4444570, Email: sawtee@sawtee.org, Web: www.sawtee.org, Design: Bipendra Ghimire (Effect), Printed at Jagadamba Press.

A dialogue on trade and development in South Asia
Vol. 6, No. 1, 2010
TRADE insight

Special Brief for the 16th SAARC Summit

Food security issues

Food insecurity is a major developmental challenge for all South Asian countries. A majority of South Asian governments have made international commitments to ensure the right to food of their people, and have also enshrined that right in their constitutions and/or other national documents.

Since the inception of the South Asian Association for Regional Cooperation (SAARC), food security has remained an agenda of the SAARC summits and has received some space in the summit declarations. SAARC countries' international and national commitments to guaranteeing the realization of the right to food of their people, in particular of the poor, received a collective reaffirmation in 1995 during the Eighth SAARC Summit.

SAARC countries have also initiated some measures at the regional level to overcome the challenges of food insecurity. Some of those measures include the establishment of the SAARC Food Bank, and the endorsement of the SAARC Development Goals, seven of which relate to food security.

Despite the commitments and the measures undertaken, more than one third of the South Asian population goes to bed hungry every night. And now, climate change has emerged as another serious threat that is going to add to the severity of food insecurity in South Asia.

According to the International Food Policy Research Institute, South Asia is the region that is going to face the greatest yield decline in almost all crops due to climate change. It has predicted, based on two models—the National Center for Atmospheric Research (NCAR) model and the Commonwealth Scientific and Industrial Research Organization (CSIRO) model—that there will be a 14 percent decline in rice production, 44–49 percent in wheat production and 9–19 percent in maize production by 2050 in a climate change scenario relative to the no climate change scenario.

In that context, South Asian governments should strengthen their food security efforts at the national level. They should also strengthen their collective efforts at the regional level. The upcoming 16th SAARC Summit is an opportunity for them to reassess their commitments and efforts in that regard, and to take up the issue with added urgency. This Special Brief puts forward some recommendations for SAARC governments and the Summit.

Recommendations

- SAARC countries should focus more on increasing agricultural production and productivity in the region. To enhance agricultural production and productivity, they should:
  - Increase investment in agriculture. Agricultural development in South Asia is dependent on sufficient investment in agricultural infrastructure, and research and extension services. Therefore, SAARC governments should identify and launch regional projects—which would complement the national projects—under the infrastructure window of the SAARC Development Fund (SDF).
  - Develop regional projects for human resource development, and for the coordination of agricultural extension services, particularly in bordering areas of Member States. The geography of the region permits such coordination, which is essential to share knowledge and good practices among relevant stakeholders.

- Promote the exchange of germplasms within the region. Due to growing concerns relating to Access and Benefit Sharing and Intellectual Property Right Regimes, such exchange has been restricted in South Asia. SAARC countries can overcome such restrictions through regional contracts and agreements.
- Build a regional mechanism to control illegal trade of low quality agricultural inputs such as seed and fertilizer. As a recent case of Nepal has shown, illegal trade of such inputs has caused serious damages to agricultural production. Therefore, formalizing all informal trade taking place within the region should be a priority.
- Establish regional guidelines on biofuels since some of the countries in the region have already initiated their production. In India, for example, the government is planning to plant *jatropha* in 7–11.2 million hectares of land by 2011/12 for the production of biodiesel. There are possibilities that other countries in the region might also follow suit. The use of agricultural lands for such purpose, and also the possibilities of using major food crops like maize for biodiesel production, will have severe implications for food production. Therefore, South Asian countries should have regional guidelines that deal with, among others, the type and maximum area of land that can be used, and the type of crop that can be permitted for plantation for the production of biofuels.

- Some countries in South Asia are food-deficit; but the region, as a group, is close to food self-sufficiency. Therefore, regional agricultural trade has a huge potential in ensuring regional food security. However, SAARC countries have not promoted regional agricultural trade. They should:

  - Commit to enhance regional agricultural trade with developing-country Member States' committing to prune their sensitive lists under the Agreement on South Asian Free Trade Area by gradually removing agricultural products from the lists.
  - Eliminate existing non-tariff barriers (NTBs) to agricultural goods trade and commit not to make use of such barriers in the future. This is because even if agricultural products are removed from the sensitive lists, the existing practices show that there will remain possibilities of using NTBs to agricultural goods trade.
  - Never resort to restraining exports of agricultural and food products within the region in any circumstance. During the food crisis of 2007/08, India imposed export restraints on some food grains, and Pakistan and Nepal also restricted/banned exports of some food items even within the region. This move severely affected food importing South Asian countries such as Bangladesh that has the highest proportion of undernourished people in the region.

- SAARC countries should effectively operationalize the SAARC Food Bank. For that purpose, they should:

  - Make an institutional arrangement to periodically monitor and estimate food demands and minimum stock requirements, and undertake measures to increase their storage capacity. Such arrangement could be made by setting up a Central Information System and forming a SAARC Food Security Monitoring Committee. The Committee should also be entrusted with the task of making arrangements for regional mapping of vulnerable regions and populations, as well as preparing a vulnerability calendar for the effective distribution of food in the region.
  - Work out detailed procurement modalities in addition to ensuring timely, localized and transparent procurement as well as rationalization of procurement prices. They should also recognize and promote public-private partnership as an integral part of the procurement modality.
  - Utilize the SDF to facilitate the procurement process.
  - Make food distribution systems responsive to regional as well as seasonal food insecurity. ■

Author: Puspa Sharma, Programme Coordinator, SAWTEE. Views expressed are personal. SAWTEE, P.O. Box: 19366, 254 Lamtangeen Marg, Baluwatar, Kathmandu, Nepal, Tel: +977-1-4415824/4444438, Fax: +977-1-4444570, Email: sawtee@sawtee.org, Web: www.sawtee.org, Design: Bipendra Ghimire (Effect), Printed at Jagadamba Press.