

POST CANCUN AGENDA FOR SOUTH ASIA

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INTRODUCTION

The fourth Ministerial Conference of the World Trade Organisation (WTO) held in Doha in 2001 launched a new round of trade negotiations through a broad work programme, i.e., the Doha Development Agenda (DDA). The developing countries had a strong faith that the DDA would revive the spirit of multilateralism in a true sense. However, against their expectations, different deadlines for working modalities on several negotiating issues set by the DDA were missed one after another. Furthermore, due to divergence between developed and developing member countries, particularly on agriculture and 'Singapore issues', the fifth Ministerial held in Cancun, which could have contributed a lot to accelerate the negotiations under the 'DDA framework', failed.

Now, due to these setbacks, global trade talks under the DDA have become increasingly difficult and uncertain. This clearly means that the DDA is in crisis and so is the multilateral trading system espoused by the WTO. At this critical juncture, to put the talks back on track, there is a need for extensive political and economic efforts by all members. But are countries willing to put in such efforts?

The United States (US) has already announced that it would prefer bilateral and regional trading arrangements. Many other countries including Australia, Thailand, Peru and New Zealand are also thinking along the same line. In fact, after the Cancun Ministerial, many free trade agreements (FTAs) among countries have already been reached and many are in the pipeline. Instead of committing to revive the multilateral trade talks, why are countries choosing to go for bilateral FTAs and regional trade agreements (RTAs)? This needs a serious and critical analysis. Particularly, the South Asian countries must make it a point for analysis as the countries in the region are now lost within the 'ism' riddle – unilateralism or bilateralism or regionalism or multilateralism.

In the backdrop of the sluggishness of the DDA, the Cancun fiasco and a spate of different bilateral and regional agreements, this paper looks into the post Cancun agenda for South Asia. The paper analyses the costs and benefits associated with different types of 'isms' and recommends that South Asia must strive hard to revive the spirit of multilateralism, seeking ways to give momentum to it.

CANCUN FIASCO: WHAT WERE THE REASONS?

In the Doha Declaration, the Ministers had set for themselves three tasks for the Cancun Ministerial - 'to take stock of progress in the negotiations under the DDA, provide any necessary political guidance, and take decisions as necessary'. Had the Ministerial been successful, it would have significantly contributed to strengthening the multilateral trading system. However, this did not happen.

The Cancun Ministerial concluded without any substantive decisions, except welcoming two least developed countries (LDCs) - Nepal and Cambodia - as new members. Negotiating positions of Cancun delegates were uncompromising. The developed countries incessantly yearned for negotiations on Singapore issues, i.e., competition, investment, trade facilitation and transparency in government procurement whereas the developing ones insisted for negotiations on other issues, mainly agriculture. On the third day of the Ministerial, when the Second Draft of the Ministerial Text was released for discussions, the conflict reached its climax. A majority of developing countries, led by G-22

group¹, largely remonstrated against the text blaming it for being biased towards the developed countries' agenda. Consequently, negotiations on the Draft Declaration could not succeed.

Yet, the developed member countries did not leave any stone unturned to address their concerns during the Ministerial. They started the Green Room process (where few influential countries meet to sort out their differences). However, even after the start of the Green Room process, nothing could be achieved. The discussions ended inconclusively. Ultimately, the Mexican chair called the meeting to a close, declaring that further negotiations were impossible.

As per one school of thought, a conclusive deal could have been struck had the chair extended the discussions. But, another school viewed that given the varied intentions and conflicting interests among members during negotiations, even in the Green Room process, any deal would have been impossible (See Box: 1).

In fact, the Cancun Ministerial failed not because of principles but because of positions. Although the failure caught even seasoned negotiators by surprise, its seeds were sown

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HOW ULTIMATE EFFORT IN THE GREEN ROOM FAILED!

When negotiations on the Draft Declaration could not succeed, the Green Room process was launched. To begin with, the Mexican host started discussions on Singapore issues rather than the more important subject of agriculture – perhaps at the insistence of few interested and influential countries. When the divergence on Singapore issues and agriculture also persisted in the Green Room, the European Union (EU) eventually unbundled the Singapore issues dropping investment and competition from the WTO agenda.

The US was also ready to go along with the EU. Some of the developing countries such as India and Malaysia could live with this as well. However, the African group did not want any, while the other two supporters of the EU – Japan and Korea – insisted on all four. It is surprising to note that while the EU was ready to move on agriculture; both these East Asian countries were immovable. Ultimately, the discussions in the Green Room remained inconclusive and the entire Ministerial negotiations were called to a close.

Adapted from: Mehta, 2003.

long ago, perhaps in the eponymous DDA itself. The DDA's pro-poor agenda on agriculture, industry, and intellectual property rights was too optimistic. The post-9/11 global solidarity seems to have influenced the Doha outcome. The developed countries began disowning the DDA immediately after the Doha Declaration was signed. Increased farm subsidies effected in breach of the Agreement on Agriculture (AoA) and the reluctance to accommodate the interests of poor countries in the review process of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement are examples.

CANCUN FAILURE: THE AFTERMATH

The failure of the Cancun Ministerial brings to the forefront three questions: What will happen to the DDA ?; How would future trade liberalisation be carried out ?; and What would be the WTO's structure ? Let us briefly discuss each of these questions.

What will happen to the DDA?

The failure of the third Ministerial in Seattle in 1999 had put the WTO trading system at a crossroads, leaving a room to question on its efficiency and existence. However, the 'breakthrough' made at the fourth Ministerial in Doha in 2001 relieved many. In agreeing to launch a 'broad and balanced' work programme through the DDA, Ministers directed officials in Geneva to undertake a series of negotiations and to address a variety of concerns, including those of developing and least developed members, through work in various WTO councils and committees. The work programme was spelled out in different declarations – 1) Ministerial Declaration; 2) TRIPS and Public Health Declaration; and 3) Declaration on Decision on Implementation.

The main Declaration spelled out a series of negotiating objectives and intermediate deadlines and mandated 1 January 2005 as the date for completing the DDA. During the DDA negotiations prior to Cancun, conclusive results were to be

drawn within the set deadlines on various issues. However, the slippage of deadlines for resolving the important issues of implementation and special and differential treatment (S&DT), reforming the Dispute Settlement Understanding (DSU) and, more importantly, agreeing on the modalities of agriculture disappointed many. The only success has been in ensuring access to medicines for the poorest countries, which lack the capacity to manufacture generic drugs under license.

With these setbacks in the progress of the DDA, the Cancun Ministerial had a tough task to complete. But it failed to deliver promising results. In fact, many civil society organisations (CSOs), including SAWTEE, had already speculated that the Ministerial would be yet another setback. And, they were not wrong. Observing the progress made towards minimising the existing differences among members, one can conclude that the DDA is indeed facing a turbulent time. Moreover, the 15 December 2003 deadline set to re-launch the stalled trade talks also ended without any agreement. This has further clouded the prospect of achieving any breakthrough on the DDA. However, in recent days, one sees renewed interest among WTO members in reviving the talks.² Revival of negotiations is active on the agenda. To quote Peter Sutherland, the Executive Director of the General Agreement on Tariffs and Trade (GATT) during the Uruguay Round, "Cancun was a setback, but not a tragedy".³

However, it must be noted that future prospects on negotiations are likely to be dominated by 2004 US elections and the EU expansion (including Eastern European 10 countries). Increasing trade deficits in some developed countries (e.g. USA) demands protectionism. Already a bill on high tariffs for Chinese exports has been proposed, unless China decides on currency appreciation.

Given these complexities, there is a strong possibility that the Doha Round would not succeed in its mission (See Table: 1). That is because, given the current stalemate in agriculture, there is very little room between developing and developed countries to come to a consensus. Likewise, the inefficacy of the S&DT provision makes it unlikely that an all-party deal can be struck soon.

Future trade liberalisation

The failure of the Cancun Ministerial is being viewed as a threat to the current global trading order. Given the lack of multi-lateral consensus, many member countries, particularly the US, are already making a shift to bilateral and regional agreements. In fact, a fresh spurt of bilateralism and regionalism has already flowed in. Despite the fact that the effect of RTAs and preferential trading arrangements (PTAs) on trade liberalisation has been an issue of contention for long, the 1990s has seen the signing of maximum number of RTAs. Table: 2 shows the number of RTAs (as of September 2002) notified to the GATT/WTO.

This shows that the setting up of the WTO hardly deterred the setting up of new RTAs and FTAs. And after the Cancun failure, as mentioned above, more countries are intending to divert their negotiating energies into RTAs. The US undoubtedly will push ahead and start new FTA talks with Colombia and Thailand (and maybe Peru and Sri Lanka). These talks were being considered before the Cancun Ministerial but are being given greater priority in the backdrop of the Cancun failure.

Likewise, the EU will probably give more attention to the problems of enlargement and trade initiatives with eastern Euro-

TABLE: 1 PRESENT STATUS OF THE DDA

Major negotiating issues	The Doha mandated work programme	Key dates/ deadlines	Status/observation
Agriculture (para 13,14)	Formulas and other 'modalities' for further commitments	31 March 2003	Deadline missed
	Submission of members' comprehensive draft commitments	by the Cancun Ministerial	No progress
	Stock taking	by the Cancun Ministerial	No progress
	Concluding the negotiations as a part of single undertaking	1 January 2005	Seems unrealistic
Services (para 15)	Negotiating guidelines and procedures	March 2001	Established the negotiating guidelines and procedures
	Initial requests for market access	30 June 2002	No official records since members exchanged initial requests bilaterally. The WTO estimates that approximately 30 members have sent off requests.
	Initial offers of market access	31 March 2003	In response to those initial offers, only 27 members (counting the EU as one) have submitted initial offers
	Stock taking	by the Cancun Ministerial	No progress
	Concluding the negotiations as a part of single undertaking	1 January 2005	Confused and fragmented approaches might hamper the set deadline
Market access and non-agricultural products (para 16)	'Modalities' to be agreed on how tariffs should be reduced and how other market access issues should be handled.	31 May 2003	Deadline missed
	Stock taking	by the Cancun Ministerial	No progress
	Concluding the negotiations as a part of single undertaking	1 January 2005	Difficult to conclude the negotiations
TRIPS and Public Health (para 17-19)	Members were to conclude negotiations under para. 6	31 December 2002	Deadline missed. The access to medicines for poor economies has been agreed upon.
	The TRIPS Council was to report to Trade Negotiating Committee for appropriate action on IP-related implementation issues	31 December 2002	Deadline missed
	Conclusion of negotiations on the multilateral system of notification/ registration of geographical indications for wines and spirits; recommendations on non-violation	by the Cancun Ministerial	No progress
DSU (par 30)	Negotiations specifically mandated in the Doha Declaration	1 January 2005	Seems unrealistic
Singapore issues (para 20-27)	Negotiations with the aim of concluding an agreement	May 2003	Deadline missed
	Continuing work in working group with defined agenda	the Cancun Ministerial	No progress during the Ministerial
	Negotiations	After Cancun, subject to 'explicit consensus' on modalities	Mired in controversy (<i>The Doha Declaration does not provide any guidance on how to proceed if consensus cannot be reached</i>)
	Part of single undertaking	1 January 2005	Seems unrealistic
S&DT (para 44)	Trade and Development Committee to make its recommendations for the General Council (<i>after identifying which S&DT provisions are mandatory, and considering the implications of those which are currently non-binding</i>)	before July 2002	Deadline missed

Adapted from different sources

TABLE: 2**EXISTING RTAs BY BASIS OF NOTIFICATION**

Legal Basis	Number
GATT Article XXIV (FTAs)	126
GATT Article XXIV (Customs Union)	13
Enabling Clause (Between and amongst developing countries)	19
GATS Article V (Services)	26
Total	184

Source: *The World Trade Brief, 2003.*

pean and Mediterranean countries. The EU also may drop its self-imposed moratorium on new FTA negotiations in order to keep pace with the US.

In Asia too, countries are likely to engage more aggressively in negotiating FTAs. China is negotiating an FTA with the South-East Asian countries, which Japan and India are trying to emulate. Long-delayed trade talks between Japan and South Korea have just been announced. Both are also pursuing other FTAs, though agriculture remains a stumbling block. However, if China proposes moving forward with a North-East Asia FTA, it will be hard for South Korea and Japan to resist. For now, a FTA involving East Asia's "big three" is a long-term vision, not a negotiating initiative—but that could change quickly if the WTO process remains stalled.⁴ Of importance to South Asia are South Asian Free Trade Area (SAFTA) and Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC) FTA.⁵

Future WTO

There are two schools of thought with regards to where the WTO could head. While the first school of thought asserts that the whole WTO system has come under the threat of bilateralism and regionalism, the second school of thought views that the drive towards other forms of 'isms' is only transitional. While experts nurturing the first school of thought view that the WTO would eventually be sidelined by bilateralism and regionalism, and that it will cease to be a true global trading body, the second group asserts that this transitional phase brings with it opportunities and risks both.

The political landscape at Cancun consisted of at least three distinct interest blocs – the industrialised country supporters, the developing countries, and the critics of the WTO system. These three blocs still hold differing positions on negotiating issues. At Cancun, the developing countries and the critics of the WTO system joined to oppose the industrialised countries. The divide between the developed and the developing countries concerns with agricultural trade liberalisation, global intellectual property rules and Singapore issues. On the contrary, the divide between the developing countries and the critics of the WTO system concerns with trade-related labour and environmental standards.⁶

This raises an interesting question – whether or not a winning trade agenda, supported by the developing countries, the developed countries and the critics of the WTO system, can be fashioned. Such a bargain could dramatically change the goals of US trade policy and the content of multilateral trade negotiations. The key to this bargain is agricultural trade liberalisation and Singapore issues, which if paired together, and served with the right proportion, argue experts, might satisfy both the developing countries and the critics of the WTO system.

Some logic does exist behind such assertions. In the case of agriculture, for example, it is increasingly being recognised that the notion of the family farm is a misleading description of modern agriculture. Instead, farming is increasingly large scale, and ownership resides with either corporations or extremely wealthy individuals. This pattern is matched by the distribution of farm subsidies, with the top quarter of farmers receiving 90 percent of total US subsidies. In the EU, the top quarter receives 75 percent of farm subsidies. If the EU and the US are able to reverse such practices and the developing countries become ready to soften their stance on Singapore issues, some consensus may eventually be reached.

While it is difficult for the developed countries to withdraw farm subsidies in view of their 'political compulsions', they will have to respond to the question of 'economic rationale' of continuing with the subsidy regime. For example, subsidies under the Common Agricultural Policy (CAP) are becoming unsustainable in Europe. The EU seems to be working on how to initiate reforms, probably not because of international 'pressure' but because of budgetary problems associated with farm subsidies. CAP has not only harmed livelihood of efficient farmers from other countries but has also affected consumer interests within the EU itself. The Organisation for Economic Cooperation and Development (OECD) calculates that it raises the price of beef by 221 percent, milk by 70 percent, and food by 44 percent in EU countries. By June 2004, 10 more countries will have joined the EU. Millions of farmers will then expect to benefit from CAP. For example, Poland alone will have more farmers than the United Kingdom, France, and Italy combined. Obviously, the need to put a cap on CAP is becoming more acute everyday.

CANCUN FAILURE: LOSS OR GAIN

Pascal Lamy, EU's Trade Commissioner, briefing the European Parliament following the Cancun Ministerial, had said, "Trade negotiations are generally described as a win-win situation, in that success means the parties' gains outweigh the cost of the quid pro quo they offer. In the event of failure, however, the reverse is true. A successful outcome at Cancun would have meant all WTO members stood to win; the collapse of the Ministerial Conference means all lose."

Yet, when the Ministerial was called closed, many non-governmental organisations, developing countries' delegates and even journalists seemed jubilant and celebrated the Cancun failure as a victory. But whether the failure of the Ministerial was really a victory, especially for the South? Looking at what could have potentially been gained with the success of the Ministerial, certainly the victory, if at all, is only pyrrhic.⁷ In the context of South Asia, this is quite true. If analysed closely, with the Cancun fiasco, South Asia is set to lose more than it gains. For South Asia, the losses due to the Cancun failure accrue especially on two fronts.

First, for a region like South Asia, multilateralism has much to offer. Hence, the failure of the Ministerial that prompted many developed countries, especially the US, to vigorously pursue bilateral and regional FTAs cannot come in the general good of the South Asian economies. If powerful countries abandon the WTO in favour of bilateral and regional deals, weaker economies will be even more vulnerable to economic and political pressures from countries whose markets offer the best outlets for their exports.

As part of the first potential loss of the Cancun failure, the sprouting bilateral and regional deals have now put even the

future of the WTO as a whole in the grey. The Cancun debacle has raised the question on the WTO's decision-making procedures, which many have been calling as medieval and unsuited for reaching consensus among WTO members. The increasing likelihood of the developed countries, especially the EU, floating the idea of introducing plurilateral agreements between willing participants cannot be in the interest of the developing countries, including South Asia. That is because the EU proposal means a WTO-II that is the two-tiered form of the current WTO, which comes as a threat to the single undertaking model of negotiations. As a result, poorer nations would have to suffer from a system, which only offers them a Hobson's choice in trade negotiations.

Second, the failure of the Ministerial, which was supposed to be a stock taking meet for the DDA, means that concrete progress on the DDA has stalled. This means considerable economic loss to the developing countries, including South Asia (See Box:2).

If critics of the WTO system and anti-globalisation lobby say that the Cancun failure and the resulting non-compliance to developed countries' wishes by developing countries are worth praising, then they would need to look at what is presently being lost. For example, the Doha Declaration, among others, had clearly stated: 1) the need to address the implementation issues and concerns; 2) the need to address public health concerns in the context of TRIPS; and 3) the need to expedite agricultural liberalisation. Cancun was a place where some understanding on these issues could have been reached as these were the issues of concerns to the developing world in general and South Asia in particular. Since these issues now hang in limbo, certainly the failed Ministerial has benefited neither.

Yet, amidst the fiasco at Cancun, there was one positive aspect— the unity and the solidarity of the developing countries. It was the first time that the developing countries showed immense solidarity on issues that were common to them. The formidable G-22 group were able to ward off

pressures from the developed countries. It is interesting to note that these countries came together despite their diverse trade policies. The developing countries now realised their new strength to negotiate on more equal terms. Opportunity exists for the developing nations along with their least developed counterparts to take maximum benefits out of this new-found solidarity amongst themselves. This also gives the developing economies a chance to enhance South-South trade.

All in all, the failure of the WTO Ministerial has come at the benefit of none, including South Asia. Just like the US and the EU failed to bulldoze through the meet and the EU, Japan and Korea failed to force developing countries to agree

to negotiate on Singapore issues, developing countries too failed to secure greater market access for their agricultural produce. Some concessions from both developed and developing ends would have done a little good, and not the harm that is now being seen.

Yet, an important aspect of the globalisation process is that the Cancun collapse was not the first of its kind. It was preceded by similar kind of deadlock in Montreal in December 1988, Brussels in 1990 and Seattle in 1999, without inflicting any serious injury to the multilateral trading system. So hope still exists, and the Cancun collapse can indeed be taken up as an opportunity to introspect where both developed and developing countries went wrong.

WHAT NEXT FOR SOUTH ASIA

The failure of the Cancun Ministerial has thrown a number of challenges to South Asia, including other developing and least developed countries. One of the most significant challenges is to decide which 'ism' for trade liberalisation – unilateral, bilateral, regional or multilateral – they should embrace. For South Asia, it is indeed a daunting task to find the right answer.

Countries like Singapore, Hong Kong, New Zealand and Chile have prospered not because they waited for others to liberalise but because they initiated unilateral trade reforms to realise the potentials of free trade. Today they are among the freest economies of the world and have taken full advantage of their trade potentials. Indeed, for a small economy, which cannot influence the international market but gets fully influenced by the demand and supply shocks in the international market, unilateral trade liberalisation is the best policy. However, since unilateral trade liberalisation creates serious adjustment problems in poorer economies, this might not be an appropriate policy for a poor region like South Asia.

Second, bilateral and regional trade liberalisation have almost similar impact on

BOX: 2

COST OF THE DDA FAILURE

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) on 16 June 2003 warned that the WTO's ambitious round of trade liberalisation under the DDA talks was "at serious risk of collapsing" due to a series of missed deadlines. It also said developing nations could stand to see real income reduced by a massive US\$ 32 billion should the negotiations on the DDA fail.

Failure to reach agreement on the DDA could have immense repercussions for the developing world. By World Bank estimates, income gains for developing countries to the extent of US\$ 400 billion by 2015 could be achieved if the Doha mandate of removing distortions on agriculture is achieved. If the negotiations collapse with backsliding on virtually every commitment, developing countries will see real income reduced by US\$ 32 billion while developed countries will experience a decline of US\$ 27 billion.

Similarly, according to a study from Commonwealth, a successful completion of the Doha Round would have added more than US\$ 400 billion to global income and boost developing countries' income by US\$ 150 billion a year (three times the current global amount spent on development assistance).

Adapted from: The Kathmandu Post, 2003; and McKinnon, 2003.

the economy. A closer look at the bilateral and regional agreements that economic superpowers signed with smaller nations reveals that there is nothing 'bilateral' or 'regional' about them. This is mainly due to asymmetry in power relations. For example, signing an FTA with the US means that the country concerned will have to literally surrender a part of its sovereignty to the US. Bilateralism and regionalism, hence, also cannot be the best choice, though the need for a South Asian bloc is still warranted.

Why South Asia needs to pursue multilateralism rests on four major premises.⁸ First, this system rests on the principle of non-discrimination -- the most-favoured nation (MFN) principle being its cornerstone. This helps ensure that benefits of

trade liberalisation are equitably reaped by all the member countries with the potential to do so. Second, this system promotes reciprocity of concession thereby ensuring that any country making concession on one area could hope to get concession from other countries in the same or other areas. This might sound a bit mercantilist, but this is how international trade is being governed in the present era.

Third, this system is founded on the consensus-based decision making process, which ensures that the voice of each country is heard in the decision making process. Fourth, this system underpins a concept of S&DT thus providing leeway to weaker countries to promote their development objectives without tinkering with the rules of the game. The Southern countries may not have been able to reap all the benefits of multilateralism but this is the only system at present that can provide the atmosphere they actually need.

Also, apart from what the multilateral system has 'in principle' to offer, one of the reasons why South Asia cannot and should not lose interest in multilateralism is because of the volume of trade carried out among South Asian Association for Regional Cooperation (SAARC) member states with other countries. These countries, despite having recently signed an FTA, have an overwhelming dependence on the global market for trade. Close to 95 percent of their trade is carried out with countries outside the region. Therefore, larger trade and economic interests do not permit South Asia to remain confined as an intra-regional trading bloc.

The need for South Asia to pursue multilateralism is even supported by a simple data analysis. More than 43 percent of the world merchandise trade now occur under the umbrella of PTAs and RTAs. This share will increase more as PTAs and RTAs are being increasingly negotiated. If all RTAs under negotiations at present are successfully concluded within the next three years, over 50 percent of world merchandise trade will then occur among countries linked by preferential agreements. Under such a scenario, South Asia will be one of the largest losers (See Table: 3).

As seen in Table: 3, intra-RTA trade in Asia in 2000 stood at a mere 5.6 percent. Similar figure for South Asia for 2002 stands close to 4.9 percent. If South Asia fails to increase intra-regional trade, and in the event that the sprouting regionalism and bilateralism take the world order above the WTO, then South Asia would stand to lose. It is with this logic that the need to support multilateralism has been argued.

TABLE: 3

PREFERENTIAL TRADE SHARE OF INTRA-RTAs TRADE IN MERCHANDISE IMPORTS

Regions	2000 (%)	2005 (%)
Western Europe	64.7	67
Transition Economies	61.6	61.6
North America (incl. Mexico)	41.4	51.6
Africa	37.2	43.6
Middle East	19.2	38.1
Latin America (excl. Mexico)	18.3	63.6
Asia	5.6	16.2
World	43.2	51.2

Source: *The World Trade Brief, 2003.*

But, conversely, the same logic also vies for South Asia to give a concrete and meaningful shape to SAFTA, which was signed during the twelfth SAARC Summit in January 2004 in Islamabad, Pakistan. In a world that is headed towards free trade, regional agreements would facilitate the entry of smaller nations in the multilateral trading system on a preferential basis. It is important for South Asia to acknowledge the welfare gains from their own regional arrangements which would at the same time prepare the domestic producers for the rigours of multilateralism. Besides, there are many other advantages of a regional trading bloc if this comes as a building bloc. For example, it promotes economic cooperation among the members; improves the competitive position of the group in a globalised world; facilitates political and economic harmony within the group; and strengthens a collective bargaining position during global negotiations.

The WTO negotiations amply demonstrate that when countries forge alliances they can generate synergy and become powerful players. The EU, Cairns Group, the African bloc and even a bloc of small island countries like the Caribbean Community (CARICOM) can exert powerful influence because countries in these blocs operate together, develop proposals together and support one another during discussions.

South Asia needs to negotiate as a bloc, with the interest of all the seven member nations duly addressed. If India can stand as the leading voice for the developing countries in the WTO (as it demonstrated in Doha and Cancun), certainly there is no reason why it cannot act in the larger interest of South Asia. Likewise, if Bangladesh could become the leading voice for the LDCs, there is no reason why it cannot work alongside India and other countries in the region for the larger interest of South Asia.

CHALLENGES FOR SOUTH ASIA

While multilateralism is in the larger interest of the region, regional trade cooperation is also a must to ensure that the region as a whole does not remain out of the regional trade paradigm that is taking shape now. But moving ahead with SAFTA and the WTO hand in hand is indeed a daunting task. At such a critical point in time, South Asia faces numerous challenges at both levels – regional and multilateral.

Challenges at the regional level

The main obstacle to regional trade cooperation has been the tension between India and Pakistan, and to a lesser degree, the confrontations among other member states, sometimes with regard to bilateral trade treaties and sometimes with regard to other socio-economic issues. However, recent moves to reduce bilateral and regional confrontations during the twelfth SAARC Summit are indeed important and encouraging.

Another challenge is to increase intra-regional trade. As mentioned above, the volume of intra-regional trade among SAARC member states, compared to other regional groups, is very low. The transition into a PTA has been painfully slow. Prior to the signing of SAFTA, the South Asian countries had certainly negotiated about 5,000 tariff lines and agreed on various concessions. But a study carried out by Institute for Policy Studies (IPS), Colombo, Sri Lanka shows that the volume of trade carried out on products whose tar-

iffs have been negotiated and scaled down stands at a little over a mere 6.5 percent. Such a low level of trading in tariff-negotiated commodities is not going to help increase intra-regional trade.

The low intra-regional trade is also caused due to similarity of products and process in the region. As most of the economies are based on agriculture and their technological advances with regard to production processes are not very different, they produce similar items. Similarly, consumer demand (South Asians tend to buy imported goods from outside the region), product quality (products in the region are of lower quality), and market limitations (such as geography limits markets for Nepal and Bhutan) affect intra-regional trade.

And now, despite the signing of SAFTA, which is to be launched formally in January 2006 with a total of 10 year transition period for full implementation, there are many hurdles to be cleared before intra-regional trade can actually rise. Though the SAFTA treaty has taken up some of the issues with very clear provisions, the treaty itself does not incorporate all components that are essential for the effective functioning of a free trade regime. The SAFTA treaty has many confusing provisions and grey areas. Besides, many issues that should have been addressed in the initial treaty itself are lacking. There is likely to be good mooting on issues such as revenue compensatory mechanism, rules of origin, sensitive list, technical assistance for least developed members, among other rules and regulations for the effective implementation of the Trade Liberalisation Programme and granting of S&DT to LDC members.

Challenges at the multilateral level

South Asia should remain united, especially in light of 'divide and rule' tactics adopted by the developed countries. If they fail in maintaining unity, they will stand to lose tremendously in global negotiations. For instance, despite preparing common positions for different global negotiations, the South Asian countries have not made any breakthrough as yet, mainly because they failed in maintaining unity. Although a common position was submitted to the third Ministerial Conference in 1999 in Seattle, it got diluted at the last minute because India denied to recognise the then Commerce Minister of Pakistan. Likewise, at the Doha Ministerial, the common position got considerably weakened due to a departure by two SARRC members - Pakistan and Sri Lanka - from the agreed position. Despite the common position made to oppose any new Trade Negotiating Rounds until the implementation issues were fully addressed, Sri Lanka and Pakistan surprisingly diverted from their stance. Unlike in the past, South Asians did not participate at the Cancun Ministerial with common position. Countries had a wide divergence on the positions on negotiating issues that some countries fell in the list of "can do" and some in "won't do".

The South Asian countries are divided as developing and least developed countries - India, Pakistan and Sri Lanka are developing countries whereas Bangladesh, Nepal, Bhutan and the Maldives are LDCs. The economic interests of the developing countries and their least developed counterparts are bound to vary and arriving at a consensus for the purpose of negotiations at the global level may be really difficult. This division leads to the problems of prioritisation of issues - which gives coherence to the stance - when taking a common position. What may be possible is taking a stance on issues of common interests. But as critiques of the collective position

BOX: 3

DIVIDE AND RULE IN SOUTH ASIA

One factor that dilutes the common position is the political expediency of individual South Asian countries to make departures on individual issues that are of relevance to South Asia and developing countries as a whole, in order to work out trade deals with the developed countries, in particular the US. As is well known, after the Trade and Development Act, 2000, the US has been aggressively promoting trade pacts with various regions - for example, sub-Saharan Africa, Latin American countries, Caribbean countries, etc. Most of these pacts are allegedly worked out to weaken the WTO where 80 percent of the members are developing countries.

Sri Lanka, which depends heavily on the US for its garments exports, is currently insecure of the post-2004 scenario when the Multi-fibre Agreement (MFA) comes to an end. In July 2002, Sri Lanka signed a Trade and Investment Framework Agreement (TIFA) with the US with the objective of converting it to a bilateral FTA by mid-2004 before the MFA comes to an end. Now the US has selected a number of Islamic countries to offer TIFAs, including Bangladesh. Bangladesh's situation is not much different to Sri Lanka since it is quite concerned about the post-2004 period.

Similarly, the EU too offered preferential treatment to Pakistani textiles, which was disputed by India and the WTO ruled in India's favour. Similarly, a bill proposing duty-free and quota-free market access to the Nepalese garments is already in the US Senate.

How the individual positions of Bangladesh and Sri Lanka on specific WTO issues will change is yet to be seen. The point being made here is that the US is now embarking on a mission of politicising the global trading system by linking market access in exchange for political allegiances - a clear departure from the declared goals of the WTO to put in a rules-based system for global trade. This acts as a major impediment to pursuing a regional common agenda by the South Asian countries.

Source: Kelegama and Mukherji, 2003.

have argued, with India's new found identity as a global power, its interests in the WTO lie elsewhere - not necessarily with other South Asian countries.

It is now clear that following the failure of the Cancun Ministerial, the developing countries have to give continuity to their unity that they showed at Cancun. South Asia should also learn that their unity can make them heard and safeguard their interests. If the South Asian countries now fail to maintain their unified stance and buckle under one-to-one pressure that the developed countries, especially the EU and the US, are likely to put, the rationale of the unity will be unjustified (See Box: 3). The danger of disintegration of the the South Asian economies is real, due mainly to the idea of bilateral trading regime floated by the US. The US is in the process of offering trade pacts to individual South Asian countries, which depend heavily on the US market for their exports, in particular, garments. The proposed US-Sri Lanka FTA is a case in point.

The South Asian countries are competing in the export market with a similar basket of commodities, especially textiles and readymade garments. Their major destinations for exports are the USA, the EU and Japan. Instead of competing for the same international markets, if they diversify their products and could expand their trade in other areas also, they would gain with the integration into the multilateral trading system. However,

for countries, which are poor and technologically disadvantaged, diversifying products is not going to be easy.

CONCLUSION

There cannot be any debate on whether or not South Asia should support the WTO system. The bottomline is - South Asia cannot afford to remain out of the multilateral trade regime. The loss from being indifferent to the WTO process can surely cripple the South Asian economies. Therefore, the South Asian nations must put in concerted efforts to clinch a better deal at the WTO.

It is here where the role of regional bloc, SAARC is important. The recent developments towards launching the SAFTA treaty and increasing regional cooperation in other important areas are the indications that the South Asian countries can move forward with strong solidarity and determination.

However, to make the globalisation process work for them by reaping the benefits of multilateralism and regional trade cooperation, they need to be able to tackle the problems they are facing or likely to face at the regional and multilat-

eral levels. They must understand that there is no shortcut to success.

RECOMMENDATIONS

- In order to put the failed DDA talks back on track and revive the spirit of multilateralism, there is a need for extensive political push by all members, whether developed, developing or least developed.
- The South Asian countries must support the multilateral trading system because there are greater risks of further exclusion if they decide not to go with multilateralism.
- They should maintain solidarity to strengthen their stance during post Cancun negotiations. The South Asian countries must remain vigilant of the divide and rule tactics adopted by the developed countries.
- The intra-regional economic and political differences should be narrowed down to make SAARC a powerful regional bloc.
- The SAFTA treaty should be strengthened and utilised to increase intra-regional trade so that South Asia is able to withstand external shocks. ■

ENDNOTES

- ¹ The G-22 alliance includes Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela.
- ² Robert Zoellick's letter to trade ministers (January 2004) around the globe could be seen as an indicator of this. See also *The Economic Times* (editorial), 22 January 2004, New Delhi.
- ³ The Financial Times, 18 September 2003, London.
- ⁴ Schott, Jeffrey J. 2003. "Unlocking the Benefits of World Trade", in *The Economist*, 1 November 2003, Institute for International Economics, US Edition, London.
- ⁵ BIMSTEC FTA does not include Bangladesh while Nepal and Bhutan are its members. BIMSTEC FTA Framework Agreement was signed in February 2004.
- ⁶ Kelegama, Saman and Indra Nath Mukherji. 2003. "WTO and South Asia: From Doha to Cancun" in *Economic and Political Weekly*, September 2003.
- ⁷ Adhikari, Ratnakar. 2003. "A Pyrrhic Victory" in *The News*, 28 September 2003, Karachi.
- ⁸ *Ibid.*

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