South Asian Countries in the Doha Development Round

Need for Better Coordination

Introduction

The Doha Development Round (DDR) of multilateral trade negotiations under the aegis of the World Trade Organisation (WTO) was commenced in 2001. Its main objective is to further the rules-based, multilateral trade liberalisation that would lead to reduction of a range of tariff and non-tariff barriers (NTBs) to trade and thereby, facilitate worldwide employment generation and economic growth at a faster rate.

Given the realpolitik underlying the negotiations and the vast number of issues within its coverage, the Round is yet to be concluded after missing several deadlines. Though impressive progress has been made in several areas, a final agreement still remains elusive for want of consensus on a number of subjects.

One of the most distinguishing features of the DDR has been the onset of various coalitions to the fore and they played a crucial role in shaping the course of negotiations. There are about 25 active coalitions participating in the DDR. Most notably, developing countries have formed strong coalitions that gave them collective voice and assertiveness. The role played by coalitions like the G-20 and the G-33 in pushing forward the demands for special and differential treatment for developing countries in the area of agricultural trade liberalisation and similarly by the non-agricultural market access (NAMA)-11 in case of industrial goods has brought in more balance in the power equation between the developed and the developing country members of the WTO.

The Round has also seen the emergence of several new groupings as well as resurgence of old groupings including the Least Developed Country (LDC) Group, Africa Group, Cotton-4, Small and Vulnerable Economies (SVEs), the African, Caribbean and Pacific (ACP) Group and G-90.

These examples of framing collective negotiating positions have stimulated attempts to form groups of different types that are issue-based or are formed by countries belonging to specific regions.

In the case of WTO members from the South Asian region, though to a large extent there exists commonalities in terms of their economic conditions and consequently common interests in the DDR, seldom attempts have been made to consult each other at the regional level for framing a common agenda for negotiations.

Out of the five WTO members from South Asia, three are grouped under developing country category (India, Pakistan and Sri Lanka) and the other two are LDCs (Bangladesh and Nepal). They articulate their interests as members of issue-specific coalitions.

Since the resumption of DDR talks in 2004 (following the aborted Cancun Ministerial Conference in 2003), an idea was developed by CUTS International to bring together trade policymakers (including trade negotiators) and non-state actors of South Asian Countries (SACs) through a project called South Asian Forum for International Trade (SAFIT).

The first two phases of SAFIT involved in-depth research to explore specific areas in which SACs exhibit common interests and evidence-based advocacy was conducted to persuade policy-makers from these countries to hold more inclusive consultations at national and regional level to frame
Developing countries are arguing that their participation in sectoral negotiations should be strictly voluntary. At the same time, they are open to discuss (for substantial market access commitments on their part) five out of seven sectors (viz. industrial machinery, enhanced health care, forest products, raw materials, and gems and jewellery) depending on the specific of treatments. Developing countries like India have expressed specific sensitivities over these sectors, particularly in chemicals, and electronics and electrical products.

South Asian members of the WTO are mostly on the same side as far as their expectations in DDR are concerned as most of them are similarly placed in terms of their economic structure and development priorities. However, there are considerable differences in their concerns and demands. For example, as per the NAMA negotiations Pakistan and Sri Lanka are expected to get substantial market access in textiles & clothing and Bangladesh has expressed its concern on that count.

Apart from the likeness and differences of their stakes in the main areas of agriculture, NAMA and services negotiations, all SACs are set to benefit from the framework agreement on trade facilitation and other development oriented outcomes as promised by the DDR.

The key feature of the negotiating approach of SACs has been promoting trade liberalisation with safety nets. This is evident from the implementation of their Uruguay Round commitments and gradual unilateral trade liberalisation over the last couple of decades.

While liberalisation of trade in agriculture, manufacturing and services offers different sets of benefits and challenges, the sensitivity of openness with respect to the stability of their economic fundamentals has been the biggest concern. Risk about the effects of short-term shocks in job markets, volatility of prices and wages, implications of trade liberalisation on fiscal and monetary policies including inflation control are highly sensitive for these countries. Macroeconomic policies of these countries are oriented along these concerns and therefore, there are some commonalities in their trade policy objectives. SAFIT III research examines these commonalities and explores avenues for better cooperation and coordination among the gradual with respect to their narrow as well as broad interests of trade liberalisation.

Basis of SAFIT III Research

In general, the prospect of the conclusion of DDR revolves around the tension between offensive and defensive interests of developing and developed country groups in agriculture and NAMA negotiations. In agriculture, developing countries have been demanding flexibilities under special and differential treatment (special products and special safeguard mechanisms) provisions.

In regard to overall trade distorting subsidies in agriculture, they expect that the US would come to terms (possibly deeper cuts) if negotiations progress. While there is considerable agreement on liberalisation of trade in tropical agricultural there are concerns about preference erosion.

On the other hand, developed countries are in pursuit of additional market access commitments in industrial goods on the part of developing countries, especially in some specific sectors.
Agriculture: Complementarities Necessitate Better Regional Coordination

Given the dependency of majority of workforce and taking into account other strategic considerations such as food security, eradication of poverty and overall development of the rural economy, negotiations on agricultural trade is one of the most sensitive areas for all SACs.

South Asian agriculture shares many common features, faces similar challenges and therefore, warrant collective solutions. This is particularly true in the context of adaptation challenges that South Asian agriculture is facing as a result rapidly changing climate – as per the latest estimate of the United Nations Food and Agriculture Organisation (FAO), four out of eight SACs are among top 10 countries in the world in terms of their exposure to extreme vulnerability as a result of climate change.

While the share of agriculture in gross domestic product has declined considerably across the region, the share of employment in agriculture has registered a marginal fall. In the year 2009-10, the highest figure in regard to the share of agriculture in gross domestic product (GDP) was registered in Nepal (36.02 percent) and the lowest in Sri Lanka (12.75 percent). The respective figures for Bangladesh, India and Pakistan were 23.5 percent, 17.5 percent and 22.9 percent.2 The average figure for the region comprising these five countries has fallen from more than 30 per cent to 21.8 percent during the last decade.

Except in Sri Lanka, the share of agriculture in total employment remained well over 50 percent and there is a marginal decline in this figure, suggesting that there is a huge scope to improve agricultural productivity in South Asia.

Two key observations that emerge while analysing agricultural production and trade profiles of SACs are as follows:

• the sector suffers from stagnation in growth, mainly because of lack of modernisation and the resultant stagnation or decline in productivity; and

• there exists mutual complementarities in agriculture across SACs, given that the region is host to a wide range of agro-climatic conditions and the degree of crop diversity that could be harnessed through intra-regional and inter-regional trade.3

It is in this context the outcomes of the DDR negotiations are crucial for the region. While more exposure to the world markets are expected to bring overall improvement in competitiveness and efficiency of resource allocation in the sector, short-term shocks that may arise as a result of multilateral trade liberalisation can be dealt with enhanced intra-regional trade.

SAFIT III research results indicates that stronger articulation of respective positions by SACs (including considering, as far as possible, the concerns and positions of other countries in the region) in issue-specific coalitions would enhance the negotiating capacity of individual WTO members from the region by enabling them to cooperate on their specific demands for special and differential treatment (S&DT) provisions and flexibilities therein.

In the three pillars of agriculture negotiations (viz. market access, domestic subsidy or domestic support and export competition or export subsidy – all are focused on tariff reduction and that of trade distorting subsidies) the most important area that warrants specific attention is the fine tuning of the provisions of special safeguard mechanisms which can be taken on account of threat to stability in market prices and resultant livelihood concerns and such provisions should be based on price as well as volume triggers.

Some other areas of importance are as follows:

• exact framework for designating additional tariff lines under the Special Products categories in which lower tariff reduction commitments will be applicable

• tariff caps – whether there should be an exception allowing the maintenance of tariffs in excess of 100 per cent ad valorem on products outside a member’s overall Sensitive Product entitlement

• issues associated with the creation of tariff quota and tariff simplification methods

• review of the criteria for making domestic support measures excluded from reduction commitments (green box subsidies) in order to ensure that such measures are least trade distorting;

• preference erosion that may arise with the liberalisation of trade in tropical agricultural products which are particularly sensitive to LDCs in South Asia

NAMA: Trade Market Access for Technological Advancement

The second major area of the DDR negotiations is liberalisation of trade in industrial products, commonly known as non-agricultural market access. Negotiations under NAMA are focused on market access for all industrial products
(including fisheries) that are not covered under the negotiations on agriculture or services and they aim to reduce tariff and NTBs that restrict trade in these products.

The key elements are a tiered formula for tariff reduction (cutting higher tariffs by a larger percentage than lower tariffs), containment of tariff peaks and tariff escalation, a sectoral initiative for full or substantial elimination of tariffs in seven sectors, and a number of S&DTs for developing countries.

These negotiations are important for SACs as they will determine their future market access opportunities in industrial products and also from the point of market access being demanded on them, which, in turn, has key implications for the competitiveness of domestic industries.

Our study suggests that huge potential market for industrial goods in SACs could act as a key bargaining chip for them to make significant strides in technological advancements in the industrial sectors through reciprocal gains in knowledge sharing, etc.

A concern that has been raised is that across the board tariff reduction may result in significant reduction of applied tariff rates in the case of products in which the gap between bound and applied rates (referred to as ‘water in tariff’) is minimal and subsequently may result in loss of customs revenue.

Another concern is with regard to the erosion of the margin of preferences available to the LDCs in South Asia. A third concern is disproportionate gains that some South Asian LDCs are expected to make in case of textiles & clothing products at the expense of developing countries in the region such as Pakistan and Sri Lanka.

Main areas in NAMA negotiations where SACs have significant interests are as follows:
- finalisation of flexibilities available for developing countries
- possible negative effects of the ‘anti-concentration clause’ on sensitive sectors where applied tariffs are expected to be reduced
- issues regarding participation in sectoral negotiations
- trade in ‘remanufactured goods’ which is a big concern for India as that may harm local competing sectors and hamper innovation in technology intensive industries

Our study recommends that SACs should formulate their positions on NTBs in NAMA negotiations. The region should stand for transparency in the treatment of NTBs, especially in areas where NAMA negotiations intersects with other negotiating platforms such as Sanitary and Phyto-Sanitary Measures (SPS) and Technical Barriers to Trade (TBT).

Cooperation among international and regional organisations is essential to strengthen and improve the collection and dissemination of information on NTBs so that there is less uncertainty in the system. SACs should take a strong position on the issue of NTBs related to ‘contingent protection’ and ‘social and eco dumping’ (including private standards) which are increasingly practiced by developed countries and is hurting manufacturing exports from South Asia.

Services: Domestic Preparedness is the Key

Services negotiations promise the highest amount of economic gains to South Asia. Service sector has emerged as the major contributor to the South Asian economy accounting for more than 52 percent of the region’s GDP in 2009-10.

Our study validates the earlier observations that SACs have comparative advantage on the movement of temporary workers and market access for service professionals through Mode 4 of service supply as in the General Agreement on Trade in Services (GATS).

At the same time and as experienced by their domestic services sector, FDI inflow into key sectors such as banking and insurance, telecommunications and tourism have transformed the economies of all SACs, not just in terms of increase in income generation but more importantly in respect to employment generation as well as improvement in the quality of service deliveries. FDI in services increased from less than US$3bn in 1991 to over US$35bn in 2009.

Between 1993 and 2003, the South Asian region has been able to almost quadruple its exports of commercial services and continued to accelerate this growth owing to boom in sectors like information technology services, travel and business services.

India leads the group by increasing its share in worldwide exports of commercial services from 1.2 percent in 2000 to 3.1 percent in 2009. India’s rank among leading services exporters in the world moved up from 22 to 9 during this period, with the value of commercial services exports rising from US$17.6bn to more than US$102bn. India’s combined exports of IT and ITES, including computer and information services, have risen from US$21bn in 2005 to US$49bn in 2009.
While both export prospects through Mode 4 and FDI through commercial presence (Mode 3 as in GATS) promise enormous economic gains, the SACs are facing two main hurdles from the point of view of their participations in services negotiations.

First, many market access barriers exists in developed country markets for services exports through Mode 4 by way of qualification requirements, quantitative restrictions, lack of mechanism for mutual recognition of degrees, etc.

Secondly, domestic preparedness of SACs in respect to adequate market regulatory instruments and mechanisms (to adhere to objectives such as universal service obligations, etc.) in most of the services sectors is still at an early evolutionary stage.

With regard to the first challenge, immediate focus should be on removal of many layers of invisible barriers which obstruct access to developed country markets, superseding even bounded commitments undertaken so far in their respective commitment schedules.

Final negotiations must address a range of such restrictions, which include:
- strict visa procedures;
- economic needs tests or other such labour market tests;
- wage-parity requirement;
- imposition of discriminatory standards or burdensome licensing requirements;
- payment of social security without corresponding benefits;
- non-recognition of professional qualifications; and
- requirements of registration with or membership of professional organisations.

Extracting more than status quo commitments from developed countries for more liberal entry of service professionals alone is not likely to suffice as has been experienced in the past. Comprehensive proposals to address the factors behind reluctant positions of developed countries have to be tabled and such proposals would have more value if advanced by a coalition of countries.

As regard to the challenge of improving domestic regulatory conditions along with implementing regulatory reforms, which is a particularly sensitive issue for LDCs, SACs should push for flexibilities as well as demand for technical assistance and capacity building requirements as provided in the GATS.

Article VI.4 of the GATS Agreement (relating to domestic regulations) highlights the right of the WTO Members to regulate and introduce new regulations and governing the supply of services within their territories in order to meet national policy objectives.

It is important to ensure that this right, which is also recognised in the preamble of GATS as well as in Paragraph 7 of the Doha Ministerial Declaration, is fully exercised by developing effective disciplines on domestic regulations.

**Trade Facilitation: The Gradient of Trade Policy Reforms**

Trade facilitation measures cover removal of ‘behind the border’ barriers to trade. They range from trade-related institutional and regulatory reforms to improvement in procedural and infrastructural efficiency that facilitate smoother and freer trade flows.

The mandate of trade facilitation negotiations under the DDR is to improve and clarify relevant articles of the General Agreement on Tariffs and Trade such as:
- freedom of transit (Article V);
- fees and formalities connected with import and export (Article VIII); and
- publication and administration of trade regulations (Article X).

The mandate also stipulates that, recognising the cost burden attached with implementation of TF measures, adequate concessions must be given to developing countries by linking the obligations of fulfilling the commitments made thereof to their implementation capacities. The negotiations also seek to establish modalities for providing technical assistance and support for capacity building to developing countries and LDCs.

SACs unanimously recognise the benefits from TF reforms. However, small countries want to retain the freedom of prioritising the areas of reform, time relaxation for implementing costlier reforms as well as unconditional financial aid to implement such reform measures. Currently, deficiency of trade infrastructure is chronic in the region. In 2009-10, the average score of South Asia in overall quality of infrastructure was 3.04 (on a scale of 1 to 7), while the world average was 4.1. For Bangladesh and Nepal this score was less than 2.5.

Also, the change in scores over the last decade, reflecting on improvement in trade-related infrastructure, was marginal in case of all SACs. It is disturbing to note that India registered a negative figure of 0.1 in terms of change in this
score. Similarly, improvement in the efficiency of customs procedures was also found to be minor. For Bangladesh, India and Sri Lanka the change was less than 0.5 point.10

For bigger countries like India, though reforms mean large amount of budget allocations, fund requirements can be met on a priority basis given the benefits of comprehensive TF reforms.

These reforms are already under way in all these countries in different degrees. As pointed out by our study, TF in practice needs much more policy attention at the national level because commitments in the WTO should be necessarily accompanied by domestic reforms and new infrastructure development without which implementation of expected commitments may not mean much. Generating more financial resources for TF reforms is the most formidable challenge in this respect.

Our study reconciles the main provisions of the framework agreement and TF requirements of the region, and recommends that:

• commitments related to Articles V, VIII and X should be taken up wherever implementation costs are minimal; and
• for TF reform measures including infrastructural development which require considerable amount of financial resources, better arrangements with relevant multilateral agencies which deals with such measures as well as the relevant provisions in regional cooperation treaties should be used more effectively.

The single most important area of cooperation among the SACs is the formation of Trade Facilitation Committee (TFC) and the finalisation of its mandate to further negotiate a multilaterally agreed TF agreement. In future, SACs should call for broadening the scope of TFC to include the establishment of a corpus fund for the specific purpose of TF-related technical assistance and capacity building.

The TFC should also broaden its function by collaborating with relevant international agencies dealing with TF measures. Joint proposals from SACs should help in properly defining and directing the role of TFC in such a way that the region benefits from its function in future.

Also, given other development challenges faced by SACs and limited availability of competing resources, a common position must be taken in support of the argument that the implementation of TF reforms should be allowed with sufficient transition period.

Development Dimensions: South Asia’s Concerns

Developmental aspects of the DDR negotiations are extremely important for all SACs and they are unanimous that development dimensions cutting across all areas of DDR negotiations must be brought back to its centre stage. For the LDCs of the region, certain issues are more sensitive, especially provisions safeguarding their preferences and technical assistance and capacity building to enhance their engagement with the multilateral trading system.

Going by the proposals and stated positions, there is no difference among the SACs in terms of demands raised but priorities may be different based on the stages of their economic development. The concern of LDCs regarding the loss of their preference margins in developed country markets is a major issue and is particularly sensitive to Bangladesh in case of the clothing sector.

South Asian developing countries such as India should adopt unilateral measures to help LDCs in the region to overcome challenges that are emanating and expected to emanate from preference erosion.11 There are other outstanding areas in which cooperative and coordinated negotiating strategy can be adopted.

As far as LDCs are concerned, though the early harvest proposals made by them since the Hong Kong Ministerial Conference in 2005 is being considered, many outstanding issues remain. Some of the issues raised by them concern the drawbacks in implementing S&DT provisions applicable to LDCs as well as technical assistance and capacity building provisions.

The larger issue of effective implementation of aid for trade is also important though it is outside the purview of the DDR negotiations. India, along with other major developing countries who are also expected to benefit from many such provisions, has supported early resolution of these issues.

Our study argued that the contours of a common position of SACs on development dimensions of the DDR should focus on the following two aspects:

• further endorsement by the three developing countries of the region (India, Pakistan and Sri Lanka) of proposals to expedite the implementation of special provisions for LDCs, and better implementation and expansion of technical assistance and capacity building measures.
• framing of joint proposals for enhanced market access for products and services in which all countries of the region have common interests – the longstanding demand for easing of restrictions on movement of unskilled labour through Mode 4 of service supply is a typical case in point. The sectoral coverage of offers remained insufficient. In many cases there were important geographical carve-outs which will go against meaningful market access for developing countries
• regarding LDC waiver, the types of preferences should not only be made wider they should also go beyond market access measures and there should be greater clarity on rules of origin for services and service suppliers benefitting from preferences.

With respect to the first aspect, effective targeting of trade-related technical assistance and capacity building programmes, raising additional resources and expanding the areas of such programmes and strengthening its monitoring and implementation mechanisms, additional financial aid for facilitation of research and logistic training programmes in LDCs, specific support to enable them to take advantage of Enhanced Integrated Framework of aid for trade, special aid for trade for services should be pursued together. There exists a gap between commitments and disbursement of aid for trade and that is mainly because of a lack of robust institutional arrangement for trade-related development policies. In 2007, total new aid for trade commitments from both bilateral and multilateral donors rose to US$25.4bn, up by US$4.3bn from the 2002-2005 baseline period average. This constitutes a 21 percent increase in real terms. In addition, trade-related non-concessional lending almost tripled to US$27.3bn during the same period and was sustained even during the global financial crisis.

On the other hand, the rate of disbursement declined from 92 percent in 2006 to 88 percent in 2007 owing to a host of reasons including political changes in the recipient countries, burdensome requirements for the release of some donor funds and numerous delays in disbursements related to the low absorption capacity of recipient countries. These issues have to be addressed, especially, increasing the absorption capacity of recipient countries through collective measures have to be prioritised.

Other than these areas, common concerns of the region that have been raised in the past and which need further pursuance include harmonisation of NTBs (such as restrictive import policy, environmental standards, unrealistic certification requirements in respect to SPS measures, export subsidies, technical barriers on services trade, anti-dumping and countervailing measures) in their major export markets.

Furthermore and though in varying degree, supply-side constraints are common to all SACs and much of its solution lies at the regional level. Realistic demands must be raised for adequate financial resources and new technologies to address low capacity to meet product quality standards and address infrastructural bottlenecks.

Need for Better Coordination

Given the history and legacy of political difference among SACs, it is important to underline the significance of the formation of an informal group of South Asian negotiators which came into existence in Geneva after almost 15 years of establishment of the WTO.

Drawing from such a positive development, it is of utmost importance that the governments of SACs form a regular regional consultative mechanism for framing proposals to respective coalitions of WTO members in which they are members in order to pursue their common developmental goals through trade liberalisation. Under the prevailing political condition, though a formal coalition may not be feasible in the immediate future, mutual consultations on positions taken by issue-specific coalitions of WTO members can provide further positive signals. These consultations should be best carried out at the trade negotiators level in Geneva.

An initiative in this direction has already been successfully implemented under the aegis of CUTS International, which has proved to be immensely beneficial in terms of reinforcing the negotiating capacity and knowledge base of SACs. More importantly, inputs to this process have come from evidence-based policy research involving trade policy-makers as well as non-state actors.

One of the most important results of the SAFIT III project is about underlining the fact that potential gains from more effective participation in multilateral trade negotiations can be best harnessed if mutual complementarities of these economies are exploited through further removal of barriers to intra-regional trade and investment.

A more cooperative and coordinated approach in the WTO negotiations would politically help
enhancing regional integration in South Asia. Thus, regional and multilateral trade liberalisation would feed each other to achieve the larger objectives of trade liberalisation in South Asia – realisation of peace dividends, etc.

The nature and extent of developmental challenges faced by SACs (among others, widespread poverty, vulnerability to climate change) warrants a cooperative approach based on information sharing and regular consultations through formal and informal channels.

Such a model is expected to deliver long term dividends by gradually contributing to deeper regional integration and subsequently easing other countries’ access to the combined market of South Asia which currently stands at more than US$330bn.

In addition to this need for better coordination by exchanging information on positions taken by issue-specific coalitions at the WTO and not necessarily as part of the Doha Round of negotiations, thrust areas which require domestic policy reforms should be identified by sharing individual country experiences of the implementation of trade policy reforms.

In this direction, CUTS International has been providing a platform for regular unofficial meetings of representatives of South Asian delegations to the WTO through its Geneva Resource Centre. Such informal consultations can go a long way in setting examples for the need for better coordination in other areas of multilateral negotiations.

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**Endnotes**

1. See WTO (2011), *Groups in the WTO*
4. Tariff peaks in the industrial sector occurs mainly in the food industry (which accounts for about 30 percent of all tariff peaks ranging from 12 to 100 percent in the European Union countries and in the US), in textiles and clothing (among the major textile importing countries, the US, the EU and Canada impose tariff in the range of 12-32 percent), in footwear, leather and travel goods (tariff rates are close to 160 percent in Japan, 37.5-58 percent in the US and 18 percent in Canada), and in automotive products, transport equipment and electronics. Incidentally, developing countries have a relatively better comparative advantage in trade in all such products/sectors.
5. Corresponding figures for five countries are: Bangladesh (52.9 percent), India (55.3 percent), Nepal (52 percent), Pakistan (54.6 percent) and Sri Lanka (57.6 percent) – see Balance of Payment Statistics, International Monetary Fund, 2011
7. Services Trade Data Base, World Trade Organisation, 2011
8. UN COMTRADE database, March 2011
10. *Ibid*
11. Some such measures on the part of India are already in place as part of its commitments to provide duty-free, quota-free access to products originating from South Asian LDCs. India is also considering relaxation of rules of origin provisions to facilitate more trade in such products.
12. Percentage share of total AfT commitments received by Bangladesh and Nepal is 2.6 and 0.8, respectively – see *Joint WTO/OECD Background Paper on Aid for Trade* (WT/COMTD/AFT/W/04, June 04, 2009)

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