

TRADE insight



Future
of the
DOHA
ROUND
Between
Cautious
Optimism
and
Negotiation
Realism

PUBLISHED BY

South Asia Watch on Trade,
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Trade liberalisation and 'development dimension'

AFTER the resumption of the Doha Round of trade negotiations, Members of the World Trade Organization (WTO) have started to meet to negotiate on different issues of the Round. However, key Members, mainly the United States (US) and the European Union (EU), are still away from showing flexibility to change their negotiating positions, particularly when there is a question of addressing the issue of 'development dimension'. Thus, there is a plausible reason to infer that a breakthrough is possible but conflicting interests will continue to make it complex. In this scenario, any success out of negotiations depends on 'flexibilities' that key Members would show and the kind of commitment they make to address the issue of 'development dimension'.

Already, a series of near breakdowns, deadlocks and then the suspension of multilateral negotiations have created enough frustrations. More than that WTO Members themselves have started showing little interest in multilateral liberalisation and are pursuing other routes, which is evident from their increasing inclination towards regional and bilateral trading arrangements.

South Asian countries are not an exception. In the recently concluded fourteenth Summit of the South Asian Association for Regional Cooperation (SAARC), they reemphasised the need to accelerate trade liberalisation through the Agreement on South Asian Free Trade Area (SAFTA), and most of them are also increasingly being engaged in negotiations with several countries, including the US and the EU, for bilateral free trade agreements.

Thus, it is obvious that South Asian countries are showing increased interest in moving ahead with other routes of trade liberalisation than merely awaiting for the proclaimed benefits of the successful conclusion of the Doha Round. But it is not that the regional and bilateral routes will automatically result in substantial trade liberalisation in South Asia, guarantying benefits to all. It is also not that these other routes of trade liberalisation are without any limitations, or say, there is no disagreement or conflicting interest.

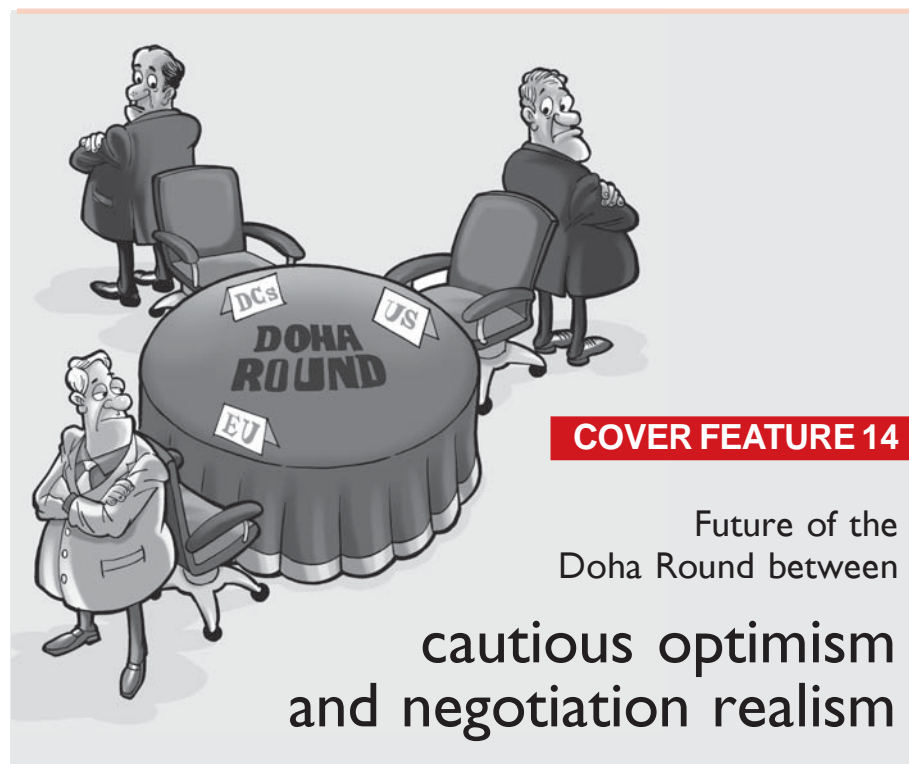
While a mere focus on the goods sector, disagreements between India and Pakistan and conflicting interests of seven countries on different issues such as sensitive list will continue to overshadow the potential of SAFTA, bilateral agreements too are marred with uncertainty and risks, particularly when such agreements are pursued with the developed countries. 'WTO-plus' commitments and more stringent rules in such agreements will hardly leave a room for South Asian countries to benefit. Instead, such commitments and rules will reduce the 'policy space' that they require to address their development needs.

Given the problems in the multilateral, regional and bilateral routes of trade liberalisation, the major concerns for South Asian countries are: How to engage with other WTO Members to ensure that the Doha Round delivers on its promises; how to ensure effective implementation of SAFTA and expand its scope; and how to strengthen the negotiation capacity of their trade negotiators to avoid any development-unfriendly conditions in bilateral trade agreements.

Trade liberalisation and the issue of 'development dimension' have, in fact, never been as important as they are now. Therefore, the outcome of any trade deals, whether at the multilateral, regional or bilateral level, must be 'development-friendly' and 'friendly to developing countries'. It is where developed countries have a major role to play and it is also an issue clearly recognised in the Doha Development Agenda as 'development dimension'. ■

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Fourteenth SAARC Summit concludes

THE fourteenth Summit of the South Asian Association for Regional Cooperation (SAARC) took place in New Delhi, India during 3-4 April 2007. This Summit did not only come up with a consensus document on major issues concerning regional cooperation and development of the region but also drew unprecedented attention of the world community due to other important developments. The Summit inducted Afghanistan as SAARC's eighth Member and welcomed the United States (US), the European Union (EU), China, Japan and South Korea as observing nations. Also, Iran's request for an observer status was reviewed on a positive note.

The issues discussed during the Summit ranged from trade to terrorism with 'connectivity' being the main theme of the Summit. The Heads of State or Government attending the Summit recognised the importance of regional connectivity and agreed to improve intra-regional connectivity, particularly



physical, economic and people-to-people. The SAARC Car Rally, in the run-up to the Summit, was also based on the same theme.

In addition, the Heads of State or Government unanimously endorsed the homegrown best practices and innovative solutions to transform the lives of peoples in South Asia. They decided to mark one rural community as a SAARC Village in each Member country to showcase the innovative models of development and further replicate them across the region.

The SAARC Development Fund (SDF) is considered to be an important initiative. The Heads of State or Government have directed that the SDF be made operational at the earliest

and also agreed that the resources for SDF would be mobilised both from within and outside the region.

Regarding the Agreement on South Asian Free Trade Area (SAFTA), the need for ensuring effective market access through a smooth implementation of the trade liberalisation programme was stressed.

The Heads of State or Government also reiterated their commitment to the multilateral trading system and directed their respective Commerce Ministers to ensure that the role of 'development dimension' takes centre stage in all negotiations.

The Heads of State or Government also decided to establish the South Asian University in India. An Intergovernmental Agreement establishing the University was signed at the Summit.

Regarding the inclusion of the US, the EU, China, Japan and South Korea as observers, SAARC Member States noted that such linkage would help in deepening economic cooperation among them. ■



Trade related major decisions

Multilateral trading system

The Heads of State or Government reaffirmed their commitment to the rules-based multilateral trading system. They recalled that the Doha Round was premised on the centrality of development. They directed their Commerce Ministers to work closely to coordinate their positions to ensure that the centrality of the 'development dimension' in all areas of negotiations for creating new opportunities for developing countries is fully realised. In addition, they called upon all World Trade Organization (WTO) Members to show commitment for a successful conclusion of the Doha Round.

Regional trade agreement

The Heads of State or Government stressed the need for ensuring effective market access through smooth implementation of trade liberalisation programme under SAFTA. They directed the SAFTA bodies to review the progress on a regular basis. Realising the existing problems, they emphasised that SAFTA should be implemented in letter and spirit. They stressed that to realise its full potential, SAFTA should integrate trade in services. They called for a finalisation of an Agreement in the services sector at the earliest. They also directed that the Agreement on Investment Promotion and Protection be finalised.

Trade facilitation

The Heads of State or Government directed that a comprehensive agreement on harmonising customs procedures be finalised. They appreciated the establishment of the SAARC Standards Coordination Board that would function as a precursor to the SAARC Regional Standards Body. Regarding transport system, the Heads of State or Government recognised the full benefits of an integrated 'multimodal transport system' in the South Asia region. They called for an extension of the SAARC Regional Multimodal Transport Study (SRMTS) to include Afghanistan as well. ■

Bilateral Trade Treaties in South Asia

INDO-NEPAL: Governments of Nepal and India have formally announced the renewal of Indo-Nepal bilateral trade treaty for the next five years. The treaty has been renewed automatically in accordance with a provision of the treaty, as neither side expressed concern over its existing version. With the renewal, Nepalese manufactured goods, barring three items in the negative list and five items with quantitative restrictions, would continue to enjoy unlimited duty-free market access in India without Nepal needing to reciprocate the facility. The agricultural exports would also enjoy duty-free market access in India, albeit with a provision of reciprocity.

PAK-NEPAL: Pakistan has reiterated its willingness to sign a bilateral free trade agreement (FTA) with Nepal in order to exploit trade opportunities between the two countries. Pakistan's Commerce Minister Humayun Akhtar Khan said that an FTA between Pakistan and Nepal will go beyond the provisions of the Agreement on South Asian Free Trade Area (SAFTA) and facilitate better integration of these two economies in the globalised era. Khan added that Pakistan is ready to provide "whichever access Nepal wants" for its exports to Pakistan (www.kantipuronline.com, accessed on 05.03.07 and www.thehimalayantimes.com, accessed on 27.02.07). ■

Doha Round Resumes

SIX months after the Doha Round talks broke down in acrimony, trade diplomats have restarted negotiations in another push for a deal. With the full-scale resumption of talks, the negotiating bodies focusing on each of the areas in the Doha Round are now meeting regularly, under the leadership of their respective chairs.

Mentioning about the progress made by key Members, Director-General of the World Trade Organization (WTO), Pascal Lamy, in his speech given at an international seminar in New Delhi on 12 March 2007, said, "Members are also working bilaterally, touching base and checking the impact of possible compromise numbers on products of their major export interests and main import sensitivities".

Lamy said that there is also renewed engagement and support at the highest political level and Members like the United States (US), European Union (EU), Brazil and India are maintaining bilateral contacts at the Ministerial level. Pointing out that some progress has been made in testing hypothesis, approaches and formulae, he, however, indicated that the progress is taking place at too slow a pace. Urging Members to move forward and grasp the window of opportunity, Lamy said, "The multilateral process of negotiations must...kick-in at full speed, and the Chairpersons of various negotiation groups must come into the centre stage" (*see an analysis of the resumption of Doha talks and positions of key Members on pages:14-17*). ■

Thailand Threatens to EXPAND Generic DRUGS Net

THAILAND'S Health Minister has threatened to expand the country's generic drug programme to include cancer and more AIDS medications, unless pharmaceutical firms sharply reduce their prices. Health Minister Mongkol Na Songkhla said that he was undeterred by the fierce resistance from pharmaceutical companies against compulsory licensing for high-priced medications. Under the rules of the World Trade Organization (WTO), countries are allowed to order compulsory licenses that temporarily suspend patents and clear the way for ge-

neric drugs to protect public health in an emergency. Few other countries have actually used this provision. Since Mongkol was appointed as Health Minister by the military after a coup, he has jolted the pharmaceutical industry by allowing generic versions of two anti-AIDS drugs — Efavirenz and Kaletra — and popular heart disease medicine Plavix. Angered by Mongkol's decision, US drug giant Abbott Laboratories, the maker of AIDS drug Kaletra, has stated that it would stop selling new drugs to Thailand (*Agence France Presse*, 18.03.07). ■

SAFTA Meeting Ends in Deadlock

THE second meeting of the South Asian Free Trade Area (SAFTA) Ministerial Council (SMC) held in Kathmandu concluded on 26 February in a deadlock between India and Pakistan. During the meeting, both sides blamed each other for not extending cooperation and being indifferent to each other's issues of concerns.

India raised the issue of non-compliance of SAFTA by Pakistan and maintained that Pakistan had resorted to selective implementation of the multilateral trade agreement in the case of India, violating the very essence of the regional trade agreement signed by the seven South Asian countries, i.e., SAFTA. India also warned that it could withdraw market access facilities to Pakistan, if Pakistan refuses to open up its market for Indian products as agreed in the regional trade agreement.

Pakistan, on the other hand, claimed that India had not extended to it the most favoured nation treatment even though it had granted the same to India.

SMC urged India and Pakistan to sort out the differences and report the progress in the next SMC meet due after six months (www.nepalnews.com, accessed on 27.02.07). ■

India seeks firm ties with EFTA and Japan

INDIA and the European Free Trade Association (EFTA) – comprising of Switzerland, Norway, Liechtenstein and Iceland – have established a joint study group to explore the possibility of entering into a broad-based trade and investment agreement. Such an agreement would cover trade in goods and services, investment, trade facilitation, technical standards, intellectual property rights and dispute settlement. The study group will meet alternatively in New Delhi and Geneva and has been asked to give its report within a year.

Similarly, senior officials from India and Japan wrapped up the first round of negotiations on a bilat-

eral free trade agreement (FTA) on 2 February in New Delhi, India setting out a framework for the prospective deal. The two sides agreed that the parameters for a Comprehensive Economic Partnership Agreement (CEPA) would include trade in goods and services, trade promotion, the facilitation and liberalisation of investment flows, and measures for promoting economic cooperation in identified sectors. They decided to set up four working groups tasked with formulating an accord in these areas.

Earlier in December 2006, Japan had finally agreed to include its heavily-protected agricultural sector in a future agree-

ment, removing the final hurdle to starting negotiations. The trade pact is part of a broader partnership agreement and calls for annual summit meetings, institutionalised strategic dialogues between foreign ministers, youth exchanges, and cooperation in the fields of energy, environment, anti-piracy, and non-proliferation.

They are aiming to conclude talks within two years and have agreed to hold the second round of negotiations in Tokyo. Both sides believe the current bilateral trade volume at US\$ 6.8 billion in 2006 is far below potential. (*The Financial Express*, 02.12.06 and *Bridges Weekly Trade News Digest*, 15.02.07). ■

ASEAN

Ministers sign four pacts

MINISTERS of Association of South East Asian Nations (ASEAN) have signed four agreements to further integrate the region.

- Protocol on ASEAN framework (Amendments) agreement for integration of priority sectors;
- Protocol on ASEAN sectoral integration (Amendments) protocols for the integration of priority sectors;
- Mutual recognition arrangement (MRA) on nursing services, also providing for the establishment of the ASEAN Joint Coordinating Committee; and
- Protocol to implement the fifth package of commitment under the ASEAN framework agreement on services.

Various other measures are also being undertaken to further integrate intra-ASEAN trade, including the elimination of non-tariff barriers in three packages. Regarding the liberalisation of the services sector, Ministers have agreed to develop a concrete plan by 2015. There has been a consensus that sectors and sub-sectors of higher priority or less sensitivity are to be identified by Member countries in the early stages. On nursing services, the arrangement would simplify the procedures and facilitate the mobility of nursing professionals within ASEAN (www.bernama.com, accessed on 09.12.06). ■

Breakthrough on WIPO Development Agenda

DELEGATES from 105 governments have made a breakthrough in negotiations on integrating development concerns into the functioning of the World Intellectual Property Organisation (WIPO), by agreeing on a set of initial recommendations for reforms. The deal was reached after a week of discussions in the WIPO committee responsible for the 'development agenda' talks. The recommendations touch upon a wide range of WIPO's activities, from rule-making to technical assistance and the

protection of the public domain.

During the 19-23 February meeting of the Provisional Committee on Proposals related to a WIPO Development Agenda (PCDA), negotiators focused on 40 proposals for integrating developmental considerations into WIPO's mandate and functioning. These were drawn from a total of 111 proposals that have been made since October 2004, when a group of developing countries led by Brazil and Argenti-

na first called for a 'development agenda' for the organisation.

After five days of discussions, the PCDA

was able to refine the 40 proposals it was considering into a list of 24 recommendations for action.

They will be submitted to the September session of the General Assembly, WIPO's senior decision-making body. As per an earlier decision by WIPO member states, the PCDA will address the remaining 71 development agenda proposals at its next meeting in June (*Bridges Weekly Trade News Digest*, 28.02.07). ■



SCHWAB sets out case for TPA RENEWAL

UNITED States (US) Trade Representative Susan Schwab called on the new Democrat-controlled Congress to renew the presidential administration's trade promotion authority (TPA), warning that a failure to do so would show the world that the US has lost faith in the Doha Round of trade negotiations. The administration's trade policy had come under fire from senior Democratic lawmakers after new data revealed that the US' trade deficit reached an all-time high, amounting to US\$ 763.3 billion in 2006, a 6.5 percent rise over the previous year.

President George W. Bush's TPA will expire at the end of June. Without a renewal, the administration will lose its ability to negotiate trade agreements



and submit them to Congress for a yes-or-no vote without the possibility of making changes. In the absence of this mandate, other countries are reluctant to finalise trade deals with the US.

Most Democrats voted against the current trade

promotion mandate in 2002, and seven senators have vowed to "aggressively oppose" extending it this year. However, the senior lawmakers who now chair the powerful Congressional committees responsible for trade policy have suggested that they would be willing to approve a new TPA legislation.

According to Schwab, the equation is simple – trade agreements mean more exports, and more exports mean better jobs. She mentioned that the US' exports to countries with which it had implemented bilateral free trade agreements between 2001 and 2006 had grown twice as fast as those with the rest of the world (*Bridges Weekly Trade News Digest*, 15.02.07). ■

Trade features at UNEP Council Meeting

AT a meeting of the United Nations Environment Programme (UNEP), Executive Director Achim Steiner and World Trade Organization (WTO) Director-General Pascal Lamy along with a number of environment ministers from different countries called for improving the synergies between the trade and environment regimes. In the meeting, held from 5-9 February, 2007 in



Nairobi, Kenya, the participants discussed the issues of globalisation and the environment along with the United Nations (UN) reform. They continued to be divided on the need to establish a comprehensive new UN environment organisation but they generally agreed on the need for better coordination between trade and environment policy-making processes. Pascal Lamy referred to sustainable de-

velopment as central to the WTO and urged continued support from the environmental community in bringing the WTO Doha Round to a successful conclusion. He emphasised that the ongoing trade negotiations have the potential to facilitate a more efficient global allocation of resources. Delegates to the meeting called upon UNEP to contribute to the dialogue on trade to help shape trade-related rules and institutions that affect the environment (*Bridges Weekly Trade News Digest*, 12.03.07). ■

Bhutan seeks to join the WTO in 2008

WITH its commitment to better integrate the national economy into the world trading system, Bhutan is seeking to become a Member of the World Trade Organization (WTO) by 2008. The government of Bhutan has asked the Ministry of Trade and Industry to complete all preparations for accession by the first half of 2007. Reportedly, only the formalities of accession would be left for 2008. The Ministry will have its fourth Working Party meeting before July 2007 to solve any remaining problems and submit answers to queries made by WTO Members on its financial, economic and trade policies and on issues relating to trade in goods, services and intellectual property rights.

Many hope that WTO membership will open new vistas for Bhutan and give it new directions. Bhutan was granted observer status in the WTO in April 1998 and filed an application for membership in October 1999.

Bhutan mainly exports electricity to India. However, the country has also been gradually expanding its social and economic sectors so as to achieve high economic growth. More than 80 percent of the population in Bhutan lives in rural areas and depend on agriculture for their livelihood (<http://english.ohmynews.com>, accessed on 08.04.07). ■

Regional Cooperation in South Asia

India's strategic intent

Improved relations with South Asian neighbours are critical to India's economic and strategic success, and as and when necessary, such closer relationships need cross-subsidisation.

Bibek Debroy



India's relationships with South Asia need to be partly considered against the backdrop of the South Asian Association for Regional Cooperation (SAARC). What is SAARC? Is it a forum for advancing economic cooperation? Every SAARC Declaration now has significant sections on economic cooperation and most SAARC documents have sections on trade (meaning trade in goods and services), investment and finance, infrastructure coordination and macroeconomic policy coordination. In the recent years, they also seem to have shown increased interest in developing common positions for global negotiations on trade and economic issues.

Since the sixth Summit in Colombo in 1991, one of SAARC's achievements has been the SAARC Preferential Trading Arrangement (SAPTA), which was signed in 1993 and entered into force in 1995. SAPTA was a prelude to the Agreement on South Asian Free Trade Area (SAFTA), which was signed during the twelfth SAARC Summit in Islamabad in 2004 and entered into force in January 2006.

Conceptually, regional trading arrangements (RTAs) can be of four different types, as one moves up the ladder – free trade areas, customs unions, single market and economic and monetary unions.

Interestingly, in the recent years, countries are increasingly moving towards liberalising trade through RTAs, which is evident from the fact that as of September 2006, 211 RTAs were notified to the World Trade Organization (WTO). Notably, there is an overlap in these numbers, since the same country may be a member of more than one RTA. In addition, if one scans the list of existing global RTAs, one finds that they are essentially restricted to the free trade areas or customs unions. This is understandable, since sentiments on free cross-border movement of labour are even stronger than sentiments on free cross-border movement of capital. Currency unions also involve loss of national sovereignty, since one loses degrees of freedom over control of monetary, fiscal and exchange rate policy. Economic integration is difficult enough, but political integration even more so. And within economic integration, anything more than a free trade agreement (FTA) or a customs union becomes exceedingly difficult, which the experiences of other regional groupings demonstrate.

The euphoria over SAARC's potential, therefore, needs to be diluted with a few

doses of realism. How serious can we possibly be about a South Asian Economic Union? In fact, if we observe, most of the SAFTA process is irrelevant. There are several reasons for this.

First, customs duties on manufactured products are increasingly irrelevant. They have been and will be reduced because of unilateral liberalisation.

Second, given this liberalisation thrust, the timeline of 2016 is too long.

Third, the liberalisation under SAFTA will be circumvented by non-tariff barriers (NTBs), standards, sensitive lists, rules of origin (RoO), safeguards, and anti-dumping, apart from issues of revenue compensation to the four South Asian least developed countries (LDCs) – Bangladesh, Bhutan, the Maldives and Nepal.

Fourth, India is now a party (existing or proposed) to several other sub-regional RTAs, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement is an example, in which few other South Asian countries are also Members. Similarly, India is also moving ahead for further liberalisation through the bilateral mode and also pursuing trading partnership with groups such as Association of South East Asian Nations (ASEAN), Andean Community, Southern Common Market (MERCOSUR) and Southern African Customs Union (SACU). Likewise, it has several other FTAs such as with Chile, Singapore, Thailand, Japan, South Korea, Brazil, South Africa, the United States (US) and the European Union (EU). Even in South Asia, it has bilateral FTAs with Afghanistan, Bangladesh, Nepal and Sri Lanka. These obviously overshadow the prospects of SAFTA. In addition, they lead to allegations of circumvention of RoO.

Fifth, any process of bloc formation has to be cross-subsidised by the larger country and in the case of South Asia, it is obviously India. Even if there is no actual cross-subsidisation, the relative gains accrue more to smaller countries, theoretically as well as empirically. If there is subsidisation by India, should that be in the area of classic trade liberalisation?

Sixth, studies establishing the great potential that exists in free trade within South Asia are neither here nor there. The results are tautological, since any process of liberalisation will lead to welfare gains in a net sense. The key question is: what are the trade liberalisation gains within SAARC,

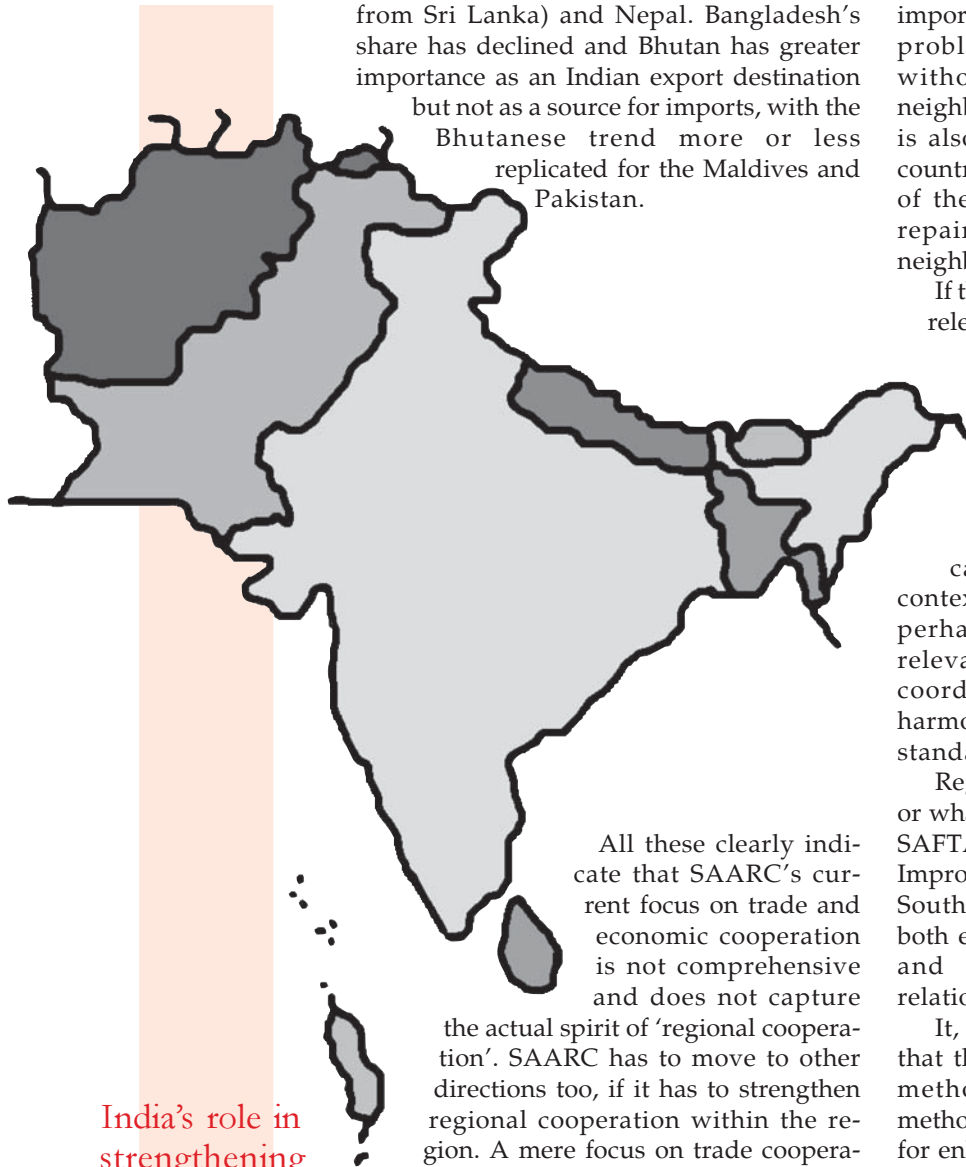
as compared to trade liberalisation gains through bilateral agreements with other parts of the globe, especially those parts that are economically more important – North America, Europe and ASEAN plus 3? There are issues here about the complementary nature of the SAARC economies, although this point should not be driven too hard. Resources have opportunity costs.

Seventh, as the focus of some of India's recent RTAs indicates, SAARC needs to move away from classic FTAs on goods to those in services (such as through comprehensive economic cooperation agreements), including agreements on freer cross-border movement of labour and capital. However, the existing SAARC trade agenda does not fit into this.

Eighth, given the large and heterogeneous country that India is, is the idea of regional trade integration at all appropriate? Or does one have in mind economic integration between the southern parts of India and Sri Lanka and the Maldives and between the eastern parts of India and Bhutan, Nepal, Bangladesh, Myanmar, Thailand and China? Or even between the northern parts of India and Pakistan? Apart from the tactical intent, is there, thus, an economic rationale to sub-regional integration?

Ninth, in passing, one should mention figures on intra-SAARC trade. As a percentage of total trade of the South Asian countries, the share has slightly increased in the 1990s, from just above 3 percent to just above 4 percent. But is that because of SAARC initiatives, or because the South Asian economies have become more outward-looking and less insular? If the increase is because of free trade, is it because of regional initiatives or bilateral agreements such as the Indo-Sri Lanka FTA? In any event, shares can be somewhat misleading, because shares are also a function of what is happening to trade with other countries outside the bloc. For instance, an explosion in India's trade with China automatically reduces SAARC's share. Having said this, the shares also depend on whether one has a country like Nepal or Bhutan in mind, or whether one is talking about India. Understandably, intra-SAARC trade will be much more important to the former. And for India, especially if one is looking at Indian imports, one should exclude the oil import component. If one looks at shares of India's exports and imports in the 1990s, the shares have gone up for Sri Lanka (particularly for imports

Given the large and heterogeneous country that India is, is the idea of regional trade integration among the South Asian countries at all appropriate?



from Sri Lanka) and Nepal. Bangladesh's share has declined and Bhutan has greater importance as an Indian export destination but not as a source for imports, with the Bhutanese trend more or less replicated for the Maldives and Pakistan.

All these clearly indicate that SAARC's current focus on trade and economic cooperation is not comprehensive and does not capture

the actual spirit of 'regional cooperation'. SAARC has to move to other directions too, if it has to strengthen regional cooperation within the region. A mere focus on trade cooperation, that too only in the area of goods, will not complement the actual purpose of SAARC's establishment.

In this scenario, obviously, the role of India is also critical. It is the largest country and strongest trading partner in South Asia and has greater influence in global forums. Thus, India's role in strengthening the SAARC forum and expanding the scope of regional cooperation on other broader issues of development, including trade, must be visible.

In fact, this should also be the strategic intent and focus of India. It is because there are spillovers of cross-border terrorism in South Asia and there is no denying that India has a vested interest in reducing regional socio-economic tensions. Also, there is a strong correlation between collective violence and economic prosperity. This also makes enhanced cooperation in South Asia

important for India. More importantly, this problem cannot be addressed by India without establishing cooperation with neighbouring countries. In addition, there is also a question of credibility since no country has become an influential member of the international community without repairing and improving relations with neighbouring countries.

If these arguments are accepted, to impart relevance to SAARC, we need to get rid of the obsession with the classic trade liberalisation programme, which is currently under the implementation process through SAFTA. We should also sideline the ideas of an economic or monetary union as these ideas are too premature and cannot materialise in the present context. Within the classic trade agenda, perhaps the only areas that have some relevance are those concerning customs coordination and trade facilitation and harmonisation and mutual recognition of standards.

Regardless of what happens to SAARC or what comes out of the implementation of SAFTA, South Asia is important to India. Improved relationships with neighbours in South Asia are critical to India's success, both economically and strategically, and as and when necessary, such closer relationships need cross-subsidisation.

It, however, does not necessarily mean that the regional SAARC route is the best method to attain this objective. Other methods can also be chosen to move ahead for enhanced cooperation on broader issues of development, including trade. For instance, bilateral agreements can also serve this purpose.

Given these, the existing problem in South Asia can be stated in the following way:

The SAARC process has become equated with trade liberalisation of the merchandise goods variety and this is relatively irrelevant. How can the focus of SAARC be made comprehensive and how can its process be moulded and transformed to expand its focus from a mere trade liberalisation agenda to broader issues of regional cooperation and economic development?

That will partly be a function of what India seeks to do. And that indeed, should also be India's strategic intent. ■

The author is an economist based in New Delhi.

India's role in strengthening the SAARC forum and expanding the scope of regional cooperation on other broader issues of development, including trade, must be visible

As latecomers, most firms in least developed countries (LDCs) face 'technology gap' and 'marketing gap'¹. Without government policies to address these gaps and with sufficient incentives to exist and compete in the market, it is obvious that the firms in these countries will not be able to survive and benefit from access to international markets in the globalised era. What options do the LDCs have then to lead to a successful industrialisation process and benefit from international trade? One option for them could be to implement industrial policies with certain investment measures that they need to facilitate the industrialisation process and meet their development needs. It is, therefore, in the interest of the LDCs to implement 'active industrial policies' that focus on measures to attract investments and promote industrialisation while according protection to the domestic firms and giving priority to national interests. History shows that most of the developed and industrialised countries had also adopted 'active industrial policies' when they were at the early stages of development.

The LDCs and industrial policies

When access to both technology and markets are severe problems for local firms, attracting foreign direct investment (FDI) is the preferred strategy. It is because foreign investment can facilitate technology transfer as well as market access. Targeting FDI, however, is not a strategy in itself. Most importantly, unregulated FDI does not bring about spillovers or maximise welfare for the host country. For FDI to be able to address technology and marketing gaps, the LDCs need to implement 'active industrial policies' since these policies provide them a space to include both incentives and regulations such that FDI is subject to conditions that help them meet their development objectives.

Besides this, since these countries also face market imperfections and market inadequacies in facilitating structural change, 'active industrial policies' will also help them remedy these problems. Through such policies they can provide 'social insurance' to their firms² and bail out potentially successful, but currently troubled firms. Also, such policies help them promote structural change. In the initial stage of developing an industry, those

who take the risk to make the initial investments do not receive all the benefits. Their investment may be advantageous to the economy as whole in the form of spillovers and easier entry into the industry for other interested investors. Because the investment provides social benefits, entrepreneurs must be provided with rents so as to encourage such investments. In this regard, 'active industrial policies' can provide incentives and support from the government for entrepreneurs to engage in what Rodrik calls 'self discovery'³.

Similarly, the LDCs are faced with coordination externalities that cannot be solved unless the governments in these countries provide 'Big Push' through the industrial policies. The 'Big Push' theory argues that there is a need to coordinate complementary investments, in the presence of significant scale economies.⁴ Many industries require simultaneous, large-scale investments

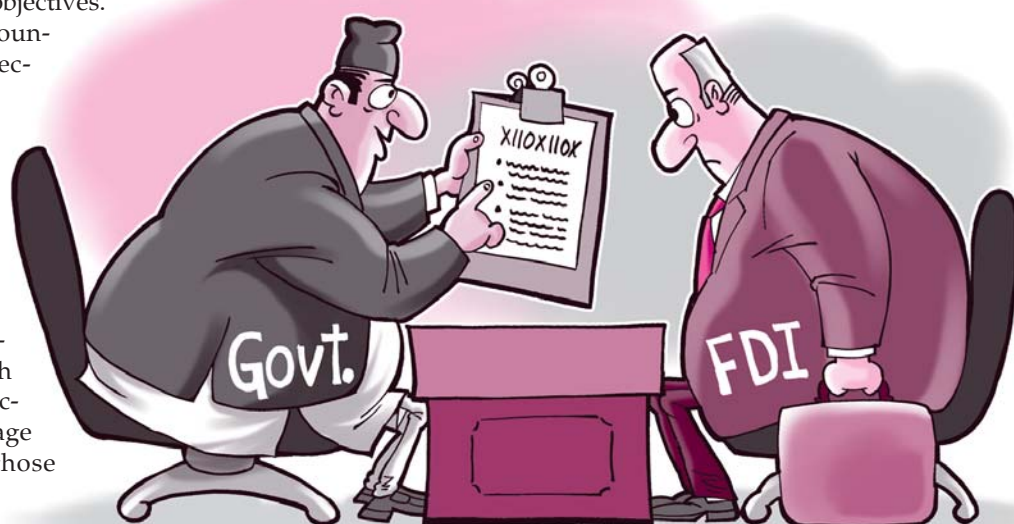
The TRIMs Agreement prohibits WTO

Members to use investment measures but there are certain flexibilities for the LDCs and they can still use such measures.

Chandni Singh

Industrial Policies and Investment Measures

Flexibilities for the LDCs



In Japan, Korea, Taiwan, Hong Kong and Singapore, an efficient bureaucracy significantly contributed to the effective implementation of 'active industrial policies'

in order to become profitable. They are unlikely to be provided by private entities unless there is a demand for such products. This is a classical coordination problem: profitable new industries fail to develop unless upstream and downstream investments are coaxed simultaneously. Commonly, with a nascent industry and the private sector that has yet to be organised, a government role, through 'active industrial policies', will be required.

When do 'active industrial policies' work?

The introduction of 'active industrial policies' is not a panacea to the ills being faced by the LDCs. Such policies can also be misused to perpetuate inefficiencies and rent seeking in an economy. The LDCs wishing to adopt such policies, thus, need to clearly understand how to avoid these potential problems.

'Active industrial policies' were successful in facilitating economic development in the East Asian countries, particularly because they were forward-looking. Rather than supporting any and all industries, the Korean and Singaporean governments made it explicit that the aim of the protection was not to preserve the industries concerned but to phase them out in an orderly manner or to technologically upgrade them. They also had well-specified performance targets for the beneficiaries, thus preventing the policies from turning into 'nursing homes' for declining industries. They not only supported risk takers but also helped weed out those industries that were not efficient or did not meet their targets. In other words, because of the way they were designed and implemented, protective industrial policies in the East Asian countries promoted structural change and economic development.

It is also important to note that 'active industrial policies' are successful only when certain vital institutions support their implementation. In Japan, Korea, Taiwan, Hong Kong and Singapore, an efficient bureaucracy significantly contributed to the effective implementation of 'active industrial policies' and enabled the economy to lead to the path of sustained industrialisation process.

Free trade and government intervention

Generally, free trade and government intervention are thought to be at odds with each other. However, there is now a growing acceptance that government intervention is required to address coordination problems and market failures that cannot be solved at the

firms' level. Since the LDCs also face such coordination problems and market failures, government interventions, such as through 'active industrial policies', are important. Therefore, even in the present world trading system, which is liberal and calls for openness, the role of the government in addressing such constraints of the LDCs should not be underestimated.

'Active industrial policies' and the WTO

There are increasing concerns that the multilateral agreements of the World Trade Organization (WTO) limit the scope or 'policy space' of the LDCs to pursue development policies, including 'active industrial policies'. An example of such WTO agreements is the Agreement on Trade Related Investment Measures (TRIMs), which deals with trade in goods and specifically prohibits investment measures that are inconsistent with the provisions of Articles III.4 (dealing with national treatment) and XI.1 (dealing with quantitative restrictions) of another WTO agreement, i.e., General Agreement on Trade and Tariffs (GATT) 1994.

- **Measures that are inconsistent with Article III:** Local content requirements and the requirement of partial balancing of foreign exchange outflows and inflows (*National treatment under GATT's Article III requires WTO Members to ensure that there is equal treatment between foreign and domestic goods once the former have passed the borders*).
- **Measures that are inconsistent with Article XI:** The requirements of a partial balancing of foreign exchange, and the export-restraint requirement for ensuring the domestic availability of the product.

The Agreement does not define TRIMs but contains an Annex providing an Illustrative List of TRIMs that are inconsistent with the above mentioned Articles of GATT 1994.

Flexibilities for the LDCs

It is clear that the TRIMs Agreement prohibits WTO Members to apply investment measures that violate the GATT's disciplines on national treatment and quantitative restrictions. But it is not that the LDC Members of the WTO cannot use investment measures in their 'active industrial policies'.

Keeping in consideration the development status of Members, the TRIMs Agree-

Hong Kong Decision on TRIMs and the flexibilities for the LDCs

"LDCs shall be allowed to maintain on a temporary basis existing measures that deviate from their obligations under the TRIMs Agreement. For this purpose, LDCs shall notify the Council for Trade in Goods (CTG) of such measures within two years, starting 30 days after the date of this declaration. LDCs will be allowed to maintain these existing measures until the end of a new transition period, lasting seven years. This transition period may be extended by the CTG under the existing procedures set out in the TRIMs Agreement, taking into account the individual financial, trade, and development needs of the Member in question.

LDCs shall also be allowed to introduce new measures that deviate from their obligations under the TRIMs Agreement. These new TRIMs shall be notified to the CTG no later than six months after their adoption. The CTG shall give positive consideration to such notifications, taking into account the individual financial, trade, and development needs of the Member in question. The duration of these measures will not exceed five years, renewable subject to review and decision by the CTG.

Any measures incompatible with the TRIMs Agreement and adopted under this decision shall be phased out by year 2020."

ment, when it became operational in 1995, had provided the following transition periods to eliminate TRIMs:

- two years from 1995 for developed Members,
- five years for developing Members, and
- seven years for the LDC Members⁵.

It means that the earlier transition period allowed for the LDCs expired in 2002. However, realising the financial, trade and development needs of the LDCs in particular, the sixth Ministerial of the WTO, held in December 2005 in Hong Kong, made an important decision, allowing these countries to continue to apply the existing measures as well as introduce new measures even if they deviate from their obligations under the TRIMs Agreement.

The Hong Kong Ministerial Declaration states that the "LDCs shall be allowed to maintain on a temporary basis existing measures that deviate from their obligations under the TRIMs Agreement". Similarly, in the case of new investment measures, the Declaration states that the "LDCs shall be allowed to introduce new measures that deviate from their obligations under the TRIMs Agreement". However, the LDCs, while capitalising on these flexibilities, need to fully understand the conditions that they need to fulfill (*See Box*).

Conclusion

If the LDCs have to lead to a path of successful industrialisation and benefit from inter-

national trade, they should devise and implement 'active industrial policies' in a manner that fulfils their development needs. Despite the prohibitions made by the TRIMs Agreement to use investment measures, it is not that the LDCs cannot use TRIMs. Since the Hong Kong Declaration states that any measures incompatible with the TRIMs Agreement and adopted under this decision should be phased out by 2020, the LDCs should continue to use TRIMs that they have been using. At the same time, if there is a need, they should make efforts to introduce new investment measures. After all, they only have a period of around 13 years to use such measures. ■

The author was associated with SAWTEE.

NOTES

- 1 Firms in developing and least developed countries face technological and marketing gaps because they are dislocated from the main international sources of technology and the main international markets they seek to supply. See Schmitz, H. 2006. 'Reducing Complexity in the Industrial Policy Debate'. Working Paper 271. Institute of Development Studies. University of Sussex.
- 2 Chang, H. 1999. 'Industrial Policy and East Asia- The Miracle, the Crisis, and the Future'. A revised version of the paper presented at the World Bank workshop on "Re-thinking East Asian Miracle". San Francisco.
- 3 Rodrik, D. 2004. "Industrial Policy for the 21st Century". UNIDO.
- 4 See above note 2.
- 5 www.jurisint.org/pub/06/en/doc/C13.pdf

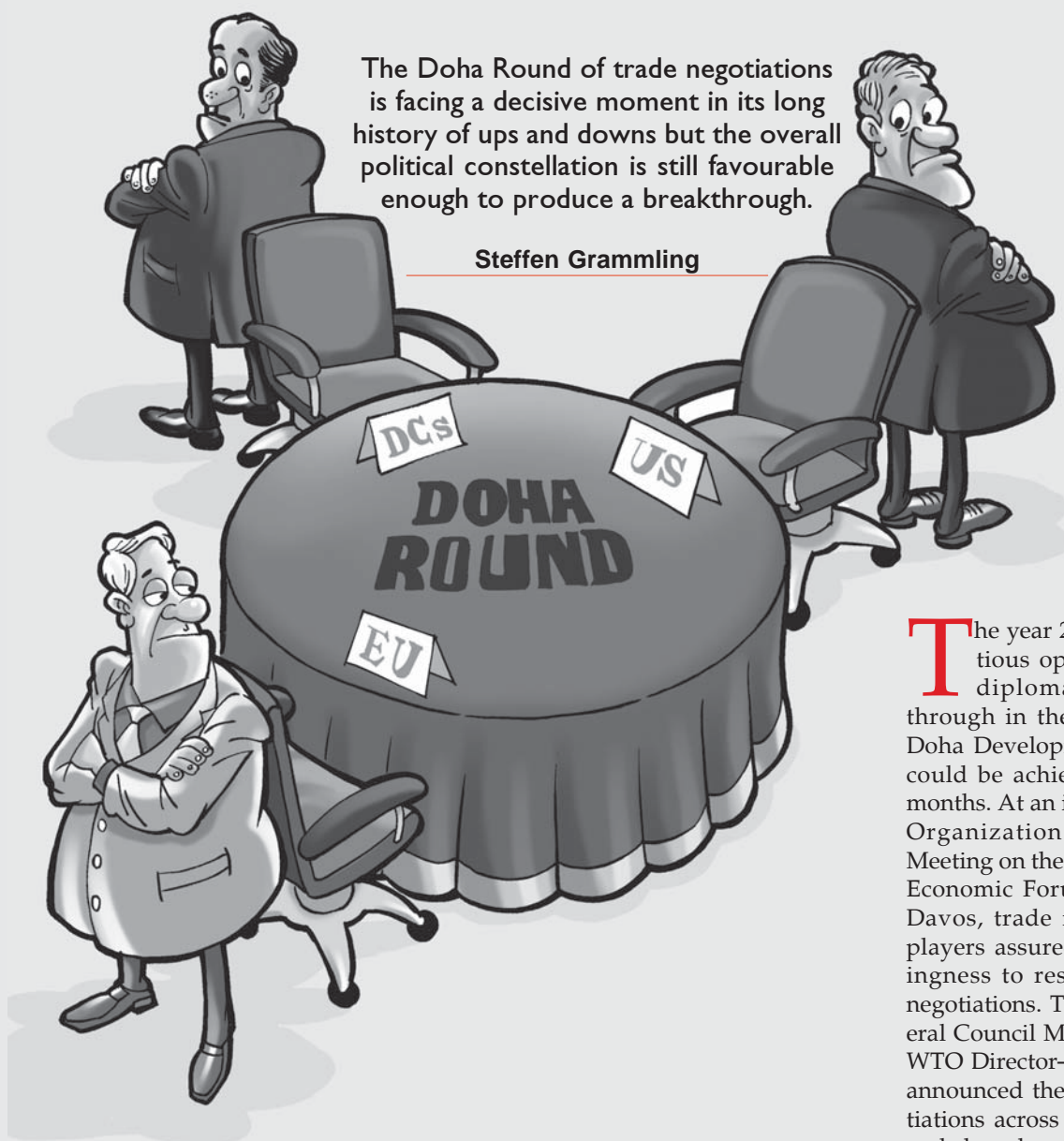
The Hong Kong Declaration states that any investment measures incompatible with the TRIMs Agreement should be phased out by 2020

FUTURE OF THE DOHA ROUND BETWEEN

cautious **optimism**
and negotiation
realism

The Doha Round of trade negotiations is facing a decisive moment in its long history of ups and downs but the overall political constellation is still favourable enough to produce a breakthrough.

Steffen Grammling



The year 2007 started with cautious optimism among trade diplomats that a breakthrough in the negotiations of the Doha Development Agenda (DDA) could be achieved in the next few months. At an informal World Trade Organization (WTO) Ministerial Meeting on the margins of the World Economic Forum on 27 January in Davos, trade ministers of the key players assured their political willingness to resume the suspended negotiations. Thereafter, at the General Council Meeting on 7 February, WTO Director-General Pascal Lamy announced the resumption of negotiations across the board with “full, and shared, conviction that this deal

is doable". Although the "renewed sense of commitment and urgency" combined with the announcements of further flexibilities sounds promising, discussions were restarted without substantial changes in negotiation positions.

The three basic trenches and major stumbling blocks that arise from the mercantilist negotiation logic remain almost unchanged:

- First, the offer of the United States (US) to steeper cuts in domestic farm subsidies is determined by the flexibility of the European Union (EU) to further open its agricultural market.
- Second, the EU and the US stressed that these concessions were conditioned to "new trade flows" in the areas of non-agricultural market access (NAMA) and services, in particular into the Brazilian and Indian markets.
- Third, the different groupings of developing countries such as G-20, G-33 and African Group affirmed in remarkable solidarity that they would only agree to a deal if their development concerns were taken seriously in the form of special and differential treatment.

Given these trenches, what are the prospects of concluding the Round successfully in 2007 and what is at stake in the different negotiation areas?

Negotiation process and domestic political constraints

Since the *de facto* suspension of the DDA talks in July 2006, the negotiation process became informal, ignoring the principles of transparency and inclusiveness. This period of "quiet diplomacy" was characterised by confidential bilateral meetings between major trading partners and reiterated calls from various WTO Members – but remarkably also from business groups – to restart formal negotiations as soon as possible. While bilateral gatherings have proven useful to overcome entrenched positions, this negotiation format takes away the pressure from

Three questions determining the success or the failure of renewed DDA talks

Question: One	Question: Two	Question: Three
Since the offer of the US to steeper cuts in domestic farm subsidies is determined by the flexibility of the EU to further open its agricultural market, will the EU and the US will be able to resolve their differences?	Since the EU and the US have mentioned that the concessions they are willing to make in the agricultural sector are conditioned to "new trade flows" in the areas of NAMA and services, will the developing countries, in particular Brazil and India, agree to such conditions?	Since different developing country groups such as G-20, G-33 and African Group have affirmed that their "development concerns" must be addressed before making any other deal, will the EU and the US address these concerns in their proposals?

the rest of the WTO Members. Since the "soft resumption" in November 2006, the chairs of the negotiating groups started organising closed "fireside chats" along the lines of "green room" meetings to sort out solutions among the group of key players as well as open-ended "transparency forums" to brief the rest of the WTO Members on the progress. While Lamy called for coming back to a multilateral, inclusive, transparent and Geneva-based process, he refused to set any new deadlines, knowing that this won't make sense unless key players substantially change their negotiation positions. Three domestic political constraints will determine whether the continuous brinkmanship, which eroded the confidence in a breakthrough, can be overcome.

First, the Trade Promotion Authority (TPA) that allows the US Administration to negotiate trade deals and submit them to Congress for approval or rejection will expire at the end of June. While a US Administration that lacks TPA could still continue discussing trade deals, negotiating partners might be unwilling to do so since there is no guarantee that the final agreement will be approved by Congress without major changes. On 31 January, President George W. Bush called for the renewal of the TPA and US Trade Representative Susan Schwab expressed optimism that Congress could extend it for at least another year to finalise a DDA deal. However, Democrat-controlled Con-

gress is likely to condition the extension to the prospects of further market access opportunities and the greater recognition of labour and environmental provisions in the agreements.

Second, on 30 January, the US Administration unveiled its initial proposal for the 2007 Farm Bill, which will determine the flexibilities of the US in agricultural negotiations. The current 2002 Farm Bill, which expires in September 2007, is a multi-billion support programme for US farmers with most subsidies going to large corporations that are engaged in growing corn, soybeans, wheat, rice and cotton. Since the proposal for the new farm bill contains only minor reductions for trade-distorting domestic farm subsidies, it is not addressing the demands of various WTO Members, especially Brazil, for deep cuts in these programmes and falls short in giving new impetus to the DDA negotiations. Moreover, it is ignoring WTO dispute settlement cases, which already show that some of the current subsidies are against WTO law.

Third, the French government is preparing for the first round of the presidential election, taking place on 22 April 2007. France is spearheading the group of EU members that are opposing deep market access commitments in agriculture. Since the French farm lobby is strong and has a huge electorate, the French government is reluctant to support further flexibility in agricultural commitments. However, trade decisions in

the EU are taken by majority rule and most EU members have much to win from market access to developing countries' manufacturing and service sectors.

Agriculture: most contentious

Although trade in agricultural goods accounts for less than 8 percent of world trade, the negotiations on new agricultural rules have been the major stumbling block in the DDA negotiations. The US should offer deeper cuts to its domestic farm subsidies and the EU should agree to further market access commitments. While the agricultural sector is negligible concerning its importance for their economies, the farm lobby groups are powerful and have strong constituencies.

In contrast, the agricultural sector in many developing countries is the heart of their economies as they do not merely significantly contribute to gross domestic product (GDP) or generate rural jobs but also hold a major share in their exports. Farm lobbies in these countries are equally outspoken, but pursue quite divergent interests, e. g., large agribusiness exporting companies in Brazil as well as groups that represent the concerns of more than a billion subsistence farmers worldwide, mainly located in India. Thus, the importance of the agricultural negotiations arises more from political than economical reasons, making them highly sensitive.

In January 2007, the US and the EU indicated more flexibility in their offers, moving closer towards the demands of the G-20 group of developing countries. It is assumed that the EU would improve its offer to cut average farm tariffs to almost 54 percent instead of 39 percent. In return, the US would cap its domestic farm subsidies at US\$ 15 billion instead of US\$ 22.5 billion. However, neither did the EU clarify the exact coverage of the product lines, nor did the US specify the subsidy caps for single products. Nevertheless, it is already a progress that this

discussion on sensitive and special products gets more serious since it is the most contentious issue and will finally determine the real commercial effect of the commitments. Sensitive products are products that countries will be allowed to shield from the full force of tariff application against compensation by expanding the respective quotas. The exception for special products is intended to protect poor farmers against the volatility of prices in the interest of food security, livelihood security, and rural development needs. Some fresh impetus to the negotiation logic was provided by a paper of the Carnegie Endowment that questioned the US trade policy, which was narrowly focusing on market access demands. The paper argues that while agricultural imports were strongly correlated with income levels, such a close relationship could not be observed between agricultural imports and applied tariff rates. Thus, US export interests will be better served if the income level in importing countries remains high, which requires a flexible tariff setting system.

The negotiation proposals on the table are, however, still far away from meeting the objective mentioned in the DDA to establish a "fair and market-oriented trading system [...] to correct and prevent restrictions and distortions in world agricultural markets." The US and the EU would still be allowed to spend huge amounts of trade-distorting domestic farm support. Developing countries, which typically cannot afford such subsidies, would have to continue competing with subsidised agricultural products, while opening their markets at the same time. India's Trade Minister Kamal Nath commented, "If the US seeks market access for its subsidised products, it will result in more market access for subsidy flows, not trade flows." On the other hand, some developing countries profit from the current distortions, notably the preference

receiving countries and net food importers. Thus, whether or not the outcome of agricultural liberalisation will be development-friendly remains ambiguous.

NAMA: fairly underestimated

Average tariffs for manufactured goods are already at very low levels, i.e. at around 5 percent in industrialised countries and at about 30 percent in developing countries. However, trade in manufactured goods still faces distortions in the form of high tariffs, tariff escalation and tariff peaks, which discourage developing countries to invest in higher value-added production. Moreover, non-tariff barriers (NTBs), such as complicated rules of origin (RoO), hinder market access to major economies.

The NAMA negotiations are tackling these issues but did not proceed much further than setting the format. It was agreed to cut tariffs according to the Swiss formula, which is a tariff harmonising method with different coefficients for developing and developed countries. However, negotiations came to an impasse when diplomats began to discuss concrete numbers, which were a political decision. The problem is that the net effect of the commitments could only be calculated after specifying the various exceptions, such as for the small and vulnerable economies, and that negotiators try desperately to offset this against the prognosticated outcome of the blocked agricultural area. The chair of the NAMA negotiating group, Ambassador Don Stephenson, warned rightly that the NAMA issues were much more complicated than widely recognised and could not be solved in a cloak-and-dagger operation. He called for a comprehensive approach, including all NAMA issues at the same time to allow delegations to calculate the net commercial effect of their commitments. In this context, the issues of NTBs and the voluntary sectoral initiatives still require a lot of technical work.

One overarching problem in the negotiations is the different interpretation of the NAMA mandate. While some developed countries argue that it calls for "new trade flows", devel-

The importance of the agricultural negotiations arises more from political than economical reasons

oping countries claim “less-than-full reciprocity” in the percentage reduction of the bound tariffs. The Swiss formula and coefficients are related to bound rates, but it might also lead to cuts in applied tariffs, which would result in real market access.

Developing countries argue that “cutting the water” in their tariffs (the difference between bound and applied rates) is already a huge concession because it will affect them negatively by the loss of policy space. They are opposing strongly to cuts into their applied tariffs, which would lead to adjustment costs, possible deindustrialisation and job losses. This would be the case for countries such as Indonesia, India, South Africa and various South American countries, if EU’s latest proposal of a coefficient of 10 for industrialised countries and 15 for developing countries is implemented.

While emerging powers such as Brazil or India might be able to open up some of their industries and restructure them efficiently, other developing countries might face a deindustrialisation process with negative consequences. Nevertheless, it is assumed that most developing countries could gain more from increased market access for manufactured goods than in agriculture due to its potential to create new jobs and modernise their economies.

Services: lagging behind

The service sector accounts for a high share of GDP in most economies, ranging from an estimated 40 percent in the least developed countries up to 70 per cent in high income countries. Services such as distribution, construction and social services are labour-intensive, while services such as transportation, telecommunication and financial services are an essential part of a country’s export infrastructure. Trade liberalisation in services can lead to lower prices, improved quality and broader variety triggered by more competition. On the other hand, it can cause higher prices in public services such as water, health or electricity that are often provided by the state at subsidised user fees.

The General Agreement on Trade in Services (GATS) allows each Member to decide independently on the degree of liberalisation commitments consistent with its national policy objectives. The negotiation method in the DDA is dominated by the request-and-offer approach, which, however, has not produced any remarkable results until now concerning both the sectoral coverage and the quality of the offers.

Liberalisation in services requires strong domestic institutions to effectively regulate and deregulate the national market, which are typically not established in developing countries. Nevertheless, the EU as the leading service provider has been pushing strongly to open up various sectors in developing countries, accompanied by India since 2005 as active supporter for Mode 1 (cross-border supply of services) and Mode 4 (movement of labour).

For the majority of developing countries, the single most important sector where they have comparative advantage is Mode 4, illustrated by the examples of the Philippine nurses and Indian computer scientists. However, it will be difficult for the negotiators of the main destinations, i.e., the EU and the US, to offer concessions to developing countries since decisions on Mode 4 will be taken at the discretion of the US Congress and the national parliaments of the EU member states.

While this makes the service negotiations not very attractive for developing countries, they are forced particularly by the EU to open up this sector in return for concessions in agriculture. A WTO dispute settlement case on internet gambling against the US has already shown that the devil is in the details. Therefore, developing countries would be well advised to deliberate carefully which sector they want to open up and to which extent.

Prospects

The Doha Round of trade negotiations is facing another decisive moment in its long history of ups and downs. However, the overall political constellation is still favourable enough to produce a breakthrough. But this will depend heavily on the flexibility of WTO Members and in particular, of the key players, who remain entrenched in their positions.

The “window of opportunity” remains open for the next few months before domestic political constraints will make any further move much more difficult. EU Trade Commissioner Peter Mandelson stressed that

“this is going to end in success or failure in the next two to three months.” It will be crucial to agree on the adequate mix of bilateral and multilateral negotiations that allow sufficient transparency and inclusiveness, as well as to find the right sequencing of the DDA areas, bearing in mind the “single undertaking” principle. To make

the Doha Round a real “Development” Round, legally binding concessions, real market access and sufficient flexibility and policy space must be equilibrated.

Since there are huge differences in the developing countries’ group itself, the result will have winners and losers among this group. Moreover, the DDA deal will rather reflect the bargaining power of the different players and what is politically feasible at the moment than the altruistic devotion to make the multilateral trading system fairer or even development-friendly. Nevertheless, the result might still be favourable for a majority of developing countries, which depend on each country’s specific circumstances and development strategies. To quote Mandelson again, “... the alternative to what’s on the table is not a perfect deal, but no deal at all.” ■

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Developing countries need legally binding concessions, real market access and sufficient flexibility and policy space from the so-called Development Round

Informal trade is unlikely to be totally eliminated but efforts must be made towards formalising it, if South Asia has to increase trade in the region and benefit from trade liberalisation.

Nisha Taneja

Formalising informal trade flows in South Asia

The seven Members of South Asian Association of Regional Cooperation (SAARC) have taken several regional and bilateral initiatives to increase trade in the region. The outcomes of such initiatives have, however, been minimal.

At the regional level, South Asian Preferential Trading Arrangement (SAPTA) came into being in 1991 but it could not lead to substantial trade liberalisation and promote free trade. SAARC Members then made another attempt to increase regional trade. At the twelfth SAARC Summit in Islamabad, they agreed to implement the Agreement on South Asian Free Trade Area (SAFTA) but it too is not moving ahead as envisioned and only deals with trade in goods.

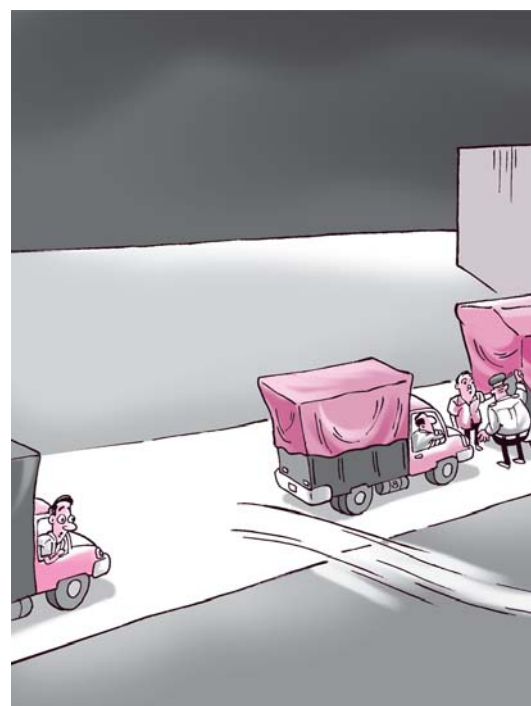
At the bilateral level too, attempts have been made to liberalise trade. For example, India has free trade agreements (FTAs) with Bhutan, Nepal and Sri Lanka. Similarly, FTAs are being negotiated between Pakistan and Sri Lanka and between Bangladesh and Pakistan. However, as in the case of regional initiatives, the outcomes of such FTAs have also not been promising.

The little progress made from several regional and bilateral initiatives is evident from the levels of abysmally low trade among and between SAARC countries. Studies have recommended several options to increase trade in the region. One among such options is formalising informal trade. Available evidence suggests that if rampant informal trade is brought within the ambit of official trade, a significant increase in regional and bilateral trade is possible.

Informal trade modalities

India is the only country sharing its border with all other South Asian countries. At the same time, no country shares its border with countries other than India within South Asia. Therefore, the central actor in informal trade is India.

As Bangladesh is sandwiched between the North-Eastern region of India and the West Bengal borders of India, informal trade between India and Bangladesh takes place both along the borders between West Bengal and Bangladesh and between the North-eastern regions and Bangladesh. Informal trade between India and Nepal takes place across the land borders. Prior to liberalisation in the 1990s, for almost two decades, a large part of informal trade between India and Nepal took place via the air route. In recent years, profit margins have declined and movement of goods by air has become unviable. Informal trade with Sri Lanka takes place mainly through the air route, with a small proportion being carried out by sea. Historically, the sea-route between the coastal areas of Jaffna and the coastal areas of Tamil Nadu was the most important mode for informal trade. However, there was a dramatic change after the civil war in Sri Lanka in the early 1990s. Following the civil war, there was heavy naval patrolling which made it difficult to trade informally by sea. Perhaps the Indo-Pakistan trade modalities are the most interesting. A large part of informal trade takes place through third countries as only a limited number of items are permitted to be imported to Pakistan from India. Thus, goods move officially



from India to Dubai, where the certificate of origin is changed (illegally) to countries other than India. These goods are then shipped to Bandar Abbas in Iran from where the goods are moved informally by land across Afghanistan into Pakistan. A smaller amount is traded by the sea route to Karachi from Dubai. Informal trade along the land route is the least and is carried out through the Amritsar-Lahore and Sind-cross border routes. On the Lahore route, trade takes place through passengers traveling on the 'Samjhauta express' while on the Sind route, it takes place along the Indo-Pak land border.

Magnitude and composition

The only method to estimate informal trade flows is through primary sur-

India's informal and formal trade with South Asia¹

Country	Exports Informal (Formal)	Imports Informal (Formal)	Trade Balance Informal (Formal)	Total Trade Informal (Formal)
Bangladesh (1992-93)	299.0 (349.1)	14.0 (7.8)	285.0 (341.2)	313.0 (356.9)
Sri Lanka (2000-01)	185.5 (640.20)	21.8 (45.0)	163.7 (595.2)	207.3 (685.2)
Pakistan (2004-05)	10.4 (509.3)	514.2 (92.7)	503.8 (416.6)	524.6 (602.0)
Nepal (2000-01)	180.0 (141.0)	228.0 (255.0)	-48.0 (-114.0)	408.0 (396.0)
Bhutan (1993-94)	31.3 (7.0)	1.2(3.0)	30.1(4.0)	32.6 (10.0)

Note: Figures are in million. Figures in parentheses indicate formal trade flows for corresponding years.

Lanka and Bhutan while with Nepal it has a trade deficit (see Table).

Also important is the fact that the commodity baskets being traded formally and informally are different. While a large part of informal imports into India comprises of third country goods, informal exports to other South Asian countries consist of essential goods (both food and non-food) and mass scale consumer items.

Whether or not informal trade flows can be shifted to the formal channel would be determined by the factors that influence such trade flows. The formal channel is often used to evade high custom duties and also to incur lower costs overall.

Tariff levels in formal channel

High tariff levels and tariff differentials within the SAARC region encourage informal trade. Even though SAFTA lays down criteria for rules of origin, high tariff differentials between Members create a strong incentive to avoid the formal channel. Tariffs in India, Bangladesh and Pakistan have been high through the 1990s. In the early 1990s, the unweighted tariff average was highest for Bangladesh at 79 percent followed by 59 percent for Pakistan and 51 percent for India. Tariffs were relatively lower for Sri Lanka at 27 percent and 14 percent for Nepal.² In recent years, tariff levels have fallen and the difference in tariff levels between India and its neighbours has narrowed down. As a result, informal imports into India from third countries have fallen considerably but informal exports from India to other South Asian countries have declined

to a lesser extent. Informal exports from India to Sri Lanka increased from US\$ 135 million in 1992³ to US\$ 232 million in 1996⁴ and then declined to US\$ 186 million in 2000-2001. Informal imports from Sri Lanka to India have been falling consistently during the same period from US\$ 114 million in 1992, to US\$ 45 million in 1996 and then further down to US\$ 22 million in 2000-01. Informal import from Nepal to India was US\$ 626 million in 1990⁵ while in 2000-01 it was down to US\$ 228 million.

Transaction costs in formal channel

In order to go beyond the conventional role of trade policy barriers in influencing informal trade flows, it is useful to understand why transaction costs are lower in such trade.

The inadequate transport and transit systems that exist in South Asia have led to high transportation costs in the region. In fact, transportation costs of trading within South Asia are far higher than trading with the rest of the world. A large part of trade, therefore, takes place informally. Thus, as long as transport costs are higher in the formal channel than in the informal channel, informal trade will continue to take place.

Informal trading markets, devoid of any formal contracts between trading partners function smoothly but there are costs that have to be incurred to mitigate the risk associated with such transactions. Risk in such trading has been found to be extremely low. For instance, in Indo-Bangladesh informal trade, the probability of goods being seized was less

veys. Some studies have been undertaken to estimate informal trade flows from time to time for different countries in South Asia.

It is worth noting some interesting features on the magnitude of informal trade. Total informal trade in the South Asian region is about US\$ 1.5 billion, which is 72 percent of formal trade in the region for corresponding years for which informal trade estimates are available (see Table).

Another noticeable feature is the fact that India has a trade surplus with Bangladesh, Pakistan, Sri Lanka and Bhutan on the unofficial trade account, while with Nepal there is almost balanced trade. On the official account, India has a trade surplus with Bangladesh, Pakistan, Sri

than 0.1 while that in Indo-Nepal and Indo-Sri Lanka informal trading was still lower at 0.03.⁶ In fact, even when goods are seized, they can be released on nominal payments. Such procedures not only involve incurring costs in terms of time taken but also lead to rent seeking activities. Poorly designed institutions in South Asia are also the causes in raising transaction costs.

Intrinsic to the activity of trading is the issue of payments. Formal banking facilities are not only inadequate in the region but the banking procedures are also very time consuming. The informal banking system on the other hand is highly organised and payments are not only ensured but are also very quick. The uniqueness of the informal banking system is that there is no physical transfer of currency. This mechanism referred to as *Hawala* in India and Pakistan, *Hundi* in Bangladesh and *Undiyal* in Sri Lanka operates on the same principles. Partner country currencies are easily convertible in the informal money market making it possible for traders to trade in different currencies. Traders may, therefore, prefer to use the informal channel as the transaction costs related to payments are lower.

Ethnic ties in informal channel

Perhaps what lie at the core of informal trading markets are the close ethnic ties between trading markets. A common language, religion, culture etc., play a crucial role in facilitating trade across borders.

It has been observed that in Indo-Nepal, Indo-Bangladesh and Indo-Sri Lanka trade, ethnic ties are stronger in the informal channel than in the formal channel.⁷ Ethnic ties amongst trading partner countries in the informal channel not only ensure that payments are made but also go towards reducing risk and other transaction costs in carrying trade across borders.

Formalising informal trade

It is evident that informal trade in the region is quite large and cannot be ignored in any policy dialogue. To the extent that informal trade

flows are influenced by high tariff levels, lowering tariff levels will shift informal trade flows to the formal channel. There is no doubt that the implementation of SAFTA and other bilateral trading arrangements would lead to a reduction in informal trade flows. It may be stated here that the incidence of informal trade, particularly in goods from third countries into India has come down with the lowering of tariffs in the region. For instance, in 1991, informal trade in third country goods from Sri Lanka to India was almost as large as informal trade from India to Sri Lanka. A decade later, there has been a considerable reduction in informal trade in third country goods from Sri Lanka. Informal trade in third country goods from Nepal to India was almost 10 times that of formal trade in 1990 while recent estimates show that such trade has come down considerably. Further reduction and harmonisation of tariffs would reduce the incidence of informal trade.

It is evident that the institutional mechanism in the informal trading market facilitates informal trade. The channels through which informal trade takes place are rooted in the strong ethnic ties among the traders and in the historical linkages in these societies. Ethnic trading networks that operate on trust and honesty mitigate risks associated with such trade. The involvement of law enforcement agencies to collect rents (thereby mitigating informal trading risks) makes the transacting and transporting processes smooth and acts as an added incentive to continue trading informally.

Reducing impediments to trade in the formal channels would also be very effective in formalising informal trade flows. The reform process in South Asian countries should undertake institutional reforms to remove impediments related to transport infrastructure, cumbersome procedures and the payments mechanism so that transaction costs can be lowered. This would also have a much larger impact in the form of trade expansion from and within the South Asian region.

While informal trade is unlikely to be totally eliminated but further reduction of tariffs and improvements in the transacting environment of formal trade would lead to a decline in informal trade flows. ■

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NOTES

- ¹ Sources of Table 1 are: Chaudhari, S.K. 1995. *Cross Border Trade Between India and Bangladesh*. Working Paper 58. New Delhi: National Council of Applied Economic Research (NCAER); Taneja, N., M. Sarvananthan, B.K. Karmacharya and S. Pohit. 2002. 'Informal Trade in the SAARC Region: A Case Study of India, Sri Lanka and Nepal'. Paper prepared for South Asia Network of Economic Research Institute (SANEI); Directorate General of Foreign Trade. 2004-05. Export Import Data Bank. Ministry of Commerce. India; Khan, S. R., M. Yusuf, S. Bokhari and S. Aziz. 2005. 'Quantifying Informal Trade Between Pakistan and India'. A Paper prepared for the World Bank; Rao, V.L., S. Baruah and R.U. Das. 1997. *India's Border Trade with select Neighbouring Countries*. New Delhi: RIS; and Commodity Trade Statistics, United Nations.
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- ⁴ Sarvananthan, M. 2001. *An Assessment of Contraband Trade and Capital between India and Sri Lanka*. Colombo and Madras: Kumaran Book House.
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- ⁶ Pohit, S. and Nisha Taneja. 2000. *India's Informal Trade with Bangladesh and Nepal*. Working Paper No. 57. New Delhi: Indian Council for Research on International Economic Relations; and Chaudhari, S.K. 1995. *Cross Border Trade Between India and Bangladesh*. Working Paper 58. New Delhi: National Council of Applied Economic Research (NCAER).
- ⁷ See above note 6.

North-South BTAs and the Vulnerability of South Asian Countries

In light of the increasing tendency of the US and the EU to sign BTAs with South Asian countries, there is a need to map out the vulnerability and strategise to fend off undue pressures.

Ratnakar Adhikari

Recent resumption of negotiations under the Doha Development Agenda (DDA) might have come as a relief to most developing and least developed countries, including those in South Asia. However, since the limping nature of DDA has already led countries to increasingly pursue bilateral trade agreements (BTAs), one should also take into consideration the consequences such a trend will bring.

The entire Asia region is now caught up in a BTA frenzy, particularly of North-South variety. While the United States (US) and Japan are the main Northern countries with which Asian nations are concluding BTAs, the European Union (EU), Australia and New Zealand too are among the key players.

Among these, mainly the US and the EU also seem to have shown interest in signing BTAs with South Asian countries. So far, three South Asian countries have signed Trade and Investment Framework Agreement (TIFA) – a precursor to free trade agreement (FTA) negotiations – with the US and one country is in the process of doing so. While Sri Lanka and Pakistan signed the FTA with the US on 25 July 2002 and on 25 June 2003 respectively, Afghanistan signed a TIFA with the US on 21 September 2004. Bangladesh too has agreed on 15 February 2005 to sign a similar agreement with the US.¹

The EU has, so far, only agreed to hold discussions on a possible negotiation with India on what is likely to be much beyond an FTA, i.e., Comprehensive Economic Cooperation Agreement (CECA).²

Motivation and pressure groups

The major motivation for the South Asian countries to sign FTAs, mainly with the US, comes from the highly protectionist textiles and clothing (T&C) market. Through FTAs, countries can maintain discriminatory tariffs, i.e., provide exclusive tariff and non-tariff concessions to one or a group of countries, without any obligation to accord similar treatment to others.

For example, the table here is self-explanatory in exposing the discriminatory tariffs maintained by the US but some tariff figures are noteworthy. While Bangladesh, a least developed country (LDC), is subject to a tariff of 17.12 percent in the US market on woven readymade garment (RMG) exports, Canada only pays 0.16 percent. Bangladesh is a country that pays proportionately a higher tariff in the US market, even com-

Discriminatory tariffs charged by the US on imports of woven RMGs

Countries/Groups	Calculated duties as % of customs value		Customs value share	
	2005	Jan-May 2006	2005	Jan-May 2006
South Asia				
India	14.37%	13.38%	5.67%	7.34%
Bangladesh	16.00%	17.12%	4.48%	5.38%
Sri Lanka	16.39%	16.54%	2.84%	2.90%
Pakistan	14.30%	14.53%	0.93%	0.95%
NAFTA beneficiaries				
Canada	0.85%	0.16%	1.81%	1.94%
Mexico	0.49%	0.24%	10.25%	8.62%
CBTPA beneficiary				
Honduras	1.25%	1.90%	1.78%	1.58%
AGOA beneficiary				
Kenya	0.13%	0.68%	0.52%	0.52%
Lesotho	0.05%	0.07%	0.41%	0.38%
Madagascar	0.32%	0.38%	0.3 8%	0.33%
BTA beneficiary				
Jordan	0.31%	0.41%	0.97%	1.27%

Source: Adhikari, R., and C. Weeraratne. 2007. "Textiles & Clothing Sector in South Asia: Coping with Post-quota Challenges" in B.S. Chimni, B. L. Das, S. Kelegama and M. Rahman (eds.). *Multilateralism at Cross-roads: Reaffirming Development Priorities. South Asian Yearbook of Trade and Development 2006*. Delhi: Centre for Trade and Development and Wiley India.

pared to other South Asian countries. Although Pakistan pays higher than 14 percent in tariffs, its share of value collected by the US customs is low. This is explained by the composition of woven RMG in the overall exports of Pakistan to the US, which is merely 12 percent. The corresponding figures for Bangladesh, India and Sri Lanka are 70 percent, 42 percent and 63 percent respectively.³ Therefore, it is obvious for the T&C lobby in developing countries to press their governments for signing the FTAs with the US. Even in Nepal, RMG exporters, who have seen their exports shrink in the aftermath of phasing out of the T&C quotas, are raising their voices in favour of a BTA with the US.⁴

However, from the standpoint of the US, BTA is a political tool to reward countries, which support and follow its ideology. For the US, it is not a futile exercise in economic terms. It not only provides an opportunity to extract market access concessions for other goods, services and investment but also enables the US to impose institutional requirements such as in the areas of intellectual property rights (IPRs), environmental obligations and labour rights on the developing countries.

Challenges galore

Generally, it is considered that North-South FTAs are critical to obtain market access opportunities, mainly on T&C products. However, net gains from such FTAs are not really clear as developing countries are forced to accept several WTO-plus conditions, some of which are worth highlighting here.

First, on IPR, the flexibilities provided by the WTO's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) are taken away by the BTAs. For example, rules on issuing compulsory licensing to make generic drugs available in the market at the time of public health crisis is made stricter and data protection clause included, the latter of which obliges generic producers to wait till patent expires for the clinical trial. Similarly, the flex-

ibility of not providing patent protection on plants and animals are taken away and providing protection to plant varieties through a unique system suited to the country's environment (*sui generis* system) is not allowed. In order to protect plant varieties, developing countries are required to follow a model legislation prepared by the International Union for the Protection of New Varieties of Plants (UPOV), which restricts the rights of farmers to save, plant-back, exchange and sell seeds, among others.

Second, they are asked to follow a negative list approach for services liberalisation, as opposed to positive list approach followed in the General Agreement on Trade in Services (GATS) at the WTO. The modality of services liberalisation under GATS has been hailed as a useful model for helping developing countries maintain policy space by making commitment to selectively liberalise those sectors in which they feel comfortable. When a negative list approach is followed, only those sectors that are contained in the negative list are excluded from liberalisation commitment and all others (including future services yet to be invented) are deemed liberalised.

Third, at present, WTO agreements do not require Members to make substantial commitment on investment. While the Agreement on Trade Related Investment Measures (TRIMs) prevent Members from making use of performance requirement on foreign investment, GATS entails, among others, making commitments to liberalise commercial presence (Mode 3 of services delivery). However, as noted above, WTO Members have considerable flexibility not to liberalise or make a conditional commitment to liberalise a particular mode of services delivery for a particular services sector, if they feel that the same is not in their interest. On the contrary, what an asymmetric BTA does is to include a provision on 'pre- and post-establishment' national treatment. It also contains provision on 'deemed expropriation', whereby any regulatory measures taken by the government, including on public interest, which could result in reduction in the value of investors' assets, could be challenged by the investor as being 'illegal'. Moreover, the definition of investment under some BTAs goes well beyond the traditional definition of investment implying equity and retained earnings. In the context of

Contours of US Sri Lanka draft BTA

Sri Lanka was asked to provide, *inter alia*, the following concessions to the US in return for the market access to the latter's market mainly for RMG:

- *Rules of Origin*: Using US made yarn and fabrics for Sri Lankan RMG destined to the US market.
- *IPRs*: Amending the IPR legislation to drop parallel imports and compulsory licensing of drugs and pharmaceutical products. Provision for expanded protection on copyrights in the digital environment and plant variety protection in line with UPOV.
- *Competition policy and law*: Amending the competition law to drop monopolies and merger clause considered by the US investors as deterrent to their investment in Sri Lanka.
- *Second generation reform*: Further opening up Sri Lankan services market and capital account convertibility.

Moreover, implicit in the trade negotiations process was offering political support to the US on contemporary international issues, viz., (a) war in Iraq, (b) allowing US ships engaged in military exercises in the Indian Ocean to use Sri Lankan ports freely, and (c) joining hands with the US in some issues being discussed at the WTO.

Source: Kelegama, S. 2005. "Emerging Scenario in the North-South BTAs of South Asia" in *Trade Insight*. Vol.1, No.3. Kathmandu: SAWTEE.

BTAs or latest version of bilateral investment treaties (BITs), it includes portfolio investments, loans and even IPRs.⁵

Finally, it obliges developing countries to make commitment on issues such as environment and labour standards, as well as competition policy, which are outside the domain of the WTO. While environment related provisions somehow figure in the WTO and a minor part of this issue is being negotiated at the WTO, the issues of labour standards and competition were so contentious that they had to be taken out of any discussion in the WTO forum due to strong opposition from the developing countries. These issues are part of the mercantilists' agenda aimed at gaining increased market access in other countries, while protecting own markets from foreign competition.

In the context of South Asia, most proposals have not moved beyond TIFA. However, the intention of the US negotiators is manifested in the now suspended US-Sri Lanka FTA, the draft of which had reached an advanced stage in 2003 before the fall of the ultra-liberal government (See the box).

What is worrying is the fact that there are striking similarities in conditions imposed on most developing countries. This is because developed countries follow a particular template while negotiating such agreements. In the case of Asia, for example, the US is using the US-Singapore FTA as the template for signing BTAs with other developing countries. While one of the most liberal countries like Singapore could afford to accept many WTO-plus conditions, other Asian countries cannot do so. Singapore is definitely different because it has zero or minimal tariff on most products, no farming community to be protected and no local industry owning IPR. Since it has gained tremendously by providing unfettered right to foreign investors, it has reached to a stage, where any kind of investment agreement is acceptable.⁶ However, for the South Asian countries, which use trade and industrial policy as a tool to ac-

celerate economic growth and which need adequate "policy space" to achieve development objectives, agreeing to such conditions would spell a disaster.

Another major challenge, which is rather domestic in nature, is the limited negotiating capacity of the South Asian trade negotiators. This is further compounded by the lack of consultation with stakeholders and limited media coverage provided to BTAs. In some instances, the stakeholders and public come to know about the agreement, once it is concluded. Even Parliamentarians in the region come to know about the agreement, when it is tabled for ratification!

There are, however, important lessons to learn from the experiences elsewhere in Asia. Nations with a vibrant civil society, a culture of debate, and free media are less likely to bow to pressure from the developed countries. Thailand, which was offered a bilateral trade deal by the US, gave its negotiators a tough time on the nature and pace of liberalising services, granting of sweeping rights to foreign investors, and protection of traditional knowledge, among others.⁷

Similarly, Malaysia is another country, which is refusing to bow down to the US' pressure on several issues ranging from labeling of genetically modified food and IPR reform to the liberalisation of agriculture, services and government procurement. The recently concluded fifth round of negotiations was bogged down by 58 contentious issues and several coalitions demanding that cost-benefit analysis of all these issues be conducted before proceeding further.⁸

Way forward

South Asian countries must not trade away the interests of their consumers, farmers, indigenous communities and local industries in the course of concluding any BTA with the developed countries. Instead, they should make efforts to pursue liberalisation under the WTO because their interests are best protected in

the multilateral trading system. However, should the BTA become inevitable, they should: a) do the cost-benefit analysis of such an agreement; b) involve all the stakeholders and seek their opinions in the negotiation process; c) initiate the capacity building programmes, mainly for the trade negotiators; and d) resist any pressure to agree to WTO-plus conditions.

National stakeholders such as civil society organisations, academics and media should also help their governments in getting a fair deal and, if the situation so demands, launch advocacy campaigns at the national and international levels so as to fend off any pressure to agree to unfair and unfavourable conditions. ■

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Rules of Origin in International Trade

Shivendra Thapa

The rules that determine the origin or nationality of a product are known as rules of origin (RoO). Such rules are widely used in international trade for the application of different tariffs depending on the country of origin, trade remedy measures, quantitative restrictions (QRs) and tariff quotas by countries. In addition, RoO plays a key role in regulating preferential trade as in the case of free trade agreements (FTAs) and regional trade agreements (RTAs). This is an area where their application has become most contentious as they are seen to be used as non-tariff barriers (NTBs) to pursue trade as well as foreign economic policy objectives.

In the context of the World Trade Organization (WTO), the Agreement on Rules of Origin only covers non-preferential RoO and aims at the harmonisation of such rules amongst all Members. Article 1 of the Agreement defines RoO as regulations and administrative determinations of general application applied to determine the country of origin of goods except those related to the granting of tariff preferences. Thus, the Agreement covers only those rules, which are used in non-preferential commercial policy instruments, such as most favoured nation (MFN) treatment, anti-dumping and countervailing duties, safeguard measures, origin marking requirements and any discriminatory QR or tariff quotas, as well as those used for trade statistics and government procurement.

Regarding preferential RoO, Annex II of the Agreement provides that the Agreement's general principles and requirements for non-preferential RoO regarding transparency, positive standards, administrative assessments, judicial review, non-retroactivity of changes and confidentiali-

ty shall also apply to preferential RoO. Paragraph 4 of Annex II of the Agreement provides that Members shall promptly provide to the Secretariat their preferential RoO, including a listing of the preferential arrangements to which they apply, judicial decisions, and administrative rulings of general application.

Preferential RoO are defined in the Common Declaration of the Agreement on Rules of Origin as "those laws, regulations, and administrative determinations of general application applied by any Member to determine whether goods qualify for preferential treatment under contractual or autonomous trade regime leading to the granting of tariff preferences." The determination of the origin of a product as de-

finied in Article 9 of the Agreement considers two criteria:

1. Wholly Obtained and Minimal Operations or Processes: In order to fulfill this criterion, the Technical Committee on Rules of Origin (TCRO) is designated to develop a harmonised definition of goods. The following list¹ presents goods which are to be considered to be wholly obtained in one country:

- Live animals born and raised in that country;
- Animals obtained by hunting, trapping, fishing, gathering or capturing in that country;
- Products obtained from live animals in that country;
- Plants and plant products har-

Process and percentage criteria

Process criterion: Imported inputs are considered to have undergone 'substantial transformation' if the finished products fall under a different HS code than they did when those inputs were first used in the manufacturing process.

Example: HS Chapter code 18 – Cocoa and Cocoa preparations

1801- Cocoa beans
1802 –Cocoa shells
1803- Cocoa paste
1804- Cocoa butter
1805- Cocoa power
1806- Chocolate and other food products containing cocoa

Let us suppose cocoa beans with HS code 1801 are imported from country A to B. If country B produces cocoa powder (HS code 1805), it is seen as substantial transformation from

1801 to 1805 and the country of origin is conferred to country B. However, in actuality, the determination of origin is not as simple and is made more complicated by individual interpretations of what constitutes substantial transformation.

Percentage criterion: If a certain percentage of value is added to the imported inputs, they are considered to have undergone 'substantial transformation'. One way is to pre-determine the maximum percentage of imported inputs in production. For example, the percentage value of imported inputs must not exceed 40 percent. The other way is to pre-determine the minimum percentage of domestic inputs in the production process. For example, the value of domestic inputs used in the production process must not be less than 40 percent.

vested, picked or gathered in that country;

- Minerals and other naturally occurring substances extracted or taken in that country;
- Scrap and waste derived from manufacturing or processing operations or from consumption in that country and fit only for disposal or for the recovery of raw materials;
- Articles collected in that country which can no longer perform their original purpose nor are capable of being restored and which are fit only for disposal or for the recovery of parts of raw materials;
- Parts or raw materials recovered in that country from articles which can no longer perform their original purpose nor are capable of being restored or repaired; and
- Goods obtained or produced in that country solely from products referred to in (a) through (h).

2. Substantial transformation: When a product is accepted as being wholly obtained in the country, there is no dispute on its origin but whenever a product is manufactured with a combination of imported and domestic materials, disputes relating to origin arise. So far, in such disputes, origin is conferred to the country where the product is considered to have undergone 'substantial transformation'. According to the Agreement, substantial transformation is said to have taken place by evaluating three basic criteria:

- manufacturing process criterion including change in harmonised system (HS) heading also referred to as process criterion;
- value addition criterion also referred to as percentage criterion (see the box); and
- combination of the first and second criteria.

Since individual countries and their policymakers define their own RoO, the interpretation of 'substantial transformation' is open to debate. As a general rule, imported inputs are considered to have undergone 'substantial transformation' if the finished products fall under a tariff heading of a commodity clas-

sification system (normally the HS) different from that of any inputs used in the manufacturing process.

RoO are contained in two types of preferential arrangements. One is contractual or reciprocal like FTAs, RTAs etc. The other is autonomous or non-reciprocal like the Generalised System of Preferences (GSP).

Preferential trade agreements (PTAs) like FTAs and RTAs are allowed in the WTO as exceptions to the principles of non-discrimination and national treatment. RoO criteria in such preferential arrangements are used to identify products that are eligible for preferential tariff treatment² and those that are not. In doing so, most such arrangements use different tests for different types of products and some also use a 'hybrid test' wherein both a minimum percentage of value addition and a change in HS code of a product are required for it to have undergone 'substantial transformation'.

Such arrangements, whether FTAs or RTAs, are conceived as part of foreign economic policy with perceived benefits only for those parties that belong to the agreement. The common aspect of the RoO in these types of arrangements is the restriction on the use of third country inputs. As much as RoO are being used in PTAs to fix tariffs on imports, they are also being used to protect domestic industries and those industries which fall under those preferential trading areas.

As mentioned above, the other kind of preferential arrangement containing RoO criterion is the non-reciprocal or autonomous arrangement like the GSP. Most developing and least developed countries, including Nepal, are the beneficiaries of such arrangements. First initiated in 1979 by the signatories to the General Agreement on Tariffs and Trade (GATT) to allow exemptions to the principle of MFN in favour of developing countries and also known as the Enabling Clause, its Paragraph 2 (c)³, in particular, allows preferential arrangements among developing countries in goods trade.

Though the Enabling Clause allowed "preferential arrangement

among developing countries", the latter preferential arrangements initiated by special and differential treatments (S&DTs) like the GSP were designed as tariff preference schemes offered by developed countries to developing countries to (a) increase export earnings, (b) promote industrialisation, and (c) accelerate the rate of economic growth in favour of developing countries. However, GSP schemes differ depending on the foreign economic policy of preference providing countries. Due to such differences, even these schemes have become contentious. GSP-RoO are known to be highly restrictive and ensure only a limited amount of trade benefits to countries like Nepal. Small and isolated low-income developing countries that need GSP are, in fact, unable to avail of it to any large extent.⁴

Though extensively used in preferential arrangements with the objective of avoiding trade deflection⁵ amongst others, RoO could be less contentious than they are. An ambitious option is to harmonise RoO in preferential arrangements. However, a more pragmatic option in the current context is to harmonise them at the multilateral level. Consequently, work is underway at the WTO under the auspices of the Customs Cooperation Council to make them "objective, understandable and predictable." ■

NOTES

¹ WTO. 2002. G/RO/45/Rev.2

² Where tariff is less than that applicable to other countries or zero.

³ Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the contracting parties, for the mutual reduction or elimination of non-tariff measures, on products imported from one another.

⁴ James, W.E. 2006. 'Rules of Origin in Emerging Asia-Pacific Preferential Trade Agreements: Will PTAs Promote Trade and Development?' Paper prepared for UNDP/UNESCAP ARTNeT. Bangkok.

⁵ A situation where companies located in non-preference receiving countries might place a processing or assembly plant in a preference receiving country to take advantage of lower tariffs.

Commentary on the WTO Appellate Body

Decision on US-Zeroing

If the US abandons its zeroing practice in all forms, including in all forms of anti-dumping investigations, it will benefit developing country exporters as well as domestic consumers in the US.

James J. Nedumpara



The World Trade Organization (WTO) Appellate Body decision on United States- Measures Relating to Zeroing and Sunset Reviews – for short, *US-Zeroing (Japan)*, WT/DS 322/AB/R – nearly settles the legal position on the highly controversial issue of zeroing in the calculation of dumping margins in various types of anti-dumping investigations. The Panel was established to consider a complaint by Japan against the zeroing methodology applied by the United States (US) in a number of investigations involving Japanese exports of steel products and steel bearings.

The practice of “zeroing” in calculating margins of dumping has evoked remarkable interest among WTO Members. The first ever challenge of the zeroing practice in the WTO was made by India in the *EC-Bed Linen dispute*. Subsequent to this dispute, a number of countries have raised issues relating to zeroing practice in the WTO, particularly questioning the US practice in various anti-dumping investigations.

The *US-Zeroing (Japan)* is the latest in a series of disputes to have addressed this issue at the Appellate Body – the apex WTO ‘court’. The decision of the Appellate Body cir-

culated in January 2007 seems to reaffirm its consistent approach that zeroing in whatever form is not acceptable in calculating dumping margins. Most of the grey areas in respect of this highly controversial matter should be considered to have been clarified by this decision.

Typically in an anti-dumping investigation, when the normal value (normally the home market price of the exporter) is higher than the export price (the price at which the product is sold in the country taking the antidumping action), the difference is treated as the dumping amount for that sale or that comparison. However, in the calculation of export price and normal value, the devil is truly in the details. The dumping margin has to be calculated for a product under consideration for a specified period chosen, i.e., the period of investigation, which ranges from six months to one year.¹

The anti-dumping duty is levied always on the basis of the dumping margins determined for the exporters, unless the individual national systems implement methods such as the injury margin as followed in jurisdictions such as the European Union (EU) or India. However, in no case can the anti-dumping duty go beyond the dumping margin determined.

The WTO’s Agreement on Anti-dumping has prescribed how the margins of dumping should be calculated and the various price comparison methodologies that could be used. To explain, the comparison between export price and normal value has to be based on a weighted average basis² (W-W) for all transactions during the period under investigation or on a transaction-to-transaction basis (T-T). An exception to this methodology can be made in situations where targeted dumping³ is observed, where the investigating agencies can use weighted average to transaction comparison (W-T).

The concept of zeroing, in practice, has been seen to exist in respect of all the above price comparison methodologies.⁴ The export price for some transactions may be higher, or in certain cases lower than the nor-

mal value. When the adjusted export price is lower than the adjusted normal value, dumping is said to occur. Zeroing takes place when the dumping amount is set to zero instead of its calculated negative value in cases where the export price is higher or where those transactions are non-dumped.

Zeroing, thus, eliminates “negative dumping margins” from dumping calculation. The outcome of this practice is that dumping will look more severe than it is or appear to exist where it does not actually exist. The two most commonly noticed manifestations of zeroing, viz., “simple zeroing” and “model zeroing” were a subject matter of examination in the *US-Zeroing (Japan)* dispute.

Model zeroing occurs in the case of an average-to-average (i.e., W-W) margin calculation. To explain in the context of the above dispute, the United States Department of Commerce (USDOC) determines the margin of dumping using a calculation that first compares the weighted average ex-factory market price in the country concerned with the weighted average ex-factory US prices for a particular model or type of a product. Each model is a specific type of the subject product, defined in terms of physical features. Assume that cotton-type bed linen is the product; the models would constitute specific types such as bed sheets, towel, etc. The USDOC calculates the dumping margin for each model sold by the concerned exporter in the US Next,

in order to derive a single overall weighted dumping margin, the USDOC sums the dumping amounts only for those US models for which there is positive dumping and divides this by the total ex-factory value of all US models. In this methodology, the USDOC includes the sales for which negative dumping margins were found in calculating the total ex-factory value of all US models.

However, in summing up the overall dumping amount for the product, only the positive dumping values are taken into account.

Simple zeroing occurs when T-T margin calculation is made. Under this method, the ex-factory price of a single US sale is compared to the ex-factory price of the concerned comparison market sale. The USDOC calculates the dumping amount for each US sale. Next, to arrive at a single overall weighted dumping margin, the USDOC sums the dumping amounts only for those transactions for which there was positive dumping and divides this by the total ex-factory value of all US sales.

To sum up, under the model zeroing, the USDOC calculates the total amount of dumping for each US model; when simple zeroing is used, the USDOC calculates the total

Zeroing eliminates ‘negative dumping margins’ from dumping calculation and the outcome of this practice is that dumping will look more severe than it is, or appear to exist where it does not actually exist

amount of dumping for each sale. The ‘model zeroing’ deals with W-W comparison, while ‘simple zeroing’ deals with T-T and/or W-T. An illustration of model zeroing is provided in Table 1.

Under the model zeroing, the negative dumping margins are not provided offset, which implies that the overall dumping margin for the concerned exporter

would be higher. In Table 1, Model B is found to have negative margin and if such negative values are taken into account while calculating the overall dumping margin of all such averaging groups, the results would be significantly different.

More specifically, a key issue in most of the zeroing disputes, including the *US-Zeroing (Japan)*, related to situations where the investigating authority while undertaking multiple comparisons at an intermediate stage, chose the results of only some comparisons and not others. Such an approach suffered from lack of symmetry and resulted in an unfair outcome for exporters and importers.

In *US-Zeroing (Japan)*, Japan contested that “these zeroing procedures” can be challenged “as such”⁵ as a “measure” pursuant to the Agreement on Anti-dumping and the WTO Dispute Settlement Understanding. Although the zeroing practice is not part of any explicit legislative provision in the US legislation⁶, the computer programme used by the USDOC incorporates a zeroing code. Japan also challenged the application of these procedures in a number of anti-dumping proceedings with respect to products from Japan, specifically, in one original investigation, various periodic reviews and two sunset reviews. The upshot of an “as such” challenge is that a measure, if found to be “as such” violating a WTO provision, is likely to be withdrawn or the concerned Member is expected to refrain from apply-

Table 1: Model zeroing

Models/Types	“Normal Value”	“Export Price”	Units sold	Weighted average dumping margin
Model A	100	90	10	8.69%
	100	80	5	
	100	100	10	
Model B	90	105	10	-6.24%
	100	110	5	
	90	95	10	
Model C	110	100	5	11.32%
	120	105	5	
	115	105	5	

Table 2: Key findings by various WTO Panels/Appellate Body on zeroing

Dispute	Forum	Finding
EC-Bed Linen	Panel(WT/DS 141/R)	Zeroing in W-W comparison inconsistent with Article 2.4.2.
EC-Bed Linen	Appellate Body (WT/DS/AB/R)	Zeroing in W-W comparison inconsistent with Article 2.4.2. Dumping margin to be determined for the product as a whole
US-Soft Lumber (V)	Panel (WT/DS 264/R)	Zeroing in W-W comparison inconsistent with Article 2.4.2
US-Soft Lumber (V)	Appellate Body (WT/DS 264/R)	Zeroing in W-W comparison inconsistent with Article 2.4.2
US-Soft Lumber (Art.21.5 compliance)	Panel (WT/DS 264/R)	Zeroing in T-T comparison <u>not inconsistent</u> with Article 2.4.2 or fair comparison obligation under Article 2.4
US-Soft Lumber VI (Article 21.5 compliance)	Appellate Body (WT/DS 264/RW)	<u>Reversed</u> panel finding that zeroing in T-T comparison not inconsistent with Articles 2.4 and 2.4.2.
US-Zeroing (EC)	Panel (WT/DS 264/AB/RW)	Zeroing procedures can be challenged “as such” in W-W in original investigations Zeroing in US duty assessment proceedings does not violate Article 2.4 and 2.4.2 of AD Agreement
US-Zeroing (EC)	Appellate Body (WT/DS294/AB/R)	Upheld panel findings on “as such” challenge in W-W in original investigations Zeroing in duty assessment proceedings violated Article 9.3 of AD Agreement
US-Zeroing (Japan)	Panel (WT/DS 322/R)	Zeroing procedures can be challenged “as such” Model zeroing (W-W) in original investigations inconsistent with Article 2.1 and 2.4.2 of AD Agreement Simple zeroing procedure in original investigations <u>not inconsistent</u> with Article 2.4.2.
US-Zeroing (Japan)	Appellate Body (WT/DS322/AB/R)	Upheld the panel finding on “as such” challenge <u>Reversed</u> the panel finding that zeroing on T-T does not violate AD Agreement Zeroing in the context of periodic reviews and new shipper reviews inconsistent with Article 9.3 and 9.5 of AD Agreement and “as such” inconsistent with Article 2.4

Source: Compiled from Panel/AB findings

ing such a measure in the future.

The claims made by Japan in this dispute were fairly comprehensive. It covered all practical nuances of the zeroing methodology, which are worth explaining. To elaborate, the practice of zeroing varies depending on the nature and type of anti-dumping investigations as well as the comparison methodologies applied. The *Bed Linen*⁷ as well as the *Softwood Lumber* case⁸ primarily dealt with zeroing practice in original investigations. However, the offshoots from the *Softwood Lumber* case as well as

the challenge made by European Community in *US-Zeroing (EC)*⁹ enlarged the scope of the debate. The immediate question was whether zeroing is prohibited only in original investigations, or is also applicable to periodic reviews (assessment reviews), new shipper reviews¹⁰, changed circumstances reviews, sunset reviews¹¹, etc.?

As far as price comparison methodologies are concerned, the issue was whether this is applicable in the case of the most commonly used comparison methodology of W-W, or to

the other two comparison methodologies as well, viz., T-T and W-T. It may be recalled that in the *US-Zeroing (EC)*, the Appellate Body took the important step of extending the zeroing prohibition to assessment reviews. Specifically, the Appellate Body found that the US had violated the WTO Agreements in the challenged assessment review because the US had assessed anti-dumping duties in excess of the margin of dumping calculated without zeroing.¹²

A list of the key findings by various WTO panels/Appellate Body on

zeroing is provided in Table 2.

However, the legal position on zeroing was considerably muddled by the panel decision on *US-Zeroing (Japan)*. The panel ruled that simple zeroing procedure in T-T comparison was not an inadmissible methodology. The panel decision admittedly came out much after the release of the decisions of the Appellate Body on *Softwood Lumber* (Article 21.5 proceedings) as well as the *US-Zeroing (EC)*. In this backdrop, the Appellate Body had an occasion in the Japan case to lay all misgivings to rest.

The Appellate Body had also an occasion to decide on the issue of zeroing in various types of anti-dumping investigations. For countries such as the US which follow the retrospective system¹³, the actual duties are assessed only on the basis of the annual administrative reviews. It was noticed that in administrative reviews, the US had resorted to simple zeroing. Zeroing was also seen in new shipper reviews and changed circumstances review. For sunset reviews, the USDOC does not calculate new margin of dumping but relies on the margin calculated in original investigation, which are based on either model zeroing or simple zeroing.

The Appellate Body was not prepared to accept any form of zeroing, although it was argued by the US that WTO Members engage in behaviour akin to zeroing in prospective systems of duty collection. In a prospective system, the exporters can seek refund of excess duties collected for specific shipments, which technically permit zeroing. The US contended on the need for equal and comparative treatment of prospective and retrospective systems and that Members following the latter should not be prejudicially treated. The Appellate Body obviously was

The Appellate Body was not prepared to accept any form of zeroing, although it was argued by the US that WTO Members engage in behaviour akin to zeroing in prospective systems of duty collection

not impressed with this argument. The Appellate Body's expansive language, however, categorically stated that the prohibition on zeroing will apply to most, if not all, price comparison methodologies and most, if not all, segments of anti-dumping proceedings.

One of the major outcomes of this decision is the clear signal issued by the Appellate Body on the issue of zeroing

in respect of most types of anti-dumping investigations. Hitherto, the various panels and Appellate Body were consistent only in holding that zeroing in W-W comparison in original investigation was inconsistent. When it came to T-T comparisons and other types of investigations, various panels (three panels to be precise) had charted their own course apparently ignoring the previous Appellate Body findings on zeroing as a generally accepted norm. The panels are not bound by Appellate Body ruling under the WTO system. However, they will have to be extremely restrained while dealing with similar issues in the future.

In view of the series of rulings on zeroing, the US will have to abandon its zeroing practice in all forms, including in all forms of anti-dumping investigations. This particular decision is bound to benefit exporters, mainly from developing countries as well as domestic consumers in the US, who have to pay higher prices for inflated anti-dumping duty facilitated by the zeroing methodology. In a way, the decision has denounced efforts made by some countries in creating disguised protection for their domestic industry, at least, in the context of trade remedy investigations. ■

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NOTES

- ¹ In certain cases, the period of investigation stretches beyond one year, although one year is the standard duration in many jurisdictions.
- ² The weighted average price is determined by multiplying each adjusted normal value and export price, by its corresponding weights or quantity.
- ³ In targeted dumping, the pattern of export sales differs by purchaser, region or time periods. This form of dumping may require a special treatment.
- ⁴ The US argued that in original investigations, it has never applied any other methodology but has applied the T-T methodology once.
- ⁵ "As such" challenge encompasses allegation on the existence of the inconsistent measure independent of its application.
- ⁶ Section 777 A(d)(1) (A) of the US Tariff Act of 1930 as amended.
- ⁷ Appellate Body Report. *European Communities – Anti-Dumping Duties on Imports of Cotton-Type Bed Linen from India*, para. 66. WT/DS141/AB/R (Adopted on 12 March 2001) ("Bed Linen").
- ⁸ Appellate Body Report. *United States - Final Dumping Determination on Softwood Lumber from Canada*, para. 117. WT/DS264/AB/R, (Adopted on 31 August 2004) ("Softwood Lumber V").
- ⁹ See Panel and Appellate Body Reports. *United States - Laws, Regulations and Methodology for Calculating Dumping Margins ("Zeroing")*. WT/DS 294/R (Circulated on 31 October 2005) and WT/DS/AB/R.
- ¹⁰ For exporters who did not export the product during the period of investigation of the original proceedings.
- ¹¹ Review seeking extension of measure after a original duration of five years
- ¹² *US-Zeroing*, paras. 132-135.
- ¹³ The anti-dumping duties are not paid at the time of actual shipment, although a cash deposit or guarantee in the amount of the dumping margin previously determined is insisted on; the actual anti-dumping duty is calculated on the basis of a review. The anti-dumping duty shall be collected only after the review is completed. However, in a prospective system, the anti-dumping duty is collected on all imports made after the imposition of duty and refunds are calculated for specific shipments based on specific request from the exporter concerned.

Using Trade for Peace and Development in South Asia

There is no exaggeration in the claim that an increased bilateral trade between India and Pakistan will set a stage for increased regional cooperation, peace and development in the region.

Zubair Faisal Abbasi

Trade as an exchange of goods and services has a significant potential in contributing to increase peoples' choices and well-being. While trade can be a source of cooperation among countries, it can also cause conflict, mostly by raising trade disputes. Many view that the effects of trade-related disputes are negative and they create political and economic crisis, examples of which are the violent conflicts in the shape of two world wars.

In order to reduce the scope of trade disputes and economic conflicts and strengthen cooperation among countries through liberalisation, several initiatives have also been taken. For instance, as a legitimate response to the devastating effects of the world wars and with the objectives of promoting economic cooperation, a rules-based international trading system was formed in 1947, i.e., the General Agreement on Tariffs and Trade (GATT). It served as the only multilateral trading system for trade in goods till 1994 and emerged as the World Trade Organization (WTO) in 1995.

The WTO not only deals with trade in goods but also covers trade in services and intellectual property rights (IPRs). The major objectives of the WTO is to provide its Members a multilateral forum for negotiations in a transparent manner and deal with trade rules to ensure predictability and stability in trade policy making. It also foresees to improve trade practices so as to create an environment for nurturing peace and avoiding violent conflicts amongst its Members.

If we look at the actual and potential economic benefits of increase in trade at the global level, we find that trade could be used as a powerful tool to reap economic benefits and promote economic cooperation. As per WTO estimates, the 1994 Uruguay Round trade deal contributed between US\$ 109 billion and US\$ 510 billion to world income. Similarly, there are estimates showing that cutting trade barriers in agriculture, manufacturing and services by one-third would boost the world economy by US\$ 613 billion — equivalent to adding an economy the size of Canada to the world economy. Specifically, regarding the liberalisation of movement of natural persons (Mode 4) under the WTO's General Agreement on Trade in Services (GATS), a discussion paper prepared by the United Nations Development Programme (UNDP) states that a large number of developing countries would greatly benefit from improved access to services markets for their workers.

If we compare the actual and potential economic benefits of increase in trade at the global level with that of the case of South Asia, the picture which appears necessitates serious deliberations.

A recent report published by the World Bank titled, 'South Asia: Growth and Regional Integration' states that "South Asia is the least integrated region in the world". The report further adds that many of South Asia's competitors have dramatically reduced customs and port clearance times. One manifestation

of being least integrated is that the intra-regional trade in South Asia is less than 2 percent of gross domestic product (GDP). Coming to trade in energy and volume of telephone calls one can see in the report that only India, Bhutan and Nepal currently trade electricity while only 7 percent of international telephone calls are regional. It is worth mentioning that in East Asia, more than 20 percent (of GDP) trade is regional, and more than 71 percent telephone calls originate from the same region. A more startling fact is that the cost of trading across borders in South Asia is one of the highest in the world as South Asia ranks the last among all world regions in terms of road density, rail lines, and mobile tele-density per capita.

However, the report also claims that the high growth, averaging close to 6 percent per year since the 1990s, is creating a new momentum for greater regional integration. The report recommends that enhanced regional cooperation can be an effective tool in addressing energy shortages, improving connectivity, increasing investment, and promoting peace and stability.

It is, however, discouraging that South Asia has not been able to maintain regional integration due to various reasons. Many experts put the burden of South Asia being least integrated on Pakistan and India. They further claim that these are the only two countries in the region, which can either make trade work for peace and development in the region or sabotage the potential of market in-

tegration and regional welfare.

India and Pakistan, indeed, have an erratic history of bilateral relations and perceptions. The relations and perceptions with and about one another keep changing from being at war, near-war, and then more often than not turn around towards efforts for confidence and peace building.

Experts also argue that in many instances, the perceptions of 'state' and 'civil society' differ from each other, particularly on the question of managing the relations between the two countries though the perceptions of 'state' emerge as a defining feature for the working of the foreign and interior offices of both governments. One of the direct consequences of such divergence in perceptions is that not only India and Pakistan but the whole sub-continent are yet to explore the dynamism of 'hidden markets'. Also, the real stakeholders of trade, i.e., producers and consumers of goods (e.g., civil society and businesspersons) have not been part of the mainstream trade related initiatives and evaluations. As a result, the 'push for reforms' to enhance trade between India and Pakistan as a likely precursor to deeper regional integration is perceived to be from the outside and not from within or the bottom. Therefore, it is important to develop a clear and comprehensive framework on the role of 'state' as well as 'civil society' and also constructively harmonise their perceptions.

The current state of affairs also demands that the 'state' and 'civil society' of the sub-continent to look at the 'Beijing Consensus' so that they could develop approaches and guidelines for resolving the bottlenecks in trade relations. Such initiatives would not only increase the potential of better regional integration but would also contribute in bringing welfare and peace dividends in the region.

Particularly, such initiatives should explore practical avenues, which help increase trade between India and Pakistan so that businesspersons as well as consumers could make use of the emerging opportunities of globalisation. This is

one of the preconditions to maintain regional harmony and bring peace dividends for the people of the two countries as well as the sub-continent. Thus, there is no exaggeration in the claim that an increased bilateral trade between India and Pakistan will set a stage for increased regional cooperation, peace and development in the region.

Therefore, the two countries need to focus on two important issues:

- Innovation in approaching the problems for solutions to make trade related reforms as frictionless as possible and most importantly, make the processes knowledge/research-based.
- Focus on human development and institutions while looking beyond economic indicators like changes in per capita GDP and trade to GDP ratio (i.e., focusing more on quality of life, which in terms of human development means SEEP, i.e., sustainability, equity, empowerment, and productivity).

In doing so, both the Pakistani and Indian governments need to involve the civil society organisations (CSOs) and the business community in conducting serious policy action research on institutional arrangements for trade and economic cooperation. During the research, institutional arrangements and mechanisms should be looked into in detail and policy action recommendations need to be prepared for quantitative and qualitative changes in their working, efficiency, and effectiveness. This aspect should cover the 'non-tariff barriers/measures' as well as targeting institutional changes for trade facilitation and related conflict resolution. Thus, the institutional effectiveness aspect must not

Unless India and Pakistan increase trade between them and strengthen trading partnership consumers as well as businesspersons will not be able to capitalise on the emerging opportunities of globalisation

be undermined while making efforts to enhance the cooperation between India and Pakistan and among SAARC nations.

In addition, in policy action research, economic and social cost of non-cooperation must be calculated. Efforts should be made to develop policy action recommendations so that a sense of coordination emerges. Special focus should be made to link the research output with 'peace dividends'.

The ultimate aim of the policy action re-

search output for policy formation and institutional adjustment should be to come up with innovative and knowledge-based (as opposed to ideology based) ideas, solutions and policy actions for both the governments. It would oblige them to recognise the role of CSOs and take civil society perspectives into account while making decisions on trade related matters.

If both the countries start creating institutional harmony with utmost priority, not only they but all the countries of the South Asian region will benefit. It will also enable the region to concentrate wisely on SAFTA and its successful implementation, thus saving the region from putting more than required energy into other irrelevant bilateral and regional trade deals.

To conclude, SAFTA has the potential for achieving peace and development through trade but whether or not the governments of India and Pakistan want to use trade for peace and development is the question. ■

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Removal of Textile Quotas

Empirical Evidence from Nepal

Gyanu Sharma

Starting from the mid 1980s, the textiles and clothing (T&C) industry in Nepal experienced rapid growth, mainly due to the quota facility provided by the industrialised countries, including the United States (US). And, within 10 years, the industry became the biggest export-oriented manufacturing industry in Nepal. In 1994-95, it comprised of less than 1 percent share of the global readymade garment (RMG) trade but its exports made up 29 percent of the country's total exports and employed more than 50,000 workers. In the recent period, the industry is, however, facing stiff competition in the global market and struggling to survive. The World Trade Organization (WTO)'s rule to phase out the T&C quotas under the Agreement on Textiles and Clothing has not only led to the closure of T&C factories and drastic reduction in T&C exports but has also created other serious development challenges, including job losses.

Empirical evidence from Nepal

In order to track and assess the impact on human development of the removal of T&C quotas, SAWTEE and ActionAid Nepal conducted a survey of the Nepalese RMG industry in 2006. The survey report presented an empirical evidence of the impact on human development and losses incurred a year after the elimination of quotas.¹ Some of the evidences provided by the survey are summarised below.

The impact of the removal of quotas on T&C products has been severe in Nepal. Thousands of workers depending on the RMG industry for livelihood have lost their

jobs and entrepreneurs have seen their investments turn into scrap. In addition, the resource poor Nepalese government now has to cope with a sudden decline in export earnings.

The survey shows a direct relation between unemployment in the RMG sector and the removal of the quota system. Out of the 133 past employees surveyed, 66 percent cited closure of garment factories as the reason for unemployment. The sample data indicates that about 60 percent of workers had left their jobs within the last 2 years.



The loss of employment due to the decline in Nepal's garment industry is most acutely felt by those who are unable to find another job. Out of those who managed to find alternative employment, a majority saw their incomes decline. Workers with little or no education were among the hardest hit by the shutting down of garment factories.

Way forward

Given the removal of quotas and looking at the cases of countries that have found markets even in the post-ATC period, the major challenge for the Nepalese T&C industry is to find the means to be competitive. Examples from other countries show that government intervention is important for the survival of the RMG in-

dustry.² Post quota preparations done by various Asian countries include investments to reduce lead time (China and India), funds to help upgrade technology (India, China, Bangladesh, Pakistan), incentives that encourage backward linkages (Bangladesh, China, India, Vietnam) and tax incentives to RMG manufacturers (Vietnam, Sri Lanka and others).

If Nepal's government is unable to support the RMG industry because of financial constraints, there are other ways to help the industry in the short run. One such way is to lobby for preferential access in developed country markets, mainly the US, to mitigate the impacts and provide a 'cushion' to infant industries. Such access is critical for Nepal to compete in the global market because not only the countries of various trading blocks such as North American Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA) enjoy preferential access, several African countries too are provided with duty-free market access to the US market, albeit with a number of constraints attached. ■

The author was associated with SAWTEE.

NOTES

- ¹ SAWTEE and AAN. 2007. *Human Development Impact Assessment in the post ATC Period: The Case of Nepal*. A Survey Report Prepared for UNDP Regional Centre in Colombo. Kathmandu: South Asia Watch on Trade Economics & Environment and ActionAid Nepal.
- ² Adhikari, R. 2006. *Governments' Support to Textile and Clothing Sector in Select Asian Countries*. Colombo: UNDP Regional Centre.

Winners and Losers from Globalisation

There is a need to develop “aid for safety nets” package so as to help developing and least developed countries address the negative impacts and balance the benefits of globalisation.

Whether or not trade liberalisation helps countries to maintain sustained economic growth and address their development challenges is at the heart of globalisation debate. Proponents of globalisation argue that trade liberalisation has a significant role to play in stimulating economic growth and helping governments to address development challenges, including unemployment and poverty. Opponents view that globalisation only serves the interests of “the rich”. The debate rages on but there is no denying that globalisation has created both “winners and losers” and in both developed and developing countries.

Evidences show that for both, the emergence of a wide gap between those who gain and those who lose from globalisation is becoming onerous. However, while developed countries are trying to lessen this impact by introducing assistance and re-training programmes, the developing countries do not seem to have established and institutionalised such “safety nets”. It is either because they lack commitment to address such problems or because they cannot afford to implement such programmes due to lack of resources.

In order to support trade-displaced workers, the United States (US) government spends around US\$ 1 billion a year and since 1962, the Trade Adjustment Assistance (TAA) programme has been helping such workers with different safety nets. In



addition, a bill has been introduced in the US Senate with the sole purpose of expanding the TAA to not only cover manufacturing workers but also service workers. It includes incentives such as upto two years of unemployment benefits, re-training programmes and temporary subsidies to help pay medical insurance.

Similarly, in Europe too, overall public safety nets are far more generous. In fact, European governments have been spending much more money than the US is spending on training and other “active” help for all workers. They have created a Globalisation Adjustment Fund, offering job counseling and training.¹

These initiatives taken by the US and European countries indicate

that if governments fail to devise mechanisms to help those who lose from globalisation, unemployment will rise leading to various negative consequences on development. However, not all countries in the developing world can afford to institutionalise such safety nets on their own, mainly due to financial constraints. For example, in countries like Nepal, the phasing out of quotas on textiles and clothing from the beginning of 2005 led to the loss of thousands of jobs, but the government lacks safety nets to support those who are unemployed and still displaced in the job market.

Keeping in consideration the two global realities – first, globalisation creates both winners and losers and second, developing and least developed countries lack the capacity and measures to address the problems of displaced workers – it is high time for the world community, including the developed countries, to take this issue on board during global trade negotiations. If the world community addresses this issue, it will not only help developing and least developed countries to address the negative consequences of globalisation but

will also create wider support for globalisation. While ‘aid for trade’² has been conceptualised as a means to better integrate these countries into the global economy, there is also a need to develop “aid for safety nets” package so as to help them address the negative impacts and balance the benefits of globalisation. ■

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¹ The examples of the public safety nets for workers in the US and Europe are drawn from The Economist. 2007. ‘In the shadow of prosperity’. January 20-26.

² ‘Aid for trade’ is an assistance package introduced for developing and least developed countries by the Hong Kong Ministerial of the World Trade Organization (WTO) in 2005.

International System and South Asian Regionalism

Successful progress in the region cannot be imported and it is important for SAARC Members to act with a common spirit to optimise the prospects of regional cooperation.

Dev Raj Dahal

International System

The international system can be characterised by hierarchical, complex, competing and interconnected state and non-state power centres where a superpower alone is neither willing nor capable of bearing the entire burden of regional and global challenges. The peculiarity of the international system dynamics is that great powers are more interested in engaging the United States (US) in multiple regimes than challenging its dominant leadership. They are interested in respecting each other's vital interests while bargaining over other matters. The multi-polarity of power has added value to the rise of multilateralism, mutual responsibilities and a necessity for evolving multi-level governance. In this sense, multilateralism occupies the moral high ground where national world-views and interests are tempered for the common good of a larger number of peoples and states.

The post-September 11, 2001 scenario demonstrated that some of the sources of security threats are global in nature, such as inter-state conflicts, terrorism, outbreak of contagious diseases, ecocide, human rights violations, etc. Other sources of conflicts are defined more by the fault-lines within societies but they are also enmeshed in historical and geopolitical contests for physical domination. For example, the growing incongruity between the national state and global society, between national sovereignty and human

rights and between economic internationalisation and indigenisation of social and political system has weakened the coherence of governance in rule making, monitoring of compliance, rule-enforcement, management of public goods and conflict resolution.

Approaches to Human Security and Peace

In an age of post-industrial and post-state aspirations, actors cannot achieve their collective interests unless they can overcome the barriers to collective action and pool their sovereignties for the creation of a regime. There are four dominant approaches to peace and security.

State-Centric Order: State sovereignty defined by the peace treaty of Westphalia is the central organising element of the international legal and political system. Since the essence of international politics largely remains untransformed, security essentially means liberation of citizens from the

Hobbesian state of nature through the sovereignty of state in internal and external relations and the maintenance of a regional and global balance of power. When the part (state) becomes sovereign, the whole, that is, architecture of international system lacks a unified sovereign authority for global governance. Calculation of expected benefits shapes the cooperative behavior of actors, mutual policy adjustment and coordination in various issue areas. Today, the powers of state are challenged on all fronts through market, politico-economic and geo-strategic forces.

Inter-National to Global Relations: The space beyond the state has become the domain of regional and global institutions. Due to complex interdependence involving negotiations, even the state system is oriented towards a Grotian vision of shared interests, growth of international law and institutions, norm-governed co-operation and peace. States can bar-



gain better if they can coordinate their strategies through a coalition or regime. There are proposals for the integration of the World Trade Organization (WTO), the World Bank, International Monetary Fund and even the formation of an Economic Security Council in the United Nations (UN). The UN and the international community have now rightly undertaken a number of vital tasks—

preventing diplomacy and peace-building in the areas of security; nation-building, supporting multi-track initiatives of the government, business and civil society groups to harness the synergy for horizontal cooperation and seeking a balance between societal, intergovernmental and supra-national efforts in the areas of development cooperation; nuclear safeguarding

have begun to subsume the very concept of collective action at various levels of security analysis—individual, sub-national, state, regional and global and orienting them towards achieving a modicum of world order.

Global Social Contract and Perpetual Peace: Immanuel Kant articulated the vision of perpetual peace. In this peace, systemic anarchy and animosities between and among states and peoples are democratically resolved and the great human evils, such as anarchy, fear, terror, war, denial and oppression can be conquered by seeking to make rule-based global governance and global social contract achievable by conditioning a common pattern of policy and behavior of states and non-state actors. According to him, perpetual peace can be achieved when cooperation is based on contract than status and governed by the rise of democratic constitutions, cosmopolitan laws and interdependence.

This globalisation of political economy has made regional cooperation an inescapable option. In this context, the critical questions for the South Asian Association for Regional Cooperation (SAARC) are: Does the inclusion of Afghanistan as a new Member in SAARC make the region cohesive, stable and effective or further polarise it from within? How can cooperation become meaningful when outward orientation is not matched by internal economic integration, policy harmony on a number of meta-issues and expansion in the activities of institutional routines of the SAARC secretariat? How long do the core powers of South Asia, India and Pakistan, require in establishing confidence and collaborate on complex challenges that plague SAARC?

The Spreading Regime Wings

Cooperation and co-existence in the international system rest on a political strategy of confidence building, mutual recognition and shared view of the common good. For instance, the European Security Strategy rests on a coherence of its policies such as burden sharing in the transatlantic alliance, internal cohesion and the

ability and willingness to cope with the security problems occurring at its borders. Europe has turned into a 'social state' and is trying to maintain a reasonable balance between market competition and promotion of social justice through its social charter.

In regimes like the Asia Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN) Regional Forum and ASEAN Plus 3 (China, Japan and South Korea), confidence building has become an overriding objective of Summits, upon which solution-oriented approaches to regional challenges are applied through various tiers of functional cooperation. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) promises a new institutional expression of a regime, which seeks the well-being of the people of the region through shared development initiatives and links South Asia with Southeast Asia.

The renewal of the South Asian consciousness and identity is inspiring the regional leaders to converge their expectations in the areas of cooperation and shape their common future. But, the institutional learning of SAARC from these regimes is a cautious one. As a consequence, strong regionalism is yet to keep pace with the expanding need for multi-lateral cooperation. The greatest challenges in South Asia spring from the struggles for space, power, resource and identity, centrifugal movements of sub-national groups and other problems of transnational nature. Poverty, disease, rights violations, refugees, state fragility, terrorism, weapons proliferation, hunt for energy, etc. are embedded in the structural conditions of the regime.

The least developed countries (LDCs) of the region require a structure of incentives bringing forth the productive partnership, integration of city-centred economies with rural regions and absorption of their surplus workforce. They need a higher level of trade to overcome the insufficiencies of domestic markets, foreign assistance and direct investment to complement poor internal resources

by the International Atomic Energy Agency (IAEA); the Kyoto Protocol in the management of global environment; and the Millennium Development Goals (MDGs) in the areas of human development. These steps are important for the survival of the international system as a whole.

The Centrality of Civil Society in Global Space: Consistent with the hopes of federalists and integrationists, functional activities of humanitarian, social and ecological organisations, such as International Red Cross, Inter-Parliamentary Union, Global Partnership for the Prevention of Armed Conflict (CPPAC), etc are pulling sovereign states, global markets and civil society groups into a solidaristic vision of post-state constellation and enlarging the notion of citizenship in all matters and all levels affecting their life, liberty, property and identity. Civil society groups



base and a safeguard against the vulnerability of their economies to other developments, such as inflation, ecological decline, debt crisis, market fluctuation, etc. Greater cooperation among regional states, market institutions and civil societies can easily foreclose geopolitical rivalries, contribute to reducing security risks arising out of power disequilibrium and enable collective action to achieve the basic objectives of SAARC's social charter so that systemic orientation of upward economic integration can balance downward social integration.

Expanding the Framework of Multilateralism

In the Declaration of the twelfth SAARC Summit, regional leaders agreed to "establish dialogue partnership with other regional bodies and with states outside the region, interested in SAARC activities." Inclusion of Afghanistan as the eighth Member in SAARC has established a link with the Middle East and Central Asia. Millions of regional workers in the Middle East have cemented this link. SAARC needs to invest in human resource development and formulate a regional strategy to develop a skilled workforce to match with knowledge-based society. To leverage the opportunities provided by the current economic dynamism of Gulf Cooperation Council (GCC), South Asian policy communities have shown interest in expanding the base of remittance economy, trade, foreign direct investment and market opportunities.

Inclusion of the European Union (EU), China, Japan, South Korea and the US as observers of SAARC is enlarging its sphere outside the region. Open regionalism has disadvantages if internal coherence and symmetry of information are not properly attuned, opportunities for mutual interests remain vaguely defined and policy coordination suffers due to structural and institutional deficiencies. The SAARC responded positively to the request of the US and South Korea seeking observer status. For the EU, South Asia's importance is fundamental. The EU is, therefore,

following a pro-active policy of engagement with the region and consistently affirmed its interest in strengthening links with SAARC.

China, Japan and South Korea by the logics of geo-economics of proximity are attracted towards the economic potential of this region. Economic cooperation strongly anchored within the Agreement on South Asian Free Trade Area (SAFTA) and the WTO is expected to produce spillovers into other sectors and generate contextual confidence in harnessing mutual investment, economic union and ultimately the formation of a South Asian economic community. The launching of SAFTA took place in July 2006 and the phasing out of the tariff and non-tariff and para-tariff barriers remained on sharp look from all sides. However, there is a need to create a level playing field so that even small countries can reap reasonable benefits. Developing countries also face tougher challenge especially in reasserting the importance of Doha Development Agenda for poverty alleviation and contributing to development. The establishment of the WTO outside the UN family is designed to promote neo-liberal policies without reasonable considerations to core labor standards, human rights and the environment.

Inclusion of new Members and engagements of regional and global powerhouses in the region mean raising the profile of South Asian regionalism, expanding the scope for multilateralism, enlarging the areas of functional cooperation and building a foundation for security.

Comprehensive security devoid of collective economic cooperation is simply unsustainable. China's recent observer status in SAARC and India and Pakistan's at the five-nation Shanghai Cooperation Organization (SCO) illustrates this point. On the one hand, India is developing a strategic and cooperative part-

The rationale for regional cooperation in South Asia has been reinforced by the rapid global changes taking place at strategic levels

nership, instituting a political mechanism to resolve its border dispute and increase trade while on the other hand, it has signed a deal on civilian nuclear energy with the US, Pakistan and Afghanistan. Other smaller countries of the region are not far behind in seeking leverage for national self-assertion and mutual accommodation with their neighbours and global powers.

Conclusion

Making regional peoples and states common stakeholders requires the sharing of benefits of cooperation and strengthening the web of comprehensive security at inter-societal and inter-state levels. The rationale for regional cooperation in South Asia has been reinforced by the rapid global changes taking place at strategic levels and by trends in information technology, economy and the modernization processes unleashed by globalisation. Securing an effective management of regional cooperation requires the collective strength of all countries in the region, backed by unity of purpose and action in the region and commitment in the pursuit of SAARC's objectives.

South Asian countries can overcome their handicaps by trying to strike a balance between taking refuge in global justice through multilateral institutions and harnessing the growing need for regionalism. An embedded cooperation requires not just palliative measures, which do not go to the root of the regional problems but a deep structural transformation of political economy. Successful progress in the region cannot be imported. It is vitally linked to the resiliency of the Member states acting with a common spirit to optimise the prospect for shared cooperation, peace, progress and identity of South Asia. ■

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Trade on Human Terms

Jagath Dissanayake

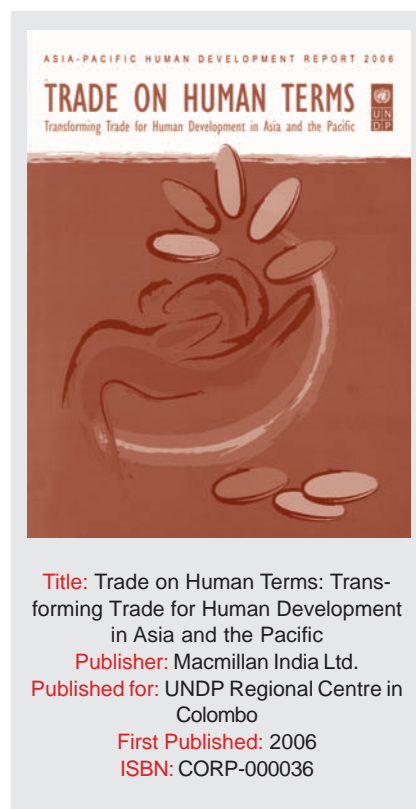
International trade has been the engine of growth for many countries of Asia and the Pacific. However, several smaller countries in the region, especially the least developed countries (LDCs), have not yet experienced significant gains from trade.

Asia Pacific Human Development Report 2006 - Trade on Human Terms: Transforming Trade for Human Development in Asia and the Pacific shows that trade liberalisation does not automatically lead to higher employment and poverty reduction. Human development through trade needs to be engineered through favourable changes in the international trading regime and appropriate domestic policies.

The report analyses the impact of trade on people's lives and highlights the potential problems that the countries in the region are likely to face. The report also presents some policy recommendations for governments of Asia and the Pacific countries.

In particular, the report highlights the importance of pursuing growth through trade. In many countries, discussions on trade issues are, however, limited to economic implications. The report stresses that they should consider trade in broader terms, i.e., also looking into the human development aspects of trade. As a sustainable growth strategy, the authors do not choose to prioritise either economic growth or human development. Instead, they suggest a balanced growth that incorporates both.

One of the key problems that poor farming communities in Asia and the Pacific region face is getting market access. However, simply providing training programmes to farmers will not solve the problem because international trade requires sophisticated



marketing techniques. In order to make international trade pro-poor, governments of Asia and the Pacific should make efforts to shorten the link between international buyers and domestic suppliers. The report, however, does not suggest any policy for governments to shorten this link.

The report correctly identifies that market access is not sufficient to make any sector pro-poor; governments should take necessary action to make local producers competitive so that they benefit from trade. As one of the policy priorities to mitigate the adverse effects on workers, the report suggests that governments should enact the labour laws to guarantee the rights of the workers. However, it should be noted that strict labour laws could negatively impact the investment climate of the countries and

it may also have negative impacts on the entire economy.

The report clearly identifies that the most important benefit of trade, in terms of human development, is to create employment. It identifies the importance of forming support institutions. However, the report does not highlight the means by which such institutions could work for the poor. For example, many institutions in the region serve to benefit only the sophisticated services providers while direct marketing of low end services providers, many of whom are poor, would be more helpful in lifting many small players out of poverty.

According to the authors, many of the LDCs cannot benefit from trade because of geographic constraints such as inaccessible mountainous terrains and landlockedness, which make transportation expensive. In light of such a disadvantageous position, LDC governments should focus more on the services sector where transportation is not a critical factor. But the national agenda presented in this regard does not pay due recognition to improving the services sector in geographically disadvantageous countries.

The report identifies problems in national and international policies but does not provide meaningful pro-poor policy recommendations. The report concludes with an eight point agenda to ensure that trade works for human development. These recommendations have been generalised to such an extent that it has nothing new to offer. Specific recommendations would provide better guidelines to governments in Asia and the Pacific region. ■

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7Up3

Promoting effective markets in
Eastern and Southern Africa

CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE) has undertaken a two-year project titled 'Capacity Building on Competition Policy in Select Countries of Eastern and Southern Africa', also called 7Up3 Project. The project will be implemented in seven countries: Botswana, Ethiopia, Malawi, Mauritius, Mozambique, Namibia and Uganda.

The 7Up3 project is a sequel to other two projects of CUTS – 7Up1 and 7Up2. The 7Up1 project was implemented in seven developing countries of the Commonwealth – India, Kenya, Pakistan, South Africa, Sri Lanka, Tanzania and Zambia; and 7Up2 is still being imple-

mented in Bangladesh, Cambodia, India, Lao PDR, Nepal and Vietnam.

One of the major objectives of 7Up3 is to develop the capacity of national stakeholders, including policymakers, regulators, civil society organisations (CSOs), academicians and the media to better understand the issues relating to competition and competition policies. The project aims to enable the stakeholders to conceptualise and promote the idea of 'competition culture' thereby creating a conducive environment for the implementation of competition policies.

7Up3 will involve a leading research institution in each of the project countries as a partner, which

would conduct intensive research on the status of competition. The research will identify competition related issues and concerns in the project countries and with the dissemination of research findings among concerned stakeholders, the project targets to sensitise a wide range of other stakeholders.

CUTS-CITEE initiated this project building upon the success it achieved while implementing the earlier two 7Up projects. The 7Up3 project is being implemented with the support from the Norwegian Agency for Development Cooperation (NORAD), Norway and the Department for International Development (DFID), United Kingdom. ■

Conference on Trade in Services

A two-day International Conference on "Trade in Services in South Asia: Opportunities and Risks in Liberalisation" organised by the Institute of Policy Studies of Sri Lanka (IPS) and Friedrich Ebert Stiftung (FES) was

held in Colombo, Sri Lanka during 4-5 April 2007. Sri Lankan Minister for Export Development and International Trade, Hon. Prof. G.L. Peiris attended the conference as the Chief Guest.

The objective of the conference was to undertake a comprehensive policy analysis of the implications of trade in services on sustainable development in South Asia. The conference intended to take note of each participating country's latest position in the World Trade Organization (WTO) negotiations on trade in services. An analysis of service sector liberalisation undertaken till date in the region as well as the opportunities and risks from further liberalisation were highlighted at the conference. The potential areas of cooperation in the services sector in the South Asian Free Trade Area (SAFTA) framework was one of the issues discussed at the conference.

Around 50 policymakers, researchers, private sector participants and representatives of civil society organisations from seven South Asian countries (Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka) attended the conference. ■



South Asian Civil Society Network on Corporate Social Responsibility

SAWTEE together with Partners in Change (PiC), India organised a three-day workshop on 'South Asian NGO Consultative Meet on Promotion of Corporate Social Responsibility' during 25-26 April 2007 in Lalitpur, Nepal. A group of experts representing 30 non-governmental organisations (NGOs) from eight South Asian countries – Afghanistan, Bangladesh, Bhutan, India, Nepal, the Maldives, Pakistan and Sri Lanka – participated in the consultative meet and came up with an idea to form a South Asian Civil Society Network on Corporate Social Responsibility.

Participants opined that such a network will facilitate knowledge sharing among the NGOs working in this area as well as assist in developing a common frame of reference to work on corporate social responsibility (CSR) issues. They also felt that the regional civil society network will assist South Asian NGOs to engage with various international institutions working on CSR.

There has been an understand-

ing in the meet to mobilise the CSR network to work with South Asian Association for Regional Cooperation (SAARC). The participants said that such an engagement with SAARC is critical to expand the scope of the CSR network as it would provide an opportunity to work on key social, economic and environmental issues in eight countries of South Asia.

The need to create dedicated domestic and regional funds for CSR research and advocacy was also highlighted by the participants. At the meet, four working groups were formed with the aim of bringing the South Asian civil society network into operation within the next six months.

The first group will work on governance issues and working principles of the network, the second on a frame of reference incorporating expectations of South Asian NGOs from businesses on social, economic



and environmental fronts; and the third on thematic areas on which the South Asian Network can focus on. The fourth working group will identify various mechanisms of engaging with SAARC on CSR issues.

Further, the working groups will be supported by resource persons from similar regional networks from the Netherlands and Argentina and it was also agreed that in the interim period, PiC and SAWTEE would continue to provide coordination services to the network. A meeting to review and finalise the submissions of the four working groups will be held in Dhaka, Bangladesh during October-November 2007. ■

Media workshop on trade and poverty

FORUM for Protection of Public Interest (Pro Public), Kathmandu, in association with SAWTEE and Society of Economic Journalists of Nepal (SEJON), Kathmandu, organised the Regional Media Workshop "Trade and Poverty: Where is the Linkage?" in Nepalgunj, Nepal on 23 February 2007. The workshop contributed to build the capacity of journalists by enhancing their knowledge on issues concerning trade, poverty and the linkage between trade liberalisation and poverty reduction.

At the first session of the workshop, Dr Shiva Sharma, General Secretary of the National Labour Academy, Kathmandu provided general information on the situa-

tion and dynamics of poverty in Nepal. He also briefed the journalists on the relationship between trade and poverty, particularly giving examples of the performance of the agricultural sector and the contribution of agro-trade in poverty reduction.

In the second session, Dr Sharma presented a paper on 'Manufacturing Industry and Poverty in Nepal'. He highlighted that the manufacturing sector not only uses the domestic raw materials but also plays a significant role in employment generation and poverty reduction. However, in the case of Nepal, he said that the manufacturing sector has not been able to create 'backward linkage', due to which, the potential of the sector to generate em-

ployment and reduce poverty has not been harnessed.

In the third session, Mr Bijaya Ghimire, President of SEJON presented a paper on 'Reporting Skills on the Linkage between Trade and Poverty'. He said that journalists have a major role to play in disseminating quality news because it is one of the effective ways to create awareness among concerned stakeholders as well as raise constructive debates on issues pertaining to trade and poverty.

Around 70 journalists from the mid-western and far-western development regions, including those from the remote districts of Nepal – Kalikot and Pyuthan – attended the workshop. ■



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.



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