Trade and Development Monitor

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OPINION IN LEAD

Climate negotiations: Get the process right

The first formal round of climate change negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) after the Copenhagen conference is to be held from 9 to 11 April 2010 in Bonn.

The early resumption of negotiations is welcome as it will give more time for countries to narrow down their differences so that something more substantial than the Copenhagen Accord emerges from the 16th Conference of Parties (COP-16) scheduled for 29 November-10 December in Mexico this year.

It is essential that the negotiations proceed on the two tracks enshrined in the Bali Roadmap—the Ad-hoc Working Group on Long-term Cooperative Action and the Ad-hoc

Working Group on the Kyoto Protocol. While developed countries have indicated their desire to ditch the Kyoto Protocol in favour of a set of non-binding national emissions reduction pledges, developing countries have been insisting that the two-track process is sacrosanct.

Developing countries have variously expressed concern about the secretive and undemocratic process adopted while drafting the Copenhagen Accord or the manner in which the UNFCCC Secretariat or the UN Secretary-General and the Danish Presidency have written to them about the Accord. The attempt to promote endorsement of the Accord, which was only taken "note of" and not adopted by COP-15, via note verbale has met with consternation from many developing countries.

It is also worth recalling that a New Delhi meeting on 24 January of the environment ministers of BASIC countries—Brazil, South Africa, India and China—which were involved in the drafting of the Copenhagen Accord had emphasized the importance of the two-track process of negotiations, calling upon Denmark to convene meetings of the two negotiating groups in March and to ensure that the groups meet at least five times before COP-16 in Mexico.

The developing world, including South Asian countries, must remain vigilant so that the two-track process is preserved as envisioned by the Bali Roadmap.

ANALYSIS

Beware of trade agreements with developed countries

With the Doha Round of multilateral trade negotiations in a persistent stalemate, South Asian countries, like many others in the developing world, have one after another fallen for the bait of bilateral free trade agreements (BFTAs) dangled by rich countries with dubious promises of favourable market access conditions.

If India, the largest economy of the region, is negotiating an FTA with the European Union (EU), three other countries—Afghanistan, Pakistan and Sri Lanka—have signed a Trade and Investment Framework Agreement (TIFA) with the United States (US) and are at various stages of negotiations to sign a bilateral FTA with the world's largest economy. And now Nepal is all set to enter into a TIFA with the US, hoping to secure duty-free market access for Nepali goods (though the proposed TIFA makes no such commitment), including readymade garments whose export to the US has gone into freefall since the expiry of the WTO's Agreement on Textiles and Clothing on 1 January 2005.

The cause for worry is the tendency of developed countries to insert conditions in trade agreements with developing and least-developed countries that go beyond what the latter have committed under the World Trade Organization (WTO). Such WTO-plus conditions mainly relate to intellectual property rights (IPRs), services and investment liberalization, and environmental and labour standards. If agreed to, they may severely curtain the policy space of developing-country parties to pursue their development objectives, ranging from ensuring affordable access to medicines to protecting nascent domestic services providers to maintaining external sector balance.

Let's consider the template followed by the US while negotiating such agreements. In the case of Asia, the script followed is that of US-Singapore Free Trade Agreement. While one of the most liberal countries in the world such as Singapore could afford to accept the conditions, countries like Afghanistan, Nepal, Pakistan and Sri Lanka cannot afford to so.

On IPRs, the flexibilities provided by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) are severely tightened in the US template. For example, rules on issuing compulsory licensing to make generic drugs available in the market at the time of public health crisis are tightened. Similarly, the flexibility of not providing patent protection on plants and animal are taken away and providing protection to plant varieties through a unique system suited to the country's environment (called *sui generis* system) is not allowed.

The US offer invariably contains a provision on services liberalization. Partners are asked to follow a negative list approach for services liberalization, as opposed to a positive list approach followed in the General Agreement on Trade in Services (GATS) at the WTO. When a negative list approach is followed, only those sectors that are contained in the negative list are excluded for the liberalization; all others (including future services yet to be invented) are deemed liberalized.

On investment, the US invariably insists on pre- and post-establishment national treatment. A BFTA with the US may also contain a provision for "deemed expropriation", whereby any regulatory measures taken by the government, including in public interest, which could result in a reduction in the value of investors' assets, could be challenged by the investor as "illegal". The definition of investment in some BFTAs with the US goes well beyond the traditional definition of investment to also include equity, retained earnings and portfolio investment. A BFTA with the US also obliges the other party to make commitments on issues such as environment and labour standards, which are outside the domain of the WTO. These high standards are costly to comply with for poor countries. They may well turn into a source of disguised protection, offsetting tariff concessions, if poor-country products are denied preferential market access on grounds of non-compliance with such standards.

While a majority of developing countries which have signed BFTA with the US have caved into US demands, two Asian countries, namely, Malaysia and Thailand particularly stand out for resisting US pressure so far. Thai negotiators, for example, have been insisting on more clarity on technical barriers to trade issues and submitted intellectual property proposals to the US, including one seeking geographical indication protection for products such as Jasmine rice and Thai silk. Another Thai proposal calls for both countries to enact measures for benefit-sharing related to the research and commercialization of products that utilize genetic resources and/or traditional knowledge. This is an issue yet to be included in the WTO, but being raised by developing countries in the Council for TRIPS with the aim of harmonizing the provisions of the TRIPS Agreement with the Convention on Biological Diversity, an international convention for the conservation, sustainable use and benefit sharing of biological resources.

Given what is at stake and the lessons offered by international good and bad practices, it would be imprudent for South Asian countries to enter into such BFTAs without conducting serious homework. This includes at a bare minimum consultation with all stakeholders to identify national interests and priorities, and then form negotiating positions and strategies to ensure that such deals reflect the developmental concerns of the developing-country partner.

OTHER NEWS

World trade contracted 12 percent in 2009: WTO

Global trade contracted by about 12 percent in 2009 but has started to pick up, World Trade Organization (WTO) Director-General Pascal Lamy said on 24 February during a visit to Brussels.

Lamy termed it a huge drop and the sharpest decline since the end of World War II. The WTO had revised its previous estimate of a contraction of about 10 percent in 2009.

Asked about world trade in 2010, Lamy declined to give any figure but said global trade is picking up, although it is difficult to say whether the pick-up is short-term or sustainable.

Lamy told a meeting organized by the European Policy Center think-tank that opening global trade offered a way out of the crisis and that it was "economically imperative" to conclude the Doha round of talks on a new global commerce pact.

Source: www.reuters.com, 24.02.10.

Germany loses trade crown to China as exports plunge

China overtook Germany last year to become the world's leading exporter as German trade suffered its sharpest slump since 1950.

While Chinese exports amounted to US$1,201.7 billion, German exports totalled US$1,121.3 billion in 2009, according to the German national statistics office, Destatis.

German exports in value terms were 18.4 percent lower compared to 2008, while imports, amounting to 803.2 billion euros, fell by 17.2 percent. It was the highest decline recorded in Germany's foreign trade since 1950.

Europe's largest economy also reported, however, that its exports were 3.4 percent higher in December compared to December 2008, the first year-on-year gain since October 2008 and a key indication that a recovery is underway. Imports fell by 6.5 percent over the same period.

Compared with November 2009, exports were 3 percent higher and imports gained 4.5 percent, further signs of a pick-up in global trade that should help Germany pull out of its worst recession since World War II.

Source: Agence France Presse, www.thedailystar.net, 25.02.10.

EU to cut Sri Lanka trade benefits over rights

European Union (EU) nations decided on 15 February to withdraw preferential trade benefits from Sri Lanka due to "significant shortcomings" on human rights issues, the EU Commission announced.

The decision came after an "exhaustive investigation... identified significant shortcomings in respect of Sri Lanka's implementation of three UN human rights conventions," the commission said in a statement. However, the suspension of the GSP-plus (Generalised System of Preferences-plus) benefits will not take effect for six months "giving Sri Lanka extra time to address the problems identified," the EU executive added.

The EU's GSP-plus scheme gives 16 poor nations preferential access to the trading bloc in return for following strict commitments on a wide variety of social and rights issues.

Sri Lanka's government has come under attack from certain sections of the international community for the past several years because of the way it has conducted a war against Tamil Tiger rebels.

Sri Lanka gains about US$150 million annually due to preferential tariffs. The island nation's clothing industry is the main beneficiary, using the tax breaks to sell to high-street retailers in Europe.

Source: Agence France Presse, www.lankabusinessonline, 15.02.10.

India, Bangladesh, Bhutan likely to emerge from global economic crisis with stronger growth

With sound economic policies, India, Bangladesh and Bhutan are expected to emerge from the global economic crisis with stronger growth performances in South Asia, according to a World Bank report.

These three countries generally have sound economic policies and greater resilience of trade, investment, and remittances, the report said, noting that growth has been weakest in countries that entered the crisis with large internal and external imbalances, such as Pakistan, Sri Lanka and the Maldives.

In general, South Asia appears to have escaped the worst effects of the global economic crisis, the report—*Global Economic Prospects 2010*—said. However, the region's gross domestic product growth of 6 percent in 2009 remains unchanged from 2008.

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

Although the global financial crisis had a sharp negative impact on South Asia, the slowdown in regional GDP growth was the lowest among all developing regions, the report noted.

South Asia's import volumes through July 2009 declined 32 percent compared with the previous year. The decline in the region's merchandise export volumes was less severe.

Some sectors demonstrated marked resilience during the crisis, such as readymade garments in Bangladesh, Sri Lanka's partnerships with mid-to high-end retailers in the United States and the European Union, and India's information technology industry.

Overall, the combination of a sharp fall in the value of imports, a less steep decline in exports, and resilient remittance inflows have mitigated the negative effects.

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

Among South Asia's economies, India, the largest recipient of remittances in the world in dollar terms, posted a contraction in remittance inflows in 2009, while Bangladesh, Nepal, Pakistan, and Sri Lanka, experienced a slower pace of growth of remittances inflows.

Domestic demand in South Asia was relatively resilient, having been cushioned by countercyclical macroeconomic policies. Interest rates were rapidly cut across most economies, which represent a large share of regional household outlays.

Bangladesh, India, Pakistan, and Sri Lanka cut policy interest rates. Activity in Bhutan and Nepal, where the currencies are tied to the Indian rupee, was supported by India's expansionary monetary policy stance.

Although regional GDP growth is projected to accelerate, a return to boom-period growth rates is not expected in near future. The regional fiscal deficit is projected to narrow on reversal of stimulus measures introduced to support demand during the crisis.

Source: IANS, http://economictimes.indiatimes.com, 24.02.10.

WTO envoys despondent at receding Doha prospect

Gloom and frustration pervaded the World Trade Organization (WTO) on 22 February as the prospects of completing the Doha Round of negotiations this year receded.

The WTO's 153 members, in a ministerial late last year, had agreed to take stock at the end of March on whether the eight-year-old Doha Round could be concluded this year, as called for by political leaders.

But WTO Director-General Pascal Lamy told the General Council there were too many gaps and uncertainties in the negotiations to bring in ministers at this point. Lamy said the decision on whether the Doha talks could be completed this year was a political one to be taken by ministers. "Given where we are right now, it is also clear, however, that the end of March is too early for that," he said.

The decision prompted an outpouring of gloom by delegates, even as they pointed to advances in some technical aspects of the multifaceted negotiations.

Egypt said the talks had made no tangible progress since an abortive mini-ministerial in July 2008, and were now stuck in an abyss between rhetoric and reality. India's WTO ambassador, Ujal Singh Bhatia, told the Council the prospects of reaching a deal in 2010 were now in question. Mexico's ambassador, Fernando de Mateo y Venturini, said gaps between countries were now wider than in July 2008, adding that unless negotiators worked to narrow them and produced a deal for ministers to close, they risked facing the alternatives of suspending the talks or seeing them fade away, undermining the global trading system.

Lamy said WTO members would take stock of the Doha talks on 29 and 30 March, after which ambassadors and senior officials from national capitals would report back to ministers and discuss the next steps, which would need political guidance.

To prepare for the stocktaking and identify the outstanding gaps, the senior ambassadors who chair different aspects of the negotiations will prepare factual reports, while countries holding bilateral talks— such as the United States and the three big emerging economies of Brazil, India and China— will also report back.

The continuing rise in unemployment, even as the world pulls out of the economic crisis, is making many countries have second thoughts about opening up to more trade, while Brazil, one of the keenest supporters of a deal, faces elections. In the United States labour unions fear a trade deal could hurt jobs, even though the Obama administration is pointing increasingly to exports as a way of regenerating the economy. Nepal said that least developed countries were paying the price for failure to reach a deal, and called for an "early harvest", a call which drew support from China.

Source: Reuters, 23.02.10.

Copenhagen Accord in line with 3.9 degree warming: US researchers

A team of US researchers has found that the pledges submitted under the Copenhagen Accord are in line with a global temperature rise of 3.9 degrees Celsius, which is a level that scientists consider to be disastrous for the environment and human life.

An analysis done by researchers from the Sustainability Institute (a non-profit organization in the US that is involved in simulation modeling of climate change), the MIT Sloan School of Management, and Ventana Systems (a company involved in building simulation models) concludes that "emissions reduction pledges submitted under the Copenhagen Accord process fall short of the level of greenhouse gas emissions reductions required to limit temperature increase to 2 degrees Celsius, relative to pre-industrial temperatures. Instead, the proposals, if fully implemented, would allow global mean temperature to increase approximately 3.9 degrees Celsius."

The researchers concluded that to reach the Copenhagen Accord goal—limiting global warming to 2 degrees Celsius)—global emissions must peak within the next decade and fall to at least 50 percent below 1990 levels by 2050.

The estimates of the US researchers are more pessimistic than those in two other recent studies.

According to a 4 February press release by the Sustainability Institute, researchers analysed the pledges by countries that were submitted to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) till 2 February 2010.

The analysis, based on computer simulation of climate change, assumes that the goals for emissions reductions pledged by nations in their submissions are fully achieved and that loopholes (such as double counting of offsets or the selling of surplus emissions quotas) do not occur.

Source: TWN Info Service on Climate Change (Feb10/13), 12.02.10.

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