

A dialogue on trade and development in South Asia

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● TRADE ●

insight



“Spaghetti Bowl” of RTAs

POVERTY REDUCTION IN NEPAL | INDUSTRIAL TARIFFS AND SOUTH ASIA | CHALLENGES FOR WTO DG

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South Asia Watch on Trade,
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EXECUTIVE EDITOR

Shyamal Krishna Shrestha

STAFF CONTRIBUTORS

Navin Dahal

Dikshya Thapa

DESIGN

Indra Shrestha

ILLUSTRATION

Abindra Shrestha

COVER PHOTOGRAPH

Kiran Pandey

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

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Regionalism vs. Multilateralism

DEVELOPING countries have been undertaking trade liberalisation through various modes – unilateral, bilateral, regional and multilateral. The World Bank's *Global Economic Prospects, 2005* states that there was a 21 percentage point cut in average weighted tariffs of all developing countries between 1983 and 2003, of which unilateral or autonomous liberalisation accounted for approximately 65 percent, multilateral commitments in the Uruguay Round for 25 percent, and the regional trade agreements (RTAs) for about 10 percent. This shows that all the modes of trade liberalisation have been moving simultaneously.

With regard to regionalism and multilateralism, economists are, however, deeply divided on whether RTAs are 'building blocks' or 'stumbling blocks' to multilateral trade liberalisation.

Larry Summers opines that any reduction in trade barriers is welfare enhancing. Advocates of this school of thought view regionalism as a building block to multilateral trade liberalisation. They argue that it is much easier to reach consensus within a smaller group of countries; RTAs help achieve faster liberalisation than does the multilateral trading system. They also view that RTAs pioneer new ideas for trade liberalisation and provide an opportunity to trade negotiators as well as other stakeholders to better negotiate at the multilateral level. In addition, they opine that RTAs provide a credible institutional threat to the multilateral trading system to deliver.

As per another school of thought propounded by Jagadish Bhagwati, regionalism is a stumbling block to multilateral trade liberalisation. They opine that RTAs are inherently discriminatory. Countries outside the RTA tend to lose as there is a serious 'trade diversion' effect due to the propensity to import from within the member countries, which may not necessarily be the lowest cost or the most efficient suppliers. Hence, RTAs could be welfare reducing. The opponents also argue that there are other systemic issues: due to their high visibility, RTAs can energise and unify protectionist lobbies, turning them into obstacles to multilateral trade liberalisation and there is also a diversion of scarce negotiating capital to negotiate RTAs.

We believe that there is no inherent conflict between these two modes of trade liberalisation, not least because they are complementary to each other. On the balance, they are trade creating, not merely trade diverting. However, the same may not hold true in the case of bilateral trade agreement (BTA) – a sub-set of RTA – between a powerful developed country and a weak developing country due to the existence of asymmetric bargaining powers. The examples of the imposition of several 'World Trade Organisation-plus' conditions by some developed countries on their developing country trading partners during recent BTA negotiations are a testimony to this.

Given these facts, developing countries, including the countries in South Asia, should be cautious while negotiating with their trading partners to undertake further trade liberalisation. ■



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“Spaghetti Bowl” of RTAs: Options for South Asia

The rapid growth of regional trade agreements reflects growing frustration with multilateralism. What has been the experience hitherto and what options do South Asian economies have with regard to this trend?



Poverty reduction in Nepal: Myth or reality?

Income poverty declined by 11 percent in Nepal over the past decade but the latest national poverty survey is plagued with methodological shortcomings.

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Negotiations on non-agricultural market access - which began in January 2002 - are proving to be a major obstacle to liberalising trade in industrial goods.



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The views expressed in the articles published in *Trade Insight* are those of the authors and do not necessarily reflect the official position of SAWTEE or its member institutions.

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PAKISTAN

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

SRI LANKA

1. Law & Society Trust (LST), Colombo

I enjoyed reading the article by Hannah Irfan and Shandana Gulzar Khan on anti-dumping in the second issue. There is an important anti-developmental aspect to anti-dumping. As developing countries move away from traditional exports, their new, non-traditional exports face anti-dumping cases. For small economies, these cases present a mortal threat. For instance, copper used to account for 85 percent of Chile's exports but they account for just 40 percent now. One of Chile's major non-traditional exports was fresh salmon with an annual value of over US\$1 billion. While the domestic market for salmon in Chile is economically insignificant, high anti-dumping duties could destroy the industry. What is interesting is the relative absence of developing countries seeking significant reforms in anti-dumping. Most of the major developing countries seeking negotiations, such as Brazil, India, South Africa and others, perceive the need to balance the vulnerability of their exporters to the costs and risks of anti-dumping cases abroad against the desire of their internal anti-dumping administrators to maintain their existing practices.

Gary N. Horlick, Senior Partner,
International Trade Group of Wilmer
Cutler, Pickering, Hale and Dorr,
Washington DC

Congratulations for bringing out a very informative and instructive publication providing useful tips to the business community in South Asia on how to optimise trade potentials under the World Trade Organisation regime and

globalisation. It compares very well with the publications of international trade-related institutions.

B.Raj Bhandari, Chief Consultant to
Global Traders Conference, Geneva

I had an opportunity to go through the first two issues of *Trade Insight*. Despite a long-standing govern-



ment level regional cooperation among South Asian nations, it still remains to be one of the least integrated regions economically. I believe *Trade Insight* can contribute towards a deeper and broader economic cooperation among South Asian Association for Regional Cooperation nations by bringing complex

regional trade and economic issues for discussion. I look forward to seeing more articles on issues such as quality, productivity and competitiveness along with regional trade. Please do not hesitate to make *Trade Insight* reader-friendly by using more data, tables, graphs and charts.

GB Banjara, GTZ/Private Sector
Promotion Project, Kathmandu

Trade Insight is a great initiative for South Asia and I applaud you on the quality and timeliness of the publication.

Adil Najam, Associate Professor of
International Negotiation & Diplomacy,
Tufts University, Massachusetts

Congratulations for bringing out *Trade Insight*. The issues are topical, insightful and quite comprehensive. I wish this publication every success.

Ram Ghimire, Under Secretary, Ministry
of General Administration, HMG Nepal

Trade Insight is relevant according to today's need. My compliments

on publishing such a good magazine.

Vimal Jain, Rajasthan Patrika, Jaipur

I read the first two issues of *Trade Insight* with great interest and would like to congratulate SAW-TEE for this useful and unique publication. The need to have a South Asia specific trade magazine was felt for quite some time and I think *Trade Insight* is a valuable step in filling this gap. I found the style simple and lucid. The articles were crisp and concise. The magazine also reflects the scale of work that needs to be done in the South Asian region. If trade has to play an important role in fostering development and in alleviating poverty, then South Asia has to be the focal point, as it is home to millions of the world's poor.

Samar Verma, Regional Policy
Advisor, Oxfam GB, New Delhi

Congratulations on bringing out such an excellent magazine, which provides an insight into trade-related issues. Please pay greater attention to the layout, headlines and break the introductory texts of books given in the last page into smaller paragraphs that would make the magazine more elegant and ready-friendly.

Ram Sharan Sedhai, Senior
Communications Officer, ActionAid
International Nepal

Thanks for sending us your valuable publication *Trade Insight*. We are very impressed by the quality of your publication and we wish you a good continuation!

Ricardo Melendez-Oritz, Executive
Director, International Centre for Trade
and Sustainable Development, Geneva

I would like to thank you for sending us *Trade Insight*. We found it to be a very valuable publication.

Mariano Iossa, Food and Trade Policy
Advisor, ActionAid International,
Brussels

China and EU reach eleventh hour deal

A deal between China and the European Union (EU) on 10 June ended a dispute between the two trading partners since the expiry of the Agreement on Textiles and Clothing on 31 December 2004. The understanding – reached in an eleventh hour meeting between the EU Trade Commissioner Peter Mandelson and China’s Commerce Minister, Bo Xilai, in Shanghai on 10 June – imposes voluntary export restraints on 10 categories of Chinese textiles and clothing (T&C) exports to Europe, thus saving China from EU’s action to re-impose quotas (*see related article on pages 34-35*).

The deal gives European T&C makers time to adjust to China’s growing dominance of the global textiles and apparel trade. The EU dropped plans to re-

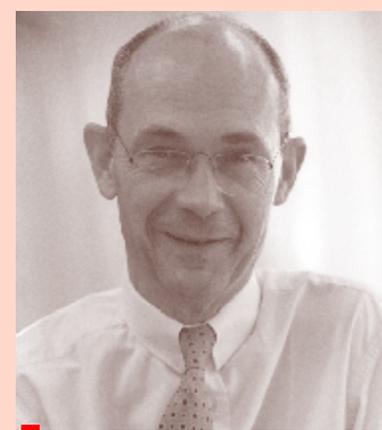
The trade disputes have pitted China and its booming export trade against the United States (US) and the EU, which are now trying to cope with the consequences of ballooning trade deficits with China. For example, in the first four months of 2005, European imports of Chinese T-shirts rose by 187 percent and of Chinese flax yarn – used for linen – by 56 percent from a year earlier.

During January-April 2005, China’s T&C imports jumped by 82 percent to the 15 countries of the EU before an expansion to 25 members in May 2004; and 78 percent to the US. In an effort to protect some textiles makers, the US has already moved to reimpose quotas on some Chinese textiles products. The EU decided on 25 May to limit imports of Chinese T-shirts and flax yarn unless China took action on its own to limit exports of those two items by 10 June.

Chinese officials had condemned the US and Europe for threatening to reimpose quotas. China revoked export tariffs on several categories of T&C products on 30 May, in retaliation against import restrictions imposed by the US and the EU. This move came just 10 days after it announced that it would raise export tariffs five-fold on 74 categories in an attempt to prevent the US and the EU from restricting imports.

The breakthrough between China and the EU comes as a huge relief even as disputes over other goods like footwear continue to put a strain on bilateral trade relations. The US held its own abortive talks in Beijing earlier in June.

In August, Chinese textiles exports exceeded the new quotas to which the EU responded by halting their sales; and requiring renewed talks between China and the EU (*NYT, 11.6.05; TE, 27.8.05*). ■



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Lamy takes over as WTO DG

THE 148 members of the World Trade Organisation (WTO) formally selected Frenchman Pascal Lamy to be the organisation’s fifth Director General (DG) to succeed Dr Supachai Panitchpakdi. The General Council (GC) took the decision by consensus on 26 May. A former European Union (EU) Trade Commissioner, Mr Lamy will begin his four-year renewable term from 1 September (*see related article on page 30*).

The GC decision brings to a close the five-month process during which four candidates were nominated by their respective governments. Other candidates were Carlos Perez del Castillo of Uruguay, Jaya Krishna Cuttaree of Mauritius and Luiz Felipe Seixas Correa of Brazil. Lamy stated that the completion of the Doha Round of trade talks was his topmost priority in view of the December Ministerial Conference in Hong Kong. At the 29 July meeting of the GC, the WTO DG-designate named his team of four Deputy DGs. The deputies are Chilean WTO Ambassador Alejandro Jara, Rwandan WTO Ambassador Valentine Sendanyoye-Rugwabiza, Harsha Vardhana Singh of India, and current Deputy DG, Rufus Yerxa of the United States. Their tenure commences on 1 October (*BWIND, 01.6.05 and 03.8.05*). ■

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impose textile quotas and forcibly limit China’s surging T&C exports.

The agreement has provisions through which China is expected to work with EU officials to manage and limit the growth of certain textiles and apparel exports to Europe to about 10 percent a year until the end of 2008, tempering the rise of some of its largest and fastest-growing exports. According to a statement released by the European Commission (EC), the two sides agreed that Chinese textiles exports would be managed to allow for “reasonable growth” from 2005 to 2007.

G8 promises aid relief

THE Group of Eight (G8) industrialised nations have agreed on a package of financial help for Africa, which ended with a deal in which the world's richest countries agreed to provide an extra US\$ 48 billion in aid worldwide by 2010.

Under the deal, Japan would increase its aid budget by US\$ 10 billion over the next five years, while Germany would use a tax on air travel to meet its aid targets. Britain, which chairs the G8, admitted that the deal on Africa was not all that campaigners wanted but represented real



**G8
GLENEAGLES
2005**

progress. The country had wanted to go further on eliminating export subsidies, which allow rich nations to dump excess produce on global markets, but was forced to compromise. The summit merely committed itself to setting a credible date for scrapping export subsidies, which is expected to be 2010.

Aid to Africa will increase by

US\$ 25 billion, more than doubling the flows in 2004. Britain had feared that the G8 leaders would backslide on commitments made by their finance ministers at a meeting in London in June. In the end, however, they endorsed agreement to write off debts owed by 18 countries to the World Bank, the African Development Bank and the International Monetary Fund.

The G8 comprises of Canada, France, Germany, Japan, Italy, Russia, the United Kingdom and the United States. However, most of the aid comprises of debt relief for 28 nations qualifying under Heavily Indebted Poor Countries Initiative, in Africa and Latin America (*IHT*; 12.6.05; *TG*, 09.7.05). ■

WTO members fail to arrive at 'first approximations'

THE end-July 2005 target date for reaching interim agreements in key negotiating areas of the Doha Round were not realised. On 28 July, the Trade Negotiations Committee (TNC) meeting followed by a General Council (GC) meeting on 29 July confirmed that a series of last-minute intensive consultations and meetings failed to produce any major breakthrough or 'first approximations' in areas identified as priorities by July Package (JP) of 2004 (*see related article on page 31*). These include farm trade liberalisation, non-agricultural market access (NAMA), services, trade facilitation, and 'development dimension'.

The Chairs of three key negotiating groups had previously indicated that members were unable to come to any substantive agree-



ment during the intensive consultations they held prior to the 27 July meeting of the GC.

Addressing the TNC, WTO Director General (DG) Supachai Panitchpakdi characterised the state of the Doha Round talks as "disappointing but not disastrous". In the report to the GC as TNC Chair, the DG said that progress since July 2004 has been "insufficient". However, he did say that as a result of the "useful work [that] has been done to clarify options and build understanding", the "political choices" that members will have to make in areas such as agriculture and NAMA have become clearer. After a month long break in August, trade talks at Geneva resumes in September (*BWTND*, 03.08.05). ■

CAFTA-DR Act passed by US Congress

UNITED States (US) President George W Bush signed the Central America Free Trade Agreement-Dominican Republic (CAFTA-DR) Act on 2 August. The signature concludes months of intense lobbying. The Bill was passed by a narrow 217 to 215 vote in the US House of Representatives on 28 June. The Bush Administration sees the passage of CAFTA-DR as a much-needed political victory in its pursuit of further trade pacts.

CAFTA-DR consolidates and expands existing preferential duty free access to US markets for Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. The agreement also eliminates tariffs on most US exports to those Central American countries (*BWTND*, 02.8.05). ■

Chinese revaluation

ON 21 July, China's central bank – the People's Bank of China – announced a revaluation in its currency for the first time in about a decade, scrapping the peg to the dollar in favour of a basket of currencies. The currency is now valued at 8.11 yuan to the US dollar compared to the old rate of 8.27 yuan, effectively a 2.1 percent revaluation.



www.chinadaily.com.cn

China's long awaited but small revaluation of its currency probably heralds the start of a series of revaluations but on its own will make little difference to the huge United States (US) trade deficit. The US, which had been exerting intense pressure on the Chinese authorities to revalue the

yuan, called the revaluation "encouraging", but it was not clear if the 2.1 percent upward move in the yuan's value against the dollar, combined with the scrapping of the tradi-

tional peg to the dollar, would be sufficient to persuade the US to call off its threatened trade sanctions against China. US manufacturers and politicians have long complained that the Chinese authorities have held the currency artificially low to aid its exporters (*AFP*, 21.7.05; *TG*, 22.7.05). ■

14 LDCs urge US to pass TRADE Act

READYMADE garment (RMG) manufacturers of 14 least developed countries (LDCs) in the Asia-Pacific region have urged the United States (US) for early endorsement of a trade bill, seeking duty free access for export from these poor countries. Representatives of leading business chambers from seven Asia-Pacific LDCs held a two-day conference in the context of the US Tariff Relief Assistance for Developing Economies Act (TRADE Act 2005) in Dhaka from 21-22 June and adopted the 'Dhaka Declaration'.

The Declaration reads: "Large-scale loss of employment and widespread poverty continue to pose huge

challenges to the region. Indeed, the situation is urgent and need urgent attention." The alliance of 14 Asian-Pacific LDCs and tsunami-devastated Sri Lanka has been seeking duty free access to the US, particularly on RMG products following the end of global quotas on 31 December 2005. Four US senators have sponsored the Bill in the US Congress, representing the 14 Asia-Pacific LDCs and Sri Lanka. The bill has not only sought duty free access for apparel products for these countries but has also expanded preference for other items currently prohibited under the Generalised System of Preferences (*THT*, 25.06.05). ■

Livingstone Declaration

LEAST developed countries (LDCs) have reached a consensus against imposition of tariff on products of their export interest and sought duty free access to developed and advanced developing countries in the run up to the Sixth World Trade Organisation (WTO) Ministerial.

Issuing the 'Livingstone Declaration' at the end of the Fourth LDC Trade Ministers Meeting held in Livingstone, Zambia, from 25-27 June, trade ministers from 49 WTO member-states representing LDCs, developing and developed countries, joined hands to ask greater amounts of financial and technical assistance (TA) to resource-hit countries to help them diversify exports and tap benefits of market access. Developed countries, despite making commitments, have not been enthusiastic to abide by the support commitments as TA is not binding (*see related article on page 10*).

The Declaration also calls for unhindered temporary movement of workforce from the LDCs. Identifying that developed and developing countries can absorb a large number of semi-skilled LDCs' work force, the trade ministers converged to voice for unfettered temporary movement of natural persons. They also upheld the long running stand of the past to fight for unconditional elimination of export subsidy in agriculture, which has largely made agricultural market access in developed countries a distant dream (*TKP*, 08.7.05). ■

NEWS SOURCES

AFP: Agence France Press
 BWTND: Bridges Weekly Trade News Digest
 NYT: The New York Times
 TE: The Economist
 TG: The Guardian
 THT: The Himalayan Times
 TKP: The Kathmandu Post

Trading well-being: Select issues on environmental services

Water is a vital aspect of our lives but the reality is that huge sections of populations are bereft from it, which requires new approaches to make it available and affordable.

Swarnim Waglè

In the broadest sense, development is about improvement in the quality of life. The well-being of millions of people still living in absolute poverty depends in part on a wide range of environmental resources, including access to and use of safe drinking water and sanitation. Close to two billion people in Asia lack access to basic sanitation, and over 650 million to safe drinking water. Every day, approximately 3,900 children die of diseases worldwide associated with water and sanitation that are easily preventable. Almost half the people in the developing world have one or more diseases or infections like diarrhoea, intestinal helminth infections and dracunculiasis associated with inadequate water supply and sanitation. This is a colossal drain of human potential.

According to the World Water Council, a huge sum of around US\$ 180 billion per year is needed in poor countries to meet growing demands on water and sanitation. Against these glaring challenges, countries with narrow tax bases, modest aid inflows, insufficient public resources, and disparate implementing capacities, have been forced to consider roles for cross-national resource transfers in international trade. This poses a ques-

tion. Is this option realistic and more importantly, desirable?

Opportunities for trade and investment in environmental services have traditionally been limited because of their public monopoly and quasi-public good characteristics. However, the sector has been undergoing significant changes in recent years through deregulation, privatisation of select activities, retrenchment of the state's role in public provisioning, and growing information technology-enabled tradability of services. The environmental industry has grown to over US\$ 550 billion in revenues in 2003, half of which is accounted for by environmental services. As markets in Organisation for Economic Development nations reach saturation points, developing countries are emerging as important destinations for the export of environmental services. The significant barriers to this trade pertain to restrictions on the establishment of commercial presence and on the movement or employment of nationals of the operating company. These relate to modes 3 and 4 of services supply in General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO).

The main policy concern over attempts to open up trade in capital-intensive environmental services is the sweeping nature of multi-generational commitments that countries voluntarily lock themselves into, often without adequate national consultations. This is most sensitive in the case of water distribution. As it comprises around 90 percent of the brain, water is the most important molecule for survival of human life. Issues surrounding its access, quality, utility and affordability thus deserve sensitive scrutiny and restraint in trade talks that conclude with binding commitments.

So far, no country has made any GATS commitment on water distribution. Much of the controversy on GATS appears to be not about its present outcomes, but its possible negotiated shape in the future. There are, however, numerous cases of unilateral privatisation of utilities to treat and distribute water outside of the WTO framework. Their record is mixed.

Proponents of greater private sector involvement argue that users do not pay the full cost of the water cycle, which begins in the skies, is stored in reservoirs and ends as waste-water. When the true value of the environmental resource is not accounted, there is wastage and resource degradation. This is the main reason why water is not treated as a precious (and scarce) commodity and is almost taken for granted. The prices determined by the private sector typically approximate towards charging the



true costs of supplying a service, but herein lies a policy dilemma – how should governments permit realistic charges for water without pricing out poor consumers? This requires attachment of human-development pre-conditions – subjecting private suppliers to regulated prices, and setting up ceiling rates and cross-subsidies for the poor.

Wherever this delicate balance between commercial viability and social obligations has faltered, companies have had to deal with fierce public opposition, sometimes leading to costly withdrawals. From a peak of 38 worldwide water and sewerage private projects in 1999, the number was down to 18 in 2002. The examples include investors like Suez quitting the American city of Atlanta and the Philippine capital Manila, Biwater leaving Zimbabwe, and Bechtel having to withdraw from Bolivia's Cochabamba municipal system where rioting followed a 35 percent increase in water tariffs.

The type of political regime also matters in the speed with which these schemes are implemented. China and Vietnam – one-party states with strong governments – have already experimented with water-related projects in major cities like Shanghai and Ho Chi Minh City. In China, Veolia signed a 50-year contract worth nearly US\$ 250 million in Shanghai in 2002 to treat, distribute and collect fees for water. This subject is, however, considered too sensitive in countries with active elective politics like India and Thailand, which have retracted policy measures on water and sanitation because of popular opposition.

Discussions on foreign investment often overshadow 'alternative' success models of low-cost service delivery to the poor. Pakistan's Orangi Pilot Project (OPP), for instance, has been working since 1980 to support people's efforts in upgrading a low-income informal settlement with over 1 million residents in Karachi. This comprises internal development such as latrines, lane sewers and collector sewers at the neighbourhood level. Contributing US\$ 1.5 million, the people have constructed hundreds of thousands of sewerage lines and sanitary pour-flush latrines in 90,000 houses. The OPP model has been replicated in 42 settlements in Karachi and in seven cities across Pakistan with varying degrees of success. There are similar success stories from China on cooperative non-profit water and sanitation delivery system, and from India on mass sanitation drives that are cost-effective and pro-poor.

As far as the issue of water for human consumption within environmental services is

concerned, there is also a strong human rights dimension that must be recognised as on par with rights to basic food and adequate housing. This has been discussed in the United Nations High Commission for Human Rights where countries have been urged to assess how trade policies impact human rights. Over the years, countries have undertaken many international human rights treaty obligations, which need to be respected by WTO members during their negotiations and while implementing commitments to liberalise trade in managing air, water, and waste.

Multilateral negotiations are conducted on the basis of reciprocity, which countries should optimise by seeking concessions in areas of export interest to them in return for considered access to environmental markets. While there is no evidence that GATS commitments automatically lead to increase in foreign direct investment, they could send a signal of sorts to investors. Such commitments could also lock-in not only economic policy, but also development-friendly measures that countries could not retract owing to vested pressures at a later date. The flip side, however, is that renegeing on commitments may result in trade sanctions.

With coalition building around experiential learning, developing countries of the Asia-Pacific region could embed reform and investment needs in their national anti-poverty strategies that comprehensively address water, sanitation, and public health challenges through multiple channels: public investments, stage-wise privatisation, scaling up of participatory community-led approaches, and engagement in international trade. A comprehensive strategy that leverages all policy possibilities is the only way countries of the Asia-Pacific region could fill parts of the glaring gaps in access, use, and affordability of water and sanitation. This bottom-up approach assists countries to respond strategically to requests during sectoral trade negotiations at the bilateral, regional and multilateral levels. In fact, governments could use negotiating positions that are a result of broad national consultations with civil society organisations to resist pressures from stronger partners. ■

(Mr Waglè is Programme Specialist at United Nations Development Programme Regional Centre in Colombo. This article is excerpted from a draft section on trade in essential services from the forthcoming 'Regional Human Development Report on International Trade Policy, to be produced by the UNDP Regional Centre in Colombo in November 2005)

A comprehensive strategy that leverages all policy possibilities is the only way countries of the Asia-Pacific region could fill parts of the glaring gaps in access, use, and affordability of water and sanitation

HONG KONG MINISTERIAL

Current negotiations and LDCs

The LDCs require both unity of purpose and support from the international community to benefit from their integration into the multilateral trading system.

Fahmida Khatun

The Doha Round of trade negotiations initiated after the Fourth World Trade Organisation (WTO) Ministerial in Doha in 2001 has not made progress on major issues. Therefore, the Sixth WTO Hong Kong Ministerial in December 2005 will be a milestone for the Doha Round, more so in the backdrop of the failure of the Fifth WTO Ministerial in Cancún in 2003.

The General Council (GC) meeting of the WTO on 27-29 July confirms the delay in reaching even preliminary agreement among members. In view of the slow progress of the negotiations, WTO members want to keep their expectation rather low than to be disappointed by the outcomes later. This implies that discussions on major issues will continue till the last minute and will gear up until December. Some of the issues may even be presented in Hong Kong itself for important political decisions.

Although most issues included in the Doha Round are being discussed in the trade negotiation committees, some issues have gained more importance than others. Agriculture, non-agricultural market access (NAMA), services, trade facilitation and 'development dimension' have received the major attention after the adoption of July Package (JP) in 2004.

Developing countries emphasise breakthrough in agricultural liberalisation while developed countries want 'progress in tandem' in all areas. A number of issues in agriculture still remains unresolved, including export subsidies, market access, tariff reduction formula, modalities for sensitive products, special products and special safeguard measures for developing countries. Though members have agreed on market access, agreement has remained elusive on the method of reducing tariff on agricultural products. For doing so, non-*ad valorem* duties have to be converted into *ad valorem* equivalents (AVEs). Least developed countries (LDCs) – especially those that

Livingstone Declaration

ISSUING the 'Livingstone Declaration' at the end of the Fourth LDC Trade Ministers Meeting held in Livingstone, Zambia, from 25-27 June, the LDCs called upon the relevant WTO bodies and the Sixth Ministerial Conference to agree, among others, on:

1. Binding commitment on duty free and quota free market access for all LDC products be granted and implemented immediately;
2. Complete exemption for LDCs from any reduction commitments;
6. Increased resources and an effective delivery mechanism for trade capacity building to address the inherent supply-side capacity;
7. Strengthening the effectiveness of the Integrated Framework, *inter alia*, by a significant resource increase, including through other initiatives;
8. The need for "Aid for Trade" as an additional, substantial and predictable financial mechanism;
9. The need for all development partners to effect full debt cancellation for all LDCs;
10. The need for all development partners to assist LDCs in attaining the MDGs, by making concrete efforts to achieve the targets on ODA;
11. The special circumstances and needs of *inter alia*, post conflict, small island, landlocked and vulnerable economies to be taken into consideration in meeting their commitments in the WTO;
12. Incorporation of provisions in the modalities on realistic, flexible and simplified rules of origin, certification and inspection requirements and technical and safety standards;
13. A moratorium on safeguard measures and antidumping actions against LDCs;
14. Binding commitments on targeted and substantive technical assistance programmes in favour of LDCs;
17. A credible end-date for the elimination of all forms of export subsidies and significant reduction of all forms of trade distorting domestic support;

19. Establishing a Special Safeguard Mechanism to respond to the needs and the particular circumstance of LDCs enabling them to adopt temporary emergency measures in order to address import surges and price declines;

20. Full implementation of the commitments made in the Marrakesh Declaration and Ministerial Decisions in favour of LDCs, and the Ministerial Decisions on Measures concerning the Possible Negative Effects of the Reform Programme on LDCs and Net-Food Importing Developing Countries;

22. Flexibilities for LDCs to determine the levels of binding commitments of their tariff lines consistent with their trade, development and financial needs;

23. The need to urgently amend the Agreement on Trade Related Intellectual Property Rights (TRIPS) to incorporate the 30 August 2003 Decision on the Implementation of paragraph 6 of the Declaration of TRIPS and Public Health as a permanent solution to the problems of LDCs with insufficient or no manufacturing capacity;

25. The urgent need to operationalise the objective of coherence mandate between the WTO and International Financial Institutions (IMF, World Bank), in line with the rights and flexibilities that LDCs have obtained under the WTO, since these are aimed at achieving and supporting LDC development objectives;

26. Full implementation of the Modalities for the Special Treatment for LDCs in the Negotiations on Trade in Services;

27. Full market access and national treatment to LDCs in the sectors and modes of supply of export interest to them, including less-skilled and non-professional services providers under Mode 4 on a temporary and contractual basis;

28. Adequate targeted technical and financial assistance to LDCs, including to carry out sectoral assessments and take part in the request/offer process in a beneficial and meaningful way;

29. Increased, sustained and targeted technical and financial assistance in favour of LDCs, consistent with the spirit of the Doha work programme;

are net food importers – are worried of the incidence of the withdrawal of export subsidies in the agricultural products of developed countries since this will lead to price increase. They may also face pressure on their balance of payments through a likely negative impact on their export potentials due to erosion of tariff preference on export of agricultural commodities from their countries.

Discussions on NAMA lag behind agriculture. Progress has not been made on the issue of formula for tariff reduction, sectoral liberalisation, AVEs and non-tariff barriers (NTBs). Although members are in favour of a deeper cut in case of high tariffs and a lower cut in case of low tariffs, developing countries are asking for a lower cut compared to developed countries, and unbound tariff on certain products. Developed countries have reiterated that they would agree to only one of these two demands. Though LDCs do not have to commit themselves for tariff reduction, it is expected that they will also take commitments to bind non-bound industrial tariffs. It is quite understandable that LDCs cannot come out of the Doha Round negotiations without meeting this expectation, specially when some of the LDCs have already bound their tariff rates on most of their goods.

LDCs have to undertake preparations taking into account the level of operative tariffs and strategic export interest. Their offensive strategy is to ensure that items of their export interest do not get into sectoral tariffs. If sectoral tariffs include items such as textiles, leather and fisheries, it will erode their preferences under the Generalised System of Preferences (GSP) schemes.

The JP laid down that some sectors would be opened through zero tariff if sufficient number of countries agree. Until now, there has not been enough response in favour of this proposal. Developing countries want that the issue of sectoral tariff should be voluntary and tariffs should not be bound. Some LDCs fear that the facilities under GSP would be reduced due to bound tariffs. Preference erosion is a major concern for LDCs as they would be net losers. In order to recoup such losses, LDCs demand duty free access to developed country markets. Developed countries do not want to commit on zero tariff access for all products from LDCs as they are in favour of a voluntary approach. Industrialised nations have also suggested that developing countries such as India, Brazil and China should also provide market access to LDCs. However, advanced developing countries are averse to this idea and want to discuss this at the meetings of regional trade agreements (RTAs). LDCs are uncomfortable with this proposal since they do not want such initiatives to hamper unity among the developing world as a whole. On the other hand, LDCs are also not too optimistic about extracting any benefit from RTAs.

Negotiations on trade in services have also not progressed except for a few regulatory issues on tempo-

If sectoral tariffs include items such as textiles, leather and fisheries, it will erode the LDCs' preferences under the Generalised System of Preferences schemes

The move by developed countries to provide temporary movement of workers considers only skilled labour and leaves less skilled workers out of their purview

rary movement of natural persons (TMNPs) under General Agreement on Trade in Services (GATS) Mode 4. Issues such as economic needs test, mutual recognition, transparency in TMNP related information and classification of services are being discussed. LDCs have marginal participation in the offer and request process. Mode 4 under GATS is an opportunity for countries with surplus labour (mostly unskilled) and high levels of unemployment in their domestic economies. Most developed countries are unwilling to open their markets for workers from developing countries and LDCs. The move by developed countries to provide temporary movement of workers considers only skilled labour and leaves less skilled workers out of their purview. LDCs should submit requests on Mode 4 at the earliest. Given the less optimistic outcome in agriculture and NAMA, Mode 4 could be the only area for LDCs to offset the losses from the Doha Round.

The proposals on special and differential (S&D) treatment for LDCs do not have much meaning, as most of the clauses are of 'best endeavour' nature. Progress has been slow due to the disagreement over specific issues as well as cross-cutting issues such as the principles and objectives of S&D treatment, and eligibility to receive it. Discussions on proposals by LDCs reveal that S&D treatment were not articulated in a clear and concise manner, and often failed to address the concerns and needs of LDCs. Countries should consider redrafting the proposals to reflect their needs with the help of experts as well as the WTO Secretariat.

Many LDCs also have interests in the negotiations on rules, particularly in view of anti-dumping cases against them. LDCs should articulate proposals to the effect that anti-dumping duties are not imposed on items of their export interest, particularly on textiles and clothing in view of the difficulties emanating from Agreement on Textiles and Clothing phase-out. Problems of LDCs as regards their infant industries should be clearly articulated keeping in consideration the implications of various anti-dumping measures.

As the deadline for the completion of Doha Round of trade negotiations is approaches, there is little chance for LDCs to gain unless they prepare a clear and coherent agenda. The LDC Trade Ministers' meeting at Livingstone, Zambia on 25-27 June 2005 has been instrumental in consolidating their collective positions on various issues in the run up to the forthcoming WTO Ministerial. However, if history is any guide, there is little chance that their positions would be taken into consideration.

LDCs also need larger political support from the global community, particularly the Group of Eight industrialised nations. Efforts should also be made to convince developed countries at the highest level of international fora such as the United Nations General Assembly to be held in mid-September 2005. ■

(Dr Khatun is Research Fellow at Centre for Policy Dialogue, Dhaka)

30. Strengthening the Joint Integrated Technical Assistance Programme for Selected Least Developed and Other African countries and extend it to all LDCs;

31. Developing and applying domestic regulation disciplines, including recognition of qualifications, simplification of administrative practices and visa requirements, and without asking for economic needs tests, that enhance market access to the sectors and modes of supply of export interest to LDCs;

32. Ensuring that the Special Modalities for LDCs and Guidelines and Procedures for the negotiations in services adopted by the Council for Trade in Services in 2001 and 2003 respectively continue to remain the basis for the negotiations;

33. The full implementation of the provisions of Special and Differential Treatment, and to make them more precise, effective and operational; and adoption of new special and differential measures to take into account problems encountered by LDCs and address meaningfully the special and differential proposals of LDCs;

34. Providing LDCs adequate policy space to engage in regional trade arrangements in the pursuit of their development goals and objectives;

35. The need for the negotiations on systemic issues to address the principle of less than full reciprocity, asymmetry in market access and the development concerns of LDCs entering into regional arrangements with developed countries under the GATT 1994 Article XXIV and GATS Article V;

36. Operationalising the flexibilities agreed in the Modalities for Negotiations on Trade Facilitation which, *inter alia*, stipulates that LDC Members will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities;

37. Full and faithful implementation of the Modalities for Negotiations on Trade Facilitation that ensure adequate financial and technical assistance and capacity building including support for infrastructure development of LDCs, through coordinated and sustained flow of funding that also address cost implications of proposed measures affecting LDCs.

It has been two decades since South Asian Association for Regional Cooperation (SAARC) was established and a decade since the implementation of SAARC Preferential Trading Arrangement (SAPTA).¹ However, at a mere 5 percent, the level of intra-regional trade in South Asia is far from satisfactory. The region is indeed one of the least economically integrated regions in the world.² Therefore, is there a case for a substantial increase in intra-regional trade in South Asia or is the proposed South Asian Free Trade Area (SAFTA) just a fad?

Signed on 11 April 1993, SAPTA was enforced on 7 December 1995. Four rounds of negotiations have taken place to deal with around 5,000 commodities in the preferential list. However, members are in the final stages of negotiations to convert SAPTA into SAFTA, which will become a reality from 1 January 2006 and envisions completing the trade liberalisation programme by 2016.

Currently, members are finalising the 'sensitive list' (a schedule of products on which members are not required to progressively lower tariffs),

'rules of origin requirements', 'revenue compensation mechanism' and 'technical assistance' to least developed country (LDC) members. Multiple rounds of negotiations have been held, of which the ninth meeting was in Kathmandu in July 2005. Members have not reached consensus on all issues except of some progress in the 'sensitive list'. When SAFTA is enforced, it would encompass around 25 percent of the products in the sensitive list of most of the members.

Fallacy of trade integration

Is the low coverage of liberalisation merely an inability to negotiate or are there deeper apprehensions among the members on the ability of SAFTA to facilitate regional trade?

Some pre-requisites for successful regional trade integration are examined. Pitigala (2005) proposes the hypothesis of "natural trading partners".³ A "natural trading partners" situation is characterised by complementarities, i.e., if a country imports what its trading partner exports, the hypothesis of "natural trading partner" is likely to hold. The situation may, however, be influenced by trade policies.

In this regard, countries in South Asia can hardly be said to be "natural trading partners". For instance, the high percentage of intra-region-

Salvaging SAFTA

The low level of intra-regional trade in South Asia calls for speedier cooperation in areas such as trade facilitation, transport, and energy if SAFTA is to work successfully.

Navin Dahal



al trade of Bhutan and Nepal is primarily due to their preferential trading arrangements with India. Bhutan and Nepal have around 90 and 60 percent of their total trade with India. Hence, trade policies, rather than fulfilling the condition of “natural trading partners”, explain the reason for high levels of intra-regional trade. In the cases of Bangladesh, India, Pakistan, and Sri Lanka, intra-regional trade is around 12, 3, 3 and 13 percent of their total trade respectively.

Furthermore, the “natural trading partner” hypothesis, based on trade volumes approach, suggests that members in a regional agreement should trade disproportionately with each other in order to be a successful block. The bigger nations in South Asia have very low percentage of their total trade in the region, which makes the case for greater economic integration in South Asia weak.

It has been shown by studies that a large volume of intra-regional trade goes unrecorded and some studies have shown big potential for growth in intra-regional trade. Countries in geographical proximity prefer to trade with each other more than with more distant countries. Is SAFTA then going to bring greater economic integration in South Asia?

Trade within South Asian countries is likely to grow in the future but not solely due to SAFTA. Bilateral trading arrangements such as those between Nepal and India, and India and Sri Lanka accord more preferential access to these countries than accorded by SAFTA. Moreover, compared to regional trade agreements (RTAs), it is much easier to negotiate bilateral trade agreements. Prospects for the success of SAFTA are also threatened by the existence of RTAs such as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) free trade area, of which Bangladesh, Bhutan, India, Nepal and Sri Lanka are also members. This RTA is more ambitious than SAFTA. In addition to faster and deeper liberalisation in goods, it seeks to liberalise services and investment too. In light of these

more progressive bilateral agreements and RTAs, in due course of time, SAFTA could be a low priority for most of the countries in the region.

Hence, SAFTA is unlikely to be a strong regional arrangement on the basis of being only a trading agreement for liberalising trade in goods in South Asia. To be of any relevance, regional economic integration efforts in South Asia will also have to include measures to liberalise trade in services, remove barriers to intra-regional investments, improve trade facilitation and enhance cooperation in infrastructure, such as energy and telecommunications.

Services are increasingly playing an important role in the economies of South Asia. The contribution of this sector in gross domestic product of South Asian countries is 40 percent on average, ranging from 38 percent in Nepal to 52 percent in Sri Lanka. These figures are likely to increase as economic development advances. Coupled with liberalisation on investments, services are likely to attract intra-regional investments. Tourism, health, education and business services are potential areas for such investments. It is also believed that investment liberalisation is a prerequisite for increased intra-regional trade in South Asia. RTAs – which liberalise their investment regimes – have seen a rationalisation of investment portfolios of their members.

With the gradual reduction in tariffs, trade facilitation is gaining relevance for reducing costs of international trade. Poor transportation facilities, differing custom procedures and requirements and inability to use more economical transit routes hinder regional trade. The contiguous nature of the Indian sub-continent calls for joint efforts for improving surface and sea transport facilities.

South Asia has been identified as an energy deficit region. Huge gas reserves in Bangladesh and hydro-power potential exists in Nepal (which remain untapped) while a fast industrialising India is facing energy shortages. The *International Energy Outlook 2004* projects more than doubling of Indian power de-

mand from 554 Billion Kilowatt hours (BKWh) in 2001 to 1,216 BKWh in 2025.⁴ Development of regional electricity grid and gas and oil pipelines is also going to benefit countries in South Asia. The geographical proximity makes cross-country supply of telecommunications services feasible. These are probably more attractive avenues for regional cooperation than merely enhanced trade in goods.

Conclusion

Without considering other complementarities that can boost intra-regional trade, SAFTA would become an incomplete mission. If we fail to understand the deeper apprehensions of members on the potential of SAFTA, which are reflected by their inability to negotiate a manageable ‘sensitive list’, South Asian countries would be wasting time and energy on something that is not going to bear fruit. Unless the mandate of SAFTA is broadened to include measures to liberalise trade in services, increase intra-regional investments, improve trade facilitation and enhance cooperation in infrastructure such as energy and telecommunications as a ‘single undertaking’, it will not help to enhance economic cooperation in South Asia. If these issues are not addressed, SAFTA will remain an incomplete vehicle for regional cooperation and development. ■

NOTES

- ¹ Seven countries in South Asia, viz., Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka formed SAARC on 8 December 2005.
- ² Intra regional trade in the Association of South East Asian Nations and the European Union stands at around 20 percent and 60 percent respectively.
- ³ Pitigala, Nihal. 2005. ‘What does regional trade in South Asia reveal about future trade integration’, *World Bank Policy Research Working Paper 3497*. Washington DC: The World Bank.
- ⁴ Upadhaya, Anup Raj. 2005. ‘South Asia Regional Energy Cooperation: Opportunities and Challenges’, in *Economic Integration in South Asia*. Kathmandu: Nepal Rastra Bank.

"SPAGHETTI BOWL" OF RTAs: Options for South Asia

The "spaghetti bowl" of regional trade agreements account for almost 40 percent of world trade, heralding a form of liberalisation. What are the options available to South Asia given the unsatisfactory experience?

Pradeep Mehta and Pranav Kumar



After the failure of the World Trade Organisation (WTO) Cancún Ministerial Conference in 2003, regional trade agreements (RTAs) have regained focus. At present, the proliferation of a "spaghetti bowl" of RTAs account for 40 percent of world trade.¹ The main concern about RTAs is not their increase but whether growing regionalism and its further deepening could undermine the multilateral trading system.

Ardent advocates of regionalism believe that it could be a 'building block' to multilateralism. Supporters maintain that RTAs enable countries to liberalise trade and investment barriers to a far greater degree than multilateral trade negotiations allow. RTAs have gone beyond trade liberalisation in harmonising regulations, adopting minimum standards for regulations, and recognising other countries' standards and practices — trends that enhance market access.²

While the renewed momentum for multilateral trade liberalisation launched at the WTO Ministerial at Doha in 2001 could have helped reduce the rising incidence of regionalism, trade experts expressed fear that the Cancún Ministerial fiasco would force WTO members to place an even greater emphasis on regional initiatives. For instance, the United States (US) is redoubling efforts to sign bilateral trade agreements (BTAs) and RTAs, which are easier to negotiate than WTO agreements. The empirical facts, to some extent, illustrate this apprehension as between January 2004 and February 2005 alone, 43 RTAs were notified to the WTO, making this the most prolific RTA period in recorded history.

Under the prevailing situation, what is the scope for South Asian countries vis-à-vis RTAs? How should South Asian economies make a renewed effort to kick-start South Asian Free Trade Area (SAFTA)? Should they cooperate more with Association of South East Asian Nations (ASEAN) and other East Asian economies or should they deepen trading relations with the European Union (EU) and the US?

“Spaghetti bowl” of RTAs

Since 1990, the number of RTAs in force rose from 50 to nearly 230 by late 2004.³ There are three distinctive features of this trend of ‘new’ regionalism, which have been experienced in the decades of 1980s and 1990s. First, as the largest economy, the US has increasingly taken recourse to the regional approach. Secondly, the EU has both deepened and widened its economic integration. Finally, Asia Pacific Economic Cooperation (APEC) was formed in 1989 as the first inter-governmental arrangement in the Asia-Pacific region.

While the recent rapid growth of RTAs began in the 1990s, the seed was sown much earlier. Western Europe continued its moves towards deeper and broader regional integration since the early 1950s. What is also significant is the decision of the US to explore the preferential approach to trade. Earlier, it relied almost entirely on the General Agreement on Tariffs and Trade (GATT) and the most favoured nation (MFN) principle to define its trade relations with other nations.⁴ The US signed its first BTA with Israel in 1985 and with Canada in 1989. Later, the US, Canada, and Mexico formed the North American Free Trade Association (NAFTA) in 1994. Likewise, the Free Trade Areas of the Americas (FTAA) – once formed – will be an extremely significant regional trading block, comprising 34 developed and developing countries with a population of 750 million and a total income of nearly US\$ 9 trillion.

The post Uruguay Round (UR) era has also seen further widening and deepening of the EU, which has widened integration through the Single European Act and the Maastricht Treaty. Under the new expansion plan, the original EU-15 has become EU-25. APEC was established in 1989, when the UR of trade negotiation was at its peak. Started with 12 members, today the grouping has 21

members, accounting for around 2.5 billion people, a combined gross domestic product (GDP) of US\$ 19 trillion and 47 percent of world trade.

South-South RTAs

South Asia has the lowest level of intra-regional trade. In the table below, a comparison has been made between various southern RTAs. The shares of ASEAN and Mercusor are high; even the African RTAs have done reasonably well in intra-regional trade.

During the 1980s, attempts at regional integration were made in Latin America, Africa, and Asia. During this period, many developing countries also adopted structural adjustment and economic reform. In Latin America, Mercusor was formed in

1997, Arab League members agreed to cut trade barriers over a 10-year period. In Asia, ASEAN developed 25 years of political cooperation into an RTA in 1992, with the formation of the ASEAN Free Trade Area (AFTA).

RTAs in South Asia

South Asian Association for Regional Cooperation (SAARC) was established in 1985 as a political consultation entity. Almost a decade later, the seven SAARC members initiated a framework for regional trade integration called SAARC Preferential Trading Arrangement (SAPTA). The actual exchange of preferences, however, remained extremely limited.

The SAPTA framework provides for periodic rounds of trade negotiations for the exchange of concessions on tariff, para-tariff and non-tariff measures using a combination of negotiating approaches. In view of the modest progress made in the initial years, the deadline for SAFTA, which was finally envisaged for 2001-2005, has been postponed to 2008 for non-least developed country (LDC) members, viz., India, Pakistan and Sri Lanka; and 2010 for LDC members, viz., Bangladesh, Bhutan, the Maldives and Nepal.

In January 2004, a breakthrough was achieved when, during the Twelfth SAARC Summit held in Islamabad, an agreement on SAFTA was signed. SAFTA is slated to come into force from 1 January 2006 upon completion of formalities, including ratification by all contracting states and issuance of notification by the SAARC Secretariat. This agreement, *inter alia*, includes trade facilitation measures like harmonisation of standards, reciprocal recognition of tests and accreditation of testing laboratories of contracting states and certification of products.

The signing of SAFTA marks a movement away from the mere tinkering with tariffs under SAPTA. However, the commodity-by-commodity negotiations under SAPTA are prov-

Intra-regional export shares

RTAs	1990	2001	Year in force
LATIN AMERICA			
Andean Group	4.2	11.2	1988
Mercusor	8.9	20.8	1991
AFRICA			
COMESA	6.3	5.2	1994
SADC	3.1	10.9	1992
UEMOA	12.1	13.5	2000
ASIA			
ASEAN/AFTA	19.0	22.4	1992
SAARC	3.2	4.9	1985

Source: UNCTAD, Handbook of Statistics 2002; WTO, International Trade Statistics 2002.

1991 and the Group of Three was established in 1995. The Andean Pact and Central American Common Market were resurrected in 1991 and 1993. Between 1990 and 1994 alone, 26 BTAs and RTAs were signed among Latin American countries.

The Southern African Development Community (SADC) succeeded the erstwhile Southern African Development Coordination Conference. The East African Cooperation sprang up where the East African Community had failed. The Middle East has witnessed the development of the Gulf Cooperation Council, and in

ing to be highly laborious and time-consuming and had hardly made any impact on intra-regional trade, still languishing below 5 percent of global trade of the SAARC member states.

Will RTAs proliferate?

There has been a proliferation of RTAs in the last two decades and all possible permutations and combinations have been tried, except in some pockets of East Asia involving Japan, China and Korea. Hence, in the wake of slow multilateral trade negotiations, the fear of its proliferation is little unwarranted.

The slow progress of multilateralism could strengthen the views of those who see regionalism being a 'stepping stone' towards multilateral trade liberalisation, as opposed to those who see regionalism as a 'stumbling block' to globalisation. It would also facilitate further deepening and widening of existing RTAs. It is being increasingly recognised that effective integration requires more than reducing tariffs and quotas. There are also chances of proliferation of mini trading alliances, especially BTAs. There is a concern among countries that have traditionally avoided this approach, which also want some cushion to fall back upon should in case the momentum of multilateralism falters as is the experience of the Doha Round talks that began in 2001 and is still ongoing.

Recent developments

In the absence of progress in trade liberalisation under the aegis of the WTO, the US has made it clear that it would not wait but follow the path of bilateralism and regionalism. It currently has RTAs with six countries, is negotiating with 14 more, and is pressing ahead to establish FTAs throughout the western hemisphere. After failing to prevail upon developing countries at Cancún, the US tried to dictate the agenda of VIII Free Trade Area of the Americas (FTAA) Ministerial Meeting, held at Miami during 17-21 November 2003. In order to counter the growing influence of Brazil among the members of FTAA, it announced BTAs with some member

countries.⁵

The EU has, so far, resisted the temptation to engage in bilateral free trade deals. The European Parliament, in its resolution on the Fifth WTO Ministerial, strongly supported multilateral trade agreements as the best mechanism for promoting free and fair trade. It is felt that the EU would face a number of problems in shifting its policy toward BTAs as opening the EU to bilateral deals could mean being flooded with requests for negotiations. Such deals are hard to negotiate in a grouping of 25 nations like the EU, where individual states might have sharply different views regarding countries the EU should consider for reducing trade barriers.⁶

However, the EU decided to strike a free trade deal with Mercusor. This is despite an earlier accord to delay such a treaty till the completion of the Doha Round of WTO talks, which as per the original schedule was supposed to end in December 2004. The failure of the Cancún Ministerial put the entire round out of gear. The EU-Mercusor FTA was slated to be completed in October 2004 but the two sides failed to agree on each other's final offers.

Among others, Mercusor was not satisfied with the EU's agricultural market access provisions and the EU found Mercusor's proposals to open its telecommunications sector and upgrade protection of European geographical indications lacking.

East Asia – excluding Japan – has increased its share of intra-regional trade over the last two decades. In 2001, nearly 40 percent of exports by East Asian economies were destined to the same region, up from 23 percent in 1980. Likewise, their dependency on intra-regional trade in terms of imports was 43.7 percent in 2001 as compared to 22.2 percent in 1980. Intra-regional trade accounts for 62 percent in the EU and 46.3 percent in

NAFTA. Several proposals have been mooted to form a broad FTA involving ASEAN, Japan, China and Korea – the so-called 'ASEAN plus 3'. These countries want to reduce their dependence on the US market and also cooperate on security issues. In 2003, Japan decided to join ASEAN's Treaty of Amity and Cooperation and the commitment to create a 'comprehensive economic partnership' between it and ASEAN, which will include elements of a FTA by 2012.

When the Fifth WTO Ministerial collapsed in 2003, it was argued that the inevitable consequence of not concluding multilateral trade negotiations to the satisfaction of major trading partners is to drive them towards BTAs and RTAs. South Asia –

especially India – stands to lose because of not being a member of either BTA or RTA with developed countries. However, India has followed a twin approach over the last few years. On the one hand, it is actively trying to influence the WTO trade negotiations while on the other hand, it is increasingly involved in bilateral and regional trade negotiations.

Prior to the Cancún Ministerial, India signed a framework trade agreement with

Mercusor. This set in motion the process that ultimately led to signing of an FTA between India and the Latin American trading block in March 2005. After Cancún, India signed framework agreements for establishing FTAs with Singapore and Thailand and also initiated a process for signing an FTA with Egypt. Following this is a similar agreement among China, Japan and India to create a broad East Asian group.

As regards other SAARC countries, they are not as active as India. In 2004, Bangladesh and Pakistan have developed a framework on a proposed FTA. Pakistan had consented to Bangladesh's request to give it special trade preference under an

SAARC countries should continue to promote multilateralism and simultaneously explore the possibility of engaging themselves in welfare enhancing RTAs.

FTA. Bangladesh also sought a longer time than Pakistan to phase out tariff under FTA and immediate free entry of its products to the Pakistani market. However, Bangladesh has reiterated that it would not have such an agreement if Pakistan fails to remove various trade barriers. Besides, Pakistan is also set to sign an FTA with Iran.

Bangladesh has reiterated that it would not have such an agreement if Pakistan fails to remove various trade barriers.

Trade in South Asia: Why it is low?

Intra-regional trade within SAARC countries was only 5 percent of their total trade in 2001.⁷ Estimates show that trade between India and Pakistan is 70 percent lower than two otherwise identical economies.⁸ From a sub-regional perspective, several studies have established that SAARC countries can benefit enormously by cooperating economically and promoting regional trade.⁹

An oft-repeated argument for the low level of intra-regional trade is the lack of trade complementarities. SAARC nations export labour intensive products in which they have a comparative advantage in relation to the rest of the world. So the volume of trade and the economic benefits from trading these products among themselves are limited. A counter argument says there is no hard evidence to endorse the argument of lack of complementarities.

In the absence of high levels of industrialisation, services trade may provide a better scope to find trade complementarities among South Asian countries. In sectors like health and education, there is considerable opportunity of increasing intra-SAARC trade. Moreover, SAARC countries are vocal in their demand for greater liberalisation of trade in services under mode 4 of General Agreement on Trade in Services (GATS). Developed countries often raise the issue of poor mobility of labour within South Asia itself. Thus, greater mobility of labour within the region can be a stepping stone in seeking greater market access for South Asian labour in developed nations.

Another reason for low intra-regional trade is not the absence of trade preferences but the lack of liberal trade policies. Once the countries in the region began to liberalise their economies, their intra-regional trade expanded rapidly. In 1990, the share of intra-regional trade was only 3.2 percent, which increased marginally to 5

percent in 2001.¹⁰ Various studies show that a huge amount of informal and unrecorded trade is taking place between South Asian countries. It is believed that such trade is considerably higher than official trade flows. These trade flows are taking place not only to evade high tariffs, but also to undertake trade that would have not been permitted at all. Hence, taking into account such trade flows, intra-SAARC trade as a proportion of total SAARC trade would be higher.

South Asia: Possible options

The new wave of regionalism has not only resulted in signing of more RTAs but has also led to further deepening and widening of existing RTAs. As it has touched almost all members of the WTO, SAARC countries cannot afford to flow against the stream. However, in the prevailing situation, the South Asian countries should continue with their two-track approach, giving primacy to promoting multilateralism and simultaneously exploring the possibility of engaging themselves in welfare enhancing RTAs. At present, the level of intra-regional trade in South Asia is marginal, but it would be still beneficial if they work for deeper integration as regionalism goes well beyond cooperation on trade front alone.

A pertinent question arises, whether South Asia should go for RTAs with developed countries or try to explore the possibility of forming South-South RTAs, especially with East Asian countries. One viewpoint says that it would be unwise to go for trade treaties with the US and the EU, as these markets are relatively more open and signing BTAs

would be tantamount to giving unhindered market access to them. It has been suggested that South Asian countries should follow the 'Look East' policy. India has already made efforts in this direction, signing framework agreements with Thailand and ASEAN for proposed FTAs.■

(Mr Mehta and Mr Kumar are Secretary General and Policy Analyst at CUTS International, Jaipur)

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- 10 World Trade Organisation. 2003. Above note 4.

Poverty reduction in Nepal

Myth **or** reality?

Although income poverty declined by 11 percent in Nepal over the past decade, the latest national poverty survey is plagued with methodological shortcomings.

Suman Sharma

According to the Nepal Living Standards Survey (NLSS), the headcount income poverty ratio was 42 percent in 1995/96. There were wide variations in poverty levels based on rural-urban division, geography, gender, ethnicity and occupational castes. In 2000, an internal study commissioned by the National Planning Commission (NPC) estimated the poverty incidence at 38 percent.

The most recent poverty estimates – using the NLSS 2003/04 dataset – show income poverty incidence at 31 percent. Urban areas recorded a higher rate of decline in poverty of 12 percentage points while rural areas experienced a drop of 8 percentage points. This survey reports a higher incidence of rural poverty. There exists substantial disparity in poverty incidence across Nepal's three major agro-ecological zones: 42 percent in the hills, followed by 33 percent in the moun-



ains and 29 percent in the Terai.

The reasons cited by NPC for the decline in poverty incidence are manifold: remittance supported consumption, increased income of agricultural labour, increment in number of economically active population, rapid urbanisation and increase in non-farm incomes. Furthermore, the poverty gap ratio has declined, indicating that people have moved closer to the poverty line.

In 2003/04, the incidence of poverty is closely correlated with land ownership. For instance, small farmers – operating less than one hectare of land – represent the largest group of rural poor households, accounting

for 53 percent of the poor. Households, headed by agricultural wage labourers, are the poorest (with a 46 percent poverty incidence) while the second poorest group is made up of those who live in households headed by self-employed in agriculture. Similarly, land ownership is found to be the crucial factor determining poverty, as 39 percent of the people having less than 0.2 hectares of land are poor while it is only 24 percent for those owning more than two hectares of land.

Furthermore, households with seven or more members have the highest poverty incidence of 41.4 percent while it is only 20 percent for those households with only four members. The data also substantiate the significance of literacy/education in reducing poverty. Between 1995/96 and 2003/04, the national income poverty incidence declined among all rural households, except for small and medium farmers in the eastern hills.

However, the preliminary results based on the NLSS 2003/04 should be interpreted with caution. Despite the quantitative indication of decline in poverty, there may be several reasons to believe otherwise. Along this line of thought, several specific concerns are highlighted below.

One concern relates to the representativeness of the survey itself. Some of the most remote districts were left out. For instance, 96 out of 4,008 households – 8 out of 334 Primary Sampling Units (PSUs) – mostly in the Far-Western Development Region, were not enumerated. Some practical difficulties in conducting the survey were reported. For some rural PSUs, data entry could not be done in the field and was done at the nearest market or district headquarters resulting in discrepancies. It should also be noted that the survey relates to a longer recall period thereby resulting in either under-reporting or over-reporting of certain income sources or consumption items. Besides, the survey report admits difficulties being faced because of the discrepancies in the use of metric/non-metric units of measurements.

Another concern relates to the consumption focus of poverty. Past national poverty lines were expressed in terms of consumption expenditure. Some studies have reported that in the case of household surveys, consumption data are more likely to be measured accurately compared to income data and are also considered to be better indicators of living standards. However, in the Nepalese context, mere focus on consumption could be a problem while considering the situation of the poor, who are more than likely to belong to one of the lowest income groups. These groups of poor may have been surviving simply through borrowings or remittances. Are we concerned about the borrowings that temporarily might reflect increased consumption but are not sustainable over a longer term? Considering the recent findings that one out of 11 rural male adults is working abroad, do increased remittances automatically translate into poverty reduction?

Moreover, increasing feminisation of poverty exists mainly due to prevailing gender disparities, the ongoing armed conflict and its adverse impact on all economic activities. Nepalese women, on average, face a relatively larger burden of poverty as compared to men. This was as such indicated by the 1995/96 NLSS, in which female-headed households showed a higher incidence of poverty. However, this finding is not substantiated by the NLSS 2003/04, which show that female-headed households exhibit a lower incidence of poverty (probably due to male migration and resulting remittances). The 2003/04 data further reveal that of these households, those with higher number of small children and/or higher number of household members, are poorer. This is likely to cause an adverse impact on women within a household.

Increasing feminisation of poverty exists mainly due to prevailing gender disparities, the ongoing armed conflict and its adverse impact on all economic activities.

Population dynamics of an economy (such as, age-sex structure, temporal and spatial distribution, migration, labour force participation, employment pattern and household composition-headship and ethnicity) do have significant bearing on poverty. The irony is that the country's population will continue to grow further despite the progress made in fertility decline due to the in-built momentum for growth in age-sex structure. As a consequence, despite the decline in poverty incidence, the total number of poor will decline only at a relatively lower rate.

Furthermore, the existing inter-linkages between population growth, poverty and environmental degradation do have important implications on poverty. High population growth without commensurate economic growth has led to increased dependence on land. This leads to adverse effect on the environment, which, in turn, affects the poor as they usually rely mostly on marginal and fragile lands. These inter-linkages lead to decreased per capita cultivated land, large scale deforestation contributing to fuelwood deficit, fodder deficit, etc. The argument for a decline in poverty should be accompanied by a thorough poverty analysis taking due account of these concerns.

Another alarming factor that has important implication on poverty is rising inequality. Increasing income concentration was seen from 1984/85 to 1995/96 as per capita income inequality rose during this period. During 1995/96 – 2003/04, real per capita expenditure (PCE) increased by 42 percent. Furthermore, real PCE increased for all quintile groups but much more so for the higher quintile groups. These trends suggest a remarkable growth in consumption for the wealthier population, implying a sharp increase in inequality. Dur-

ing the same period, the Gini coefficient increased from 34.2 to 41.4. If poverty declined at the expense of the very poor people whose consumption levels are way below the poverty line, poverty reduction was accompanied by rising inequality.

Nepal's poverty is also manifested by food insecurity usually caused by high dependence on agriculture, inequality in land holdings, low productivity in agriculture and low level of non-agricultural income. Food insecurity has escalated in several parts of the country, particularly the hills and mountains, due to the ongoing insurgency. Food security cannot be examined from a national perspective only and must be looked into at micro-level encompassing household level and possibly intra-household level. Although the poverty line itself is nutrition-based, the distributional aspect of food security has not been adequately captured to reflect the severe food insecurity situation prevalent in several parts of the country.

The domestic armed conflict since 1996 has taken a heavy toll on the economy and people. The development spending of the government has been diverted for meeting the security needs. A majority of the service delivery institutions in remote areas are hardly functioning. Various successful initiatives like decentralisation and social mobilisation programmes are under severe threat. The intensification of the security threat has seriously affected the development process.

Therefore, an ideal poverty analysis should take due consideration of these factors to fully understand the multi-dimensional aspects of poverty. Instead of simply claiming that poverty has declined based on the head-count index alone, further investigations are absolutely essential that should analyse, among others, other income poverty indicators, viz., depth and severity of poverty and more importantly, inequality. ■

(Dr Sharma is Associate Professor at Central Department of Economics, Tribhuvan University, Kathmandu)

Millennium Development Goal 8

A Call for Global Cooperation

It seems that the developed countries are only concerned about ODA giving little attention to other commitments under Goal 8.

Kamalesh Adhikari

The Millennium Development Goals (MDGs) represent a global cooperation between developing and developed countries. While the first seven goals require developing countries to create an enabling national environment, Goal 8 – Develop a Global Partnership for Development – identifies the responsibility that rests with the developed countries. Towards fulfilling the commitments under Goal 8, the United Nations reports that many donors are on track to meet the target of dedicating 0.7 percent of gross national income to official development assistance (ODA) by 2015. Others have promised to make substantial increases in ODA over the next 10 years. Leaders meeting at the Group of Eight (G8) Summit in early July agreed to increase annual aid flows by at least US\$ 50 billion by 2010, with at least half of that increase to be directed at Africa, and to write off the debts of 18 of the world's poorest countries.

These initiatives are a welcome move. However, the concerns are: Are they up to the mark of the global pledge to support poor countries attain MDGs? Since donors would meet the ODA targets by 2010 or 2015, would these initiatives help poor countries achieve MDGs by 2015? Besides, without fulfilling the ODA needs of poor countries in other regions, for example South Asia, would the world be able to tackle the Millennium challenges? In addition, the developed countries are only con-

cerned about ODA giving little attention to other commitments. An increased focus on ODA is part of the story. Of equal importance are actions in other areas, including trade, agriculture, health, employment and technology transfer, which are covered by Goal 8 targets (12-18).

Target 12: Develop an open, rules-based, predictable, non-discriminatory trading and financial system

One year after the adoption of MDGs, World Trade Organisation (WTO) members made a historic effort to strengthen the international trading system through the launch of Doha Development Agenda (DDA). However, little progress has been made to accomplish DDA; almost all deadlines were missed and the Cancún Ministerial in 2003 also failed to provide a momentum to DDA.

Amidst continued deadlock on Doha Round negotiations, members adopted the July Package (JP) in 2004, establishing modalities for negotiations on five major issues of DDA – agriculture, non-agricultural market access, services, trade facilitation and 'development dimension'. If negotiations on these issues are completed "taking into consideration the development issues and the interests of poorer members", including the 'development dimension', it would help poor countries to make international trade work for development. In this context, ongoing negotiations under JP and the WTO Ministerial in Hong

Kong (December 2005) provide WTO members with an opportunity to work on Target 12.

Target 13: Addressing the special needs of LDCs

The least developed countries (LDCs) face serious supply-side constraints to benefit from international trade. Their limited financial resources and institutional capacity to overcome these constraints make them uncompetitive and vulnerable in the global economy. Besides, due to limited products and destinations to export, they are prone to external shocks. Product diversification, enhancement of competitiveness and market access are, therefore, crucial for the LDCs to benefit from international trade. In this respect, there is a need to help the LDCs with meaningful and effective technical and financial assistance.

The developed countries, as the LDCs have been demanding, should also make a binding commitment on duty free and quota free market access for all LDC products, with no restrictive measures introduced. Also, since most of Generalised System of Preferences schemes are unilateral, there is hardly any element of predictability. Hence, these schemes must be made binding at the WTO. At the same time, it should be ensured that the LDCs are not subject to any type of non-tariff barriers.

Target 14: Address the special needs of landlocked countries

The special needs of landlocked countries have gained wider recognition in the Brussels Declaration and the Programme of Action for the Least Developed Countries. The Almaty Programme of Action – adopted in 2003 – has obliged the developed countries to assist and support the landlocked countries by providing effective and meaningful technical assistance and better market access opportunities. Therefore, the developed countries should implement their part of the commitment so that landlocked countries are able to address the challenges associated with their landlockedness.

Besides, the ongoing trade facilitation negotiations under JP establishes

that the focus of the negotiations should be, among others, on clarifying and improving relevant aspects of Article V (freedom of transit) of the General Agreement on Tariffs and Trade. Therefore, these negotiations should establish their transit right at the multilateral level with further improvement and clarity.

Target 16: Develop and implement strategies for decent and productive work for youth

Youth unemployment is a major problem in poor countries. If patterns of international investment, the growth of trade, and the cross-border movement of workers do not help in creating decent, productive and secure jobs, poor countries would be under further pressure to meet the MDG targets. Therefore, international policies that affect employment should be supportive of growth, enterprise development and poverty reduction. The International Labour Organisation's (ILO) Global Employment Agenda – the employment pillar of the decent work concept – should serve as a useful guide to develop sound and far-sighted employment strategies. In this process, the ILO has a major role to play, working in greater cooperation with other international organisations, including the international financial institutions and the WTO and national governments.

Besides, all WTO members should liberalise temporary movement of natural persons under Mode 4 of General Agreement on Trade in Services (GATS) without excluding any skill category and sector/sub-sectors. In this context, the ongoing services negotiations under JP should ensure that administrative procedures, overly burdensome visa requirements and qualification schemes, among others, do not impede the movement of natural persons.

Target 17: Provide access to affordable essential drugs in developing countries Internationally, the concept of 'health for all' has been an important factor in

The willingness of developed countries to facilitate access to and transfer of technologies to developing countries is reflected in a number of international agreements.

making medicines more affordable. The 2001 WHO-supported Commission on Macroeconomics and Health argued for large-scale financial commitment by rich countries to scaling up the access of the world's poor to essential health services. In this direction, some initiatives have been taken but more needs to be done. For example, multilateral institutions and pro-

grammes – such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the WHO '3 by 5' strategy to deliver antiretroviral therapy to 3 million people by 2005 – remain underfunded.

At the WTO level, a separate 'Declaration on TRIPS and Public Health' states that Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) does not and should not prevent members from taking measures to protect public health. The Declaration also underscores countries' ability to use the TRIPS' flexibilities, including 'compulsory licensing' and 'parallel importing'. However, it did not address the problems of countries with insufficient or no manufacturing capacity. On 30 August 2003 through a 'Decision', members agreed on legal changes to make it easier for countries without manufacturing capacity to import cheaper generics made under compulsory licensing. However, countries are still not clear whether or not such an allowance would ensure affordable access to medicines in the future (*See related article on page 32-33*).

Target 18: Make available the benefits of new technologies, especially ICTs

The willingness of developed countries to facilitate access to and transfer of technologies to developing countries is reflected in a number of international agreements. For instance, GATS acknowledges that the increased participation of developing country members in world trade shall

be facilitated through, *inter alia*, access to technology and further calls on members to encourage foreign suppliers of telecommunication services to "assist" in the transfer of technology, training and other activities. TRIPS calls upon developed countries to "provide incentives to enterprises and institutions" in their territories to transfer technologies to the LDCs.

Similarly, the Doha Declaration has introduced a binding mandate to examine the relationship between trade and technology transfer. To this end, ministers have established a Working Group on Trade and Transfer of Technology. However, some developed countries tend to perceive this mandate as an academic exercise and are reluctant to deepen the work towards the implementation of technology transfer clauses in WTO agreements or to initiate negotiations for increasing technology transfer flows.

Realising the role that technologies play in growth, development and poverty reduction, developed countries should foster international partnership to bring the benefits of technologies to poor countries. Otherwise, not only the "digital divide" will widen, poor countries would also face difficulties in meeting MDG targets. In order to transfer technologies to and establish partnership with the LDCs, developed countries should follow the "actions" that are stipulated in the Brussels Programme of Action for the Least Developed Countries.

Conclusion

The 2005 World Summit, to be held from 14-16 September in New York, is expected to bring together more than 170 Heads of State and Government: the largest gathering of world leaders in history. The international community perceives it a once-in-a-generation opportunity to take bold decisions in the areas of trade, growth, development and poverty reduction. The developing and least developed countries should capitalise on this opportunity by collectively pressing for the need to bind developed countries to work on each and every target under Goal 8. ■

Emerging Scenario

South Asia

IN NORTH-SOUTH BTAs OF

Developing countries that pin high hopes on BTAs and GSPs are unable to reap expected benefits. Instead, such type of agreements lead to outcomes that restrict their policy space while developed countries extract most of the advantages. A case study of Sri Lanka is a pointer to this trend.

Saman Kelegama



Southern developing countries appear to be in a rush to enter into bilateral trade agreements (BTAs) with their major industrialised trading partners in the North. This is a recent phenomenon and has gathered momentum after the failure of the World Trade Organisation (WTO) Ministerial at Cancún in 2003. South Asia is no exception to this trend.

Since the Trade and Development Act was enforced in 2000, the United States (US) has been aggressively promoting BTAs with willing trading partners in the South. Such BTAs are worked out after signing a Trade and Investment Framework Agreement (TIFA), which is basically a prelude that promotes negotiations to work out the BTA. The US has signed TIFAs with three South Asian countries, viz., Sri Lanka, Pakistan, and Bangladesh. The negotiations for a free trade area (FTA) are ongoing in all these three countries at present.

Considering the TIFA based negotiations in the context of Sri Lanka, it is argued that the 'development dimension' in favour of the country in the negotiations is far from clear. In the new Generalised System of Preferences (GSP) scheme, the 'development dimension' is not straightforward from the perspective of South Asian nations.

Negotiations on the US-Sri Lanka FTA

Southern countries embark on trade agreements with Northern trading partners mainly for better market access, which Southern countries fail to obtain via WTO negotiations. North-South BTAs may thus be seen as a device for side-stepping the WTO. However, in their enthusiastic pursuit of market access, Southern countries most often ignore the details of the trade arrangement from the start and thereby undermine the cost of

market access. One reason for this is that most often, the BTA is worked out for a particular export commodity, which is concentrated in the partner Northern country and the product may be an item generating significant foreign exchange earnings and employment, accounting for the livelihood of a large section of the labour force. This concern tends to override all other obligations in the process. Secondly, export lobbies of the particular product in the Southern country, although ignorant of the details of the BTA, can exert strong pressure on the government, which the latter may find difficult to resist.

In the context of the ready made garment (RMG) industry in South Asia, market access is crucial because this sector accounts for the largest export earnings in the three South Asian countries that have already signed TIFAs with the US. More than 50 percent of RMG exports of these

South Asian countries are destined to the US market. The RMG industry also accounts for a large number of manufacturing employment. With the end of the Agreement on Textiles and Clothing and the emergence of China as a major player in the RMG global industry, the eagerness to gain preferential market access in the US became even more important for these South Asian countries. After seeing the US granting preferential market access to RMG exports under African Growth Opportunities Act, Caribbean Basin Trade Partnership Act, and through BTAs to Asian competitors in RMG exports, there is a growing view that an FTA with the US is essential to safeguard the future of the RMG industry.

In the case of Sri Lanka, the US was prepared to grant duty free entry for Sri Lankan RMG exports but it was conditional on fulfilling the following conditions:

- (a) Fulfilling the stipulated rules of origin (ROO) requirements, i.e., following the yarn forward rule and reverse purchase of US fabrics to produce RMG earmarked to the US market.
- (b) Amending intellectual property laws by dropping legislation for compulsory licensing and parallel importation of drugs and pharmaceuticals.
- (c) Amending competition policy legislation by dropping the monopolies and mergers clause that was seen as a deterrent to US investment in Sri Lanka.
- (d) Further opening up of the Sri Lankan market by implementing second generation reforms and deregulation, which included liberalisation of trade in services and the capital account of the balance of payments for trade exchanges with the US.

Implicit in the trade negotiations was offering political support to the US on contemporary international issues, viz., (a) the war in Iraq, (b) allow US ships engaged in military exercises in the Indian Ocean to use Sri Lankan ports freely, and (c) support the US position in some issues at the WTO Cancún Ministerial.

Based on these conditionalities,

national policy makers were requested to work with their US counterparts. The following are some of the noteworthy characteristics of the BTA:

- (a) The BTA was worked out on a template prepared by the US for other BTAs (US-Chile BTA, US-Singapore BTA, etc.), which had many standards and clauses and gave little space for Sri Lanka for manoeuvring in negotiations. The agreement focused on specific amendments and enforcement measures, on which the US had a keen interest, e.g., expanded protection on copyrights in the digital environment and plant variety protection in line with International Union for the Protection of New

The 'development dimension' that is supposed to arise from BTAs and GSPs is far from clear in the context of North-South trade relations. The cases of Pakistan and Sri Lanka are testimony to the fact that such agreements are highly asymmetrical.

Varieties of Plants (UPOV). It was stated that the treaty template would be reviewed regularly to include higher standards and unaddressed issues.

- (b) Intellectual property rights (IPRs) amendments were linked to investment issues and, in turn, linked with other economic assistance like more funds under United States Agency for International Development.
- (c) The negotiations were promoting a 'one size fits all' system for say, IPRs, and increasingly demanding for harmonisation based on US legislation without taking into account development objectives and in many cases, public interest concerns.
- (d) Tentative estimates show that the

ROO requirements of the BTA increased the cost of production in the RMG industry. Even with duty free entry to the US market, this increase in production costs would not permit most Sri Lankan RMGs to be competitive vis-a-vis Chinese RMG industry in the US market.¹

- (e) In the context of the WTO, the BTA would make sense only if it is 'WTO-plus'. The identification of the 'WTO-plus' elements demanded a comprehensive analysis of different rule making, developments in different layers – multilateral, regional, and bilateral – and identifying space available in each action level.² This was indeed a tedious task.

There was tremendous resistance to the amendments in the IPR Bill in accordance with the above conditionality. Even before the Bill was presented to Parliament in mid-2003, it was challenged in the Supreme Court by a local non-governmental organisation (NGO) claiming that it violated a fundamental human right of the citizens of Sri Lanka, i.e., having access to cheap and affordable drugs. The Supreme Court gave its verdict in favour of the local NGO and thereafter the Bill had to be once again amended to include compulsory licensing and parallel importation for drugs and pharmaceuticals.³ It was a major embarrassment for the government, which handled the entire negotiations with the US officials in a most non-transparent manner.

The conditionalities in this agreement clearly undermined the benefits of preferential/duty free market access. They made public interest issues irrelevant and thus the 'development dimension' was far from clear. In fact, it undermined the flexibilities and exceptions allowed for Sri Lanka in the WTO agreements. The US-Sri Lanka BTA negotiations are still ongoing with limited progress.

GSP Scheme: A South Asian Perspective

GSP scheme is another instance of North-South trade channel where the 'development dimension' is murky

although the primary aim of such schemes is to accelerate development and economic growth in developing countries. However, developed countries increasingly use GSP as a tool to foster a particular political agenda, i.e., as an instrument of foreign policy.⁴ Two examples illustrate this: (a) The drugs regime in the GSP scheme was increasingly used in favour of Pakistan to combat terrorism sponsored by the Taliban, and (b) The US denied GSP schemes to any country that did not take steps to support its efforts to combat terrorism.

Recently, consequent to a complaint made by India to the WTO, the Appellate Body (AB) of the WTO noted that the drug regime in European Commission's (EC) current GSP did not fulfil the conditions of transparency. The AB's ruling showed that the drug regime was not based on any substantive and procedural criteria. It requested the EC to make the drug regime consistent with its obligations under the General Agreement on Tariffs and Trade 1994. The drug regime has been replaced with a new programme called 'GSP-plus.'

The new programme requires the ratification of 27 international conventions to obtain additional tariff preferences. These conventions include: abolition of forced labour, maintaining universal human rights and adhering to minimum age of admission to employment.

All Southern countries cannot ratify all the conventions because they do not have supporting institutions. There is also ample scope to fashion the GSP scheme to suit a particular political and economic agenda. This is so because the eligibility requires two conditions to be fulfilled: incorporation of international agreements on which conditionality is based, in its domestic legislation; and the effective implementation of this legislation. Countries can have all the agreements in domestic legislation but their implementation is a subjective matter. Political and other interests will always have an influence in making such determination. For instance, if the US feels that it requires Pakistan's help or it wants

to reward Pakistan for its role in the 'war against terror', it may extend tariff preferences even if Pakistan fulfils only the first condition of the eligibility criteria.⁵

The EU was of the view that increased regional economic cooperation should be in-built in the GSP scheme. Thus, the ROO was designed with this objective, which was considered as a contributory factor to promote development. The ROO governing RMG exports to EU under the the GSP scheme for South Asian countries was set at 50 percent value addition based on South Asian Association for Regional Cooperation (SAARC) cumulation. This was far from satisfactory for the smaller South Asian nations that do not possess a large domestic production base because most of these countries depend on inputs from East Asian economies for RMG production and found it difficult to fulfil SAARC cumulation. Consequently, the GSP scheme could not be fully utilised for preferential market access for RMG exports.

It can be seen that the 'development dimension' is promoted by adherence to international conventions and promoting ROO that the North feels will enhance cooperation among Southern countries, thereby contributing to development. There are major shortcomings in these conditionalities with regard to promoting development in South Asia.

Conclusion

Trade routes are being increasingly used to address matters that are considered as 'international standards' by the North. In other words, North-South BTAs are used to achieve what Northern countries failed to achieve via the WTO.

Basically, 'international standards' are now in-built to the BTAs. The 'development dimension' is undermined to a large extent in this process. For example, IPR concerns are becoming an objective rather than a means of promoting innovation, creation, and technology transfer. Non-commercial considerations of IPRs, such as, health and food security, environment, consumer inter-

ests, etc., are undermined and thereby public interest issues are made costly. Once committed to these 'international standards', it is very difficult to alter them even if domestic policy warrants. Such commitments also weaken a developing country's bargaining power vis-à-vis other trading partners when formulating new BTAs.

In the WTO, some policy space is allowed to autonomously implement development policies. In BTAs, this trend is reversed with strong pressure to move towards adopting 'WTO-plus' obligations in the same areas where developing countries are demanding a review. These 'WTO-plus' obligations threaten to undermine the balance achieved in many national laws and capacity of developing countries to use flexibilities existing at international level to achieve development related goals. ■

(Dr Kelegama is Executive Director of Institute of Policy Studies, Colombo)

NOTES

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- 2 Abugattas, L. 2004. 'Swimming in the Spaghetti Bowl: Challenges for Developing Countries under New Regionalism', in *Policy Issues in International Trade and Commodities, Study Series No. 27*. Geneva: United Nations Conference on Trade and Development.
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- 4 Consumer Unity & Trust Society-Centre for International Trade, Economics and Environment. 2004. 'GSP Dispute: Winning the Battle, Losing the War'. *Trade Law Brief*, No. 1. Jaipur: CUTS-CITEE.
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SOUTH-SOUTH

Cooperation on Trade

In the context of continued marginalisation of developing and least developed countries from the multilateral trading system, closer South-South cooperation needs to be considered more seriously than before.

Ratnakar Adhikari

South-South trade increased by 200 percent in the 1990s and accounts for 12 percent of total world trade. Although a huge potential exists to enhance trade between developing countries, there are obstacles too. First, the major export markets of developing countries are the Organisation for Economic Cooperation and Development countries. Since the comparative advantage of developing and developed countries vastly differ, tremendous complementarities exist. Therefore, the first target of developing countries at the WTO as well as regional trade agreements (RTAs) is to obtain increased market access to industrialised nations. Since the former group of countries spend considerable time

and resources in ensuring this outcome, they tend to ignore the potential of South-South trade cooperation. Such complementarities do not necessarily exist among developing countries due to similar product profiles and comparative advantage. Therefore, they do not perceive benefit in spending their negotiating capital on opening each others' markets.

Second, trade barriers in developing countries are still very high, reflecting their transition from the import substitution industrialisation era. While average tariffs in developed countries have fallen to 3.8 percent in the post Uruguay Round (UR) era, the corresponding figure for developing countries is 29 percent. It is

not surprising that 70 percent of all tariffs in developing countries are on products of other developing countries. Furthermore, those developing countries and least developed countries (LDCs), which became members of the WTO by virtue of their membership to the General Agreement on Tariffs and Trade (GATT), have still not bound a major portion of their industrial tariffs. While it is mandatory for all the countries to bind 100 percent of their agricultural tariffs, such requirement does not exist in the case of industrial products. Taking tariff lines as a criterion, tariff binding on industrial products is 73 percent in the case of developing countries in the post UR era. If total imports of the developing countries are taken as the criterion, this figure is 61 percent.¹ Individual country figures are even more disappointing. Only two-third of Malaysia's tariff lines are bound while one-third of tariff lines (including all agricultural items) are bound in Pakistan. The figure is 13.3 percent in the case of Cameroon and Tanzania.² The average binding rates – both in agriculture and non-agricultural products – are also very high in the case of developing countries and LDCs. Similarly, the market opening in services sector is extremely limited. The table below provides a brief account of bound tariffs across various developing countries.

Another vital issue is tariff escalation, which developing countries are pursuing to ensure that most of the value addition takes place in their own countries. For example, China has a zero tariff on unroasted coffee but imposes a 53 percent tariff for processed coffee. While developing countries argue for the removal of tariff escalation prevalent in developed countries on the products of their export interests, they have not paid sufficient attention to tariff escalation in other developing countries, which are also WTO members. Fortunately, the incidence of non-tariff barriers is not widely prevalent in developing countries as compared to developed countries.

Third, initiatives taken by developing countries to increase trade

Bound agricultural and industrial tariffs and commitments on services liberalisation by selected developing countries

Country	Bound tariff on agricultural products (%)	Bound tariff on industrial products	Services liberalisation sector (No.)
India	114	38	6 (36)
Pakistan	77.1	36.6	5 (40)
Bangladesh	200	48	2 (14)
Solomon Islands	80	37	4 (23)
Tanzania	120	120	1 (1)

Source: WTO (2005)³ and Adhikari (2004)⁴

among themselves have not produced desired results. The Generalised System of Trade Preferences (GSTP) among developing countries was established in 1989 under the auspices of United Nations Conference on Trade and Development (UNCTAD). Its objective was to promote and sustain mutual trade among developing countries, through the exchange of concessions in accordance with the provisions of the agreement. In essence, the GSTP was designed to provide for tariff preferences on trade among its members. Additionally, it provides for the possibility of negotiating non-tariff preferences. So far, 44 countries have become members of this agreement. The

Developing countries have demonstrated remarkable unity in multilateral trade negotiations, which needs to be sustained.

South Asian members of GSTP are Bangladesh, India, Pakistan and Sri Lanka. Considering the number of developing countries – both members of the WTO and non-members – this number is considered extremely limited, reflecting the apathy of developing countries to enter into this kind of arrangement. Only 24 countries, including four South Asian countries mentioned above, have exchanged tariff concessions so far.

Though the WTO is based on the principle of non-discrimination (the so-called ‘most favoured nation’ principle in the case of border trade barriers), developing countries are not obliged to provide reciprocal tariff concessions to developed countries. It is considered legal under the WTO’s Enabling Clause (Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, Decision of the GATT Contracting Parties of 28 November 1979).

In recent years, developing countries have exhibited a renewed sense of urgency to enhance South-South trade cooperation, which is a positive step. The Sao Paulo Consensus (agreed during the Eleventh Session of UNCTAD) provides impetus to

this process. The Consensus emphasises that UNCTAD should continue its support for the revitalisation and greater utilisation of the GSTP and other initiatives that stimulate South-South trade (Para 97).⁵

The Doha Declaration – issued on 16 June 2005 – by the Second South Summit in Doha, Qatar (where Group of 77 and China participated) highlights the need to recognise the increasing importance of South-South Trade and Economic Cooperation (Para 12) and welcomes the launch of the Third Round of the GSTP as an important instrument to stimulate South-South trade. The Summit also invited all member countries of the GSTP to conclude the Third Round of GSTP by 2006 and to encourage other members of the Group of 77

and China to consider participating in the GSTP (Para 28).⁶

Given this scenario, Southern countries need to revitalise the process of increased cooperation on trade, making renewed efforts on four main areas. First, they should participate actively within the GSTP mechanism and negotiate better market access terms, not only by addressing the issues of tariff preferences, but also non-tariff preferences as mandated by the agreement.

Second, they ought to expedite the process of forming RTAs and explore the possibility of intra-regional trade cooperation, first at the continental level; then at the cross-continental level. Ideally, the first stage of cooperation should serve as the stepping-stone for the second. For instance, trade cooperation between South Asian Association for Regional Cooperation and Association of South East Asian Nations; Southern Common Market and Andean Pact; and Common Market for Eastern and Southern Africa and Southern African Development Community could become instrumental in forming greater Asian, South American, and African trade cooperation agreements. The ultimate objective should be to

form a trade cooperation agreement of the developing countries under the GSTP framework.

Third, advanced developing countries should provide trade-related technical assistance to their LDC counterparts. Such assistance should help address the latter’s lack of negotiating capacity and supply-side constraints. Training, human resource development and technology transfer are the necessary components of such a cooperation arrangement.

Finally, developing countries have shown remarkable unity in multilateral trade negotiations; such alliance should be continued beyond the Doha Round negotiations.⁷ They should aim at promoting an open, equitable, rule-based, predictable and non discriminatory multilateral trading system that gives priority to the ‘development dimension’ – in line with the Doha Declaration. ■

NOTES

¹ Ognivtsev, Victor, Eila Jounela and Xiaobing Tang. 2001. ‘Accession to the WTO: The process and selected issues’, in *WTO Accessions and Development Policies*. New York: United Nations and Geneva: United Nations Conference on Trade and Development, p. 183.

² United Nations Conference on Trade and Development. 2004. *The Least Development Countries Report 2004 – Linking International Trade with Poverty Reduction*. New York and Geneva: UNCTAD and United Nations.

³ World Trade Organisation. 2005. *World Trade Report*. Geneva: WTO.

⁴ Adhikari, Ratnakar. 2004. ‘WTO Accession of Least Developed and Low Income Countries of Asia and the Pacific: A Human Development Perspective’, in *Asia Pacific Regional Human Development Reports Initiative*. New Delhi.

⁵ United Nations Conference on Trade and Development. 2004. *Sao Paulo Consensus*. 13-18 June. Geneva: UNCTAD.

⁶ Group of 77. 2005. *Doha Declaration*. Second South Summit. 12-16 June. Doha.

⁷ The multilateral trade negotiations that were launched in Doha in November 2001 by the Fourth Ministerial Conference of the WTO.

Industrial tariffs and South Asia

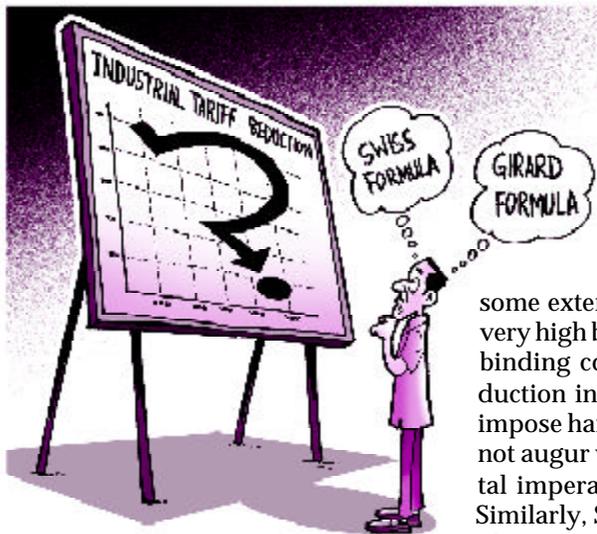
HOW to cut and much to cut?

Negotiations on non-agricultural market access – which began on January 2002 – are proving to be a major obstacle to liberalising trade in industrial goods.

Prabhash Ranjan

A major objective of the ongoing trade negotiations in the World Trade Organisation (WTO), launched in Doha in 2001, is to reduce both tariff barriers and non-tariff barriers (NTBs) for freer and fairer movement of goods and services. The negotiations on non-agricultural market access (NAMA), initiated in January 2002, intend to accomplish this objective for industrial goods, especially for developing countries and least developed countries (LDCs). However, hitherto negotiations on NAMA have had a bumpy journey and the laudable destination of dismantling tariff barriers and NTBs is still very distant. Much hope was pinned at the July 2005 General Council (GC) meeting of the WTO. However, contrary to the expectations, the GC meeting ended without arriving at any common meeting ground between WTO members.

The reason for this bumpy journey is the sharp division amongst



countries on many contentious issues under NAMA negotiations. One such contentious issue is tariff reduction. Countries are poles apart on the methodology and the quantum of tariff cut.

For developing countries, prominently, two issues in tariff reduction in NAMA are important. First, they should not be asked to undertake substantial tariff reduction so as to retain policy flexibility. Secondly, developed countries should reduce or eliminate their high tariffs on exports from developing countries. Article XXVIII *bis* of the General Agreement on Tariffs and Trade supports this assertion of developing countries. The Article states that negotiations on industrial tariffs will take into account the special and developmental needs of developing countries. This basic principle is also strongly encapsulated in Paragraph 16 of the 'Doha Declaration' to which the present round of negotiations owes its origin and sustenance.

One region that very aptly captures both the issues under tariff reduction is South Asia.¹ The tariff profiles of South Asian countries – except Nepal and Sri Lanka to some extent – are characterised by very high bound tariff rates and low binding coverage. Any drastic reduction in these tariff rates would impose harsh adjustment costs and not augur well for the developmental imperatives of these countries. Similarly, South Asian exports face a host of tariff barriers in the form of tariff escalation and tariff peaks in developed countries. Tariff escalation, as a tariff measure in developed countries, does not allow developing countries to graduate from exporting raw materials to processed and finished goods. For instance, according to an Oxfam study, the European Commission imposes tariffs of less than 4 percent on Indian yarns. However, this tariff rate escalates to 12 percent if the yarn is woven into garments. These stringent tariff measures have not allowed South Asian countries to generate adequate resources and hence effectively use trade to foster development. For instance, there are studies to show that if Bangladesh gets duty free and quota free access to the markets of Quad countries (US, EU, Canada and Japan), its export revenue would increase by 45 percent. Hence, any tariff reduction modality should take care of both the flexibility in tariff reduction and measures to improve market access for South

Asian countries.

Not all South Asian countries would be required to undertake tariff reduction in the ongoing trade round. Bangladesh, the Maldives and Nepal are exempted from undertaking tariff reduction due to their LDC status. Sri Lanka may also be exempted if the present proposal of exempting countries from undertaking tariff reduction, which have less than 35 percent of binding coverage, is accepted. For non-agricultural goods, Sri Lanka has a tariff binding coverage of 28.3 percent. Therefore, in South, Asia only India and Pakistan are required to undertake tariff reduction.

This brings us to the issue of how tariff reduction needs to be undertaken. The July Package of 2004 stated that negotiations on tariff reduction would focus on a non-linear formula on a line-by-line basis. Hence, the options for developing countries have narrowed. They have to accept a non-linear formula for undertaking line-by-line tariff reduction. Two types of non-linear formula are on the negotiating table. One is the Swiss formula and the other is the modified Swiss formula, which has different versions.² The simplest modified Swiss formula is referred as the Girard formula.³ The Caribbean group of countries has recently proposed another version of the modified Swiss formula.⁴

All these formulae could lead to steep tariff reductions depending on the value of the coefficient 'B'. It is the value of 'B', in each of these formulae that will decide the quantum of cut. The smaller the value of B, the steeper would be the reduction. However, on a relative scale, the Swiss formula will lead to a much steeper reduction as compared to the Girard formula or the Caribbean formula and hence is not appropriate for countries such as India and Pakistan that have high tariff rates.

On the other hand, the Girard formula is milder compared to the Swiss formula because it uses the average tariff rate of a country as one of the coefficients in the formula while undertaking tariff reduction. The average tariff rate of a country is a fair indicator of a country's tariff profile. Its

use in the tariff cutting exercise will ensure a balanced outcome for all the countries.

In April 2005, India – along with Brazil and Argentina – proposed the Girard formula for tariff reduction (also called the ABI proposal), which – contrary to expectations – drew flak from all developed countries, as these countries favour the Swiss formula. A bigger blow to the ABI proposal came from some developing countries themselves, viz., China, the Philippines and other countries from the Asia-Pacific region. These countries are against the Girard formula because it allegedly favours countries with higher average tariff rates like India and Pakistan more than other developing countries that have low average tariff rates. Many developing countries like China or the Latin American countries have low average tariff rates.

The ABI proposal got a shot in the arm when the Caribbean countries made a new proposal on the lines of the ABI proposal, just before the Dalian (in China) mini-ministerial meeting in July 2005. According to this proposal, a tariff reduction exercise should not only take into account the average tariff rate of countries, as warranted by the ABI proposal, but also other factors such as the dependence on tariff revenue, need for wider policy space, a country's adjustment costs. Hence, the Caribbean proposal is 'ABI plus'. It is better than the ABI proposal, as it takes into account a host of development related factors. However, looking at the opposition targeted at the ABI proposal, it is highly unlikely that the Caribbean formula will succeed.

At Dalian, Pakistan made a new proposal where it proposed the Swiss formula with different values of 'B' for developed and developing countries on the basis of their average tariff rates. It has proposed 'B' = 6 for developed countries and 'B' = 30 for developing countries. This proposal is not appropriate, as it advocates a simple Swiss formula, which would lead to steep tariff reductions.

From the perspective of developing countries – including those from South Asia – a modified Swiss for-

mula is suitable. The Dalian mini-ministerial had seen a shift away from the Swiss formula. The Co-Chair of that meeting, in his report, opined that there were signs of convergence on a Swiss formula with a couple of coefficients for undertaking tariff reduction. This is clear pointer to a modified Swiss formula on the lines of the ABI and the Caribbean proposal. Hence, any attempt to revive the Swiss formula in the coming months should be strongly resisted.

However, it is important for India and countries from the Caribbean region to be more specific by providing numbers to their proposed formulae. The argument that a structure should be decided first and only then countries will reveal their 'numbers card' is untenable. As we have seen before, how steeply a tariff reduction formula will cut tariff rates depends on values of the coefficients such as the value of 'B'. A lower value of 'B' in the Girard formula can even lead to steeper cuts than the Swiss formula with a higher value of 'B'. Hence, structure alone will not help. Countries should provide more specific proposals in the future in order to attract greater support for their proposals. ■

(Mr Ranjan is Research Officer at Centre for Trade and Development – an Oxfam GB Initiative – in New Delhi)

NOTES

¹ For this article only, South Asia refers to the WTO members from the region, viz., Bangladesh, India, the Maldives, Nepal, Pakistan and Sri Lanka.

² Swiss formula is given as:

$$T1 = B * T0 / B + T0$$

where, T1 is the final tariff rate, T0 is the initial tariff rate and "B" is a coefficient.

³ Girard formula is given as:

$$T1 = B * T2 * T0 / B * T2 + T0$$

where, T1 is the final tariff rate, T0 is the initial tariff rate; T2 is the average tariff rate, B is a coefficient.

⁴ Modified Swiss formula is given as:

$$T1 = (B + C) * T2 * T0 / (B + C) * T2 + T0$$

where, T1 is the final tariff rate, T0 is the initial tariff rate, T2 is the average tariff rate, B is a coefficient, C is the credit to be accorded to developing countries.

Frenchman Pascal Lamy was appointed the fifth Director General (DG) of the World Trade Organisation (WTO) at a 26 May meeting of the organisation's General Council and will assume his post from September 1. He was able to enlist the support of almost four-fifths of the WTO's 148 member delegations.

During his tenure as European Union (EU) Trade Commissioner from 1999 to 2004, Lamy was known for his advocacy to bring the 'Singapore issues' (competition, transparency in government procurement, investment and trade facilitation) into the WTO's ambit. He also sympathised with least developed countries (LDCs) and proposed that they be given a "round for free", i.e., that they should not be asked to make any additional commitments in the Doha Round. Ironically, he firmly stood behind the EU farm subsidies and protectionist policies, turning a blind eye to their detrimental effects on developing countries.

The WTO DG designate has declared that his chief priority would be to complete the ongoing Doha Development Agenda (DDA) to ensure that trade openness continues to contribute to development and that the interests of developing countries are placed at the centre of the world trading system. However, the WTO's rhetoric and ambitious deadlines are hardly a novelty. Despite Lamy's claim, the task of facilitating agreements at the Sixth WTO Ministerial Conference in December 2005 and propelling the Doha Round to a successful close will be gargantuan challenges. Issues within the DDA include agriculture, non-agricultural market access, trade facilitation, services and 'development dimension'. Negotiations on the DDA were initially set to conclude by 1 January 2005. However, given the current impasse, ministers have now postponed the deadline to 31 December 2006.

The expectations of the majority of WTO members were raised after the 'Doha Declaration', which focused on developing country issues and

Challenges for WTO DG



Dikshya Thapa

concerns. It had brought a new perspective and a much needed boost to the liberalisation agenda. However, these expectations are being crushed given the actions of developed countries henceforth.

Negotiations are tenous because of the disparate views of members with consensus requiring affirmation from all member governments. Developing countries are handicapped due to lack of financial and technical resources. Hence, issues such as trade and technology transfer, special and differential treatment and dispute settlement need to be addressed to ensure their increased participation in international trade.

Agricultural liberalisation, in particular, holds paramount significance for a large majority of developing economies primarily dependent on it for their livelihood. Its liberalisation has hardly benefited poorer countries, which have experienced import surges and declines in exports. This is owed mostly to protection in developed countries and falling prices of agricultural goods globally. Developing countries also cannot afford the domestic support and export subsidies allowed by the Agreement on Agriculture. As a result, most are unable to reap the benefits from the multilateral system.

In addition to the Doha Round, the new WTO DG will be preoccupied with emerging disputes, which might have an impact on the ongoing negotiations. A concern that needs immediate attention is the effects of China's surging textile exports following the expiry of the Agreement on Textiles and Clothing, creating trade tensions between China and the United States (US). Another issue is the ongoing dispute between the US and the EU over billions of dollars worth of subsidies to their respective large civilian aircraft manufacturers. These cases, involving the interests of some of the largest economies, could undermine the ongoing Doha negotiations.

Under these circumstances, it remains to be seen if the new DG will live up to his pledge of focusing on developing country concerns as well as accommodating the interests of all WTO members. This requires accommodation of other crucial components of the DDA such as trade-related aspects of intellectual property rights, trade and investment; trade; debt and finance.

The Hong Kong Ministerial will be the first test as to whether the new WTO DG will bring forth corrective measures sought through the Doha Round and make the multilateral trading system work for all its members. ■

(Ms Thapa was Programme Associate at SAWTEE)

'July approximations' unmet

The failure to meet the 'first approximations' by July puts the onus on WTO members to intensify negotiations in order to prevent multilateral trade talks from collapsing.

Shyamal Krishna Shrestha

The 'July Package' (JP), agreed upon by World Trade Organisation (WTO) members in 2004, rescued the stalled multilateral trade talks following the collapse of the Fifth Ministerial at Cancún in 2003. JP set July 2005 as the date for reaching broad consensus on agriculture, non-agricultural market access (NAMA), services, trade facilitation and 'development dimension'.

Since the past 12 months, members have reaffirmed their commitment to the multilateral trading system but have remained short of actually reaching a deal in any area. It comes as no surprise that the WTO General Council (GC) meeting held in Geneva from 28-30 July failed to arrive at 'first approximations', putting the talks in immediate danger but providing a breathing space for members to chalk out deals by the Hong Kong Ministerial in December 2005. The WTO Director General Dr Supachai Panitchpakdi summed up the situation in the negotiations on the Doha work programme as "disappointing but not disastrous". The Chairs of the negotiating groups could not present 'first approximations' but only reported the progress made so far.

The GC meeting was held after a fortnight following the 'mini ministerial' held at Dalian, China from 12-13 July, where 30 trade ministers gathered to discuss issues under the Doha Round. Previous 'mini ministerials' in Nairobi in February and in Paris in May ended without any breakthrough. Declarations and proposals issued by least developed countries (LDCs), Group of 33 (G33) and Asia Pacific Economic Cooperation (APEC) also reveal the deep chasm that exists among members.

The Paris 'mini ministerial' managed to reach a compromise on converting duties to *ad valorem* equivalents

but other issues remain unresolved in the agricultural negotiations, especially on the market access provision of the Agreement on Agriculture. The so-called 'middle ground' proposal of the Group of 20 (G20) has been used as the starting point for negotiations since Dalian. This proposal calls for a banded approach to tariff reductions with four bands for developing countries and five for developed countries. Furthermore, each band would be subjected to a linear tariff reduction approach with overall caps on high tariffs differentiated between developed and developing countries. The United States opposed this proposal by proposing a more ambitious formula. Meanwhile, countries are not showing any signs of compromising from their respective positions.

Talks on NAMA reached an impasse after members still remained divided over the industrial tariff reduction formula and also on the treatment of unbound tariffs. Negotiation sessions in June had witnessed support for the Swiss formula, particularly among the trade ministers of developed countries and groups like APEC. Higher tariffs imply higher cuts under a simple Swiss formula. Developing countries like Argentina, Brazil and India; which had earlier proposed the Girard formula, remain convinced that the Swiss formula does not reflect the principle of 'less than full reciprocity' in reduction commitments. They would have to make the steepest cuts arising from their higher industrial tariffs than developed countries. However, after Dalian, there was greater possibility about further exploration of the Swiss formula with various coefficients that would accommodate specific concerns of members. Trade ministers in Dalian also agreed that all tariffs should be bound. Progress on NAMA

is closely linked to progress on the agricultural negotiations as statements by countries like France that both agricultural and industrial tariffs are interlinked, attest.

Although more than 40 new market opening offers – basically revised versions of earlier offers following bilateral negotiations – were submitted between May and June, members remain divided over services negotiations. Therefore, the present request-offer process has not yielded a balanced and substantive outcome. Developed countries and certain newly industrialised countries seek the opening of sectors such as telecommunications, financial markets and information technology while a key issue for some developing countries is lack of progress on Mode 4 (temporary movement of natural persons).

The WTO's mandate that puts 'development dimension' at the heart of the negotiations is limited to some special and differential treatment provisions. Selected participation in various 'mini ministerials' reveals exclusion and lack of transparency in the working of the WTO, inviting criticisms from many developing countries. Without the realisation of 'first approximations', the onus now lies on members to work intensively in the next few months for successfully concluding of the Hong Kong Ministerial. ■

NOTES

This is a slightly modified version of the 'article in lead' published in the July-August 2005 e-newsletter under Progressive Regional Action and Cooperation on Trade Phase III of SAWTEE. The article is drawn from articles provided by International Centre for Trade and Sustainable Development (www.ictsd.org) and Third World Network (www.twinside.org.sg), both based in Geneva.

TRIPS AND PUBLIC HEALTH

Concerns of Developing and Least Developed Countries

Poor people's access to medicines hinges upon the outcomes of the global negotiations dealing with pharmaceutical product patents.

Kamalesh Adhikari

Prior to the establishment of the World Trade Organisation (WTO), multilateral trade used to be governed by the General Agreement on Tariffs and Trade (GATT). Founded in 1948, the GATT's mandate was to merely deal with trade in goods. After the Uruguay Round (UR) of multilateral trade negotiations established the WTO in January 1995 by replacing the GATT, the multilateral trade framework extended beyond trade in goods.

As a rules-based multilateral trade body, the WTO also deals with trade in services and intellectual property rights (IPRs). Its remit expands from cross-border transactions to areas – such as public health, food security and employment – which crucially affect domestic development policies. Among these, in recent years, the global patent rules – as enshrined in the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) – have generated much controversy. The North-South divergence is apparent – particularly in relation to access to medicines – during WTO negotiations and the debate continues on how to balance the interests of both.

The Southern countries perceive that the patent rules are set to further restrict poor people's access to vital life-saving drugs by allowing companies to create a monopoly and charge high prices whereas the Northern countries argue that the

strengthening of IPRs is essential for encouraging companies to invest more in research and development and find solutions to global health problems by producing new or more effective drugs.

TRIPS and Patent

TRIPS is the binding and most comprehensive multilateral agreement on IPR. It sets out minimum standards of protection for each category of IPRs, including patents. The implementation of TRIPS is subject to the "requirements" of the agreement and the "commitments" the members have made (during their accession to the WTO). The Agreement re-

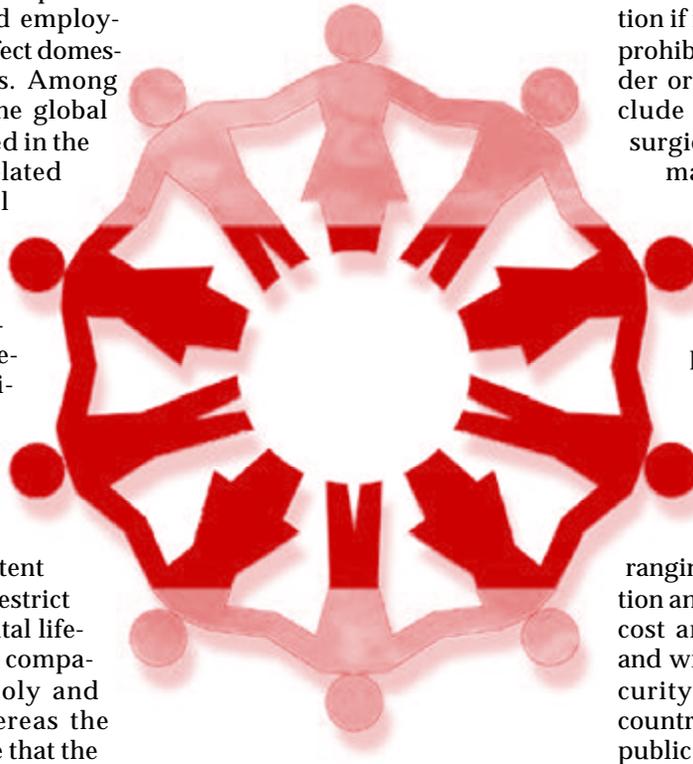
quires member governments to harmonise their national IPR system with global rules.

WTO members have to provide patent protection for any invention, whether it is a product (such as a medicine) or a process (such as a method of producing the chemical ingredients for a medicine). Such a patent protection must be available for inventions for at least 20 years.

TRIPS has set three criteria to qualify for a patent – an invention has to be new (novelty), it must be an inventive step (non-obviousness), and it must have industrial applicability (useful). The Agreement, however, states that governments can refuse to issue a patent for an invention if its commercial exploitation is prohibited for reasons of public order or morality. They can also exclude diagnostic, therapeutic and surgical methods, plants and animals (other than microorganisms), and essentially biological processes for the production of plants or animals (other than non-biological and microbiological processes).

TRIPS and Public Health Concerns

Developing and least developed countries face critical public health problems ranging from "production, distribution and market" to "access, quality, cost and affordability". Persistent and widespread poverty, food insecurity and vulnerability in these countries put further pressures on public health. In addition, the TRIPS



Agreement is likely to bring further challenges with severe implications on public health, mainly in relation to access to medicines at cheaper and affordable prices. It is, therefore, important that developing and least developed members understand how TRIPS relates to public health, how the agreement could affect the public health situation in their countries, and what flexibilities the agreement provide them to address public health concerns.

Initiatives at the WTO Level

Some initiatives have been taken at the WTO level to address the concerns of poor countries. In the main Doha Declaration (adopted at the fourth WTO Ministerial in Doha in 2001), WTO member governments stressed that it is important to implement and interpret TRIPS in a way that supports public health, by promoting both access to existing medicines and the creation of new medicines. They, therefore, also adopted a separate Declaration on TRIPS and Public Health and agreed that TRIPS does not and should not prevent members from taking measures to protect public health. They underscored countries' ability to use the flexibilities that are built into TRIPS, including "compulsory licensing" and "parallel importing". They also agreed to extend exemptions on pharmaceutical product patent protection for LDCs until 2016.

On the issue of providing flexibility to countries that are unable to produce copies of patented drugs domestically, members, in Paragraph 6 of the Declaration, assigned further work to the TRIPS Council to sort out how to provide extra flexibility to such countries.

Article 31(f) of TRIPS says products made under compulsory licensing must be "predominantly for the supply of the domestic market". This applies to countries that can manufacture drugs. It limits the amount they can export when the drug is made under compulsory licence. And it has an impact on countries unable to make medicines and therefore wanting to import generics. They

would find it difficult to find countries that can supply them with drugs made under compulsory licensing.

This problem was resolved on 30 August 2003 through a "Decision on the Implementation of Paragraph 6". WTO members agreed on legal changes to make it easier for countries to import cheaper generics made under compulsory licensing if they are unable to manufacture the medicines themselves. The decision waives exporting countries' obligations under Article 31(f) – any member country can export generic phar-

It is important that developing and least developed members understand how TRIPS relates to public health, how the agreement could affect the public health situation in their countries, and what flexibilities the agreement provide them to address public health concerns.

maceutical products made under compulsory licences to meet the needs of importing countries, provided certain conditions are met. The waiver is interim, the ultimate goal was to amend TRIPS itself within the first half of 2004. However, this deadline has been missed.

In this regard, the LDCs have demanded that there is a need to urgently amend TRIPS to incorporate the "30th August 2003 Decision on the Implementation of Paragraph 6 of the Declaration of TRIPS and Public Health" as a permanent solution to the problems of countries with insufficient or no manufacturing capacity.

Patents, Drug Prices and Access

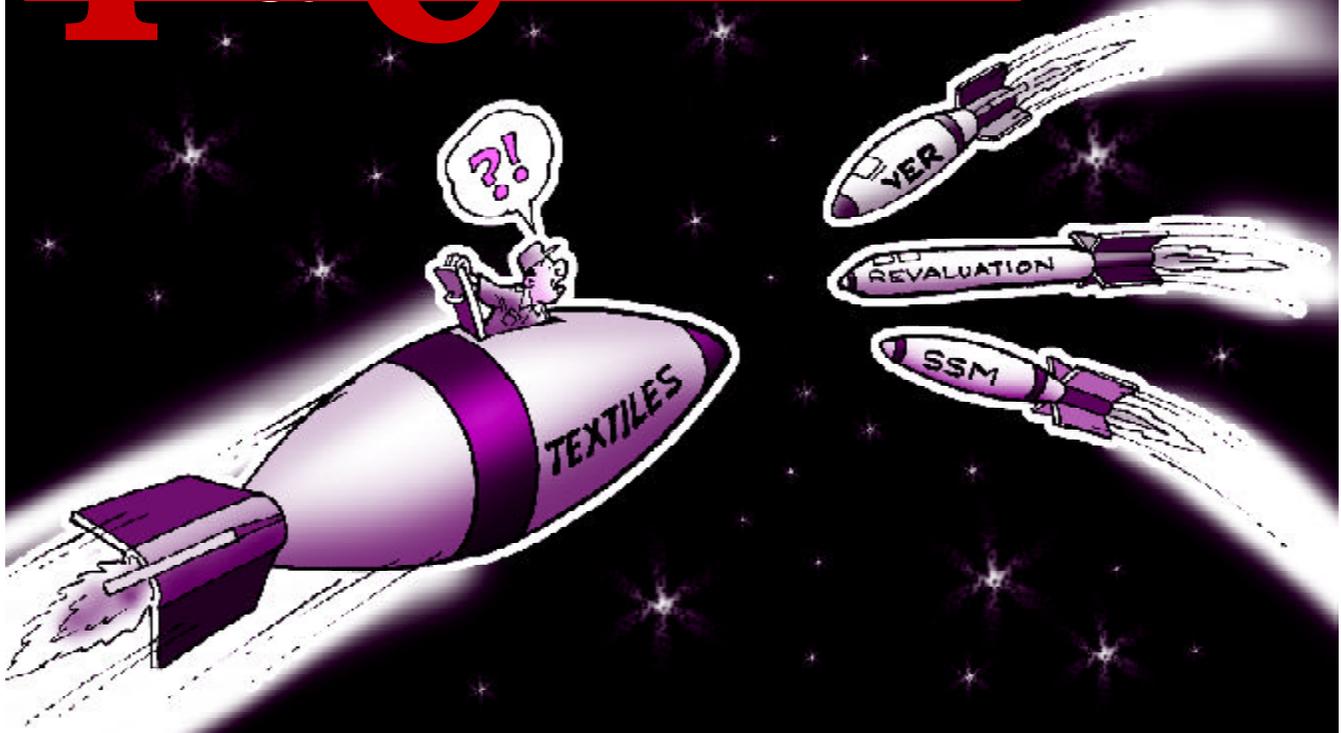
There is a growing concern in the Southern world that the monopoly

created by patents on pharmaceutical products would increase drug prices and thus would lead to public health crisis in the developing and least developed countries. However, many others opine that since over 90 percent of the drugs on the World Health Organisation's (WHO) "essential drugs list" are off-patent, it would not be wise to conclude that the patenting of pharmaceutical products under TRIPS would result in an increase in the price of all medicines and would negatively affect the public health situation in the developing and least developed countries. But countries that are demanding for fair treatment of IPRs in the field of public health are not convinced with these arguments for the following reasons.

First, there is a greater chance of an increment in the price of the remaining 10 percent of pharmaceutical products, which are not in the essential drugs list. Secondly, while drug prices for the new and existing (known) diseases such as HIV/AIDS are already higher, there is every possibility that the drug prices for the new and emerging (unknown) diseases will be high due to patents. Thirdly, even in the case of 90 percent of drugs under the essential drugs list, there can be an increase in price if more effective and improved drugs enter the market replacing the drugs under the essential drugs list.

Therefore, the global negotiations dealing with pharmaceutical product patents and public health at the WTO hold importance for developing and least developed countries. The negotiations should focus on ensuring cheaper and affordable access to medicines and must enable these countries to capitalise on TRIPS' flexibilities. While enacting intellectual property laws at the domestic level, as required by TRIPS, these countries need to make maximum use of TRIPS' flexibilities (such as compulsory license and parallel import). However, it remains to be seen whether or not future negotiations would provide countries with "more flexibilities" to protect public health. ■

Trade wars in T & C sector



Shyamal Krishna Shrestha

Trade disputes have surfaced since the abolition of the Agreement on Textiles and Clothing (ATC) on 31 December 2004. The stakes in the US\$ 400 billion global textiles and clothing (T&C) industry are high due to vested interests of China, the European Union (EU) and the United States (US) – representing the major suppliers and buyers. As far as many developing countries and least developed countries (LDCs) are concerned, it is evident that country competitiveness matters in a liberalised trade regime, as much as a level playing field.

The Multi-Fiber Arrangement (MFA) – constituted in 1974 – enabled developing country exporters to acquire a foothold in the European and US markets. The T&C sector compris-

es a major share in the manufacturing sectors in many low-income nations, where it emerged as a vital source of export led-growth. When the World Trade Organisation (WTO) was formed in 1995, the ATC sought to free the T&C sector from quotas beginning 1 January 2005.

In the wake of the ATC expiry, competition has intensified with ramifications for international trade. While upgrading is vital for producers to remain competitive, trade policies have also put increasing competitive pressures on producers everywhere. Some developing countries from the Caribbean Basin and Sub-Saharan Africa have been able to maintain their competitiveness due to preferential (duty-free) access to the US market while least developed country (LDC) producers in Asia and

the Pacific region have been unable to do so.

The Chinese onslaught

With a total share of 25 percent of T&C exports in 2004, China's strong performance in the months after the ATC elapsed has caused frictions with the EU and the US. Verbal exchanges spanned for several weeks before the US imposed 'safeguard' quotas on seven categories of Chinese textiles. An eleventh hour agreement on 11 June imposed voluntary export restraints on Chinese T&C products to the EU before the latter erected its own trade barriers.

US Commerce Department statistics released on 1 April showed that Chinese T&C imports into the country were 63 percent higher in the first quarter of 2005 compared to 2004. As

a response, the US Committee for the Implementation of Textile Agreements – an interagency US government group chaired by the Department of Commerce – announced on 13 May the initiation of ‘safeguard proceedings’ to determine whether certain Chinese T&C imports were disrupting the domestic market; as they increased by approximately 1,240 percent, 1,500 percent and 300 percent for three categories, viz., cotton T-shirts and blouses, cotton trousers and cotton underwear, respectively. In the EU, imports of Chinese pull-overs and men’s trousers rose by more than five times whereas imports of T-shirts and blouses nearly doubled although prices fell by as much as a quarter. The EU reacted sharply to rising Chinese T&C import levels, constituting 20 percent of its market by announcing ‘an early warning system’. This provision allows Chinese imports of particular products to increase by 10 – 100 percent before triggering investigations to determine their impact in terms of trade flows and possible injury to the EU industry. China vehemently opposed these moves by the US and the EU, terming them unfounded and a protectionist garb to deter Chinese export performance that would undermine its own belief in free trade.

The EU and US repulse

The EU and the US have the discretion to impose quotas to offset further rise of China’s T&C imports, according to ‘Textile Safeguards Provision’ included in China’s Protocol of Accession to the WTO. As a conciliatory move, China announced on 20 May that it would raise export tariffs by as much as 400 percent on 74 types of textile products (but covering only one-fifth of Chinese apparel exports) beginning 1 June but later revoked the step when the EU and the US decided to proceed with restrictions. The EU gave China until 11 June to check its export surge, failing which it would follow the US in imposing quotas. However, an eleventh hour agreement in Beijing between EU Trade Commissioner Peter Mandelson and Chinese Commerce Minister Bo Xilai on 10 June,

resulted in a settlement. The deal limits 10 categories of Chinese T&C exports to the EU to between 8 - 12.5 percent growth above a specified base period until 2008. The EU eventually dropped its intention to impose import restrictions against Chinese textiles.

Meanwhile, the target of US criticism is not only against Chinese T&C exports *per se* but also at China’s exchange controls, which it accuses of being used solely to the benefit of Chinese exporters. China’s currency – the yuan – has been pegged to the US dollar at an exchange rate of 8.28 to one since 1995. The Chinese economy has witnessed rapid economic growth, accumulation of huge foreign exchange reserves, large foreign direct investment inflows and balance of payments surplus. At the same time, the US dollar has depreciated in world markets, which has also led to depreciation of the yuan. An upward revision of China’s exchange regime had thus been long overdue. A manifestation of its undervalued exchange rate is that it distorts prices and gives an artificial advantage to national exporters at the cost of exporters in the rest of the world. The US further estimated that the yuan has been undervalued by 27.5 percent; a bill was introduced in the US Congress on 27 May, threatening to impose a 27.5 percent tariff on all Chinese imports to the US should China fail to change its monetary policy by November 2005. China acknowledged the need for exchange rate reform but has categorially stated that any decision to intervene in its foreign exchange markets would not be made under external pressure. In the first week of July, China revalued its currency by 2.1 percent and also pegged it to a basket of currencies instead of the US dollar. Nevertheless, US quotas on Chinese imports remain effective.

Casualty: Free trade

The transition to the quota free regime in the T&C sector has been far from smooth. Instead, events proved that protectionism in various guises exists.

China’s failure to restrain its export surge runs contrary to its bind-

ing commitments when joining the WTO. Both the EU and the US can impose ‘safeguard measures’ to restrict the growth of Chinese T&C exports to 7.5 percent, renewable annually until 2008. The safeguard provision was primarily invoked to smooth the transition in the post ATC era for producers facing the ‘new competition’. This is understandable as China is a rapidly growing economy and already accounts for around a quarter of US T&C imports and one-fifth of EU T&C imports. Domestic textile lobbies, strong in both the EU and the US, would repel any Chinese action to dominate their markets. However, the proposed US legislation to tax all Chinese imports unless China revalues the yuan, is utterly meaningless since the product/s under dispute are only T&C and not other goods. The yuan’s under-valuation by 27.5 percent is subject to debate and its revaluation is best left for the Chinese authorities to decide. In the near future, both quotas and tariffs on Chinese T&C products would lead to a rise in their prices, making them expensive to consumers in the EU and the US. With Chinese products becoming expensive, buyers have the option of sourcing from other emerging low-cost and efficient suppliers. Meanwhile, the new deal between China and the EU requires monitoring to avoid trade disputes from resurfacing.

Although the expiry of ATC liberalises trade in the T&C sector, the current trade regime is characterised by preferential trade agreements such as the African Growth and Opportunity Act (AGOA) and Caribbean Basin Partnership Treaty Act (CBPTA). The US has yet to provide similar treatment to textile-dependent LDCs in Asia and the Pacific, which are facing the brunt of stiff competition through factory closures and lay-offs of workers. These countries could be well placed for growth if provided with duty free market access. Granting of similar preferences by the US to LDC T&C producers in Asia and the Pacific region has become urgent required to save millions from being the victims of unbridled liberalisation. ■

Food safety regulation concerns and trade: The developing country perspective

Several case studies provided in the book help to quench readers' thirst to learn of the implications of the food safety regulations on specific industries.

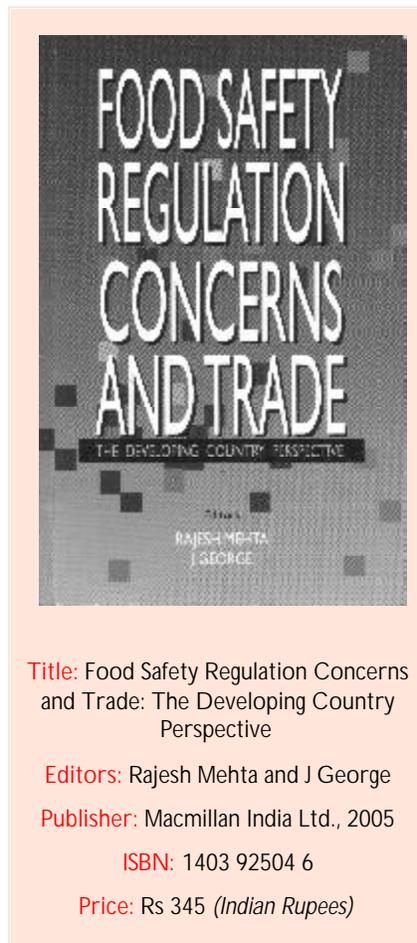
Bhaskar Sharma

International food safety regulations are emerging as a source of friction between developed and developing countries. These regulations have acted as non-tariff barriers (NTBs) for exports from developing countries as developed countries have used them with a protectionist intent. In particular, agricultural exports from developing countries are the most affected.

These are some of the issues the book *Food Safety Regulation Concerns and Trade: A Developing Country Perspective* – jointly edited by researchers Dr Rajesh Mehta and Dr J George, affiliated to Research and Information Systems for Developing Countries, New Delhi – attempts to address.

For anyone examining the problems faced by developing countries with regard to market access in developed countries, the one that would prominently feature would be the NTBs arising in the pretext of food safety. There are concerns that developed countries misuse the flexibility available under the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures by imposing standards higher than international norms through stringent regulations on the basis of very detailed environmental risk assessments. The 10 chapters deal with various facets of food safety regulation and sanitation issues as well as some country specific case studies.

The relevance of this book lies not just in its overall content, but



Title: Food Safety Regulation Concerns and Trade: The Developing Country Perspective

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also in the manner the chapters have been structured. Though a large part of the book is viewed in the Indian context, it also addresses relevant issues of concern and interest to all developing countries.

The reader is first introduced to the key issues relating to food safety from a global and local perspective. The introductory

chapter also provides an overview of the multilateral arrangements and India's national policy framework relating to food safety regulations.

Several case studies provided in the book help to quench readers' thirst to learn of the implications of the food safety regulations on specific industries. For example, chapter 8 on 'Response of Poultry Sector to SPS Measures' would certainly be an issue of interest to not just the industry-related reader, but also to others who want to enhance their understanding of the ramifications of food-related regulations.

Though the book tries to simplify technical issues, the shortcoming is that the book does not go far enough in this regard. For instance, the complex formulae used in some of the chapters demand further explanation and clarification for a better understanding.

Altogether, 13 authors have jointly and individually contributed to this book. The editors have jointly authored the first and the last chapters. The book is indispensable not just for someone who is aware of the food safety issues, but also to the wider development community. Last but not the least, the book's high standard is owed to its excellent editing. ■

(Mr Sharma, a Kathmandu-based freelancer, writes on trade and development issues)

Nepal's position for Livingstone and Hong Kong Meetings

SAWTEE and ActionAid International Nepal jointly organised the three-day national seminar titled 'Road to Hong Kong' from 16-18 June 2005 in Kathmandu. At the end of the seminar, government officials, civil society actors, academicians, lawyers, private sector representatives and journalists issued a 37-point resolution.

The resolution was adopted with a view to helping His Majesty's Government of Nepal prepare a national position for a Meeting of the Trade Ministers of 31 least developed countries (LDCs) held in Livingstone, Zambia from 25-26 June 2005 and its negotiation strategy for the Sixth Ministerial Conference of the World Trade Organisation (WTO) to be held in Hong Kong from 13-18 December 2005.

Expressing disappointment with the slow progress in negotiations on issues of utmost importance to the LDCs, the resolution calls for, among

others, the following initiatives:

- Various preferential facilities offered by the developed and developing countries to the LDCs should be bound at the WTO.
- Duty free and quota free access to LDC products should be provided in developed as well as developing countries and bound at the WTO.
- All the non-tariff barriers on export interest to the LDCs should be eliminated.
- The LDCs should be provided with unconditional and need-based technical assistance to enhance their competitiveness and address their supply-side constraints.
- Developed countries should allow free movement of natural persons from LDCs in all categories (skilled, semi-skilled and unskilled), without linking them with commercial presence no later than 2007.

Workshops on Farmers' Rights

AFTER the completion of the three year regional programme titled 'Securing Farmers' Rights to Livelihood in the Hindu-Kush Himalaya Region (FRP Phase I)' in 2004, SAWTEE together with its partners in Bangladesh, India, Nepal, Pakistan and Sri Lanka initiated the second phase of this programme (FRP Phase II) for another three year period. FRP Phase II seeks to protect farmers' rights, with its focus on mountain areas of five South Asian countries. The project addresses farmers' rights issues – access and benefit sharing, prior informed consent and farmers' active participation in the decision making process – in the context of globalisation and the World Trade Organisation (WTO) regime.

Under the project, SAWTEE's partners in India, Nepal, Pakistan and Sri Lanka – Consumer Unity & Trust Society, Kolkatta; Forum for Pro-

tection of Public Interest, Kathmandu; Sustainable Development Policy Institute, Islamabad; Law & Society Trust, Colombo – organised the Need Assessment Workshops on Farmers' Rights between May and August in their respective countries.

These workshops were organised to consult with the stakeholders, including farmers and their groups, government authorities, civil society groups, and experts, and discuss the intervention strategies that need to be designed for the successful implementation of the project at the national level in respective countries. A wide and in-depth discussion with the stakeholders ultimately helped SAWTEE and its partners to plan their future strategies for the implementation of the project. Besides, the workshops also helped to network with these stakeholders and build alliances with like-minded organisations. ■

- Developed countries should eliminate overly burdensome visa requirements and qualification schemes for the movement of natural persons.
- The transit rights of landlocked countries should be established on a multilateral basis.
- The process of reconciliation of Convention on Biological Diversity and Trade Related Aspects of Intellectual Property Rights should be expedited.

The resolution also calls for addressing the special needs of the LDCs, in particular the landlocked LDCs, for their effective and meaningful integration into the multilateral trading system. ■

MDGs and trade

SAWTEE and ActionAid International Nepal organised the Seventeenth Forum on Globalisation and WTO on 25 August 2005 on 'The Role of Trade in Achieving MDGs' in Kathmandu.

The participants in the forum stressed the importance of an open, rules-based, predictable, non-discriminatory trading and financial system in helping poor countries achieve the Millennium Development Goals (MDGs). Since Goal 8 (Develop a Global Partnership for Development) provides a room for partnership between the developed and developing countries, the participants opined that the developed countries should fulfill their commitments they have pledged under Goal 8.

The participants viewed that trade can hardly contribute to poverty reduction without backward linkages. The participants also stressed that international trade policies should not adversely affect the poor in developing and least developed countries.

The forum was organised ahead of the United Nations Summit to be held from 14-16 September in New York. ■

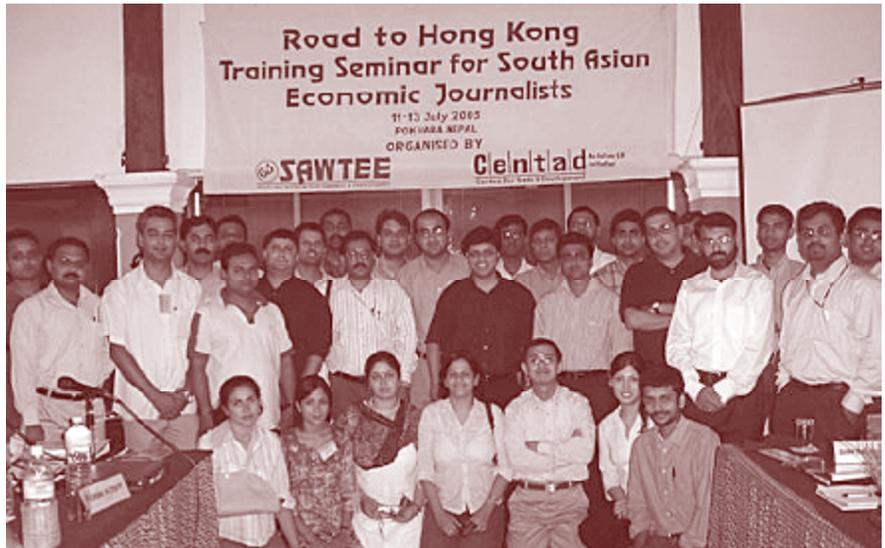
South Asian Centre of Economic Journalists formed

SAWTEE and Centre for Trade and Development (CENTAD) – an Oxfam GB Initiative – New Delhi jointly organised the three-day regional training seminar for South Asian journalists titled ‘Road to Hong Kong’ from 11-13 July 2005 in Pokhara, Nepal. The seminar culminated in the formation of South Asian Centre of Economic Journalists (SACEJ). SACEJ is a loose network that aims to establish linkages between economic journalists in the region.

Mr Shafqat Munir, a senior journalist from Pakistan, is the Convenor of the network while journalists from Bangladesh, India, Nepal and Sri Lanka are its members.

The objectives of the training seminar were two-fold:

- To take stock of issues in the context of the Sixth World Trade Organisation (WTO) Ministerial to be held in Hong Kong from 13-18 December 2005.
- To orient and build the capacity of economic journalists in the region in the context of understanding issues under the ambit of the WTO and encourage them to help



mainstream public interest dimensions in the trade negotiating process.

The training were provided on issues such as introduction to the multilateral trading system; agriculture; non-agricultural market access; services; standards; trade facilitation; intellectual property rights; trade and development; and dispute settlement.

The South Asian trade experts

made presentations on these issues to enable the media persons understand their implications on the South Asian economies. The seminar was instrumental in creating greater awareness among the participants on the need to put development at the heart of trade negotiations.

Forty participants – including 32 economic journalists hailing from Bangladesh, India, Nepal, Pakistan and Sri Lanka – participated. ■

Economic Cooperation in South Asia

CONSUMER Unity & Trust Centre, Centre for International Trade, Economics & Environment (CUTS-CITEE), Jaipur, in association with Friedrich Ebert Stiftung (FES), New Delhi, organised a regional seminar on ‘Economic Cooperation in South Asia’ in Colombo from 7-9 May 2005. The main objectives of the seminar were:

- To facilitate cross-fertilisation of experiences and lessons

learnt on economic cooperation (especially on trade and investment issues) among South Asian countries in order to develop appropriate policy responses.

- To discuss South Asia’s position on global economic issues, its relations with other regional groupings and response to global developments.
- To identify initiatives that could be taken to enhance economic

cooperation among South Asian countries.

- To enhance understanding of the role that civil society can play for greater economic cooperation in South Asia.

Representatives from academia, businesses, governments, inter-governmental organisations, and civil society organisations of South Asian countries participated in the seminar. ■

Linking Civil Society with Trade Negotiations

UNDER the coordination of CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), Jaipur, national consultation meetings in various South Asian capitals during the second and third weeks of September 2005 are being organised. The meetings are being held under 'WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations' project, being implemented in five South Asian countries. The period of the project is 15 months starting on 1 January 2005 and completing on 31 March 2006.

The first consultation meeting will be held on 12 September in Islamabad, in collaboration with Pakistan Institute of Development Economics; the second on 15

September in Dhaka, in collaboration with Bangladesh Institute of Development Studies; the third on 17 September in New Delhi; the fourth on 19 September in Kathmandu, in collaboration with SAWTEE; and the fifth on 22 September in Colombo, in collaboration with Institute of Policy Studies. These consultation meetings are a part of Multi-stakeholder Consultation Process of the project, which would help in taking inputs from various stakeholders on issues being negotiated at the WTO.

During consultations, researchers from Bangladesh, India, Nepal, Pakistan and Sri Lanka will present their papers on agriculture, non-agricultural market access,

services, trade facilitation and 'development dimension'. These issues have been taken for further negotiations by July Package, adopted by WTO members in 2004. JP provides the basis on which the Doha Round of trade negotiations will progress. ■

LDC Civil Society Forum

CUTS-Africa Resource Centre organised the three-day workshop titled 'Pre-Hong Kong LDC Civil Society Consultative Forum,' in Livingstone, Zambia, from 23-25 June 2005. The workshop was organised in collaboration with Civil Society Trade Network of Zambia and Organisation Development and Community Management Trust.

The objective of the workshop was to identify the key trade and development issues of least developed countries (LDCs) in light of the LDC Trade Ministers' Meeting that was held in June 2005 and the Sixth World Trade Organisation Ministerial to be held in December 2005.

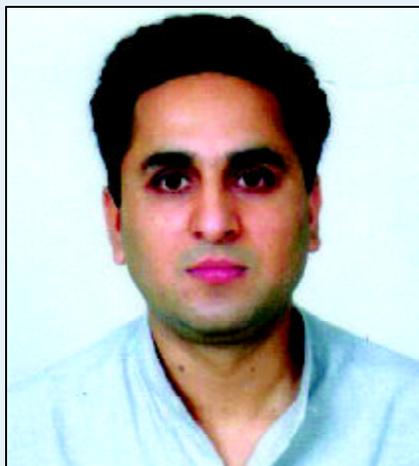
The Civil Society Consultative Forum called upon the WTO members to conclude negotiations under the July Package in a manner that benefits the LDCs. The Forum suggested the WTO members to be guided by global commitments to sustainable development and poverty reduction.

The Forum also urged the LDC Ministers to expediate national efforts for sustained growth and development, including attainment of the Millennium Development Goals. Calling upon the developed countries to further work under Goal 8 (Develop a Global Partnership for Development), the Forum asked them to address the special needs of the LDCs, including their debt problems. ■

Change in SAWTEE leadership



SAWTEE bid farewell to its Executive Director, Mr Ratnakar Adhikari (on left), who joined United Nations Development Programme Regional Centre in Colombo from 22 August 2005 as Programme Specialist. During his new job tenure, Mr Adhikari would be responsible for the project 'Industrial Diversification in Asian Least Development Countries in the post-Agreement on Textiles and Clothing era'. The project countries



are Bangladesh, Cambodia, Laos and Nepal.

Mr Adhikari was founder General Secretary and Executive Director of SAWTEE during 1999-2001 and 2003-2005.

Mr Navin Dahal, formerly Research Director of SAWTEE, assumed the post of Executive Director from 18 August. Mr Dahal has 12 years of work experience in private, public and development sectors. ■



Title: Farmers' Rights
Publisher: SAWTEE
Editor: Mr Ratnakar Adhikari
Associate Editor:
Mr Kamallesh Adhikari



Title: From Doha to Hong Kong:
Issues for South Asia
Publisher: SAWTEE
Authors: Mr Ratnakar Adhikari and
Mr Shyamal Krishna Shrestha

Farmers' Rights in the context of Globalisation and WTO

SAWTEE – in the capacity of Secretariat of Farmers' Rights Advocacy Network (FRANK) – has started publishing a four monthly newsletter titled "Farmers' Rights". The newsletter deals with issues concerning farmers in developing and least developed countries, South Asian countries in particular, in light of developments taking place in the globalisation and the World Trade Organisation (WTO) era.

The first issue of the newsletter was published in July 2005. The newsletter covers articles dealing with "interfacing breeders' rights with farmers' rights", "disclosure requirement", "access and benefit sharing" and "prior informed consent", particularly in the context of intellectual property right rules and biotechnology. SAWTEE's network institutions from Bangladesh, India, Nepal, Pakistan and Sri Lanka have contributed country case articles that focus on legal and policy frameworks to protect farmers' rights in respective countries.

FRANK was launched at Cancún in September 2003 during the Fifth Ministerial of the WTO. A group of international civil society organisations, namely SAWTEE, Gene Campaign, ActionAid International, and Consumers International sponsored the initiative at a panel discussion on "The TRIPS Review: A Roadmap for Protecting Farmers' Rights", which was organised on 11 September 2003. ■

From Doha to Hong Kong: Issues for South Asia

MULTILATERAL trade negotiations under Doha Development Agenda (DDA), which resumed after the collapse of the Fifth Ministerial of the World Trade Organisation (WTO) in Cancún in September 2003, culminated in the General Council meeting in July 2004 that adopted 'July Package' (JP). Subsequent meetings have met with little success as far as reaching agreements on various issues under DDA is concerned. JP has set end July 2005 as the deadline to arrive at 'first approximations', i.e., broad consensus on five issues: agriculture, non-agricultural market access, services, trade facilitation and development dimension. The success of the Sixth WTO Ministerial in Hong Kong to be held from 13-18 December 2005 depends on successful talks among members. Developing countries, including those in South Asia, have a high stake on the successful completion of the Ministerial.

This briefing paper analyses the issues being negotiated under JP and other issues under DDA with a view to identifying South Asian priorities for the Hong Kong Ministerial. It also deals with the concerns that these countries have in relation to further negotiations on such issues and suggests the governments to take a proactive and unified stance during future negotiations. ■

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.