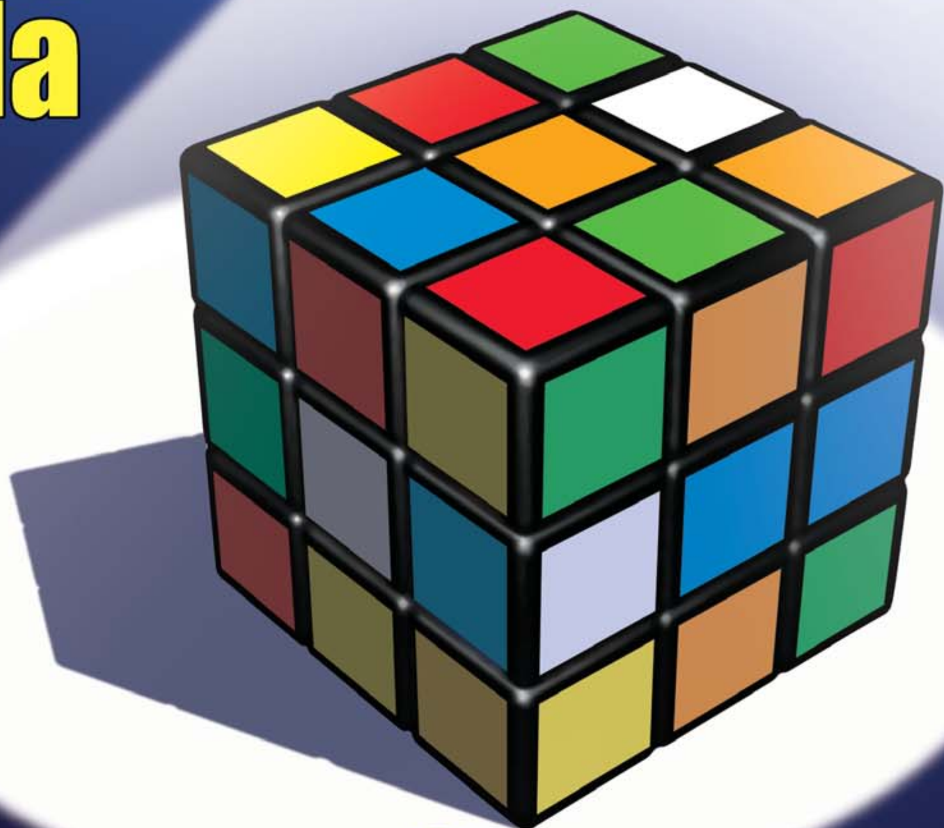
A dialogue on trade and development in South Asia

Vol. 2, No. 1, 2006

TRADE insight

Doha Development Agenda



Elusive

AID FOR TRADE | IS BIMSTEC AN ALTERNATIVE TO SAFTA? | ONE YEAR AFTER ATC EXPIRY

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editors' note

Doha Round Negotiations

Completion is not the only goal

THE negotiators gathered for the Sixth Ministerial of the World Trade Organization (WTO) in Hong Kong seemed to agree on one thing – failure was not affordable. And they indeed were able to make the Ministerial a technical success and issue a declaration. The major decisions on modalities to reduce tariffs in agricultural and industrial goods and domestic support in the agricultural sector – the crux of the Doha Round negotiations – were, however, postponed to end April 2006. This was expected as Pascal Lamy, Director General of the WTO, himself had said that the result at Hong Kong could have been only one of the two – a modest success or a failure.

The negotiations resumed in Geneva since the first week of 2006 but while the 30 April deadline approaches, the modalities are far from finalised. It now seems inevitable that this deadline, like many others in the past, will be missed. The moot question is: will developing Members again sacrifice their 'development interest' to complete the Doha Round of trade negotiations on time or will remain steadfast and compel developed Members to make the Round truly a development round? For this to happen, three developments on the core negotiating issues are crucial: first in terms of policy space, second in terms of market access and third in terms of technical assistance.

Developed and advanced developing countries industrialised behind high tariff walls. By demanding high tariff cuts from developing Members, developed Members are not only ignoring the 'less than full reciprocity' principle but are also restricting developing Members from using the tools developed Members used earlier. Developed Members must provide the policy space developing Members need to use tariffs selectively for industrial promotion.

Developing country exports face various tariff and non-tariff barriers in developed country markets. Easing these market access barriers is urgently required. Distortions in agriculture in developed Members too have to be addressed for easing market access. The proposals from the European Union (EU) and the United States do little to address the distortions. As the applied rates of tariffs in developed Members are much below the bound levels, the tariff cuts have to be above 70 percent to be effective. A 60 percent cut in the highest tier proposed by the EU will not require developed Members to lower their applied rates. Developed Members can also exclude exports from developing Members if more than 1 percent of the products are included in the sensitive list – products that are subjected to proportionately lower levels of tariff reductions. On domestic support, cuts in excess of 70 percent will be required to make them effective.

Unlike the merchandise sector, services are not traded across borders and protected by tariffs, adding to the complexities of liberalising this sector. Special and differential treatment for developing Members in services liberalisation is inherently different from those in goods. This was precisely the reason that bilateral 'request and offer' was the modality chosen for services liberalisation. The Hong Kong Ministerial, by allowing Members to negotiate liberalisation of the services sector through plurilateral requests, put the developing Members' flexibility to selectively liberalise the services sectors at risk. The Ministerial has also failed to address the technical assistance needs of developing Members such as for improving the regulatory capacity and putting in place the physical and human infrastructure.

Negotiators from 149 WTO Members seemed relieved at rescuing the Doha Round in Hong Kong. They, in particular those from developed Members, will now have to show determination to conclude the Doha Round of trade negotiations by 2006 and yet achieve the development goals it set to achieve. ■

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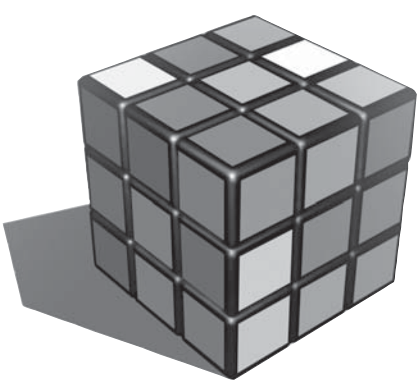
A viable means to realise Development Round

Identifying the modalities required for the effective operationalisation of 'aid for trade' remains a major challenge for the Task Force formed under the mandate of the Hong Kong Ministerial.



Doha Development Agenda: Elusive

The success of DDA depends largely upon the willingness of developed Members to provide flexibilities to developing and least developed Members but do the ongoing negotiations indicate any such possibility?

One year after phasing out of T&C quotas

Various predictions were made regarding the performance of South Asian countries in the wake of ATC expiry but what does the evidence suggest after a year of phasing out of T&C quotas?

SAWTEE NETWORK

BANGLADESH
1. Associates for Development Initiatives (ADI), Dhaka
2. Bangladesh Environmental Lawyers Association (BELA), Dhaka

INDIA
1. Citizen Consumer & Civil Action Group (CAG), Chennai
2. Consumer Unity & Trust Society (CUTS), Jaipur
3. Development Research & Action Group (DRAG), New Delhi
4. Federation of Consumer Organisation of Tamilnadu & Pondichery (FEDCOT), Thanjavur

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

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

SRI LANKA
1. Law & Society Trust (LST), Colombo

Informative and insightful

I enjoyed reading *Trade Insight* that focussed on the Hong Kong Ministerial. I found most articles useful. Particularly, the cover feature was informative and insightful. The article by Dr Pandey on agricultural liberalisation rightly raised the concerns of the net-food importing developing countries, for example, with respect to the increase in import bills as a result of withdrawal of domestic support measures in agriculture. The article by Dr Razzaque on non-agricultural market access enhanced the understanding of this issue from a South Asian perspective. My best wishes to the *Trade Insight* team.

Dr Selim Raihan, Assistant Professor, Department of Economics, University of Dhaka, Bangladesh

Truly stirring

I read *Trade Insight* and found it very interesting. I found Dr Pandey's article 'Agriculture Negotiations: Implications for LDCs' truly stirring. The article brought to the limelight the agenda of the least developed countries (LDCs) for the Hong Kong Ministerial. Unquestionably, the world's poorest should have been in the minds of all trade ministers during trade negotiations. Yet, there is still a lot to be done to help the LDCs achieve the development goals. For instance, duty-free and quota-free market access for LDC products to developed country markets ought to be immediate and predictable. However, at the Hong Kong Ministerial, trade ministers fell short of this task and enabled developed countries to exempt a certain percentage of LDC products from such treatment. The magazine, as a whole, was certainly helpful in comprehending the agenda of the LDCs for the Hong Kong Ministerial.

Purnima Purohit, Programme Coordinator, CUTS Centre for International Trade, Economics & Environment, Jaipur, India

Providing some more space

I read *Trade Insight* with great interest. SAWTEE is doing a superb job by raising and disseminating the issues of global concerns, particularly with regard to trade and development in South Asia. It would be more interesting and useful if SAWTEE provides some space for the issues developed countries are raising. Maybe, SAWTEE could ask some prominent people who do not believe in its vision to write a column as well! However, I would like to mention that *Trade Insight*, even in its present format, is superior to many similar magazines. One can definitely gain a lot of perspectives on different issues while flipping the pages of the publication. SAWTEE has been successful in making people aware of what is at stake in trade relations. This approach seems to be a laudable tradition of SAWTEE as I have a first hand experience of how the organisation sensitised stakeholders about the issues at stake when Nepal was about to enter the World Trade Organization.

Uttam Sharma, Department of Applied Economics, University of Minnesota, Twin Cities, United States

Valuable

I enjoy reading *Trade Insight*. It is a valuable source of information, which updates me on various trade issues emerging at the national, regional and global levels. It also enhances the understanding of civil society positions on various trade issues.

Syed Qasim Ali Shah, International Team Leader, Import Surges Project, ActionAid International, Islamabad, Pakistan

Timely and important

It was interesting to read the fourth issue of *Trade Insight*, which raised the concerns of the poorest countries from an informed least developed country (LDC) perspective. While it is common to come across the literature on how developed countries defend their highly distortionary policies, such as agricultural export subsidies, the voice of the LDCs is often found missing. *Trade Insight* is a welcome addition in this regard.

Pooja Sharma, Fellow, Research and Information System for Developing Countries, New Delhi, India

REQUEST FOR CONTRIBUTIONS AND COMMENTS

Trade Insight is a quarterly publication of SAWTEE. The organisation invites scholarly contributions on trade and development issues from a developing country perspective, preferably that of South Asia. Articles are invited on issues relating to international trade, multilateral trading system, regional cooperation, free trade agreements, and Millennium Development Goals. We also request our valued readers to send comments on the magazine and articles for Readers' Forum. All contributions and letters should be addressed to: The Editor, *Trade Insight*, SAWTEE, PO Box: 19366, Kathmandu, Nepal. Contributions and letters by email should be sent to sawtee@sawtee.org by mentioning *Trade Insight* in the subject field. All contributions and letters should have the writer's full name with organisation, postal and email addresses.

SAFTA comes into force

AGREEMENT on South Asian Free Trade Area (SAFTA) among the South Asian Association for Regional Cooperation (SAARC) Members – Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka – came into effect from 1 January 2006. SAFTA intends to enhance trade in goods among SAARC Members.

The agreement requires developing Members to reduce their customs duties to between 0 percent and 5 percent by 2013 while least developed Members – Bangladesh, Bhutan, the Maldives and Nepal – are required to do the same by 2018.

To protect the domestic interests of Members, the agreement, however, also provides for a list of sensitive products on which trade will be restricted and tariffs will not be cut.

In order to bring SAFTA into force, the liberalisation and other enforcement programmes were earlier worked out during meetings of the joint-secretary level Committee of Experts (CoE). Since the signing of the agreement, CoE convened 12 meetings and finalised all the four Annexes to the Agreement.

SAFTA was signed on 6 January 2004 during the Twelfth SAARC Summit held in Islamabad. The four Annexes attached to SAFTA are: Rules of Origin, Sensitive List, Mechanism for Compensation of Revenue Loss for Least Developed Members and Technical Assistance to Least Developed Members.

SAARC Commerce Ministers convened in Dhaka on 20 April for the first time since SAFTA was enforced in order to review the agreement. They agreed to include services in the SAFTA framework in a bid to boost regional economic integration.

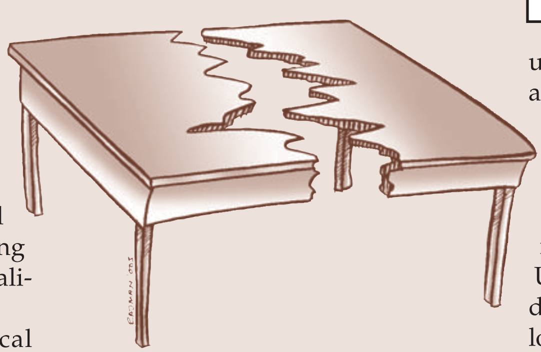
SAFTA is to be fully operationalised by 2016 *(THT, 01.01.06; TKP, 16.01.06, 11.03.06, 22.04.06).* ■

Sino-US textiles deal

A deal to limit the export of Chinese textiles and apparel to the United States (US), reached between Washington and Beijing in 2005, came into effect from 1 January 2006. The deal provides for a progressive increase in Chinese imports until 2008 but would still cap their growth at far less than seen in 2005. Some imports, such as cotton trousers, had surged by more than 1,000 percent. The deal covers more than US$ 5 billion worth of Chinese imports and could help shore up the US textiles industry that has lost nearly 400,000 jobs since 2001, in part due to fierce Chinese competition. For apparel categories, it provides for annual growth rates in Chinese exports of 10 percent in 2006, 12.5 percent in 2007 and 15 percent in 2008. China's textiles exports accelerated in 2005 after phasing out of quotas since 1 January 2005. In the absence of a comprehensive deal, the US had been resorting to cumbersome quotas that will now be replaced by the caps set up under the new accord. The three year long deal was signed in November 2005 (*AFP, 01.01.06*). ■

Doha Round: No breakthrough

WORLD Trade Organization (WTO) Members have not reached a breakthrough in reducing agricultural subsidies, reducing farm tariffs and agreeing to an industrial market access formula, even as the 30 April deadline – set by the Hong Kong Ministerial – to reach 'full modalities' is drawing near.



WTO Director General Pascal Lamy, while addressing WTO delegates at a meeting of the Trade Negotiations Committee on 28 March warned that the inability to meet the April deadline would be "a huge collective mistake". He urged Members to step up the pace of negotiations and made a rare call for ministerial involvement in the push towards 'full modalities'. During their five day meeting at Hong Kong in December 2005, Members pledged to conclude the Doha Round of trade negotiations by the end of 2006.

A week of WTO agricultural negotiations in Geneva from 20-24 March did not result in any breakthrough on the core issues of subsidy and tariff cuts. Similarly, talks on liberalising trade in industrial goods remain deadlocked following a week's discussions. Consultations on the overall tariff reduction formula, the flexibilities to be accorded to developing Members to shield some products from the full force of tariff cuts, and the treatment of unbound tariff lines had yielded no progress.

The March consultations were preceded by meetings of trade ministers from Australia, Brazil, the European Union, India, Japan and the United States – the G-6 – in London during 10-11 March. The talks followed a 7-9 March preparatory meeting in Geneva of senior trade officials from a larger group of 10 influential WTO Members at which, in the words of a Geneva-based negotiator, "no one moved an inch". WTO trade ministers from 25 countries earlier reaffirmed their commitment to the Doha Round during a 'mini-ministerial' in Davos on 27-28 January. The 'mini-ministerial' was held on the sidelines of the annual World Economic Forum *(BWTND, 07.02.06, 15.03.06, 30.03.06).* ■

BIMSTEC in limbo

THE Eleventh Trade Negotiation Committee (TNC) Meeting of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Members – Bangaldesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand – was held in Bangkok in February. At the meeting, Members failed to agree on rules of origin (RoO) criteria and other issues leaving the text of the free trade agreement (FTA) on goods undecided.

During the meeting, differences surfaced on the core issue of RoO, and the sub-group – entrusted to work out the percentage of value addition – failed to come up with specific recommendations. The problem emerged when some Members submitted a longer list of items for RoO's product specific rule (PSR). Earlier, Members had reached an understanding to limit the items at 500 for PSR. PSR, general rule and customs tariff sub-heading (CTSH) change are RoO criteria, which they agreed to determine whether or not the products originated in the Member countries.

While broader understanding on all these criteria has already been reached, the percentage of value addition is still to be decided. Members are optimistic about maintaining regional cumulation at a level similar to the Agreement on South Asian Free Trade Area (SAFTA), fixing it at 50 percent regional material content and 20 percent domestic content.

Since the FTA on goods is scheduled to come into force from July 2006, it had been expected that the TNC Meeting would seal the negotiation. It, however, called for the next round of negotiations in April. RoO, Negative List, Dispute Settlement Mechanism (DSM) and Safeguard Measures are four major components of the FTA on goods. Though the TNC finalised DSM, no breakthrough was recorded on the issue of safeguard measures. The TNC has sought additional time to finalise the safeguard measures and right size the negative list and the list of fast track trade liberalisation.

Under the tariff liberalisation programme, Members have agreed to reduce tariff under fast track (directly to 0 percent) and normal track (gradual reduction to 0-5 percent within 10 years of FTA enforcement). On services and investment negotiations front, the TNC approved the concept draft paper developed by India *(TKP, 15.02.06)*. ■

More free trade agreements in the offing

WHILST Members of the World Trade Organization (WTO) are engaged in hectic negotiations for completing the Doha Round of multilateral trade talks by 2006, countries also seem increasingly inclined to pursue bilateral free trade agreements (FTAs). During January-March 2006 alone, eight new FTAs have been signed/negotiated between various countries, and in four of them, the United States (US) is involved.

On 19 January, Oman became the fifth Middle Eastern country to sign an FTA with the US. The agreement, however, should be approved by legislators in Oman and the US Congress. The FTA – concluded after seven months of negotiations in October 2005 – calls for immediate and deep tariff cuts to take effect upon its implementation.

On 27 February, US Trade Representative Rob Portman and Colombian Trade, Industry and Tourism Minister Jorge Humberto Botero announced the conclusion of a comprehensive bilateral FTA between the two countries. The accord will lower tariffs and other barriers to trade in goods and services.

The FTA between the US and Ecuador is also almost certain despite fierce protests by the indigenous population in the Latin American country. Ecuadorean Trade Minister Jorge Illington and US Trade Representative Rob Portman concluded talks in Quito on 27 March citing that a deal would be concluded soon.

The US and Malaysia began negotiating a bilateral FTA to be ready in three months after US Trade Representative Rob Portman and Malaysian International Trade and Industry Minister Rafidah Aziz met in Washington on 8 March.

Similarly, South Korea and India started negotiating a bilateral FTA on 23 March in New Delhi. Deputy Trade Ministers Kim Joong-keun of South Korea and SN Menon of India led the discussions during the first round of negotiations. This comes after a February summit in Seoul where the two countries had signed a memorandum of understanding to start negotiating a Comprehensive Economic Partnership Agreement, aiming to conclude the deal by late 2007.

Other three bilateral FTAs concluded during this period are those between Australia and Malaysia; India and Chile; and Singapore and Panama *(BWTND, 30.03.06, 23.03.06, 16.03.06, 01.03.06, 25.01.06)*. ■

ASIA'S textiles cope sans QUOTAS

ASIA'S textiles and clothing (T&C) industry is coping well since the ending of the global quota system at the start of 2005, according to Asian Development Bank's (ADB) *Asian Development Outlook* released in Manila on 5 April.

It was feared that Asia's T&C industry would collapse following the abolition of Agreement on Textiles and Clothing (ATC) on 1 January 2005 under World Trade Organization (WTO) rules. One of the biggest fears among T&C producers in developing and least developed countries was that China would dominate world markets, a claim that has proven to be unfounded due to mechanisms to control Chinese exports as well as the competitiveness of smaller developing economies in the wake of intensified competition. China's T&C exports to the European Union (EU) and the United States (US) rose sharply in the first quarter of 2005 but then eased back under safeguard agreements limiting export surges from the Asian economic giant.

The report states that marginal Asian and Pacific developing country suppliers, along with former large quota holders such as Hong Kong, Korea and Taiwan witnessed erosion of their market shares in the EU and the US. The combined US market share of the latter three countries declined from 9.7 percent in 2004 to 6.1 percent in 2005 (in volume) and from 11.4 percent in 2004 to 8.4 percent in 2005 (in value). Other competitive Asian suppliers such as Bangladesh, Cambodia, India, Indonesia, Pakistan, Sri Lanka and Vietnam have done relatively well. Their combined US market share rose to 24 percent from 23 percent in volume, and to 22.7 percent from 20.5 percent in value in 2005, compared to 2004. The report states that in the short term, China may lose some of the rapid gains it made in market share in 2005 as many Asian suppliers are witnessing an increase in their exports. Despite the safeguard quotas, China is the world's leading producer and exporter of clothing with 30 percent of the EU and 25 percent of the US market shares *(ADB, 05.04.06)*. ■

EU imposes duties on shoe imports

THE European Union (EU) started imposing anti-dumping duties on leather shoe imports from China and Vietnam from 7 April 2006 to stop cheap imports, which the EU says are unfairly subsidised by these Asian countries. The tariffs start at 4.8 percent for China and 4.2 percent for Vietnam but are due to rise progressively up to September when they will reach a maximum of 19.4 percent for China and 16.8 percent for Vietnam. EU nations authorised the European Commission to impose duties on leather shoes in March after the EU's executive body identified "clear evidence of disguised subsidies and unfair state intervention to the leather footwear sector in China and Vietnam" *(TKP, 08.04.06)*. ■

Global trade PROSPECTS for 2006

DURING an event organised by the World Trade Organization (WTO) on 11 April 2006, the multilateral trade body reported that world trade grew at 6 percent in 2005. However, there are a number of uncertainties on the horizon for 2006, with signs of a stronger investment climate mixed with fragile prospects for consumption and employment, particularly in Europe. WTO economists predict 7 percent growth in the volume of goods trade (i.e. in real terms, discounting price changes) and 3.5 percent growth in the world economy in 2006.

On the occasion, WTO Director-General Pascal Lamy said: "The global trading system is undergoing a period of transition. Shifting economic circumstances, major advances in technology and the emergence of new players on the global scene all underscore that we are on the cusp of big changes. Persistent imbalances, driven largely by macroeconomic factors continue to be a cause for concern in some major economies. In such a climate of uncertainty, one thing is certain; Member governments must strengthen the global trading system by making it more equitable and relevant for those who trade in the 21st century. There can be no doubt that the best way to do this would be to conclude this year an ambitious agreement in the Doha Round of global trade negotiations" *(WTO, 12.04.06)*. ■

NEWS SOURCES

ADB: Asian Development Bank
AFP: Agence France-Presse
BWTND: Bridges Weekly Trade News Digest
THT: The Himalayan Times
TKP: The Kathmandu Post
WTO: World Trade Organization

A viable means to realise Development Round

It is important to highlight the importance of 'aid for trade' and chalk out probable modalities for its effective operationalisation so that developing countries, including the LDCs, benefit.

Posh Raj Pandey

Life is full of absurdities, particularly so, if we talk about international trade. What orthodox trade theories predict does not match economic reality. With near consensus, international trade theory states that reciprocal trade liberalisation, whether at the multilateral, regional or bilateral level, extends global production frontiers outward, thereby opening the gates of opportunity to every country, poor and rich alike. It provides access to larger markets, new technologies and skills, and enables countries to exploit economies of scale and further specialise on the economic activities of their comparative advantage. It may be true for all countries, barring those with low production capacity.

Data show that the share of manufactures in the total imports of developed countries originating from least developed countries (LDCs) has fallen from 23.2 percent in 1990 to 9.9 percent in 2004, an anti-thesis of the promises envisaged by the Uruguay Round.[1] The fault line has been that international trade theories do not sufficiently cogitate whether countries have the ability to walk through those gates created by the liberalisation process. It assumes away, as other economic theories do, a stable macroeconomic, regulatory and financial environment, a workable social distribution mechanism and a sufficient supply capability to respond to market opportunities.

In the run-up to the Sixth World Trade Organization (WTO) Ministerial at Hong Kong in December 2005, various research indicated the enormous gains from trade liberalisation, the latest being provided by the World Bank.[2] This study estimates that the economic welfare or real income effects of full liberalisation of merchandise trade distortions, including agricultural subsidies, would increase the income of developing and least developed countries by US$ 141 billion.[3] Are developing countries in a position to realise these potential gains? If not, what complementary measures are required within the Doha Framework to help them realise such gains?

In light of these issues, this article highlights the importance of 'aid for trade' and proposes probable modalities for its effective operationalisation.

Aid for trade: Market access is not the whole story

Export performance depends upon external market access conditions and domestic supply capabilities. The reasons for limited success of the LDCs to improve export performance were that the promised market access in the Uruguay Round was diluted by the use of selective tariff peaks, tariff escalation and increased use of non-tariff barriers (NTBs) as protectionary and regulatory instruments on their exportable products. On top of these constraints, developing countries and the LDCs either lack tradable surpluses or have deficient knowledge of market access. Even when they have products to trade and are aware of the export opportunities, they may still fail to penetrate world markets because they lack an enabling policy environment, an appropriate regulatory framework and the necessary infrastructure or are unable to meet technical standards prevailing in high value markets.[4]

'Aid for trade' is not only important for addressing the supply capability of the LDCs but is also crucial from the viewpoint of realising 'development' in the Doha Round. The benefits of multilateral trade liberalisation do not come on its own. It involves costs in terms of loss of policy space to pursue development goals, implementation of the agreements, structural unemployment, revenue loss, preference erosion, rising food prices for net-food importers due to reform in agricultural subsidies, terms-of-trade loss and intra-sectoral and inter-sectoral reallocation of resources in response to changes in the level of protection.[5]

Such costs are beyond the means of developing countries and the LDCs. Multilateral non-discriminatory trade rules under the WTO have some of the characteristics of a global public good from which everyone benefits but to which not everyone has sufficient incentive to contribute. In this regard, 'aid for trade' is a payment to promote global welfare. It implies assistance is essential to encourage the poorest countries to support and maintain a strong and effective multilateral trading system.[6] It would be one of the best ways to redistribute the gains from those who capture a larger pie to less fortunate participants in a globalised economy. In this sense, 'aid for trade' is a discharge of moral obligation by the developed countries. Moreover, it could be a potent instrument to achieve the Millennium Development Goals (MDGs) as committed by world leaders on the eve of the new millennium.[7]

One may ponder that the concept of aid is as old as the history of international economic cooperation, then why fuss over selective aid in the name of expanding trade? Firstly, overall flows of aid resources, which are insufficient to have significant impact, have been hampered by unpredictability, hedging with conditions, lack of coordination among the donors and lack of ownership of the recipient countries.[8] Secondly, despite policy statements of donors to give priority to trade related capacity building, a minuscule part is allocated for trade related areas and it is biased. Particularly, donor-driven bilateral assistance is characterised by negative discrimination (donors refuse to fund activities inimical to their immediate interests) and positive discrimination (support is offered in areas prioritised by donors).[9] It is limited to advice on implementing WTO agreements and emulating the system of developed countries to promote donor's exports. On top of these shortcomings, available resources earmarked for trade related capacity building do not match with highly ambitious objectives – such as the Integrated Framework (IF) for Trade Related Technical Assistance – and have weak linkages with development strategies.

> One may ponder that the concept of aid is as old as the history of international economic cooperation, then why fuss over selective aid in the name of expanding trade?

Aid for trade: Never too late

Notwithstanding multiple references to the need for technical assistance and capacity building for poor countries in the history of the General Agreement on Tariffs and Trade (GATT)/WTO, the Hong Kong Ministerial Declaration has recognised, for the first time, the need for 'aid for trade'. Such need has been recognised for helping developing countries, particularly the LDCs, to build the supply side capacity and trade related infrastructure that they need to implement and benefit from WTO agreements, and more broadly, to expand their trade. The Declaration has also emphasised that 'aid for trade' is not a substitute for the development benefits that would result from a successful conclusion of the Doha Round, particularly on market access. As mandated by the Hong Kong Ministerial, a 13-member Task Force has been formed *(see the box)*, which will provide recommendations on how to operationalise 'aid for trade' and how it might contribute most effectively to the development dimension of the Doha Development Agenda (DDA). The key challenges for the Task Force are to sort out the size and scope of the fund, the management of the fund, area of support and targeted beneficiaries and its linkage with the Doha Round, on which the Ministerial Declaration is silent.

'Aid for trade' is not a substitute for the development benefits that would result from a successful conclusion of the Doha Round, particularly on market access.

Regarding the size of the fund, the precondition is that the resource for 'aid for trade' must match the real needs and growing demands of developing countries, particularly those of the LDCs. The flow of assistance, based on needs assessment, should be stable and predictable so that recipient countries can plan and execute eligible projects efficiently in a sustainable manner. Easy accessibility, user friendliness and non-debt creating aspects are vital for the success of the fund.[10]

It is also difficult to quantify the size of the fund and required annual resource flows without concrete needs assessment. In order to initiate the discussion, an annual fund of per capita US$ 3 per poor person of the LDCs, which amounts to US$ 1.15 billion per year at constant prices of 2005, could be proposed. It is a simple and operationally objective criteria in the sense that the ends of all economic activities is to reduce poverty and the goal of 'aid for trade' is to enable the poor to participate in the globalisation process. It also has the element of automatic monitoring of the success of the aid and in-built growth factor, both positive and negative, on the size of the fund. The fund should be additional to the existing aid budget of the donor countries. Other mechanisms to generate resources are through the imposition of an asymmetric low temporary trade tariff on products scheduled for liberalisation, temporary levy on consumers on the gains they derive from tariff reductions, reallocation of subsidies and income support to 'aid for trade', generation of resources from capital markets and the participation of the private sector in infrastructure development projects.[11]

Regarding how the fund will be managed, there could be many options, for example, through enhanced IF, through existing multilateral organisation or through the creation of a specialised agency.[12] The risk associated with the first option is that it may not only

Aid for Trade Task Force

ON 8 February 2006, the Chairman of the Trade Negotiations Committee and WTO Director General (DG) Pascal Lamy announced at the meeting of the General Council the composition of the Aid for Trade Task Force that he was asked to set up by the Hong Kong Ministerial.

The Task Force will be composed of these 13 members in alphabetical order: Barbados, Brazil, Canada, China, Colombia, the European Union, Japan, India, Thailand, the United States and the coordinators of the Asia Caribbean and Pacific (ACP), the African Group and the LDC Group. The Permanent Representative of Sweden, Ambassador Mia Horn Af Rantzien, will chair this Task Force *ad personam*. The Task Force will provide recommendations to the General Council by July 2006 on how to operationalise Aid for Trade and how Aid for Trade might contribute most effectively to the development dimension of DDA.

The Task Force will be encouraged to provide concrete and result-oriented proposals to fulfill its objectives. International organisations will be invited to act in an advisory role to the Task Force on a regular basis. The first meeting of the Task Force was held in late February. On 20 March, the WTO Aid for Trade Task Force held its second meeting to decide how to fulfill its mandate to produce recommendations on the ways such assistance can contribute to the development dimension of the Doha Round. The gathering held discussions on what an Aid for Trade mechanism acceptable to both recipient and donor countries might look like. It focused on the need to agree on the scope of such a package, as well as its financing, implementation, and monitoring. The Task Force met on 18 April, where the WTO DG reported on his consultations with various international and regional financial institutions, such as the World Bank, International Monetary Fund, and the Inter-American Development Bank. The Task Force is also contemplating an open-ended consultation with all Members in mid-May. ■

Sources: www.ictsd.org and www.wto.org dissipate what the LDCs achieved in the Doha Declaration and the July Package in terms of an improved IF programme but could also dilute the content of additionality in 'aid for trade'. Moreover, the experience of IF implementation is not encouraging for recipient countries. Regarding the second option, the management of the fund as 'add on' activities of the existing multilateral organisation would surely undermine the primary objective of 'aid for trade' expansion by its routine work. The experience on the effectiveness of aid shows that its success rate is high if it is mobilised through a specialised agency created for a specific purpose. Thus, it would be better to create a new institution, which ensures decisive voices of the stakeholders, including the active participation of the recipient countries in its operation.

Trade has more of instrumental than intrinsic value. It is a means rather than an end in itself. Trade reform and openness do not carry any meaning unless they contribute to economic growth and poverty reduction. For this purpose, an enabling policy environment and requisite infrastructure are a must. Thus, the concept of 'aid for trade' should be viewed from a wider perspective. Specifically, it should comprise of the following[13]:

Technical assistance
Providing technical assistance, advice and expertise to assist developing and least developed countries confronted with the complexities of modern trade.

Capacity building
Building the capacity of such countries to deal with trade issues, including policy formulation and implementation.

Institutional reform
Helping them to create a framework of sound and well-functioning institutions for trade-in customs, quality assurance, and other areas.

Infrastructure
Improving roads and ports to link the poor and the goods they produce to markets through investment in infrastructure.

Assistance with adjustment costs
Providing fiscal support and policy advice to help countries cope with any transitional adjustment costs from trade liberalisation.

The 'aid for trade' fund should be designed primarily for the LDCs and inclusion of other low-income countries could be made eligible upon request. This approach lowers the risk of dilution of the LDC priorities. On its relation with the outcome of the Doha Round, it should be a part of 'single undertaking' with firm commitment on resources.

The experience on the effectiveness of aid shows that its success rate is high if it is mobilised through a specialised agency created for a specific purpose.

Conclusion
The ultimate responsibility of the overall development and poverty reduction lies on the country itself and any sort of assistance is an interim measure. Effective aid requires a partnership of shared responsibilities and obligations of both donor and recipient countries. The recipient countries need to adopt appropriate pro-poor and pro-trade policies, ensure good governance and translate multilateral commitments into actions. If the actions of recipient countries are complemented by pro-development market liberalisation and development-friendly trade rules along with firm commitments on 'aid for trade', the Doha Round could indeed usher the 'development dimension' whereby trade also becomes a powerful means to achieve the MDGs. ■

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'Flying geese' or 'butting heads'? South Asia at a crossroads

The beauty of the 'flying geese' formation may be an unrealistic aspiration but a decision to stop 'butting heads' and walk in step is perfectly feasible.

Subir Gokarn

That economic development can spill over national boundaries and galvanise a region is now well-known. Over the last half-century, the performance of the East Asian economies is an evidence of this possibility. One can go back in history to find similar, if not quite as dramatic, inter-linkages between the growth patterns of neighbouring countries. As far back as 1961, a Japanese economist described the positive externalities flowing from growth as the 'flying geese' model. The analogy was obvious and attractive. The formation in which geese fly lessens the resistance faced by each successive cohort behind the lead bird, thus allowing the flock to use its collective energy more efficiently and fly longer distances without a break.

When the analogy was articulated, Japan was emerging as the economic powerhouse of the region and its potential to both buy goods from its less developed neighbours as well as provide investment resources to them cast it in the role of the lead bird. The metaphor did not stop there. As Japan's pattern of competitiveness evolved, neighbours with appropriate resource endowments were in a position to inherit those sectors, which were looking for more competitive locations. This migration was, of course, contingent on these countries following the right policy mix. Looking back over the nexus between policy and economic development in this region, it is reasonably clear that multi-tiered regional linkages indeed played a significant role.

By contrast, South Asia as a region has remained relatively immune from the 'flying geese' effect. Deeper regional economic coordination is an often stated aspiration of all countries in the region, but there is a huge gap between wanting it and achieving it. It is not as though progress has not been made over the last three decades. However, in terms of overall contribution of regional linkages to the economic performance of the region as a whole, it would be fair to say that it has been relatively insignificant, if not negligible. Economic integration is, of course, desirable for a number of reasons. However, it would be far easier to sell it politically across the region if there were some demonstrable benefits that accrued equitably to all countries in a relative manner.

The critical questions are: does the economic structure of the region create the kind of opportunities that emerged in the East Asian context? Or, are there fundamental barriers against good performance spilling over the national boundaries between the seven countries? These questions become all the more significant in a situation in which the largest economy in the region – India – is becoming a growth powerhouse that is attracting increasing attention from the global community. It would be tragic if India's performance did not generate substantial economic benefits for its neighbours.

There are clearly some significant differences between the East Asian context of the 1960s and 1970s and the South Asian context of today. Japan was already an industrial power at the beginning of World War II and basically regained its position during the decade after the war ended. In that sense, its ability to propel the regional economy was much greater than, say, India's in its own regional context. In other words, the South Asian economies are much more closely clustered in the affluence scale.

According to the World Bank's

annual *World Development Indicators*, the per capita incomes in the seven South Asian Association for Regional Cooperation (SAARC) countries in 2004 ranged from US$ 260 for Nepal to US$ 2,510 for the Maldives. It is not a particularly promising situation when the most prosperous economy in the region is by far the smallest! Try as hard as it might, a hummingbird cannot play the lead role in a flock of 'flying geese'. The two largest economies in the region, viz., India and Pakistan, clocked in at US$ 600 and US$ 620 respectively. Clearly, the region does not have a powerful lead goose. To that extent, each economy has to focus individually on dealing with its own barriers to rising affluence.

However, there is another possible perspective on the issue. India may not be the most affluent economy but it is by far the largest, accounting for 79.3 percent of the region's gross domestic product (GDP), as per the World Bank database. The seond largest is Pakistan with 11 percent of the regional GDP. The other five countries' shares are all in single digits, with the Maldives, the richest and Nepal, the poorest, accounting for a mere 0.1 percent and 1 percent respectively. In terms of absolute size, the heavy skewness in favour of India does potentially provide some of the benefits of flying in formation.

This is particularly so when the largest economy is also the fastest growing. The Indian economy grew at an average annual rate of over 8 percent during 2003-06. It looks perfectly capable of sustaining growth in the 7-8 percent rate over the medium term. In simple numerical terms, even if the rest of the region were not growing at all, this translates into GDP growth for the region of 6 percent or more, which would put it amongst the fastest growing regions in the world. Of course, that extreme situation is not relevant. Pakistan is also showing healthy growth of around 6 percent, which significantly pushes up the aggregate number for the region.

But, how is accelerating growth in these two largest economies going to work for the collective good of the region? There are four possible channels: trade in goods and services, flow of investment, movement of people and an efficiency-enhancing allocation of resources across the region as markets integrate. One has to concede that there are some insurmountable political barriers and discount any formal acceptance of the movement of people beyond the current channels, formal or informal. The latter may continue to increase, but such migrants are confined to the lowest segments of labour markets in the destination country. It certainly contributes to regional integration and income stabilisation, but in a relatively minor way.

The South Asian region does not have a powerful lead goose. To that extent, each economy has to focus individually on dealing with its own barriers to rising affluence.

The other three channels are more promising. Do they individually offer significant collective benefits to all participants? Perhaps, not. Trade theory, for example, indicates that the benefits to trading partners are maximised when the difference in their respective resource endowments is the greatest. This is clearly not the case in South Asia, where the bulk of the region is in the labour-surplus and capital-scarce model. The counter argument to this, however, is that trade is always mutually beneficial to the extent it expands the potential market for producers in all participants, which, in turn, contributes to the productivity enhancements referred to above. In turn, the removal of barriers to investment facilitates the optimal choice of location of capacity by all producers in the region, thereby also contributing to productivity gains and competitiveness vis-à-vis the rest of the world.

The simple point is that meaningful economic integration is a multidimensional process and cannot be expected to happen if the focus is confined to one or few dimensions. A free trade agreement is an example of this; its benefits are limited if investment decisions are not swayed by the larger market opportunities that may arise. They, in turn, are not swayed because of the risks inherent in making long term resource commitments across borders. An open investment regime and multilateral guarantees do not adequately mitigate these risks. Recent examples of national resistance to cross-border investments from specific countries indicate that there is no such thing as a truly nondiscriminatory investment regime. Given the historic baggage in the region, any sensible investor would be forgiven for expecting a hostile reaction in neighbouring countries and choosing not to make an investment.

At the same time, it is unrealistic to expect radical movements towards integration within the existing framework of bilateral relationships in the region. For the process to be sustainable, it has to be slow and measured. Needless to add, for the full benefits to spread through the region, it must actively involve all the neighbours. Not only must an explicit framework for policy coordination be laid out, the governments must take an active lead in putting resources into play, for example, through cross-border investments by appropriate public enterprises. If they are not going to be privatised, they might as well be used as an instrument of regional integration!

From India's perspective, even though its dominant share of the regional economy gives it the leeway to de-emphasise regional integration in favour of other external objectives, it must recognise that there is something to be gained from a neighbourhood that is keeping pace rather than falling behind. The beauty of the 'flying geese' formation may be an unrealistic aspiration but a decision to stop 'butting heads' and walk in step is perfectly feasible. The growth momentum in the region will be reinforced even as its benefits spread more evenly across the region. That, after all, is the basic objective. ■

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Doha Developme

Elusive

If developed Members do not show flexibilities to fulfill their commitments, the Doha Development Agenda will remain elusive, making it virtually impossible to successfully conclude the Doha Round of trade negotiations by 2006.

Navin Dahal and Shyamal Krishna Shrestha

Launched during the Fourth Ministerial held at the Qatari capital in 2001, the Doha Round, which aims to liberalise international trade in agricultural, industrial and services sectors, brought the issue of 'development' at the centre of multilateral trade negotiations. However, divergence between developed and developing Members of the World Trade Organization (WTO) during negotiations complicated the Round, leading to the slippage of deadlines on many crucial issues. On 31 July 2004, Members made a breakthrough by adopting the July Package (JP), which revitalised negotiations on five issues – agriculture, industrial goods, services, trade facilitation and 'development dimension', the underlying principle of the Round.

The Sixth WTO Ministerial, held in Hong Kong during 13-18 December 2005, was expected to reach consensus on these issues but it did not happen. Negotiations on them remained unresolved due to continuing differences among developed and developing Members. However, the Ministerial issued a declaration, providing a negotiating framework and guidelines for Members to continue negotiations on the Doha Round issues. The Ministerial set 31 December 2006 as the deadline to complete the negotiations under the Doha Round.

Given this context, further progress or any breakthrough on the negotiating issues will now depend upon concessions that Members are prepared to make. However, developed Members are still unwilling to show flexibilities to fulfill their commitments under the Doha Round.[1] Their persistence in the principle of reciprocity is not only inimical to addressing distortions in global trade but could also defeat the purpose of addressing past imbalances and attaining a free and fair multilateral trading regime. If this continues, there is no denying that the Doha Development Agenda (DDA) will remain elusive, making the successful completion of the Doha Round of trade negotiations by 31 December 2006 virtually impossible.

The Hong Kong Declaration – issued at the end of the Ministerial on 18 December 2005 – reflects the areas of convergence and divergence in trade negotiations undertaken since the adoption of JP.[2] Progress or lack thereof, made during negotiations on the core issues at the Ministerial, are discussed in the following sections.

Agriculture

Agriculture is considered as the 'central' issue of the Doha Round. The largest structural distortion in international trade occurs in this sector through the combination of tariff and non-tariff barriers, trade distorting domestic support and export subsidies. These measures protect farmers of developed Members, principally, the European Union (EU) and the United States (US) but frustrate the development prospects of many developing Members. Removing these anti-development measures is a core objective of DDA as it will lead to the expansion of developing country exports and their meaningful integration into the global economy.[3]

The major objectives of agricultural liberalisation are: substantial improvement in market access; reduction of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support. These three sub-

ent Agenda

issues, widely interpreted as imposing obligations on protected markets in developed Members, shape the expectations of developing Members. However, the perceived lack of compromise from the former has become a lightening rod for critics of developed Members' trade policies.[4] The Ministerial Declaration recognises that: "much remains to be done in order to establish modalities and to conclude the negotiations". It also sets 30 April 2006 as the deadline for achieving full modalities in agriculture.

Market access

DDA calls for substantial market access through the gradual reduction of tariff barriers and non-tariff barriers (NTBs) for agricultural products. However, agriculture is a highly protected sector in developed economies, which use tariffs to shield their sector from competition while permitting unfair competition through high levels of subsidies. Tariff reductions are, thus, vital for developing Members to tap markets in developed Members. On 21 September 2005, the EU and the US outlined their proposals to cut farm tariffs but developing Members rejected them as they deemed the proposals to be insufficient.

Prior to the Ministerial, Members also agreed to convert non *ad valorem* tariffs into equivalent *ad valorem* tariffs for tariff reduction as per the modalities that will be agreed upon. At Hong Kong, Members agreed that tariff reductions will be structured in four bands while thresholds for the bands remain undecided, including those applicable to developing Members. Table 1 lists the range of proposed thresholds and cuts. There has been convergence on adopting a linear-based approach for reductions within those bands.

Table 1

Proposed reductions in agricultural tariffs

Bands	Thresholds (%)	Cuts (%)
1	0-20/30	20-66
2	20/30-40/60	30-75
3	40/60-60/90	35-85
4	>60/90	42-90

Source: WTO. 2005. Doha Work Programme: Ministerial Declaration. WT/MIN(O5)/DEC. Adopted on 18 December at the Sixth Ministerial, Hong Kong.

Members also recognised the need to agree on the treatment of Sensitive Products but there are wide divergences regarding the number of products and the treatment. Proposals on Sensitive Products extend from as low as 1 percent to as much as 15 percent of tariff lines. The EU and the US are proposing 8 percent and 1 percent of tariff lines as being sensitive, where tariff reduction will be at a much lower rate. Developing Members will have the flexibility to self-designate an appropriate number of tariff lines as Special Products and also recourse to a Special Safeguard Mechanism (SSM) based on import quantity and price triggers, with precise arrangements to be further defined.[5]

As the bound levels of tariffs are much higher than the applied levels in the EU and the US, less than 70 percent tariff reduction will not force them to reduce their applied tariffs. Similarly, developed Members can also restrict imports from developing Members if their Sensitive List is bigger than 1 percent of tariff lines as most developing Members have a narrow export base. These issues need to be resolved in favour of developing Members while finalising modalities in agriculture.

Export subsidies

Curtailing subsidy to the agricultural export sector in developed Members has been one of the key demands of developing Members. At Hong Kong, G-20 suggested 2010 for ending export subsidies but it was agreed to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on export measures with equivalent effect by 2013. This can hardly be called an 'achievement' as the EU had already decided to curtail export subsidies in its Common Agricultural Policy (CAP) by this date. As export subsidies constitute a very small fraction of the total domestic support being provided in the EU and the US, the elimination of the same will be meaningless if overall subsidy is not reduced substantially.

Table 2

Proposed reductions in agricultural domestic support

Bands	Thresholds (US$ billion)	Cuts (%)
1	0-10	31-70
2	10-60	53-75
3	>60	70-80

Source: WTO. 2005. Doha Work Programme: Ministerial Declaration. WT/MIN(O5)/DEC. Adopted on 18 December at the Sixth Ministerial, Hong Kong.

Domestic support

DDA calls for substantial reductions in trade distorting domestic support. Therefore, developing Members have made the reduction of domestic support – Amber Box, Blue Box, Green Box and *de minimis* – in the developed Member economies as one of their key demands.

The Hong Kong Ministerial agreed that there should be three bands for reduction of overall trade distorting support. The EU would be in the top band whereas Japan and the US would be in the second band. All other developed and developing Members will be in the first band. Table 2 lists the thresholds and cuts proposed by Members.

Members still need to decide on the thresholds of the bands. As in market access, cuts less than 70 percent will not affect the applied level of subsidy in the EU and the US. The Declaration places emphasis on the importance of cuts in the overall trade

distorting support that would avoid reduction commitments to be met by reshuffling of subsides among its various components. However, developing Members need to be careful to ensure that the proposed review of the Green Box does not create new opportunities for developed Members to shift subsidy from other boxes to the Green Box and restrict developing Members to pursue their agricultural development policies.

Cotton

The Ministerial Declaration calls upon developed Members to eliminate all forms of cotton export subsidies by 2006. It also states that developed Members will provide duty-free and quota-free market access to cotton exports from the least developed country (LDC) Members from the commencement of the implementation period. It is, however, unclear how the LDC cotton producers would benefit as the Declaration does not address other forms of domestic support being provided by developed Members.[6]

Non-agricultural market access

With regard to industrial goods liberalisation under the non-agricultural market access (NAMA) framework, DDA states that "negotiations shall aim at reducing or as appropriate eliminating tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, in particular on products of export interest to developing countries".

Members are exploring an industrial market access formula that would meet the above objectives. Developed Members have, on average, an industrial tariff of around 4 percent but have erected tariff peaks on most developing country exports. Developing Members have high overall tariffs on industrial products both from developed Members and among themselves. Developed Members resorted to high tariffs in the past. Hence, developing Members argue that they should be provided the same policy flexibility. An agreed formula ought to recognise the necessity of allowing developing Members to pursue industrialisation without being hindered with commitments to undertake comprehensive lowering of tariffs.[7] As in agriculture, 30 April 2006 is the deadline for arriving at modalities in NAMA.

In Hong Kong, Members agreed to adopt the 'Swiss formula' with a limited number of coefficients for reducing industrial tariff with the final tariff linked with the initial tariff through a single coefficient. However, this will result in higher cuts to higher tariffs, implying greater adjustment on the part of developing Members.[8] While developed Members will be required to cut their tariffs marginally, developing ones will have to cut them by larger margins. Negotiations have not reached agreement on different coefficients for developed and developing Members, considering the differential in their tariff structure. Developing Members have proposed that each Member's coefficient should be based essentially on the tariff average of bound rates of that Member, resulting in multiple coefficients. This formula would essentially give developing Members greater flexibility in terms of tariff reduction through lower tariff cuts. Developing Members also view the tariff reduction formula to affect a key principle of DDA, which allows them flexibilities to undertake "less than full reciprocity in reduction commitments" as laid down in paragraph 8 of the NAMA framework. DDA emphasises the "special needs and interests of the developing countries, including through less than full reciprocity in reduction commitments, and provision of leeway to insist on only linear cuts for certain tariffs lines and perhaps none for others". Developed Members opine that flexibilities should be explored through other means; a proposal rejected by developing Members, which also agreed to convert non *ad valorem* duties to *ad valorem* equivalents.

Developing Members with a substantial portion of their industrial tariffs unbound are expected to bind such tariff lines. There is some consensus that unbound tariff lines should be subject to formula cuts provided there is a pragmatic solution for those lines with low applied rates. Some Members expressed that their unbound tariff lines with high applied rates are also sensitive and should be given due consideration.

NTBs constitute a significant barrier to goods liberalisation but the Ministerial Declaration has not given it the attention it deserves. Developing Members, thus, need to intensify the discussion on NTBs given the reluctance of the developed Members to initiate negotiation on this issue.

As it is important to preserve the 'less than full reciprocity' principle envisaged by DDA, it is essential that the final modalities agreed for the reduction of industrial tariffs do allow developing Members the policy space for industrial development.

Services

The modality for services negotiations under the General Agreement on Trade in Services (GATS) agreed by Members was on bilateral 'request-offers'. Since there had not been any significant development towards submitting the offers, JP set May 2005 as the deadline to submit revised offers. However, this deadline too passed without any satisfactory offers being tabled.

While reiterating the purpose of achieving a progressively higher level of liberalisation of trade in services with regard to all modes and with appropriate flexibility for individual developing Members, the Hong Kong Declaration stipulates that the bilateral 'request-offer' approach can be complemented by a plurilateral approach. The Declaration demands Members to make such approach in accordance with the principle of GATS and the Guidelines and Procedures for the Negotiations on Trade in Services, the results of which it suggests should be extended on a most favoured nation basis.[9] The Declaration also recommends that such plurilateral talks should be organised to facilitate the participation of all Members while it also calls for due consideration to be given to proposals on trade related concerns of smaller economies.

Developing Members, especially the LDC Members, have also been promised targeted technical assistance to be provided through the WTO Secretariat. However, there is a fear that the plurialteral approach on services negotiations will put developing countries in a disadvantageous position and can even erode the flexibility that they have been promised in the Doha Round to selectively liberalise their services sectors.

Members have agreed to set July 2006 as the deadline for reaching modalities in the services sector. The interest of developed Members is mainly on Mode 3, dealing with commercial presence. Developing Members have urged developed Members to show flexibility on Mode 4, dealing with temporary movement of natural persons. However, developed Members have been reluctant to make any significant commitments citing various reasons, mainly security. This is despite a finding that an increase in developed countries' quotas on the inward movement of temporary workers equivalent to just 3 percent of their workforce would increase global welfare by over US$ 150 billion per annum.[10]

Trade facilitation

JP stated that trade facilitation negotiations "shall aim to clarify and improve relevant aspects of Articles V (Freedom of Transit), VIII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) of GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit." Substantive negotiations started with several submissions by WTO Members. Until the Hong Kong Ministerial, the debate had focused on the scope of transparency requirements, the scope for special and differential treatment (S&DT), the costs of trade facilitation and the required technical assistance in the case of the developing and least developed Members. The debate on these aspects still continues.

Building on the progress made in the negotiations so far, and with a view to developing a set of multilateral commitments on all elements of the mandate, the Hong Kong Ministerial has called upon the Negotiating Group on Trade Facilitation to intensify its negotiations on the basis of Members' proposals.

The Negotiating Group, recognising the importance of technical assistance and capacity building for developing and least developed Members, has called upon developed Members to intensify their support in a comprehensive manner and on a long term and sustainable basis, backed by secure funding. It is encouraging to note that developing Members have been provided policy flexibility of not complying with trade facilitation rules in the absence of external support. Howerver, not complying with trade facilitation measures raises transactions costs in a globalised economy.

Least developed countries

The LDCs are the most vulnerable Members in the WTO, for whom special measures for meaningful integration into the multilateral trading system have been stressed. It is recognised that the LDCs require concessions vis-à-vis WTO rules and obligations, market access and aid assistance. In this regard, various agreements of the WTO contains provisions for S&DT as they are crucial for enabling developing and least developed Members to benefit from the multilateral trading system. In other words, S&DT conceptualises the spirit of 'development dimension' in the WTO. However, developing and least developed Members regard these provisions as vague, legally unbinding and a ploy to deny them concessions as envisaged. Though the Ministerial Declaration admits that substantial work remains to be done to strengthen S&DT and make them "more precise, effective and operational", ongoing negotiations indicate that the developed Members are not serious about ensuring the 'development dimension' in the Doha Round. The Ministerial Declaration lists the S&DT proposals into three main categories. These relate to: Understanding in Respect of Waivers of Obligations under GATT 1994; Decisions on Measures in Favour of LDCs; and Agreement on Trade Related Investment Measures (TRIMS).

Paragraph 47 of the Ministerial Declaration calls upon developed Members and developing Members (which are in a position to do so) to provide duty-free and quota-free market access for products originating from the LDCs. Under this provision, Members shall provide duty-free and quota-free market access for at least 97 percent of products originating from the LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. This essentially means that upto 3 percent of LDC tariff lines can be barred from such preferential access. As most LDCs depend on a narrow range of products for export, this provision has the potential, in effect, to deny the LDCs of duty-free and quota-free market access on all their exportable products. Duty-free and quota-free market access to 100 percent of LDC products is, hence, a must if the Doha Round is to help the LDCs benefit from international trade.

Similarly, the Ministerial proposed an 'aid for trade' package to help developing Members to build the supply side capacity and trade related infrastructure that they need to implement and benefit from WTO agreements, and more broadly, to expand their trade. Members recognise that such aid is not a substitute for the development benefits that will accrue as a result of market access. It has yet to be seen if utilisation of such aid would be left entirely to developing and least developed Members or if it would be 'tied'.[11]

Recognising the financial and trade needs and the administrative and institutional capabilities of the LDCs, the Declaration has given them flexibility in terms of complying with specific obligations and commitments. The Declaration has also given the LDCs the right to maintain, on a temporary basis, existing measures and introduce new measures that deviate from their obligations under TRIMS. These measures will be initially for a period of five years and shall be phased out by 2020.

Other issues

The Ministerial Declaration also addresses other issues on which further negotiations will proceed. These pertain to Rules; Trade Related Aspects of Intellectual Property Rights (TRIPS); Environment; Dispute Settlement Understanding; Implementation; Small Economies; Trade, Debt and Finance; Trade and Transfer of Technology; E-commerce; Integrated Framework; Technical Cooperation; Commodity Issues; and Accession. On all these issues, the Declaration has reaffirmed commitments to adhere to the spirit of the Doha Declaration, negotiations and reports by the GC to expediate actions in these areas.

Conclusion

In Hong Kong, WTO Members postponed the major decisions on the modalities for agriculture, industrial market access and services. Eliminating agricultural export subsidies, cotton subsidies, ensuring duty-free and quota-free market access for at least 97 percent of LDC products, and provision of 'aid for trade' are meager achievements that do not meet the aspirations set by DDA and were agreed upon to prevent the Hong Kong Ministerial from becoming an outright failure. However, as the Ministerial has set 31 December 2006 as the deadline to complete the Doha Round, there is pressure to step up talks or the breakdown of the Doha Round cannot be ruled out.

Despite the principle of a 'development round', negotiations in the Doha Round reinforce the view that the ambitious trade liberalisation agenda is not likely to yield results unless developed Members are willing to address global trade imbalances by showing greater flexibility towards developing Members. In agriculture, subsidy and tariff cuts must be deep to have effect while Sensitive Products have to be limited. It is also in the interest of all Members – developed and developing – to reduce protectionism.[12] Developing country farmers have been facing welfare losses in exports because subsidies in the developed countries keep international prices of major agricultural commodities at artificially low levels. Such adverse terms of trade can be addressed by restructuring the agricultural sectors in highly distorted markets like the EU.[13] High tariffs disable effective market access. In NAMA, 'less than full reciprocity' principle should be applied for developing Members in tariff reduction commitments. Otherwise, their prospects for successful industrialisation would be severely compromised. Progress on temporary movement of natural persons is vital for developing Members, especially the LDC Members, to realise large welfare gains. 'Aid for trade' should enable the LDC Members to have greater say on how aid is utilised for trade. Duty-free and quota-free market access should be extended to 100 percent tariff lines of the LDC Members if the Doha Round has to live upto its promises.

Do the ongoing negotiations suggest any such possibility? Despite meeting several times during January-March 2006, Members have not been able to reach consensus on various critical issues, thus jeopardising the deadlines set for April–July 2006. The success of DDA hinges largely upon whether developed Members will fulfill their Doha Round commitments by accomodating the interests of developing and least developed Members. ■

NOTES

1 Trade ministers from Australia, Brazil, the European Union, India, Japan and the United States met in London on 10-11 March 2006 in an attempt to break the deadlock but "no one moved an inch."

2 In the Hong Kong Declaration, the sectoral issues are put in Annexes A-F, dealing with agriculture, non-agricultural market access, services, rules, trade facilitation and special and differential treatment respectively.

3 See 'Reclaiming Development in the WTO Doha Development Round' submitted by major developing countries to the WTO's Committee on Trade and Development on 28 November 2005.

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Carving out a borderless world for South Asian Youth

What approaches should the South Asian governments pursue to reap the benefits from services liberalisation under Mode 4?

Raghav Narsalay

For most South Asian countries, the services sector is one of the major sectors in terms of its contribution to gross domestic product (GDP) – ranging between 40 percent and 50 percent. In addition, this sector is second after the agricultural sector in providing employment to the people of the region.

It is encouraging that the region is also making a significant stride in services output growth. During 2000-03, services output in the region grew at an annual average rate of 6.7 percent compared to 4.9 percent for the overall GDP growth of the region. In terms of commercial services exports from select South Asian countries during 1993-2003, they grew from US$ 7.9 billion to US$ 29 billion. However, it should be noted that not all the countries in the region have been witnessing such growth. While such a four-fold increase in commercial services exports looks very attractive within a span of a decade, the growth is essentially driven by a five-fold increase in India *(see the table)*. Despite this, the importance of the services sector for the region as a whole cannot be discarded.

In fact, given its contribution and importance, it is crucial that the South Asian governments be proactive and devise strategies to benefit from trade in services, which is growing significantly

across the globe in recent years. Specifically, it is imperative that they identify the comparative advantage and competitive strength in particular modes of services supply[1], dealt by the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) and seek ways to expand trade in those modes and benefit from them. This is an important aspect because not all countries in the region have same interests in different modes of services supply. India's interest is particularly on Modes 1, 2 and 4; Sri Lanka and Nepal have their interest on Modes 2 and 4; and Pakistan and Bangladesh have on Mode 4. It shows that the primary interest of these countries is on Mode 4 (Temporary Movement of Natural Persons), mainly because it could open up employment opportunities for the region's workforce. Moreover, if they are able to export

Commercial services exports from select South Asian countries

Countries	Exports in 1993 (US$ millions)	Exports in 2003 (US$ millions)
Bangladesh	435	404
India	5,034	25,043
Pakistan	1,330	1,485
Sri Lanka	619	1,385

Source: www.wto.org

their workforce, including semi-skilled and unskilled, it will help them ensure employment to their young workforce, which constitutes a significant portion of the 1.8 billion population of the region. It will also strengthen their economies from the inflow of large volume of remittances. Already, the outflow of workers to other countries from South Asia is significant and the remittances have been supportive for the growth of their economies. According to a World Bank study, in 2004, Bangladesh, India, Pakistan and Sri Lanka were among the top 20 receivers of remittances, with estimated receipts of US$ 3.4 billion, US$ 23 billion, US$ 4.2 billion and US$ 1.3 billion respectively. In the case of Nepal too, remittances are a major source of foreign exchange earnings, with estimated receipts of around US$ 1 billion in 2004/05 and have been playing a significant role in sustaining the economy in the period of political unrest and economic stagnation.

In this respect, what approaches should the South Asian governments pursue for reaping the benefits from services liberalisation under Mode 4? This article suggests approaches at two levels – regional and multilateral.

Fostering skills of youth

A majority of youth in South Asia lack skills to find employment. In addition, it is disheartening that there is hardly any room for an immediate improvement, mainly because of the low level of literacy, poor access to quality education, and high level of dropout rate. For instance, the current school (10+2) dropout rate in the region exceeds 75 percent, posing a formidable challenge for the governments to produce a skilled workforce. In such a scenario, a large portion of the youth is forced to engage in the unorganised sector, which has no formal recognition. As a result, labour market opportunities for even the most skilled among them are restricted to local markets, further constraining the growth of the labour market in the region.

Given such constraints, an increase in educational spending alone is not likely to change the situation for the better. Governments have to consciously start allocating resources towards 'skilling' youth at different levels. The region is endowed with populations that speak languages, which are similar across nationalities. Governments should conduct such 'skilling' exercises by facilitating free movement of identified trainers across borders. For this purpose, a special category of visas called the Skill Transferees Visa (STV) at the South Asian Association for Regional Cooperation (SAARC) level can be created. Not only will such a measure help in transferring 'skills' effectively, but will also contribute to foster greater understanding and mutual respect within populations. Then a 'skill development fund' under the SAARC programme can also be generated. The fund will be instrumental for *identifying* skill needs in the region; *deciding* the modes of implementation of the programme as per regional needs; and *approving* training centers for delivering internationally benchmarked courses at affordable costs and training the trainers.

Within SAARC, the Agreement on South Asian Free Trade Area (SAFTA) could also be used as an instrument to create a suitable policy climate for such activities across the region. This will help skill development either through domestic capital or through capital from outside. It is important to realise that a favourable environment at the regional level will be advantageous for:

- Creating employment opportunities for the youth;
- Attracting capital to explore new opportunities that will open up in the area of outsourcing; and
- Establishing a strong, confident South Asian workforce, which will form an edifice for South Asian governments to push their case for creating a special Service Provider Visa (SPV) within the framework of GATS.

Pushing SPV within GATS

The outcomes of the current WTO negotiations on Mode 4 are important for South Asian countries. Mode 4 technically covers all skill levels but commitments made under it are biased towards higher skill categories of services providers. Entry requirements are bound for three main categories of services providers. These include business visitors, personnel engaged in setting up commercial presence, such as intra-company transferees, and personnel in 'specialty occupations'. Interestingly, one will find that all the three categories are linked to some form of commercial presence. In short, commitments made under Mode 4 by countries do not facilitate the movement of labour across borders but the movement of professionals or highly skilled persons to protect capital creation under Mode 3.

> So far, India and Pakistan from the region have submitted proposals on Mode 4 but a joint proposal from South Asia is yet to emerge.

So far, two South Asian countries – India and Pakistan – have submitted proposals relating to various market access and domestic regulations associated with Mode 4. However, these proposals have been prepared mostly keeping in view a set of skilled professionals and a joint proposal from South Asia is yet to emerge. It is, therefore, recommended that the South Asian governments prepare a proposal encapsulating the issues and concerns of semi-skilled and unskilled workforce so that they also benefit from trade in services and contribute to the growth of the economies of the region.

The Declaration, adopted by Members at the Sixth WTO Ministerial in Hong Kong in December 2005, provides South Asia an opportunity to move forward in this direction. In Paragraph 26 of the Declaration, all Members have been urged "to participate actively in…negotiations towards achieving a progressively higher level of liberalization of trade in services, with appropriate flexibility for individual developing countries..." The Declaration also states that "Negotiations shall have regard to the size of economies of individual Members, both overall and in individual sectors. We recognize the particular economic situation of LDCs, including the difficulties they face…"

This gives the negotiators of South Asia the mandate to move forward and put proposals on:

- Existing ideas such as that of SPV while addressing the issues of semi-skilled and unskilled categories;
- Issues that will have to be addressed in the areas of domestic regulation in order to ensure transparent and predictable market access for semi-skilled and unskilled workforce; and
- Classifications that need to be introduced to services provided by the semi-skilled and unskilled workforce.

South Asian countries may utilise the plurilateral approach to concretely put forward their proposals. Time is short and we cannot afford to compromise the ambitions and future of the youth in South Asia. ■

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NOTE

[1] The four modes of services supply under GATS are: Mode 1 – Cross border supply; Mode 2 – Consumption abroad; Mode 3 – Commercial presence; and Mode 4 – Temporary movement of natural persons.

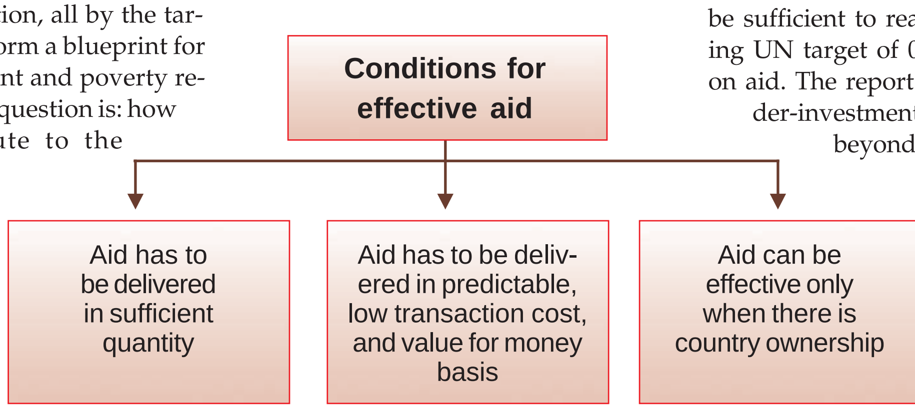
How can AID help achieve MDGs?

Poor countries need aid that is delivered in predictable fashion without being 'tied' and in ways that minimise transaction costs and maximise value for money.

Saman Kelegama

International aid is a powerful weapon to combat poverty. According to *Human Development Report (HDR) 2005* of the United Nations Development Programme (UNDP), that weapon is "under-used and badly targeted". The report argues that aid can spread the benefits of global integration by enabling poor countries and poor people to emerge from poverty that threatens international security. But for this to happen, the attitude of rich countries should change. Aid policies basically reflect how rich countries think about globalisation and about their responsibilities and obligations for the world's most vulnerable people. Ultimately, aid policies are a barometer for measuring rich nations' tolerance for mass poverty in the midst of prosperity.

HDR 2005 attempts to look at aid flows from a human development and poverty perspective and for this purpose, it takes Millennium Development Goals (MDGs) as the terms of reference. The universally accepted eight MDGs – ranging from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – form a blueprint for human development and poverty reduction. The moot question is: how can aid contribute to the achievement of MDGs? The report admits that declaration of commitment to MDGs by 2015 is of little use to the world's poor people unless backed by real financial commitments and real improvement in aid quality by the donor countries.



There are three conditions for effective aid: it has to be delivered in sufficient quantity; it has to be delivered in predictable, low transaction cost, and value for money basis; and effective aid requires country ownership. While there has been improvement in increasing the quantity and quality of aid, the report argues that none of these conditions have been fully met. Let us examine each item in detail.

Aid quantity

When MDGs were set in 2000, the report states that the 'aid glass' was three-quarter empty, now it is half-full and rising. Rich countries collectively spend 0.25 percent of gross national product (GNP) on aid; much lower than in 1990 but an upward trend since the late 1990s. Since the Monterrey Conference on Financing for Development in 2002, aid has been increasing by 4 percent a year in real terms and it has increased by US$ 12 billion from 2002 to 2004. However, the United States (US) alone accounted for US$ 8 billion of this increase, the bulk of it targeted to Afghanistan and Iraq. Leaving aside this lop-sided increase, the report states that donors have failed to align their development assistance programmes with the requirements of achieving the targets. There still remains a large financing gap. If projected increase is delivered in full, the shortfall by 2006 will be US$ 46 billion and US$ 52 billion in 2010.

Several donors have not put into place their spending plans, calling into question their commitment to MDGs. If donors are serious, they should set their sight firmly on the targets of delivering 0.5 percent of GNP in 2010 and 0.7 percent of GNP in 2015. Is this possible and affordable? Yes, argues the report. For instance, for every US$ 1 spent on aid, US$ 10 is spent on military budgets by developed countries. If defense spending since 2000 is diverted to aid, it would be sufficient to reach the long standing UN target of 0.7 percent of GNP on aid. The report states that aid under-investment is a failure to look beyond military security to human security. Another example is that the US$ 7 billion needed annually over the next decade to provide 2.6 billion people access to clean water is less than what Europeans use on perfumes annually and less than what Americans use on plastic surgery. This is an investment that would save 4,000 lives a day. While cogently presenting the case for increased aid, HDR 2005 states that more aid is no guarantee for development, but increased aid is a necessary condition for accelerated progress towards MDGs. Most developing countries can absorb much more aid than they receive.

Aid quality

Poor countries need aid that is delivered in predictable fashion without being 'tied' and in ways that minimise transaction costs and maximise value for money. Often, recipient countries find unpredictable aid (gap between what is pledged and what is delivered) hedged with conditions, coordinated and tied to purchase from donor countries.

The report states that 'tied aid' can result in transfer of inappropriate skills and technologies. Price comparisons have found that 'tied aid' reduces the value of assistance by 11 percent to 30 percent and that 'tied food aid' is, on average, 40 percent more costly than open market transactions. 'Tying' tends to skew aid towards capital-intensive imports or donor based technical expertise, rather than towards activities with low input and capital costs, such as rural development programmes that draw on local expertise. The bias of some donors towards large scale trunk roads rather than small scale rural feeder roads is symptomatic of the problem. The cost of 'tied aid' is estimated at US$ 2.6 billion a year for low income countries (tied tax of 8 percent) – costing US$ 1.6 billion a year for Africa – a huge diversion of resources from poverty alleviation. 'Tied aid' is incompatible with the development of national ownership.

Procurement policies operated through 'tied aid' programmes suffer the same lack of transparency that donors criticise in countries receiving their aid. There is evidence to this effect from Sri Lanka. For instance, one of the country's former presidents, while addressing the Global Consortium on Tsunami Recovery in 2005, expressed reservations that the existing procurement procedures among some of the donor agencies were delaying the reconstruction process in Sri Lanka.

The report shows that more aid through the current structure would lead to sub-optimal results. Without compromising fiduciary responsibilities of the taxpayers, developed countries should reduce transaction costs that lower the effectiveness of aid – rethinking the scope of conditionality, reducing volatility and unpredictability of aid and ending 'tied aid'.

Partnership for ownership and shared responsibility

In March 2005, the Development Assistance Committee of Organization for Economic Cooperation and Development (OECD) signed the Paris Declaration of aid effectiveness. Donors agreed on a framework for enhancing the effectiveness of aid with emphasis on harmonisation, coordination, and country ownership. The Paris Declaration of Aid Ownership incorporates some 50 commitments to improve aid quality with progress to be monitored against 12 indicators. The report suggests that there should be more streamlined structures for aid flows that are more accountable to developing country governments and citizens.

During the Cold War, aid flows from developed countries to developing countries were, to a large extent, influenced by geopolitical exigencies. The motivation for aid flow distortion ceased with the collapse of the iron curtain in 1991 but all aid did not shift towards well-defined human development and poverty alleviation goals. Large amounts of aid were still spent on non-development objectives such as disposing agricultural surplus and fulfilling strategic requirements of donor countries. The report states that there will be benefits of increased aid through a new structure. It would be naïve to assume that all the impediments to aid flows in the past will disappear. However, the policy environment has to improve to have human development returns on aid.

Prospects

The report stipulates: "If they [aid donors] continue with business as usual, 2005 will be the year in which the pledge of the Millennium Declaration is broken. If they act now and deliver on their pledges to the world's poorest people, they can make 2005 the start of a decade of development, helping countries to get back on track for achieving MDGs by 2015 and forging a new, more equitable pattern of globalisation."

In the context of the recommendations made by HDR 2005, the UN World Summit 2005 was a complete disappointment. Much was expected with regard to MDG funding and follow-up from G-8 Summit, supposed to take stock of the progress towards MDGs and take speedy action towards their attainment by 2015. Developed countries objected to setting any targets or aid commitments for them to support developing countries to achieve MDG targets.

While the report gives adequate measures that could be taken by developed countries to increase the inflow of aid, its emphasis on what developing countries should do to increase aid absorption is weak. It undermines the problems of aid absorption by developing countries with the conclusion: "In fact, most problems are readily solvable through a combination of domestic policy prudence and improved donor practices. None of the objections raised by critiques weakens the case for increase in aid flows to achieve the MDG targets." However, at least the Sri Lankan experience shows that the aid allocated to the government should be accompanied by strong capacity to implement and monitor projects, good technicians, and good government procurement procedures.

The recent exposure by the Sri Lankan Auditor General that only 13.5 percent of total foreign funds allocated for reconstruction of the key sectors affected by the tsunami had been used due to irregularities provides ample testimony to this effect. It is important to strengthen the domestic capacity for aid utilisation both at the provincial and district levels. Thus, the recipient countries too need to get their house in order if the desired results are to be achieved by increased aid flows. ■

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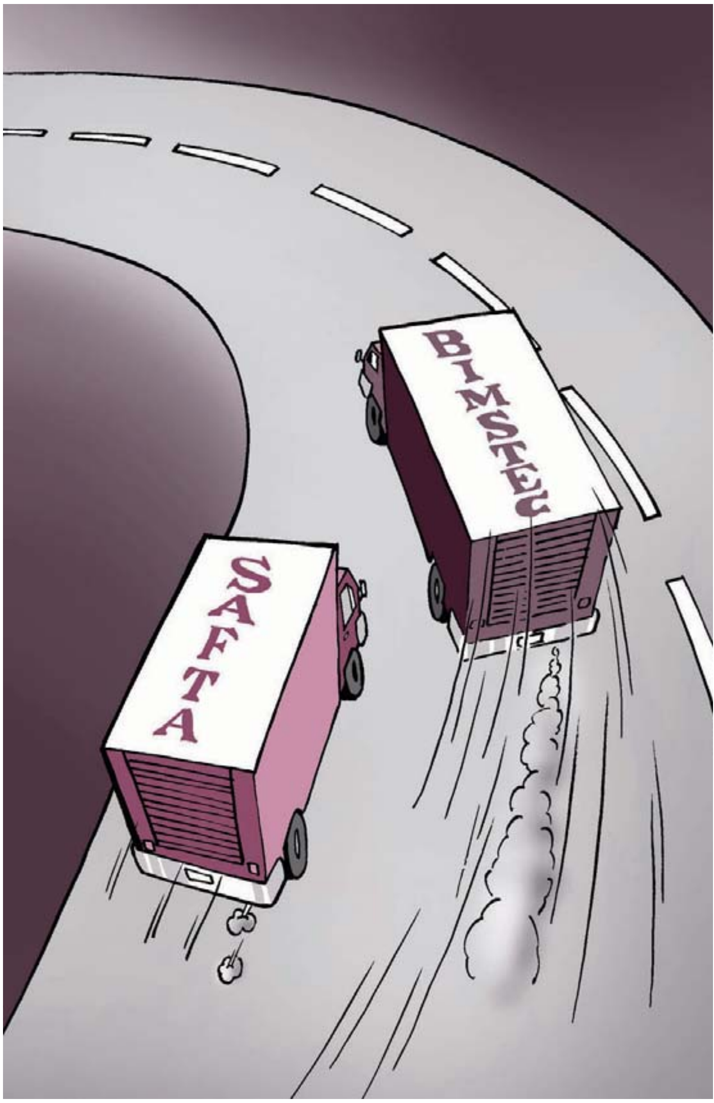
Is BIMSTEC an alternative to SAFTA ?



BIMSTEC has a far greater potential to enhance the level of intra-regional trade among Member countries but there are various issues that need to be addressed to realise such potential.

Swapan K. Bhattacharya

Ever since the formantion of South Asian Association for Regional Cooperation (SAARC) in 1985, the seven Members of the group have been taking various initiatives to strengthen economic cooperation among them. In order to deepen economic cooperation and boost intra-regional trade, Members introduced the South Asian Preferential Trading Arrangement (SAPTA) in 1995. However, SAPTA did little to enhance intra-regional trade in South Asia.

It is disheartening that despite several attempts of these Members to bolster trade through preferential arrangements at the bilateral and regional levels, intra-regional trade among them currently stands at around 5 percent. Moreover, with major tradable items in the sensitive lists of Members, the Agreement on South Asian Free Trade Area (SAFTA), which came into effect since 1 January 2006, is also not expected to accelerate intra-regional trade.

It is not surprising that due to inherent weaknesses of SAPTA and now SAFTA to emerge as a vibrant trading bloc, the South Asian countries have been increasingly exploring the options to form other sub-regional groups.

After a number of inter-ministerial consultations and with the active support of the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), a regional forum was established in 1997 with initially four countries, viz., Bangladesh, India, Sri Lanka and Thailand. Myanmar joined the forum later. Initially known as Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC), it was rechristened as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) after the accession of Bhutan and Nepal. This sub-regional group not only aims to increase intra-regional trade among Members but also includes wider areas of cooperation, viz., investment, industry, technology, human resource development, agriculture and infrastructure.

It would be premature to evaluate the performance of BIMSTEC in boosting intra-regional trade as an alternative to SAFTA especially in a situation where it is yet to come into force. It is, however, important to analyse the possibility of BIMSTEC to enhance trade among its Members.

According to World Bank sources, intra-regional trade among BIMSTEC Members was 14.75 percent in 2003, which shows it has much potential in augmenting trade and investment within the region. Bangladesh's intra-regional trade increased from 10.14 percent of its total trade in 2001 to 15.21 percent in 2003. Likewise, India's intra-regional trade increased from 4.12 percent in 2001 to 6.61 percent in 2003. Intra-regional trade of Myanmar increased from 27.63 percent to 33.13 percent during the same period. Nepal depicts a negative trend in its intra-regional trade, where its share was 43.07 percent in 2001 but declined to 37.6 percent in 2003. Sri Lanka's share rose from 8.33 percent to 17.86 percent. Thailand's share in intra-regional trade leapt from 2.19 percent in 2001 to 21.18 percent in 2003. Since intra-regional trade of almost all BIMSTEC Members has been growing consistently over the years, it is assumed that if trade among these countries is made free through a free trade agreement (FTA), there would be immense welfare gains.

Quantification of welfare gains due to FTA among BIMSTEC Members may give some indications as to how intra-regional trade will work. This author has undertaken a comparative static analysis of different scenarios of FTAs using the Gravity Model developed by Frankel and used by Srinivasan and Canonero for South Asian countries. Using this model, the trade gains of different BIMSTEC Members due to FTA are quantified from simulations based on 2003 figures. Results show that Bangladesh's imports will increase by 62 percent from all BIMSTEC Members. Similarly, India's imports will increase by 109 percent. This is because India's present level of tariffs is higher than all Members in this group. Myanmar's imports will increase by 15 percent and in Nepal's case, the increase would be 60 percent. Similarly, an FTA among BIMSTEC Members will result in a 26 percent increase in Sri Lanka's imports whereas such increase for Thailand would be around 32 percent.

On the export front, the picture is the same as imports but percentages vary from Member to Member. Simulation results show that Bangladesh's exports to India will increase by 130 percent, to Nepal and Thailand the corresponding figures will be 72 percent and 38 percent respectively. India's exports to Bangladesh, Nepal and Thailand will rise by 74 percent, 72 percent and 38 percent respectively. Similarly, Myanmar's exports to India, Bangladesh, Sri Lanka and Thailand will increase by 130.48 percent, 74 percent, 31.69 percent and 38 percent respectively. Nepal will also benefit enormously, as its exports to India, Bangladesh, Sri Lanka and Thailand will increase by 130 percent, 74 percent, 38 percent and 32 percent respectively. Sri Lanka will be another major beneficiary. Since it has better trade linkages with India than other neighbouring countries, its exports to India will witness an increase of 130 percent. Similarly, its exports to Bangladesh, Myanmar, Nepal and Thailand will increase by 74 percent, 18 percent, 73 percent and 39 percent respectively. In the case of Thailand, the FTA will lead to 130 percent, 74 percent, 73 percent, 32 percent and 18 percent increase in exports to India, Bangladesh, Nepal, Sri Lanka and Myanmar respectively. All these simulations are based on average tariffs of the respective BIMSTEC Members disregarding the other FTAs existing in the region such as Indo-Nepal Trade Treaty. In this exercise, the trade gains of Bhutan could not be assessed due to non-availability of data.

Quantification of welfare gains due to FTA among BIMSTEC Members may give some indication as to how intra-regional trade will work.

The above hypothetical scenarios are presented to advocate the need for free trade among BIMSTEC Members on the one hand and to show the trade potentials of this region on the other. Intra-regional trade among BIMSTEC Members is much higher than many other regional trading blocs of developing countries. Intra-regional trade among BIMSTEC Members was 14.74 percent in 2003, against 5.6 percent among SAARC Members. Similarly, intra-regional trade among Indian-Ocean Rim countries, Bangkok Agreement countries and MERCOSUR countries was 6.1 percent, 5.9 percent and 11.9 percent during the same period. The magnitude of intra-regional trade among BIMSTEC Members is high because of Thailand, which is the most vibrant economy of the region. Higher intra-regional trade in this region even without the presence of FTAs implies that it has much potential to grow compared to SAFTA; Bangkok Agreement; and Bangadesh, Bhutan, India, Myanmar Growth Quadrangle.

Will BIMSTEC be a viable alternative to SAFTA, which is vulnerable to being bogged down by rivalries between India and Pakistan? It probably can but not without addressing a number of issues.

The first issue is to define 'rules of origin'. Given the already operational regional arrangements in which BIMSTEC Members are also involved, this is bound to result in a 'spaghetti bowl' type of phenomenon, where for a given product there could be several different tariff rates depending on what origin is assigned to it. The second issue is the harmonisation of standards among different BIMSTEC Members and uniform certification procedures within them. The third issue is the identification of 'negative list' and a detailed plan of action to prune it in a phased manner and to prepare comprehensive national schedules of items to be offered for concession similar to Indo-Sri Lanka FTA. This may not be an easy task as tariff levels are unevenly distributed among Members and each country wants better market access to other countries where it has substantial trade interest. For instance, Thailand wants duty-free treatment to its auto components exports to India but the latter is unlikely to grant such access because this is a vibrant sector within India itself.

Given these scenarios, it can be concluded that BIMSTEC has much to offer to its Members, as compared to other trading arrangements, including SAFTA. However, whether or not BIMSTEC would become an alternative to SAFTA depends largely upon how Members devise strategies to realise its potential. ■

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Problems and Prospects for Regional Cooperation in South Asia

The prospects for enhancing regional cooperation in South Asia depend on a host of political, economic and social factors.

Aparna Shivpuri

South Asia is home to 22 percent of the world's population and 40 percent of the world's poor but accounts for only 1 percent of world trade and 2 percent of global income. Intra-regional trade is at around 5 percent, which is significantly low, compared to that in the European Union (EU) and the Association of South East Asian Nations (ASEAN) *(See the table)*.

In order to strengthen and deepen regional cooperation, the seven countries of the region formed South Asian Association for Regional Cooperation (SAARC) in 1985. This provided them an opportunity to collectively work for the benefit of the region and its people. However, the idea of regional cooperation, as envisaged, could not be materialised not least because of the political dispute between India and Pakistan.

Why is regional cooperation in South Asia not gathering momentum? There are a host of political, economic and social factors.

On the political and social fronts, the region is bedeviled with conflicts in contrast to South East Asia. For instance, India is in dispute with Pakistan over Kashmir and cross-border terrorism, and with Bangladesh over the Ganges. The political tensions within South Asia have led to the rerouting of trade between SAARC countries. For example, of the US$ 2 billion informal trade with Pakistan, India traded almost half of it through third countries like Afghanistan and Middle East countries. India is the largest economy in the region in terms of gross domestic product, population, area and foreign trade and is the only South Asian country sharing borders with Bhutan and Nepal in the North, Pakistan in the West, and Bangladesh in the East. However, these countries have not been able to capitalise on those aspects, rather they have become a cause of geo-political and strategic tensions (cross border terrorism, water sharing and illegal migrantion etc.).

On the economic front, the countries lack trade complementarities as most of them have expertise in the production and export of the similar primary products, textiles and clothing and other labour intensive goods. For example, India, Nepal and Sri Lanka are tea exporters and they have to compete in almost the same international markets. Furthermore, the volume of trade among the countries of the region is low due to high tariffs and transaction costs. High transportation costs along with security issues have significantly hampered cross-border trade. In most cases, an exporter has to prepare a number of documents and face various bureaucratic hurdles, all of which add to the cumbersome cost of cross-border trade. Although India is Nepal's largest trading partner, a direct rail link between the two countries has not been established. Surface transport route through West Bengal is the most important gateway for trade between Nepal and Bangladesh. However, there are problems in the movement of goods because of poor infrastructure and its attendant bottlenecks.

Against these problems, are there any prospects for deepening regional cooperation in South Asia? Some recent events herald optimism in this bleak scenario. The ceasefire existing between India and Pakistan along the Line of Control (LoC) since 2003, the visit of Pakistani President to India in April 2005, the start of a bus service between Srinagar (India) and Muzaffarabad (Pakistan) and the opening of five crossing points across the LoC following the October 2005 earthquake all take us a step closer to a deeper regional cooperation. In addition, the Thirteenth SAARC Summit, which was held in Dhaka in November 2005, has reinstated the spirit of SAARC, paving a way for the strengthening and promotion of regional cooperation in the region. This Summit has been important for several reasons.

Firstly, the Summit was instrumental in helping Members to discuss a number of issues pertaining to the Agreement on South Asian Free Trade Area (SAFTA), which came into effect from 1 January 2006.

Secondly, three major agreements were signed, viz., the avoidance of double taxation, mutual administrative assistance in customs matter and the creation of a SAARC Arbitration Council. These are expected to promote intra-regional trade and investment.

Thirdly, Members agreed on including Afghanistan as another Member of SAARC while Japan and China were given observer status. This could possibly be seen as a strategic move both for enhancing security as well as deepening economic integration. Besides, Members put forward a number of other proposals during the Summit. These included the proposals for the establishment of a SAARC Human Rights Centre by the Maldives and the SAARC Environment Plan of Action to address transnational issues of security and the scourge of HIV/AIDS by Bhutan.

Moreover, it is encouraging that the Dhaka Declaration issued at the end of the Summit has addressed issues such as poverty alleviation, environmental challenges, natural disasters, social challenges, funding mechanisms and combating terrorism. The Heads of State and Government decided to establish a SAARC Poverty Alleviation Fund with contributions, both voluntary and/or assessed, as may be agreed. They called upon the Finance Ministers to formulate recommendations on the operational modalities of the Fund, taking into consideration the outcome of the Meeting of Financial Experts. They also endorsed the SAARC Development Goals, as recommended by the Commission, and called for the follow-up and the implementation of the Plan of Action on Poverty Alleviation, adopted at the Twelfth SAARC Summit held in Islamabad in 2004.

Intra-regional trade of various regional FTAs

	Intra-regional trade (as a percentage of total trade by the group)			
	1995	2000	2003	2004
ASEAN	21.5	22.5	22.5	22
NAFTA	42.5	48.5	46.5	45.5
EU-25	65	64.5	66.5	65.5
MERCOSUR	19	20	15.5	15
CARICOM	10	11	10	11
SAARC	4	3.5	5	4.5

Source: UNCTAD Handbook of Statistics, www.unctad.org

Besides these prospects, SAFTA also provides the region a room to strengthen regional cooperation in the area of goods liberalisation. The agreement consists of provisions for liberalising trade in goods and for special and differential treatment for the region's least developed country (LDC) Members – Bangladesh, Bhutan, the Maldives and Nepal. Under the trade liberalisation programme, the non-LDC Members have been given a seven year timeframe – beginning from the date of coming into force of the agreement – to reduce their tariff rates to 0-5 percent whereas the LDC Members have been given 10 years for the same. The non-LDC Members shall reduce their tariffs to 0-5 percent for the LDC products within a span of three years. These provisions will not apply to the products under the 'sensitive list', which will be reviewed after every four years or earlier as decided by the SAFTA Ministerial Council with a view to reducing the number of items under this list. A Committee of Experts has also been constituted with a number of functions, including acting as the Dispute Settlement Body and monitoring and facilitating the implementation of the agreement.

All these indicate that in their efforts to lead to a deeper regional integration, South Asian governments are facing various political, economic and social problems while there are also some prospects that have emerged in the recent past. If the governments in the region have to make strides in promoting regional cooperation, they should develop a sense of mutual understanding on all fronts – political, economic and social. To check political destabilisation, arbitrate in the case of regional disputes and promote peace, the region requires institutions such as the EU's Organization for Security and Cooperation and the ASEAN Regional Forum.

The countries should also identify opportunities to create linkages and complementarities in trade. It is hoped that the three new agreements signed during the Dhaka Summit will facilitate the movement of people within the region, and the relaxation of custom rules will facilitate trade and attract investors, both from and outside the region. This would not only help in fostering economic growth and alleviating poverty by creating jobs but would also strengthen and promote regional cooperation in South Asia. ■

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LIBERALISATION AND FOOD SECURITY in Bangladesh

Devesh Roy

A common perception of Bangladesh is that of a flood-prone poor country beset with acute governance problems. However, the country has done well in some aspects. In particular, Bangladesh has successfully managed its food and agricultural policies over the last quarter of a century. The policies, especially those pertaining to liberalisation, agricultural research and development, and physical infrastructure, have led to notable gains, including one of the highest growth rates in the size of the foodgrain markets in South Asia.

Government intervention in the foodgrain market in the Indian subcontinent began in the backdrop of the infamous Bengal famine of 1943, in which millions died. The driving policy mindset was since conditioned by a low production base of rain-fed, fragile mono-crop staples cultivation, fragmented infrastructure, financial and informational networks, thin market supplies displaying high prices, large seasonal spreads in prices and susceptibility to upward spikes at short notice. In 1950/51, Bangladesh's rice production per capita was only 60 percent of 2000 and the seasonal spread in rice price was greater than 40 percent. Scarcity was rife and crop failures often brought dreadful political fallouts. The interventions, thus, resulted from a syndrome of scarcity, pre-dating the 'green revolution'. Conceived by bureaucrats and politicians with the probable backing of wholesalers (with typically high incidence of leakage, they were *de facto* beneficiaries of subsidies on foodgrains), the public distribution system was expansive, expensive, hugely loss making but yet a political Holy Grail.

Technology, infrastructure and the markets have come a long way in Bangladesh since the days of famine and starvation. The government, bowing to the general trend of liberalisation, began to undertake economic reforms extensively since the early 1990s. Prior to that, plant-breeding research and infrastructure development were accelerated during the 1970s and the 1980s. Border protection on manufactured goods was lowered earlier. Both agricultural inputs and output markets were liberalised between 1988 and 1993; private imports of fertiliser and grains (rice and wheat) were legalised in 1993; anti-hoarding act was put into abeyance; and private traders were allowed to seek institutional credit for carrying inventory.

The outcomes of liberalisation have been highly favourable, following responses of the private sector. This has manifested in terms of growing foodgrain output, increasing size and commercialisation of rice markets, private rice stocks becoming the mainstay of Bangladesh's sourcing of grain requirements and the near take over of rice imports by the private sector. Liberalisation has, thus, resulted in a much greater involvement of the private sector, which has been found to be comparably efficient than the public sector in terms of marketing margins.

Post liberalisation, there has been a perceptible increase in the cost-effectiveness of the public foodgrain distribution system (PFDS). The favourable effects of liberalisation are also evident in the growth of output, market size, the size of private stocks, the emergence of a two peak harvest seasonality, and in declining real rice prices. The government has also downsized the PFDS, making poverty reduction a priority basis for grain allocation. While imports relative to total availability have remained virtually unchanged during the last 25 years, public issue relative to the availability has fallen by about a half. Average foodgrain consumption has fallen slightly during the 1990s but in the face of rising incomes, this could partly be driven by diversifying tastes. Despite the significant advantage(s) enjoyed by the public sector, the margin being thin is significant.

Thus, three factors, viz., advent of new technology such as high yielding varieties of seeds, development of infrastructure and market liberalisation – all working in tandem – have delivered favourable food security outcomes for Bangladesh. The country's food policy has benefited from a liberalised trade regime and a consistent downsizing of the government, all with favourable effects on poverty and nutrition.

What does the evidence from Bangladesh hold for policy, in general, and Nepal, in particular? In an earlier piece on the impact of liberalisation on food security in Nepal *(See Trade Insight, Vol. 1, No. 4, 2005)*, I had argued that the prime reason for the fruits of liberalisation being small in Nepal had been lack of spatial integration. Bangladesh has pursued extensive spatial integration of the markets, some deliberate and some inadvertently. It built an extensive network of roads and telecommunications. Also, fortuitously, the liberalisation of manufactures resulted in massive imports of motor pumps, which were innovatively fitted in boats that integrated space through the waterways. Whatever the means, the chalk and cheese contrast between Nepal and Bangladesh is basically a tale of domestic market integration; technology and liberalisation policies notwithstanding. ■

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General Agreement on Tariffs and Trade

The WTO replaced the GATT but it still exists as the WTO's umbrella treaty for trade in goods, dealing with GATT 1947 and various other WTO agreements.

Prior to the establishment of the World Trade Organization (WTO), multilateral trade was governed by the General Agreement on Tariffs and Trade (GATT). The objective of the GATT was to promote and regulate the liberalisation of international trade through 'rounds' of trade negotiations.

From 1947 to 1994, the GATT provided the rules for world trade. The Eighth Round of multilateral trade negotiations – held in Uruguay in 1986 (known as the Uruguay Round) and concluded in April 1994 by the signing of Marrakesh Agreement[1] – transformed the GATT into a new permanent international trade organisation, the WTO.

The WTO replaced the GATT but it still exists as the WTO's umbrella treaty for trade in goods, dealing with GATT 1947 and various other WTO agreements. The treaty is now known as GATT 1994 and forms the institutional and legal framework for the WTO. GATT 1994 consists of[2]:

- GATT 1947, i.e., the original GATT with its amendments, etc. as it stands upto 31 December 1994;
- Decisions taken under GATT 1947 upto that date;
- Understandings reached in the Uruguay Round in six areas, viz., other duties and charges, state trading enterprises, balance of payments (BoP) provisions, customs unions and free trade areas, waivers of obligations, and tariff modification; and
- Tariff schedules and the manner of implementation of these schedules as agreed to in the Uruguay Round.

Box 1

Non-discriminatory principles

MFN principle: This principle is contained in Article I of GATT 1994. Despite what its name suggests, it does not mean a country or countries grant special favours to any particular country. It actually bars special favours of any sort and implies that a treatment given to one Member should be applicable in equal measure to all other Members. The MFN principle forms the basis of nearly all WTO agreements and is considered to be the very pillar of the multilateral trading system. In its broadest definition, it means that every time a Member opens up its market, it has to do the same for all other Members regardless of its economic status.

National treatment principle: This principle is mentioned in Article III of GATT 1994. National treatment refers to non-discrimination between domestic products and imported products. The principle of national treatment prescribes the obligation that an imported product, after entering the country of import, should be treated as a national product. Though the principle of national treatment appears simple, its implementation has not been as simple due to emerging complexities that arise in international trade.

Sources: Das, B.L. 1999. The World Trade Organisation: A Guide to the Framework of International Trade. New York: Zed Books Ltd. and Penang: Third World Network; and www.wto.org.

Some aspects of GATT 1994

Tariffs

The agreement encourages Members to bind their tariffs on all products. The main disciplines on tariffs are contained in Articles II and XXVIII of GATT 1994. The former prescribes the limits on the imposition of tariffs and the latter contains the procedure for raising tariffs beyond specified levels.[3] Members cannot raise their tariffs beyond the bound rates except on particular circumstances. Within the GATT, there is also a provision for maintaining tariff rate quota (TRQ)[4] and preferential tariff rate[5].

Non-discriminatory principles

Although GATT 1994, as an institutional and legal framework, covers most aspects of WTO agreements, it is more clearly evident in its two most basic principles – most favoured nation (MFN) and national treatment (See Box 1). According to the MFN principle, a country should not discriminate between its trading partners and give them equal MFN status. For instance, If Bangladesh imposes a 1 percent tariff on imports of kiwi fruit from New Zealand, MFN treatment would demand that Bangladesh extend the same treatment to the imports of kiwi fruit from other WTO Members. The national treatment principle means that a country should not discriminate between its own and foreign products, services or nationals and give them national treatment.[6] Although the principle of MFN requires all Members to be treated equally, its exceptions are unique and provide safeguards as well as potential complications in its interpretation during trade disputes.

Exceptions

Exceptions in GATT 1994 are provided in its Article XX. It allows Members to restrict imports or exports from/to specific sources. Such measures can be taken for some specified purposes, for instance, for the protection of public morals, protection of human, animal or plant life or health.[7] For example, trade authorities of Sri Lanka may decide to re-

Box 2

Trade remedy measures dealt by GATT 1994

Safeguard measures: These are emergency trade measures taken temporarily by a Member to provide relief to its domestic industry in the situation of injury from an increase in imports. A Member may take recourse to trade measures restricting its imports of a product so as to 'safeguard' its domestic industry. A separate agreement – Agreement on Safeguards – has also been incorporated within the WTO for a detailed application of safeguard measures. Taking safeguard measures means withdrawing or modifying the concessions which a Member has given under the WTO agreements in respect of goods; or suspending, wholly or partly, other obligations undertaken in the WTO agreements in respect of goods. Examples of the former are: withdrawal of concession by raising the tariff on a product above the bound level; or modification of the concession by raising the tariff level for imports beyond a particular value or volume. An example of the latter may be the imposition of quantitative restrictions to limit the import of a product in suspension of the obligation not to restrict imports.

Anti-dumping measures: The rule governing anti-dumping are dealt with by the Agreement on Anti-dumping – officially known as Agreement on Implementation of Article VI of GATT 1994. If a foreign supplier sells goods at a price below his/her cost of supplying the same goods in the domestic market, it is considered an act of dumping. Governments can take anti-dumping measures against such actions, for instance, by levying an amount equivalent to the margin of dumping at the border. However, the remedial process requires the determination of three elements: existence of dumping; existence of injury; and causal relation between dumping and injury.

Countervailing measures: While anti-dumping measures are taken to create a level playing field for domestic enterprises to protect them against unfair competition with foreign enterprises, countervailing measures are taken for the same purpose except that these measures are taken to counteract the action taken by the foreign governments (providing subsidies). Agreement on Subsidies and Countervailing Measures governs countervailing measures. When a foreign government provides trade distorting subsidies to its domestic enterprises, the home country has a right to impose additional duty over and above the normal duty in order to countervail the impact of such subsidy in the domestic market.

BoP measures: The main purpose of these measures for developing countries is to provide them with some relief and flexibility when they face problems of low inflow and small reserves of foreign exchange. It has been recognised that they need foreign exchange for sustaining their development efforts.

Sources: Das, B.L. 1999. The World Trade Organisation: A Guide to the Framework of International Trade. New York: Zed Books Ltd. and Penang: Third World Network; and Adhikari, R. 2004. 'Trade Remedy Measures as a Means to Protect and Promote SMEs' in N. Dahal and B. Sharma (eds.) WTO Membership: Opportunities and Challenges for SMEs in Nepal. Kathmandu: SAWTEE and SMEDP.

strict the import of mangoes from any Member country on grounds of health risk. In doing so, it will affect trade in that particular product but this is a legitimate move if it is based on scientific evidence and becomes a justifiable trade barrier under WTO rules. This provision of GATT 1994 also incorporates other WTO agreements like technical barriers to trade and sanitary and phytosanitary measures into its fold.

Trade remedy measures

There are four types of trade remedy measures *(see Box 2)*, dealt by GATT 1994 and further guided by separate agreements on them. GATT 1994 has provisioned for these measures with certain conditions that Members need to fulfill while implementing them at the domestic level. The measures are: safeguard; anti-dumping; countervailing; and BoP measures.

Conflict between GATT 1994 and other agreements on goods

There are different agreements on goods in the WTO, which have interlink with GATT 1994. In other words, to a certain extent, GATT 1994 also deals with some of the provisions of other agreements. In the case of a conflict between a provision of GATT 1994 and a provision of another agreement on goods in the WTO, the provision of this other agreement will prevail to the extent of the conflict.[8]

It means that in case there is any difference between the new agreements in the goods sector and the old provisions, the new agreements will have precedence over the old provisions, and, to that extent, the old provisions will also be considered to have been modified. ■

NOTES

1. It is a binding agreement signed at the Marrakesh Ministerial Conference in April 1994. The agreement set up the WTO and contains the results of the Uruguay Round of multilateral trade negotiations.
2. Das, B.L. 1999. *The World Trade Organisation: A Guide to the Framework of International Trade.* New York: Zed Books Ltd. and Penang: Third World Network.
3. Above note 2.
4. The tariff quota is the quantity of import upto which a lower level of tariff is applied; beyond that limit of quantity, the normal tariff in the schedule is applied.
5. The general tariff listed in the tariff schedule is to be applied to all Members without discrimination. However, Members sometimes apply concessional rates of tariff to some products of some specified Members. These are preferential tariffs and are recorded in the tariff schedule, specifically mentioning the names of the Members for whom they are applicable.
6. WTO. 2003. *Understanding the WTO.* Geneva: World Trade Organization.
7. Above note 2.
8. Above note 2.

Market access for the LDCs

Slippery slopes

By not providing duty-free and quota-free market access for all exports and for all LDCs, developed Members have limited the potentials of the LDC Members to benefit from international trade.

Rashed Al Mahmud Titumir

A monkey sets to scale up a greased pole. Each day it climbs up three feet but it falls down two feet the next day. How long will it take the monkey to climb up a sixty-feet pole?

The Sixth World Trade Organization (WTO) Ministerial at Hong Kong in December 2005 struck out a predicament to the least developed countries (LDCs) similar to that of the monkey in the above arithmetical problem. The case, however, provides a prospect for the monkey to climb atop the pole while the future of the LDCs still hangs in the balance as far as their ability to see light at the end of the tunnel is concerned.

The commentaries in circulation are unequivocal that the WTO needed a 'success' in Hong Kong for its survival. The relevance of the multilateral institution had come into question from all and sundry, accentuated by the collapse of the Cancún and Seattle Ministerials and the failure to deliver on promises made in Marrakesh, Singapore, Geneva and Doha. A deal was *de rigueur*, and that was arrived at: no matter at what expense.

The establishment was, thus, quick to grasp the headlines about the Ministerial Declaration. Many described it as significant progress since the July Package, which was possible after six days of intensive negotiations, which Chairperson John Tsang described as "working like a dog". The French Socialist-turned-European Union Trade Commissioner-turned-WTO Director General Pascal Lamy added a 'touch of colour' stating: "we now have enough fuel in the tank to cruise at the right negotiating altitude." Others said that the *nouveau riche* of the post-colonial world – G-20 – that coalesced in Cancún exulted in its ability to "scoring in a big way in areas of key concern to them, including agriculture, non-agricultural market access and development issues." Cuba and Venezuela formally expressed their reservations on the texts on non-agricultural market access (NAMA) and services. Almost all the ministers in the preceding informal heads of delegations meeting, nevertheless, described the agreement as not fully meeting their expectations.

It is vital to examine, internalise and expose the 'success' from a LDC perspective. This calls for a thorough line-by-line examination of the deal, struck in a traditional negotiating tactic of 'pressure cooker' environment, leaving most Members dogged in wondering which proposals make sense and which are mere rhetoric. A comprehensive scrutiny is needed as the rich countries fielded vast teams of lawyers, experts and negotiators to get the results they wanted.

On the contentious issue of agriculture, the deadline for finalising the modalities for the reduction of domestic support has been postponed to 30 April 2006 and an end date of 2013 was agreed for export subsidies. The elimination of export subsidies would be of little help to the developing country farmers as it is a minor part, constituting 3.6 percent of the overall European Union (EU) farm support. The EU will still be able to provide billions of euros per year under the WTO's Agreement on Agriculture (AoA) rules.

The negotiations remained completely silent about the *principle* governing the provision of subsidies. The negotiations were nowhere nearer to upturn the arrangements in agriculture to *ensure* that domestic support should be allowed to farmers in those countries, which *need* these but not to those living in countries with abundant financial resources.

In the area of industrial tariffs, the NAMA text – based primarily on the proposals made by developed countries – stipulated reduction of industrial tariffs in both developed and developing countries. The LDCs were kept out of these tariff cuts.

The text absolutely ignored the erosion of preferences. Non-agricultural LDC products remain at a disadvantageous position as they would further become uncompetitive vis-à-vis the products from developing countries. For example, with possible across the board tariff cuts, LDC exports enjoying duty-free market access in the EU would have to compete with exports from other developing countries.

The negotiations on services testified how the rich countries wielded their power. G-90, Association of South East Asian Nations (ASEAN) and the LDCs made substantial alternative proposals on services, which were largely ignored. There is nothing in the Hong Kong Declaration, which heralds progress as far as Mode 4 of the General Agreement on Trade in Services (GATS) is concerned. Moreover, it is not defined whether or not the LDCs are subject to the plurilateral negotiations. If it is so, it would be difficult for the LDCs to cope with the plurilateral approach in opening up the services sector since they lack adequate negotiating capacities.

Market access for the LDCs

The rhetoric of a special development package for the LDCs was aired in Hong Kong. They were told that the Ministerial would address their concerns regarding market access. The Declaration remains a *diktat* and has neither provided binding commitment nor covered all products. It has also failed to grant preferential treatment on a permanent basis. Duty-free and quota-free market access will be provided in the developed country markets for all the LDCs on a 'lasting basis' (not binding, not permanent) by 2008 for at least 97 percent of the tariff lines. The decision was a step back from the Doha Mandate of duty-free and quota-free market access to all products from the LDCs.

The 97 percent limit was held hostage to political whims of countries, which already provide 100 percent as it paves the way for these countries to play around, if the recipient LDC fails to 'follow' the providers' policy agenda, citing that they are simply complying with multilateral trade rules. Such imposition also leaves no pro-

Decision on Measures in Favour of LDCs

We agree that developed Members shall, and developing Members declaring themselves in a position to do so should:

(a) (i) Provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability.

(ii) Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 percent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. In addition, these Members shall take steps to progressively achieve compliance with the obligations set out above, taking into account the impact on other developing countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products.

(iii) Developing Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

(b) Ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access.

Members shall notify the implementation of the schemes adopted under this decision every year to the Committee on Trade and Development. The Committee on Trade and Development shall annually review the steps taken to provide duty-free and quota-free market access to the LDCs and report to the General Council for appropriate action.

We urge all donors and relevant international institutions to increase financial and technical support aimed at the diversification of LDC economies, while providing additional financial and technical assistance through appropriate delivery mechanisms to meet their implementation obligations, including fulfilling sanitary and phytosanitary and technical barriers to trade requirements, and to assist them in managing their adjustment processes, including those necessary to face the results of most favoured nation multilateral trade liberalisation.

Source: WTO. 2005. Doha Work Programme: Ministerial Declaration. WT/MIN(O5)/DEC. Adopted on 18 December at the Sixth Ministerial, Hong Kong.

cess of multilateral redress as the provider would simply state that they are acting within the rules.

The developed countries could restrict duty-free and quota-free market access to products of export interest to the LDCs. Unnayan Onneshan, Bangladesh, examined the effectiveness of the duty-free and quota-free market access provided to LDC products, by taking exportables of a single country to a single country market. For this purpose, a trend analysis of Bangladeshi exports into the United States (US) was conducted for the period 2001-04. Since the US uses 8-digit level, the Harmonised Tariff Schedule (HTS) has been assumed at that level and 3 percent comprises some 339 tariff lines in the US.

Products that have been exported during the last four years are almost the same and have little variation, approximated as 7 percent to 12 percent, from one year to another. The bulk of these exports fall under textiles and clothing category, especially those of woven and knitting, defined at 2-digit level of HTS, i.e., HTS 61 and HTS 62. Over 60 percent of Bangladesh's total exports to the US face tariff peaks, i.e., facing tariffs of 15 percent and above. On average, around 105 products of Bangladeshi origin faced tariff peaks based upon the data of the four year period. This means that only two-third of total exports value was constituted by about one-fourth of total products, which faced higher tariff in the US market. Around 90 percent to 95 percent of these products fall under HTS 61 and HTS 62.

This means that around 85 percent to 90 percent of total exports from Bangladesh may be excluded from duty-free and quota-free facility, if the tariff line is defined at 8 digit level. If the tariff line is defined at less than 8-digit level, then it might be the case that all products would be excluded from such facility since the exportables are limited.

The Ministerial Declaration also did not provide any timeline for granting duty-free and quota-free market access to the remaining tariff lines.

Aid for trade

Yet another phoney face of the WTO surfaced at Hong Kong when developed Members agreed on 'aid for trade' for the developing and least developed Members. Japan and the US, which deviated from earlier commitments made in Doha to give full duty-free and quota-free market access to the LDCs, chose a new technique to jump-start the stalled talks. The US said it would double its 'aid for trade' grants to developing countries to US$ 2.7 billion per year by 2010 whereas Japan had already promised to provide US$ 10 billion to help resource scarce countries develop their export capacity. The EU also announced that it would boost its annual contribution to 'aid for trade' by Euro 1 billion by 2010, bringing its total support to Euro 2 billion a year.

Undeniably, the LDCs require resources to spur growth but the experience with such mechanisms points out that the resources are not channelled wherein they are most needed. Rather, international creditors are usually driven by ideology and fail to address the ground realities.

Beyond Hong Kong

It was not surprising that attitudes of the developed Members towards developing counterparts remain unchanged. While agreements on limited issues were made in Hong Kong, most of the difficult decisions were put off to the end of April-July 2006. It is far from clear why rich countries that were unable to show leadership in Hong Kong will behave any differently within a few months.

As the dust begins to settle from the Sixth Ministerial, there is renewed talk about a further boost in bilateral trade negotiations. The politics in WTO negotiations essentially remains one of 'Smith abroad, Keynes at home', i.e., protection of key areas domestically *a la* John Maynard Keynes but securing market access abroad to ensure that the economy expands *a la* Adam Smith.

In Hong Kong, developed Members did little to help the LDC Members. By not providing duty-free and quota-free market access for all exports and for all LDCs, developed Members not only displayed indifference to their Doha Round commitments but also limited the potentials of the LDC Members to benefit from international trade. The developed Members must understand that measures aimed at improving technical assistance and infrastructure in the LDCs, even if they are full-heartedly implemented, are not sufficient to lift the LDCs out of their current levels of development. Therefore, they should not view duty-free and quota-free market access for all products only as a negotiating agenda but recognise it as a precondition for the successful integration of the LDCs into the multilateral trading system. ■

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One year after phasing out of T&C quotas

Where does South Asia stand?

South Asian economies depict a mixed performance a year after global quotas on textiles and clothing were abolished under multilateral trade rules.

Ratnakar Adhikari

During the multi-fibre arrangement era, many Asian countries, including India and Pakistan, were considered to be competitive in the textiles and clothing (T&C) sector. However, T&C exports from these countries declined after developed countries imposed quantitative restrictions (quotas) on them. Such quotas limited these countries' potential to export T&C products but at the same time also provided an opportunity for the growth of T&C sector in several other Asian countries. Particularly because the quota imposing developed countries started importing T&C products from other countries since they lacked production capacities to meet domestic demands.

Four South Asian countries – Bangladesh, the Maldives, Nepal and Sri Lanka – responded quickly to fill the void. However, these countries did not have the competitive edge and most of them did not also make any conscious effort to diversify the product range and the market. Later on, these factors contributed in exacerbating their vulnerability in the global market. From Table 1[1], which depicts the level of concentration of market and product category, three important observations for the T&C exporting South Asian countries can be made.

Firstly, relatively smaller countries of the region, which are latecomers in the T&C business, have more than 90 percent of their exports concentrated on two markets making them extremely vulnerable to change in market dynamics. Although India and Pakistan managed to diversify their markets, their shares of exports too show high level of concentration. Part of the reason could be that the European Union (EU) and the United States (US) hold a significant share in the global imports of T&C products (58.5 percent in 2003).[2]

Secondly, their concentration is on the 'easy' and 'low-tech' items of readymade garments such as men's and women's cotton trousers and sweaters, cardigans and pullovers, which many countries can produce. Consequently, their exporters are subject to intense competition from highly competitive countries like China.

Thirdly, these are the items in which South Asian countries are competing against each other to get a foothold in the two largest markets of the world.

Given these issues and the expiry of the Agreement on Textiles and

Table 1 Level of market and product concentration in five South Asian countries

Country	Major export markets (% of export)			Top five export products	
	US	EU	Total	Items	Share in overall export (%)
Bangladesh	38	56	94	Knitted cotton t-shirts other vest, pullovers, sweatshirts; cardigans of manmade fibre; men's and boys' cotton trouser or shorts; women's and girl's cotton trouser or shorts; and woolen sweaters, pullovers, sweatshirts, waistcoats	64
India	24	33	57	Men's and boys' cotton shirts; women's and girls' cotton blouses, shirts; knitted t-shirts other vest; cotton sweaters, pullovers, sweatshirts, waistcoats; woolen knotted carpets	26
Nepal	80	18	98	Woolen knotted carpets; women's and girl's cotton trouser or shorts; men's and boys' cotton trouser or shorts; woolen sweaters, pullovers, sweatshirts, waistcoats; shawls, scarves, mufflers, mantillas, veils, of wool or fine animal hair	76
Pakistan	31	32	63	Cotton sweaters, pullovers, sweatshirts and waistcoats; toilet linen, kitchen linen, of terry towelling of cotton; men's and boys' cotton trousers or shorts; cotton printed bed linen; woolen knotted carpets	56.3
Sri Lanka	57	35	92	Women's and girls' cotton trousers; brassieres; cotton sweaters, pullovers, sweatshirts and waistcoats; men's and boys' cotton trouser or shorts; knitted cotton t-shirts other vest	32.8

Clothing (ATC), which removed quotas on T&C products from 1 January 2005, several studies predicted a doomsday scenario for the less competitive South Asian countries whereas relatively competitive countries – India and Pakistan – were predicted to gain. However, looking at the one year data of the EU and the US[3] after the phasing out of quotas, the predictions have been found to be partially correct *(see Table 2)*. As predicted, India and Pakistan gained but not all the four South Asian countries remained losers.

India emerged a clear winner by witnessing a growth in the T&C exports in 2005. While the value of exports to the US increased by 26 percent in 2005 compared to 2004, for the EU, it increased by 18.3 percent in the corresponding period. In terms of volume, for both these markets, exports increased by 19.8 percent and 6.2 percent respectively. In fact, the country was not only able to increase exports to the US and the EU but was also able to secure higher unit price for its exports.

After India, Pakistan remained the other major beneficiary though its gains in the US did not match with exports to the EU. The table indicates that the country's exports to the EU declined in the post ATC period. While its exports to the US increased by 13.2 percent in value terms and 16.6 in volume terms in 2005 compared to 2004, its exports to the EU reduced by 13.2 percent in value terms and 4.4 percent in volume terms. Critics of the EU trade policy have blamed the anti-dumping duty imposed by the EU on Pakistani bed linen for this decline.[4]

Defying predictions, Sri Lanka and Bangladesh (the latter in particular) have surprised the world by holding on to their past gains even after the phasing out of quotas. Bangladesh managed to increase its exports to the US by 19.8 percent in value terms and 18.7 in volume terms in 2005, compared to 2004. However, its exports to the EU declined by 5 and 1.1 percent in value and volume terms respectively. Despite this, the combined exports to the US and the EU increased by 2.3 percent in value terms and 4.2 percent in volume terms.[5] In the case of Sri Lanka, it managed to gain mainly due to a 5.9 percent growth it was able to achieve in the US in terms of value, despite the decline in volume by 3.6 percent. In the EU, it, however, experienced a slight fall in its exports – by 1.3 and 1.7 percent in value and volume terms respectively. In aggregate terms, its export growth in the two markets for 2005 was 3 percent in value terms compared to 2004.

Nepal and the Maldives, which were in any case predicted to lose, have seen their exports decline in both markets. While Nepal's exports to the US declined by 25.8 percent in value terms and 41.3 percent in volume terms, its exports to the EU declined by 6.1 percent in value terms and 11.7 percent in volume terms in 2005, compared to 2004. This, however, cannot be merely ascribed to the phasing out of quotas because Nepalese T&C exports had started declining since 2004 itself. The case of the Maldives is an example of 'tyranny of competition'. With the overall reduction of 95 percent, from US$ 81.3 million to US$ 4.06 million, the industry itself has been more or less wiped out from the national industrial map and in terms of lost exports, the country's performance is the worst globally.

What do the above findings suggest in terms of the weaknesses and strengths of these countries in the T&C business and their future potential in the global market? An understanding of this will not only help them set their future strategies for strengthening and promoting the T&C business but will also contribute to their efforts to address supply side constraints, which have been hindering the growth of the T&C sector in their countries. In particular, these findings indicate two important aspects, on which countries need to work seriously.

The first aspect is the significance of enhancing competitiveness for market and product diversification and identification of niche products. For instance, countries that were either competitive or adopted strategies to tackle the problems emerging from the removal of quota managed to survive. The case of Sri Lanka is worth highlighting. Among South Asian countries, Sri Lanka has the second lowest export concentration on T&C products after India as it has a well-diversified export basket. Not only that, realising the ensuing competition, the country made

Table 2 **T&C imports from South Asian countries into the EU and the US**

Country	US imports						EU imports					
	Value ($ million)			Volume (1,000kg)			Value (Euro million)			Volume (1,000kg)		
	2004	2005	% change	2004	2005	% change	2004	2005	% change	2004	2005	% change
Bangladesh	1,986	2,380	19.8	207,593	246,341	18.7	3,895	3,702	-5	564,805	558,733	-1.1
India	3,946	4,974	26	445,821	534,071	19.8	4,433	5,245	18.3	755,836	802,574	6.2
Maldives	81	4	-94.2	1,603	73	-95.4	0.255	0.055	-78.5	25	7	-73.3
Nepal	133	98	-25.8	11,308	6,636	-41.3	77	73	-6.1	7,611	6,722	-11.7
Pakistan	2,551	2,888	13.2	454,075	529,550	16.6	2,321	2,014	-13.2	493,245	471,310	-4.4
Sri Lanka	1,601	1,694	5.9	110,043	106,099	-3.6	841	830	-1.3	102,254	100,497	-1.7

Source: Adhikari, R. and Y. Yamamoto. 2006. Sewing Thoughts: How to Realise Human Development Gains in the Post-Quota World. Tracking Report. Colombo: UNDP RCC.

conscious efforts to focus on niche products in which it has competitive advantage. For example, Sri Lanka has been able to secure a sustained increase in exports (18 percent in 2005) of niche apparel, i.e., women's underwear and brassieres. Although this segment currently constitutes only 11 percent of Sri Lankan exports of T&C products, further potential for growth exists because competition is not likely to intensify in these products.[6]

The second is the need to identify ways to remain globally competitive. The evidences show that competition from countries like China, Turkey, India, Pakistan, Indonesia, Thailand and Vietnam – which have vertically integrated production structure – not only restricted Nepal and the Maldives to increase their T&C exports but, in the case of the Maldives, also led to the collapse of T&C industry. Obviously, the 'China factor' remains a critical determinant for any country without a clear comparative advantage. China's T&C exports witnessed a dramatic increase globally in the post ATC period whereas countries like Nepal and the Maldives could not increase their market shares.

Not that the dramatic increase of Chinese T&C products was not restricted. In order to prevent their exports, countries reacted with various trade remedy measures – the most popular are the so-called 'China Safeguards', which was included in the Protocol of Accession of China to the World Trade Organization (WTO). This provision allows any WTO Member to take safeguards action against China until 2008 with a view to limiting the import of T&C products from China to 7.5 percent of the previous 12 months' imports. This provision, thanks to convenient trigger mechanism, is being used not only by the US and the EU, but also by Turkey, Argentina and Brazil, leading to reduced exports from China. However, this is most likely to benefit countries in Eastern Europe, Africa and the Caribbean and not in South Asia because of the lack of preferential market access for the South Asian countries.

Since tariffs on T&C products are much higher than on other industrial products, the South Asian countries, particularly the least developed among them, could receive a much needed breathing space if the tariffs on these products were to be eliminated. In this respect, the South Asian least developed countries (LDCs) must make efforts to secure a favourable market access for their T&C exports to remain globally competitive.

During the Hong Kong Ministerial of the WTO in December 2005, the LDCs as a group made an attempt to obtain duty-free and quota-free market access to the developed country markets on all products. However, due to opposition from highly protectionist lobbies in the developed countries and the fear expressed by some developing countries of losing their export markets should such access be granted to the LDCs, the Ministerial decided to oblige developed countries to extend duty-free and quota-free market access to the LDCs only on 97 percent of their tariff lines. It is most likely that T&C would not figure in the so-called 'covered list'. Hence, the LDCs should stay the course to obtain duty-free and quota-free market access for all the LDCs and on all products at least by the completion of the ongoing Doha Round of trade negotiations.

Such market access notwithstanding, the worst and moderate performers within the South Asian region cannot harness their potential to use the T&C sector to climb up the development ladder until they address their supply side constraints, which put them at a competitive disadvantage vis-à-vis other Asian countries. These countries face problems such as bureaucratic red tape, corruption, governmental apathy, dilapidated infrastructure, lack of skilled human resources and above all, lack of linkages between various productive sectors of the economy – all of which increase cost of doing business. Therefore, at the domestic level, they must invest in addressing supply side constraints, in particular, enhancing the competitiveness of their T&C sectors. At the same time, the private sector in these countries should focus on market and product diversification, and exploit niche opportunities. At the international level, the decision made at the Hong Kong Ministerial for providing technical assistance to developing and least developed countries, for example 'aid for trade', provides a platform for South Asian countries to seek meaningful technical assistance from developed countries so that they are able to address their supply side constraints and improve competitiveness of their T&C products. ■

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NOTES

1 Compiled from: Razzaque, A. 2005. *Sustaining RMG Export Growth after MFA phase-out: An Analysis of Relevant Issues with Reference to Trade and Human Development*. A study prepared for UNDP, Dhaka; UN Comtrade Database <http://unstats.un.org/unsd/comtrade/>; Dahal, N. 2006. *Review of Nepalese Garment Industry in the Quota Free Regime*, A report submitted to UNDP RCC; UN Comtrade Database <http://unstats.un.org/unsd/comtrade/>; and Ceylon Chamber of Commerce. 2006. *Review of Post MFA Trade in Textiles And Clothing: Sri Lanka.* A report submitted to UNDP RCC.

2 Adhikari, R. and Y. Yamamoto. 2005. *Flying Colours, Broken Threads: One Year of Evidence from Asia after the Phase-out of Textiles and Clothing Quotas*. Tracking Report. Colombo: UNDP Asia Pacific Regional Centre.

3 This is due to availability of data as well as to facilitate valid comparison. Moreover, given the share of the South Asian countries' exports to these markets, the data should be considered fairly representative.

4 Ahmad, M. 2005. *Textiles and Clothing: Challenges in the New Phase.* A paper presented at The Geneva Dialogue on Trade Policy, Yverdon, 30 September – 1 October, UNDP RCC, UNDP Geneva and South Centre.

5 Adhikari, R. and Y. Yamamoto. 2006. *Sewing Thoughts: How to Realise Human Development Gains in the Post-Quota World.* Tracking Report. Colombo: UNDP RCC.

6 Above note 2.

World Social Forum

'Another World is Possible.' People want to know this slogan's specific meaning and its intended purpose. What is this possibility and how it is possible are questions to ponder.

Shivendra Thapa

In its dominant international use, neo-liberalism is a politico-economic philosophy that de-emphasises or rejects government intervention in the economy. In the era of globalisation, there are various groups that support as well as oppose neo-liberalism. The World Social Forum (WSF) is one such annual meeting that brings together social movements, networks and civil society organisations, which generally oppose neo-liberalism. During this year's WSF, these different groups met from 25-29 March in Karachi, Pakistan to discuss many themes, including 'trade, development and globalisation'.

It is important to note that opposition to neo-liberalism is not the WSF's sole agenda. The purpose of such meetings is also to form its core mandate, through which it operates and on which it connects with other organisations across the globe. In doing so, WSF began as a 'counterpoint' to or a 'public eye' on the World Economic Forum (WEF). WEF is a Geneva-based foundation whose annual meeting of chief executives of the world's largest multinational corporations, national leaders, academics, intellectuals and journalists – about 2000 people in all – is annually held in the Swiss resort of Davos.

From a WSF perspective, forums such as WEF and global institutions like International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) are promoting a version of globalisation that is inconsistent with the notion of 'fair trade'. They view that the kind of 'globalisation' advocated by WEF and others is highly debatable because it undermines participation of civil society and social concerns about welfare while promoting income disparity, economic disintegration and social injustice.

In this respect, WSF is considered to be an important event since it is a network of social movements and provides space for dialogue between different stakeholders with the purpose of nurturing debate about the kind of 'globalisation or de-globalisation' sought by the masses. WSF brings together many different social groups as a result of which, debate is obvious. This is precisely what has been WSF's strength as well as weakness. Although such space allows for sharing of ideas and exchange of experiences, it is said that the forum has not been able to provide any 'real' or 'specific' solutions to grievances of neo-liberalism and corporate driven globalisation. However, there are also groups that support WSF saying that the intention was never to formulate a joint strategy or provide 'solutions' but to nurture debate within social groups, so that they could play an active role in sensitising their local communities and governments about the issues at stake.

As forums and organisations grow bigger, pressure to perform multiplies. This is evident by calls on the WSF to come out with 'real' and 'specific' solutions instead of gathering to harp about the cons of globalisation. WSF is centered on its slogan: 'Another World is Possible'. People want to know this slogan's specific meaning and its intended purpose. What is this possibility and how it is possible are questions to ponder. In order to answer such questions, formulation of 'specific' solutions or a 'statement of intent' by WSF may be necessary.

Organisations like WEF are considered to be neo-liberal and anti-social but that also means that they follow a specific agenda. In order to counter such an agenda, most people feel that forums like WSF should also adopt a specific approach and work towards a common goal. This is the dilemma it faces. As a moderator for social movements, it is denounced as being 'repetitively rhetorical' while opting for a 'united movement' is likely to make it more confrontational.

A more comprehensive understanding of any issue requires it to be gauged from all angles. Criticisms of international organisations like WEF, IMF, the World Bank and the WTO are not necessarily unfounded but minimal understanding of their work structure and purpose tend to arouse misunderstandings. In saying so, not all is black and white and issues raised in various forums must be addressed accordingly. The time has come to unite and make efforts to correct the imbalances of globalisation but we need to decide 'how'? ■

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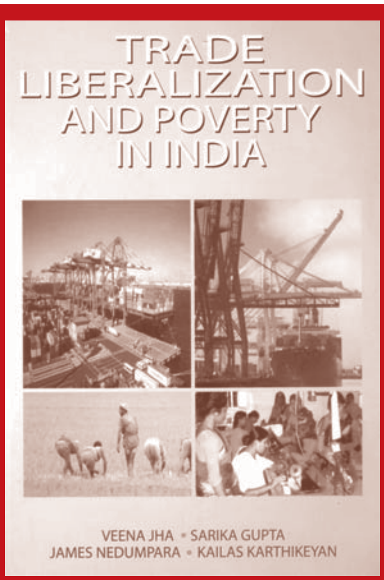
India's experience with trade liberalisation

Suman Kumari Sharma

India has been pursuing trade liberalisation since 1991 – in the form of tariff reductions and elimination of quotas – as part of a wider economic reform package. Amidst the euphoria of consistent high rates of economic growth, this publication addresses whether such growth has led to welfare gains and poverty reduction. Given the valid issue as to whether trade liberalisation has an adverse impact on the poor, the authors begin by reviewing theoretical and empirical studies on the welfare gains of trade liberalisation. They conclude that the evidence is mixed and, therefore, not conclusive. That absolute poverty has declined in India is accepted but there is still controversy about whether the pre or post reform poverty reduction rate is higher.

States with higher export shares are found to have higher economic growth and a bigger reduction in poverty. This finding is based on a state-wise comparison of growth and poverty reduction gains, employment and consumption patterns. States with higher farm yields (like Punjab and Haryana) and/or higher development spending (like Kerala and West Bengal) have made the largest welfare gains. Employment in the organised sector appears to be stagnant or may have actually gone down, for which the authors have an explanation in terms of a shift of employment towards the informal sector. The authors point out that low agricultural productivity largely due to declining investment in irrigation, an improvement in the growth performance of industry and services, and insufficient investments (both public and private) in physical infrastructure determined economic growth.

A review of India's trade liberalisation policy points out the various steps India has taken to reduce tariff and non-tariff barriers, rationalise the tariff structure and streamline export policies. India's approach to trade liberalisation has been sequenced and gradual, thus mitigating adjustment costs. Trade openness (trade as a share of national income) has gone up rapidly but India's share of global trade is still small (only 0.8 percent compared to China's 5 percent). Besides, India's trade liberalisation has had neutral budget effects on its capacity to fund poverty alleviation.



Title: Trade Liberalization and Poverty in India
Authors: Veena Jha, Sarika Gupta, James Nedumpara and Kailas Karthikeyan
Publishers: UNCTAD and Macmillan India Ltd.
First Published: 2005
ISBN: 1403 92738 3

The authors briefly discuss India's trade in the context of various regional trade agreements but this section is weak as the book concentrates mostly on trade with developed countries. The authors also examine agricultural, industrial, services, and textiles and clothing (T&C) sectors in an attempt to elucidate the impact on growth and welfare gains of the reforms. As for intellectual property rights such as patent laws, and their impact on India's trade and poverty reduction, it is prescribed that India should take a collaborative approach on some aspects while proactively pursuing areas where it stands to gain, such as the entertainment industry, traditional medicine, etc. The chapter on South-South trade is the weakest chapter in this book. The authors point out that it is in the interest of India to be associated with G-20 so that it is able to collectively push its agenda on different negotiating issues, including agriculture, non-agricultural market access and services, at the multilateral fora.

Some of the main observations are: as poverty elasticities are low, India will require government intervention and trade liberalisation alone is not sufficient for poverty alleviation; services trade liberalisation – especially as it relates to temporary movement of natural persons under Mode 4 of the General Agreement on Trade in Services (GATS) – is in India's favour; internal reforms, infrastructure and capacity building are necessary to help Indian producers integrate better into the international market and meet sanitary and phytosanitary standards; and India has to remain competitive especially vis-à-vis its Asian neighbours in the T&C sector.

The main conclusions are: there is no unique approach to trade liberalisation that is beneficial to all countries; each country has to do its homework in order to examine how trade liberalisation could be beneficial or disadvantageous; whether or not a trade liberalisation measure is beneficial has to be examined in terms of its impact not just on economic growth but also on poverty alleviation; a sequenced, gradual approach to trade liberalisation is preferable; and countries need to form groups with other countries (though not necessarily from the same geographical region), which have similar interests to have a stronger voice during multilateral trade negotiations. ■

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Importance of competition law

Competition law for economic development

SAWTEE and Federation of Nepalese Chambers of Commerce and Industry (FNCCI) jointly organised the one day workshop titled "Competition Law for Economic Development" in Kathmandu on 16 March.

Many types of anti-competitive practices such as cartels and tied selling prevail in the Nepalese market but there is no specific competition law that regulates such practices. The government has prepated a draft Competition Law, which is yet to be enacted.

The participants in the workshop discussed the features of competition law and its potential to contribute to economic development of the country. The participants mentioned that merely an enactment of the competition law is not enough for economic development; a strong and independent competition authority is also essential as it would not only facilitate the implementation of the law, but would also prevent anti-competitive practices effectively.

Three papers titled *Status of Competition in Nepal*, *Contours of Competition Law* and *Competition Law and Private Sector* were presented and more than 65 participants from different sectors attended the workshop.

The workshop was organised as part of a three year Competition Advocacy and Education Project (CAEP) of SAWTEE, which is being implemented in Nepal with support from the Nepal office of Department for International Development (DFID), United Kingdom.

Competition law for poverty reduction

CUTS International in collaboration with AHa Ethiopian Consumer Protection Association organised the two day regional conference titled "Capacity Building on Competition Policy" from 28-29 March 2006 in Addis Ababa.

Experts from policy research institutions, competition and sectoral regulators, civil society and development partners from Eastern and Southern Africa gathered at the conference. They stressed that the effective implementation of competition law is an important instrument for reducing poverty, achieving Millennium Development Goals (MDGs), enhancing economic growth and strengthening the private sector in Africa. They also emphasised that the adoption of appropriate laws for promoting competition and sectoral regulation is imperative for any liberalised economic system as it is a key element for the welfare of producers and consumers.

The conference was organised as part of a seven country project called 7Up3. The project is being implemented by CUTS International in seven countries of Africa: Botswana, Ethiopia, Malawi, Mauritius, Mozambique, Namibia and Uganda. Capacity building of national and regional institutions and establishing a network of people and organisations in support of fair competition and economic regulation in Africa are the main objectives of this project. The project is supported by Norwegian Agency for Development Cooperation (NORAD) and Department for International Development (DFID), United Kingdom. ■

Special Economic Zones and Nepalese Exports

SAWTEE and ActionAid Nepal (AAN) organised their eighteenth forum on Globalisation and WTO with the theme "Special Economic Zones and Revival of Nepalese Exports" on 20 February in Kathmandu. The forum provided a platform for stakeholders, including the government and the private sector, to discuss various aspects of special economic zones (SEZs) such as in relation to its establishment, implementation, feasibility etc. The objectives of the forum were to:

- Identify the role of SEZs in attracting investment, reviving exports, and creating employment opportunities;
- Identify the contours of the legal and policy regime for effective SEZs;
- Facilitate dialogue between various stakeholders on the operationalisation of SEZs; and
- Assist the Nepalese government to introduce a policy and legal regime for the creation of SEZs in Nepal.

At the forum, Mr Jagdishwor Nath Shrestha, Chief of SEZ Project from the Ministry of Industry, Commerce and Supplies presented the paper titled *SEZs and its Implementation in Nepal*. The paper highlighted the government's role in the promotion of SEZs in Nepal while providing examples of other SEZs in the Asian region like those in India, Bangladesh and China. The paper also highlighted the reasons why Nepal should opt for the establishment of SEZs.

After in-depth discussions, the participants, however, recommended that a proper feasibility study needs to be conducted to ensure the commercial viability of SEZs in the country.

More than 60 people participated in the forum. ■

Seminar on Access and Benefit Sharing in Pakistan

SUSTAINABLE Development Policy Institute (SDPI), Islamabad and SAWTEE organised a seminar on Access and Benefit Sharing (ABS) on 28 March in Karachi. The seminar aimed at raising awareness of the stakeholders on issues of access to genetic resources and sharing of benefits derived from the commercial utilisation of such resources and associated traditional knowledge. The seminar was organised on the sideline of the World Social Forum, which took place in Karachi from 25-29 March.

At the seminar, participants discussed various aspects of ABS, particularly with regard to the protection of community rights. It was emphasised that the local and indigenous communities, including farming communities, should be empowered to get a fair and equitable share of benefits derived from the commercialisation of their resources and associated traditional knowledge.

The participants discussed these issues in light of the advancement of biotechnology in the globalised world. Mentioning the threats from biotechnology, they opined that the governments in South Asia should be able to capitalise on the spirit of the Convention on Biological Diversity (CBD), 1992, which provides them an opportunity to devise a national law on ABS.

The participants suggested the governments of the region to devise the ABS law in consultation with concerned stakeholders, including the local and indigenous communities. The issue of benefit sharing is too complicated and a model law on ABS is vital for the region. The participants stressed on developing a system of sharing experiences between countries in the region and suggested that South Asian Association for Regional Cooperation (SAARC) should come forward with a South Asian model on ABS.

The seminar was organised as part of a regional programme on Securing Farmers' Rights to Livelihood in the Hindu-Kush Region, which SAWTEE, in collaboration with its network institutions, is implementing in five South Asian countries – Bangladesh, India, Nepal, Pakistan and Sri Lanka. ■

WTO and Public Health Policy Priorities for Nepal

DURING January-February, SAWTEE conducted the research titled "WTO and Public Health Policy Priorities for Nepal" for the Ministry of Health and Population (MoHP), His Majesty's Government of Nepal.

The research has examined the agreements of the World Trade Organization (WTO), identifying the public health policy priorities for Nepal, which became a WTO Member in April 2004. The research has analysed different provisions of five WTO agreements – General Agreement on Tariffs and Trade (GATT); General Agreement on Trade in Services (GATS); Agreement on the Application of Sanitary and Phytosanitary Measures (SPS); Agreement on Technical Barriers to Trade (TBT); and Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

The research has identified that these multilateral trade agreements have the potential to impact on the public health situation of Nepal in a number of ways.

The research report has been divided into three sections. The first section provides an introduction to these agreements in light of how they are related to public health. The second section deals with how Nepal has made commitments under these agreements while becoming a WTO Member. The last section analyses the implications of these agreements on the public health situation of Nepal.

The report stipulates the policy flexibilities available for Nepal under these agreements as well as the policy challenges that the country needs to address while protecting and promoting public health in the post WTO accession era. The report has dealt with such flexibilities and challenges keeping in consideration the provisions of the agreements and the commitments the country has made under them.

After the preparation of the first draft of the report, MoHP had organised a discussion forum in Kathmandu on 31 January. At the forum, the findings of the report were discussed with the officials of different concerned ministries and departments.

The participants also discussed the procedures and modalities through which MoHP should work in the post WTO accession era. They opined that the Ministry should take a lead role while ensuring that appropriate policies and laws are in place to protect public health. They also stressed that while dealing with WTO related issues, the Ministry should collaborate with other ministries such as Ministry of Industry, Commerce and Supplies – the focal Ministry for the WTO in Nepal. ■

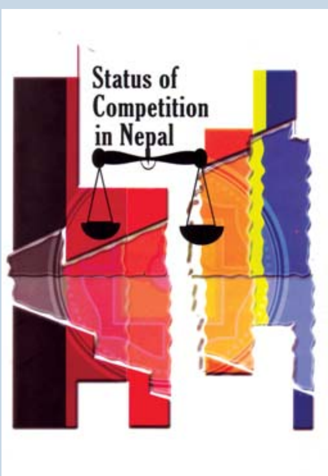
Title: Doha Round and the Hong Kong Ministerial
Publisher: SAWTEE
Author: Navin Dahal and Shyamal Krishna Shrestha

Doha Round and the Hong Kong Ministerial

THE Sixth Ministerial of the World Trade Organization (WTO), held in Hong Kong during 13-18 December 2005, reached agreement on a deadline for phasing out agricultural export subsidies, eliminating cotton subsidies, providing duty-free and quota-free market access for least developed country (LDC) products, and 'aid for trade'. However, the main agenda of agricultural, non-agricultural and services liberalisation still remains in limbo; reflecting the divergence between developed and developing Members.

The Hong Kong Ministerial set a deadline of 30 April 2006 for the finalisation of the formula for tariff reduction on agricultural and industrial goods and cut in domestic subsidy in the agricultural sector. Besides bilateral 'request-offers', Members can adopt the plurilateral approach to submit offers on services. Members have been provided a deadline of 31 July 2006 for submitting final offers.

The Doha Round of trade negotiations is scheduled to be completed by 31 December 2006. Negotiations held during early 2006 indicate that Members are far from breaking the impasse, which is likely to lead to the slippage of deadlines set by the Hong Kong Ministerial. In light of these issues, SAWTEE published a briefing paper, which reviews the outcomes of the Hong Kong Ministerial from the viewpoint of developing Members and examines prospects for the successful conclusion of the Doha Round of trade negotiations. ■



Title: Status of Competition in Nepal
Publisher: SAWTEE

Status of Competition in Nepal

SAWTEE has published the book titled "Status of Competition in Nepal", which is an outcome of a research the organisation conducted under Competition Advocacy and Education Project (CAEP). The book gives an overview of the situation of competition in the Nepalese economy with, among others, information on the policies and laws affecting competition, stakeholders' perceptions and salient features of proposed competition law. The book includes the findings of a survey conducted among 50 consumers, 25 policymakers and 25 business people to assess their perception on various aspects of competition. The book also deals with the prevalent anti-competitive practices in Nepal and suggests different measures for developing a competition culture in Nepal.

The book contains eight chapters. The first chapter deals with economic performance and policies, the second with nature of market and competition, the third with sectoral policies, the fourth with consumer policy, the fifth with anti-competitive practices, the sixth with perspective on competition policy and law, and the seventh with competition law. The last chapter summarises all the chapters and suggests a way forward.

The book is expected to enhance the understanding of readers on different aspects of competition. In particular, the book could also be a valuable tool for conducting advocacy for the enactment of a fair competition law in the country. Nepal office of Department for International Development (DFID), United Kingdom supported the publication of the book. CAEP aims at inculcating a competition culture among the stakeholders, including consumers and producers. ■

Launched in December 1994 at Nagarkot, Nepal by a consortium of South Asian NGOs, 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. Registered in Kathmandu in 1999, the overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalisation and globalisation.