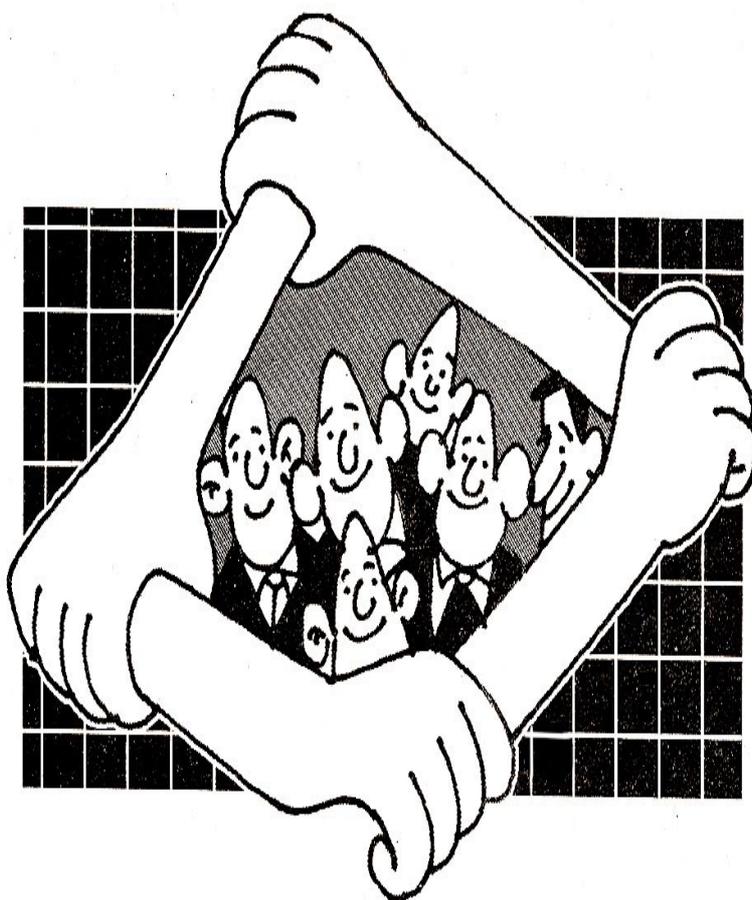


CUTS Centre for  
International Trade,  
Economics & Environment  
**Research Report**

# Agreement on SAFTA:

*Is it win-win for all  
SAARC countries?*



 CUTS Centre for International  
Trade, Economics & Environment

# **Agreement on SAFTA:**

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# Agreement on SAFTA

## *Is it win-win for all SAARC countries?*

This paper was researched and written by Dr. Abid Suleri, Oxfam GB, Pakistan; Mr. Qasim Shah, Sustainable Development Policy Institute (SDPI), Pakistan; and Mr. Tahir Hasnain, The Network for Consumer Protection, Islamabad, Pakistan. Comments on the draft were received from Prof. I. N. Mukherjee, School of International Studies, Jawaharlal Nehru University, Delhi, India; Ratnakar Adhikari, South Asia Watch on Trade, Economics & Environment (SAWTEE), Nepal; and Atiur Rahman, Bangladesh Institute of Development Studies (BIDS) which have been suitably incorporated

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# Contents

|   |           |
|---|-----------|
| <b>Preface</b> .....                                      | <b>i</b>  |
| <i>CHAPTER 1</i>  |           |
| <b>Introduction</b> .....                                 | <b>8</b>  |
| <i>CHAPTER 2</i>  |           |
| <b>About South Asia</b> .....                             | <b>10</b> |
| South Asian Economy .....                                 | 10        |
| <i>CHAPTER 3</i>  |           |
| <b>Lessons Learnt from SAPTA</b> .....                    | <b>13</b> |
| Trade Performance .....                                   | 14        |
| <i>CHAPTER 4</i>  |           |
| <b>Intra-SAARC Trade</b> .....                            | <b>18</b> |
| <i>CHAPTER 5</i>  |           |
| <b>Main Features of the SAFTA Agreement</b> .....         | <b>23</b> |
| <i>CHAPTER 6</i>  |           |
| <b>SAFTA from Select Stakeholders' Perspectives</b> ..... | <b>26</b> |
| Civil Society .....                                       | 26        |
| Consumer's Perspective .....                              | 26        |
| Commerce and Industry Perspective .....                   | 27        |
| <i>CHAPTER 7</i>  |           |
| <b>SAFTA: Analysis of Some Issues</b> .....               | <b>28</b> |
| Competitiveness .....                                     | 31        |
| Negotiating Capacity .....                                | 31        |
| Regional Trading Blocs: Costs and Benefits .....          | 32        |
| Tackling the Issue of Dumping .....                       | 32        |
| <i>CHAPTER 8</i>  |           |
| <b>Conclusion and Recommendations</b> .....               | <b>33</b> |
| <b>Endnotes</b> .....                                     | <b>36</b> |

## **List of Tables**

|   |    |
|---|----|
| Table 1: Economy of SAARC Region .....  | 11 |
| Table 2: Number of Products on which Tariff Concessions have been Extended by the SAARC Members States in the Three Rounds of Trade Negotiations Under SAPTA..... | 14 |
| Table 3: Depth of Tariff Concessions under SAPTA (in percentage) .....  | 14 |
| Table 4: Export Composition .....   | 20 |
| Table 5: Import Composition .....   | 20 |
| Table 6: Importance of Intra-SAARC Trade in Total SAARC Trade .....   | 21 |
| Table 7: Intra-SAARC Trade .....  | 22 |
| Table 8: Tariff Reduction Plan under SAFTA: First Phase .....   | 24 |
| Table 9: Tariff Reduction Plan under SAFTA: Second Phase .....  | 24 |
| Table 10: A General Comparison between SAPTA and SAFTA .....  | 25 |

## **List of Figures**

|  |    |
|--|----|
| Fig 1: The Rise in RTAs .....  | 9  |
| Fig 2: GDP Sectoral Breakdown .....  | 11 |
| Fig 3: Intra-SAARC shares in exports and imports .....                     | 15 |
| Fig 4: Share of Intra-Regional Trade in the Total Trade of South Asia..... | 18 |
| Fig 5: Share as Exporter in Intra-Regional Trade (2000) .....              | 19 |
| Fig 6: Share as Importer in Intra-Regional Trade (2000).....               | 19 |
| Fig 7: The Hub and The Spoke Theory .....                                  | 28 |

## **List of Boxes**

|   |    |
|---|----|
| Box 1: Indo-Nepal Treaty Boosts Trade .....   | 13 |
| Box 2: ASEAN Free Trade Agreement (AFTA)..... | 29 |

## Preface

The formation of the WTO did not halt the proliferation of trade agreements at the non-multilateral level. There has been an enormous increase in regional trade agreements (RTAs) in recent years. By their very nature, such arrangements favour imports from members of the grouping and discriminate against imports from other countries. Article XXIV of the GATT, which deals with RTAs, permits this departure from the MFN (most-favoured nation - one of the two cornerstones of the WTO agreement; the other being national treatment) principle.

As on March 2003, only four WTO Members: Hong Kong-China, Macao-China; Mongolia and Chinese Taipei were not parties to a regional trade agreement. With the sole exception of Mongolia, these WTO Members are also engaged in negotiations on preferential agreements. According to a study by the OECD (Organisation for Economic Cooperation and Development), at present, preferential/regional trade agreements account for 43 percent of world trade, and this is expected to increase to 55 percent by 2005 if all the RTAs currently in the pipeline are realised.

The growing popularity of RTAs has also ignited South Asian countries to create a South Asian Preferential Trade Area (SAPTA). Though South Asia is a geographically integrated region, the level of economic integration is very low despite a number of initiatives taken by the various stakeholders. The SAPTA was formed in 1993, but in true sense it remains a non-starter as the actual exchange of preferences remained extremely limited. Estimates show that trade between India and Pakistan is 70 percent lower than two otherwise identical economies.

A major breakthrough, however, was made in January 2004 when during the 12<sup>th</sup> SAARC Summit, held at Islamabad, a framework agreement on South Asian Free Trade Area (SAFTA) was signed. The signing of the SAFTA agreement is a landmark in the evolution of SAARC since its formation in 1985. It marks a movement away from mere tinkering with tariffs (as it was under SAPTA). The commodity-by-commodity negotiations under SAPTA were proving highly laborious and time-consuming and had hardly made any impact on the intra-regional trade, which is still languishing below five percent of the total global trade of the SAARC member states.

The framework agreement on SAFTA has the potentiality of going beyond its stated objective of liberalisation of trade in goods. Muchkund Dubey, former Foreign Secretary of India is of the opinion that a successful integration can make South Asia a magnet for vastly enhanced foreign investment and lead to a restructuring of the economies, making the region one of the fastest growing and most competitive economic blocs.

Several arguments have been advanced for low regional trade among South Asian countries. One very common argument is that of lack of

complementarities. The South Asian countries export labour intensive products in which they have a better comparative advantage in relation to the rest of the world. The volume of trade and the economic benefits from trading these products among themselves are limited. But there is a counter argument as well, saying, there is no hard evidence to endorse the argument of lack of complementarities. Many experts feel otherwise and argue that there is a need of proper research to find trade complementarities.

Services trade, however, may provide a better scope to find trade complementarities among the South Asian countries. In social sectors like health and education, there is a considerable opportunity of increasing intra-SAARC cooperation.

Secondly, the reason for low intra-regional trade until recently was not the absence of trade preferences but the lack of liberal trade policies in general. Once the countries in the region began to liberalise, their intra-regional trade expanded rapidly, which is very much evident from the data. In 1990, share of intra-regional trade was only 3.2 percent, which has increased to 4.9 percent in 2001. It is noteworthy that since 1991 India, the largest economy of this region, embarked on trade liberalisation in a big way.

Thirdly, various studies show that a huge amount of border trade is taking place between the South Asian countries and that remains unrecorded. Between several pairs of countries, such informal trade is considerably higher than the official trade flows. These informal trade flows are taking place not only to evade high tariffs, but also to carry out some trade that would have not been permitted at all. Hence, if we take into account such trade flows, intra-SAARC trade as a proportion of total SAARC trade would be higher than the estimates arrived at with the help of official trade statistics.

Over the years a number of initiatives have been taken by the South Asian countries to liberalise intra-regional trade at unilateral, bilateral and regional levels. Despite these initiatives the proportion of regional trade and investments is still quite modest. On the other hand, other similar initiatives have done exceedingly well in terms of promoting their intra-regional trade. ASEAN and Mercosur are such examples, as they have increased the share of intra-region trade to 22.4 and 20.8 percent respectively in 2001. Even RTAs in Africa, most of which were initiated in 1990s, have done reasonably well in promoting their intra-regional trade.

One of the major objectives of this study is to sensitise various stakeholders (state as well as non-state actors) on the need for better regional cooperation, as it has been proved that such cooperation gives huge peace dividends. It provides a good account of existing trade between SAARC countries and highlights lessons learnt from the efforts so far made for better intra-regional trade within South Asia. It also discusses possible implications of SAFTA on South Asian countries.

**Jaipur, India**

**Bipul Chatterjee  
Director**

## Chapter 1

# Introduction

*South Asian Association for Regional Co-operation (SAARC) finally signed the framework of agreement on South Asian Free Trade Area (SAFTA) during the 12<sup>th</sup> SAARC Summit held in Islamabad, Pakistan in January 2004*

A key South Asia trade pact that could transform one of the world's poorest and most populous regions into a free trade zone has been agreed upon and members of South Asian Association for Regional Co-operation (SAARC) finally signed the framework of agreement on South Asian Free Trade Area (SAFTA) during the 12<sup>th</sup> SAARC Summit held in Islamabad, Pakistan in January 2004. The agreement on SAFTA has in fact injected new life into SAARC and member countries are likely to hold intense activities for the next two years.<sup>1</sup>

Member countries have agreed to scale down tariffs as of January 1, 2006 and SAFTA will be fully implemented by December 31, 2015. Problems with regard to India-Pakistan relations have been one of the major obstacles in SAARC integration and, thus, hopes for strong trade in the region are greater than before because of the current tide of warm ties between these two nations.

A regional economic integration process is one of the most important trends in the contemporary world economy. Over the past decade and a half, the world economy has seen the emergence of many strong regional trading blocs, such as the European Union (EU), the North American Free Trade Area (NAFTA) and the Southern Cone (Mercosur). The trend in regional trade agreements (RTAs) is shown in Figure 1.

In the wake of global trade liberalisation, these regional economic integration attempts have been prompted, among other factors, to mobilise resources of member countries to strengthen their competitiveness with industrial restructuring. Though South Asia is a geographically integrated region, the economic integration level is still low despite a number of initiatives taken by the governments, the private sector, NGOs and other stakeholders.

*Though South Asia is a geographically integrated region, the economic integration level is still low despite a number of initiatives taken by the governments, the private sector, NGOs and other stakeholders*

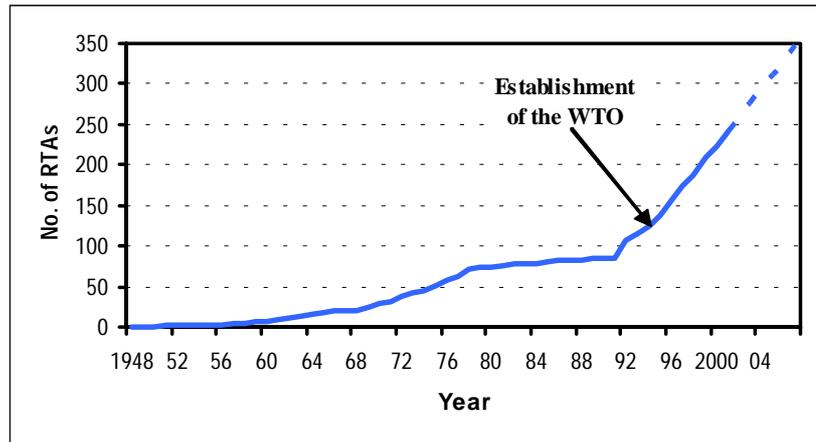
While countries around the world are now giving more emphasis to regional trade blocs following a setback to the WTO efforts<sup>2</sup> to promote global trade on an equitable basis, SAARC members have also taken note and seem sensitised. SAARC, being the largest market in the world in terms of its size, may develop into a strong economic entity, if its members can leave aside bilateral disputes. While various groups across the region have welcomed SAFTA and the progress is being deemed as a good development, different stakeholders have also started evaluating its impact on them.

This study provides information on trade between SAARC countries, highlights lessons learnt from the South Asian Preferential Trading

Agreement (SAPTA) and discusses possible implications of SAFTA on SAARC member countries. It emphasises the need for thorough research and development of workable strategies for the sustainability of the present momentum.

The objective of the study is to see if development towards SAFTA is pro-people and to point out some grey areas. The study is, thus, not an end in itself but provides some basis for further research.

**Figure 1: The Rise in RTAs<sup>3</sup>**



## Chapter 2

# About South Asia

SAARC, comprising seven South Asian countries shown in the map below, is a region with diverse ethnic and religious groups and culture. Nepal is a Hindu Kingdom, Maldives and Pakistan are Islamic Republics, Bhutan and Sri Lanka are Buddhist and Bangladesh is overwhelmingly a Muslim country while India is a secular state. In terms of geography, India is the largest country that shares its border with four out of seven countries. Sri Lanka and Maldives are island nations in the Indian Ocean. There are many internal contradictions and conflicts in all countries of the region.

***In South Asia, more than 70 percent of the population lives in rural areas and agriculture plays a crucial role in the region's economy, accounting for close to 28 percent of GDP***



[www.mapsofworld.com/saarc-member-countries.htm](http://www.mapsofworld.com/saarc-member-countries.htm)

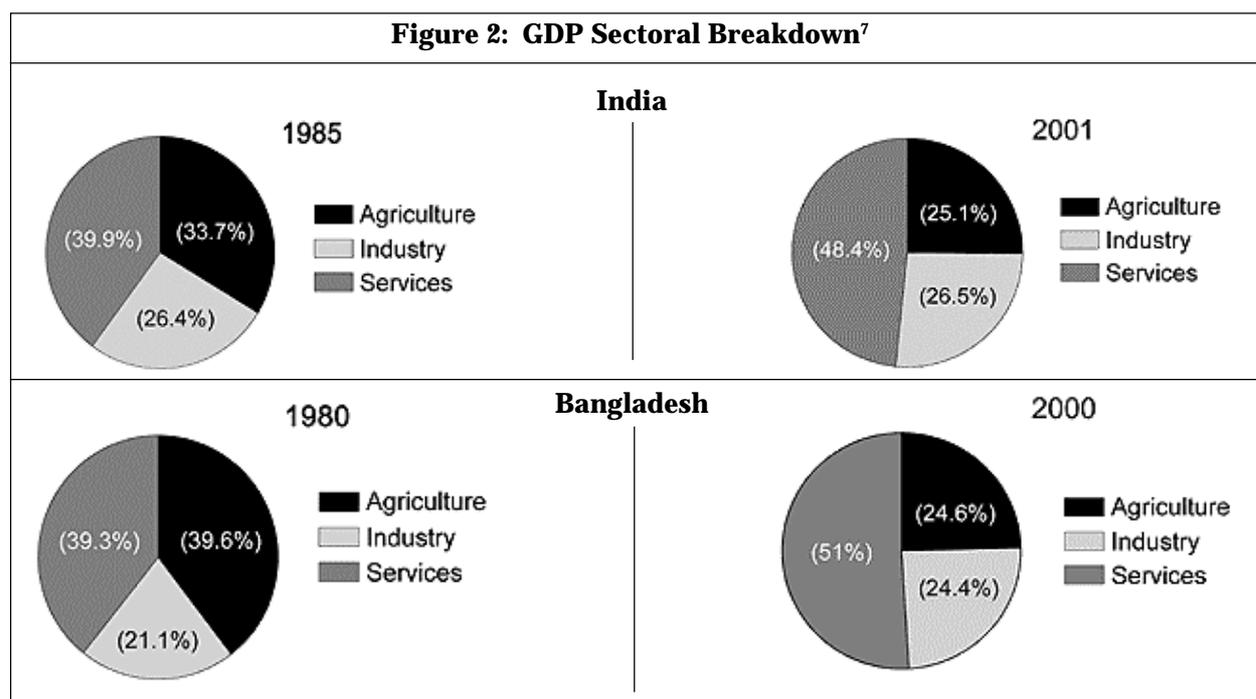
### South Asian Economy

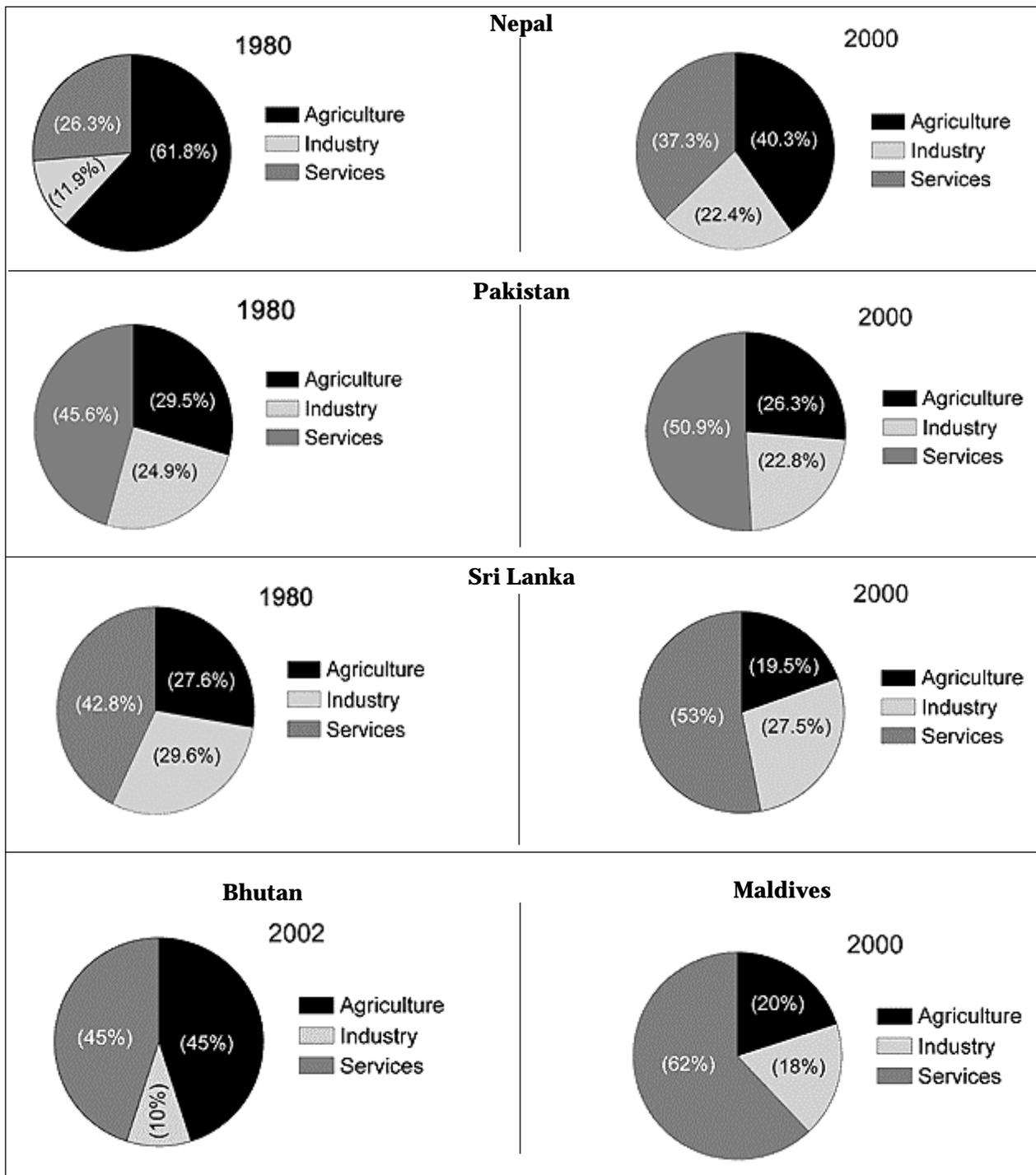
South Asia is home to more than 1.4bn people (Table 1) comprising 21 percent of the world's population with just three percent of the world's area<sup>4</sup>. In South Asia, more than 70 percent of the population lives in rural areas and agriculture plays a crucial role in the region's economy, accounting for close to 28 percent of Gross Domestic Product (GDP)<sup>5</sup>. On the whole, South Asia's economy encompasses traditional village farming, agriculture, handicrafts, a wide range of modern industries, and a multitude of support services. Despite rich cultures and vast natural and human resources, poverty is one of the major issues in the region, with about 40 percent of its population living below the poverty line (living on less than US\$1 a day)<sup>6</sup>. The region is also characterised by large income disparities.

Contribution of agriculture, industry and services sectors to GDP in SAARC member countries is shown in Figure 2. It is interesting to note that the contribution of the services sector has increased overtime and at the moment it dominates the economy. Growth in the services sector has, however, resulted in a slight decline in the agriculture sector all over the region. Yet, agriculture remains the second largest sector. The contribution of industries has varied from time to time. It remained almost unchanged in India (from 26.4 percent in 1985 to 26.5 percent in 2001). It increased in Bangladesh and Nepal from 21.1 and 11.9 percent in 1980 to 24.4 and 22.4 percent in 2000, respectively. It decreased in Pakistan and Sri Lanka from 24.9 and 29.6 percent in 1980 to 22.8 and 27.5 percent in 2000, respectively. Situation in Bhutan and Maldives cannot be compared due to non-availability of data.

|                                       | <b>1996</b> | <b>1999</b> | <b>2000</b> |
|---------------------------------------|-------------|-------------|-------------|
| Population                            | 1.3bn       | 1.3bn       | 1.4bn       |
| Population Growth Annual %            | 1.9%        | 1.9%        |             |
| Life Expectancy                       |             | 62.6        |             |
| GNI Per Capita US(\$)                 | 410         | 440         | 460         |
| GDP (Current US\$)                    | 513.7bn     | 581bn       | 620.3bn     |
| GDP Growth                            | 6.4         | 5.8         |             |
| Export of Goods and Services % of GDP | 12.4        | 13.4        | 13.1        |
| Import of Goods and Services          | 17.2        | 16.9        | 17.0        |

*Source: World Development Indicators, July 2001*





## *Chapter 3*

# Lessons Learnt from SAPTA

The SAPTA, made operational since December 1995, symbolises the beginning of an integrative arrangement among the member countries of SAARC. Since 1995 three rounds of negotiations entailing tariff liberalisation have been one of the major developments. The concessions under the first round of SAPTA in 1996 included 243 tariff lines at the HS 6-digit level. The second round of negotiations was more substantial as it covered around 1,870 tariff lines and the third round concluded in 1998 further expanded the scope of concessions by including 3,846 tariff lines. At the end of the three rounds a total of 5,959 tariff lines have been included for tariff concessions. The country-wise break up of the number of products included for concessions is given in Table 2. It is also evident that the depth of tariff concessions has ranged between 5-100 percent (Table 3).

*Though SAPTA highlighted the potential of regional economic co-operation the proportion of intra-regional trade and investment still remained quite modest*

Though SAPTA highlighted the potential of regional economic co-operation the proportion of intra-regional trade and investment still remained quite modest. Alongside, there have been various bilateral, sub regional and unilateral initiatives that have further complemented the regional integration initiatives in the South Asian region. An experience of Indo-Nepal Treaty, for instance, is given in Box 1, which shows the potential that freer trade can have in boosting economic growth.

### Box 1: Indo-Nepal Treaty Boosts Trade

Nepal's exports to India grew by a third last year, which is the third consecutive rise after the amendments to the Indo-Nepal Trade Treaty that were made in 1996. Nepal's central bank reported a 32 percent increase in total exports, totaling roughly US\$534mn between 1998-99 and 1997-98. Exports to India reached about US\$192mn during 1998-99 from US\$91.6mn in 1996/97. Nepal's exports to India account for almost 36 percent of Nepal's total exports. The Trade Treaty between the two countries presently allows Nepal-made products, except alcohol, tobacco, cosmetics, etc. duty-free access to India.

The eligibility for duty-free access is a Certificate of Origin guaranteeing that at least two manufacturing processes were done in Nepal. The provision has increased Indian investment, which according to banking estimates rose from US\$44mn in 1996 to reach about US\$59mn in 1998. One prime reason given for this trend is that the Treaty has made access to India's northern markets from factories in Nepal both cheaper and easier for Indian companies, especially for companies whose only Indian factories are in the south of India. For instance, the northern-most factory of India's Colgate-Palmolive is located in Bombay. It also has a plant in Nepal. The Bank's export figures show that toothpaste exports from Nepal have increased from US\$11mn (1997-98) to about US\$61mn (1998-99). Among newcomers now eyeing the north Indian market is Kodak Nepal, an undertaking of Eastman Kodak Company of the US and Kodak India, that is ready to begin commercial production.

*Source: Financial Times, August 26, 1999.*

**Table 2: Number of Products on which Tariff Concessions have been Extended by the SAARC Members States in the Three Rounds of Trade Negotiations Under SAPTA**

|              | First Round |            |            | Second Round |             |             | Third Round |            |             | Grand Total |
|--------------|-------------|------------|------------|--------------|-------------|-------------|-------------|------------|-------------|-------------|
|              | For LDCs    | For All    | Total      | For LDCs     | For All     | Total       | For LDCs    | For All    | Total       |             |
| Bangladesh   | 1           | 11         | 12         | 11           | 215         | 226         | 143         | 338        | 481         | 719         |
| Bhutan       | 7           | 4          | 11         | 10           | 37          | 47          | 101         | 23         | 124         | 182         |
| India        | 62          | 44         | 106        | 514          | 390         | 904         | 1874        | 43         | 1917        | 2927        |
| Maldives     | 17          | 17         | 34         | 2            | 5           | 7           | 368         | 390        | 758         | 799         |
| Nepal        | 4           | 10         | 14         | 67           | 166         | 233         | 137         | 52         | 189         | 436         |
| Pakistan     | 15          | 20         | 35         | 131          | 227         | 358         | 271         | 24         | 295         | 688         |
| Sri Lanka    | 11          | 20         | 31         | 23           | 72          | 95          | 54          | 28         | 82          | 208         |
| <b>Total</b> | <b>117</b>  | <b>126</b> | <b>243</b> | <b>758</b>   | <b>1112</b> | <b>1870</b> | <b>2948</b> | <b>898</b> | <b>3846</b> | <b>5959</b> |

Source: SAARC Secretariat.

**Table 3: Depth of Tariff Concessions under SAPTA (in percentage)**

|            | First Round       |                        | Second Round     |                    | Third Round     |          |
|------------|-------------------|------------------------|------------------|--------------------|-----------------|----------|
|            | For LDCs          | For All                | For LDCs         | For All            | For LDCs        | For All  |
| Bangladesh | 10                | 10                     | 10               | 10                 | 10<br>15        | 10       |
| Bhutan     | 10, 13,<br>and 15 | 15                     | 15               | 10                 | 10,18<br>and 20 | 10       |
| India      | 50<br>100         | 10,25,30,<br>50 and 90 | 25<br>50         | 10,15,25<br>and 40 | 50              | 10<br>20 |
| Maldives   | 7.5               |                        | 15               | 10                 | 5, 10           |          |
| Nepal      | 10                | 10                     | 15               | 10<br>15           | 10              | 10       |
| Pakistan   | 15                | 10                     | 15               | 10                 | 30              | 20       |
| Sri Lanka  | 10<br>15          | 10<br>20               | 10, 50 and<br>60 | 10                 | 10,30,<br>50,75 | 10       |

Source: SAARC Secretariat.

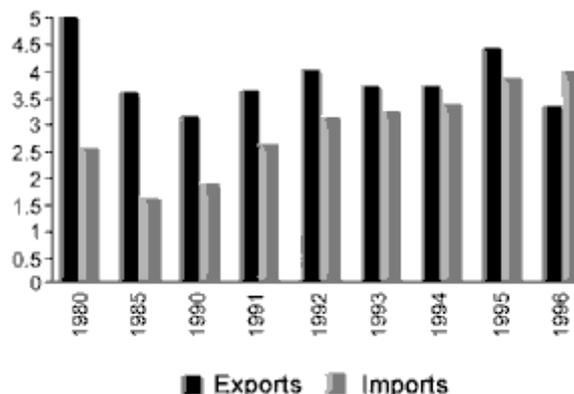
### Trade Performance

Out of 5,959 items covered under SAPTA, 688 items from Pakistan and 2,927 from India were eligible for preferential treatment<sup>8</sup>. While the number of items increased, the volume of intra-regional trade has stuck around four to five percent (Figure 3). SAPTA has been termed as “too little and too late” an effort for regional trade integration, as it was perceived as even less than a half-hearted attempt. SAARC countries exposed less than ten percent of their tariff lines (for imports) for concessions.

*Trade liberalisation should be a whole-hearted attempt with preparation and long-term vision; otherwise it is better not to do it*

Thus, the lesson is that trade liberalisation should be a whole-hearted attempt with preparation and long-term vision; otherwise it is better not to do it. For all practical purposes, SAPTA, the precursor to SAFTA, was a failure in terms of increasing the size and volume of intra-regional trade. This is mainly because of the irrelevance of tariff preferences extended to a country's trading interest, limited depth in tariff cuts,

**Figure 3: Intra-SAARC shares in exports and imports (%)**



Source: <http://www.himalmag.com/2004/january/perspective.htm>

***The poor performance of intra-SAARC trade flows, was also due to several structural as well as policy-induced constraints***

restrictive nature of rules of origin provisions and prevalence of non-tariff barriers (NTBs). For SAFTA to be successful several lessons from SAPTA need to be taken seriously.

The poor performance of intra-SAARC trade flows, as shown in Figure 4 and Table 6, was also due to several structural as well as policy-induced constraints. Structural constraints were manifested in low capacity to supply exports, especially in least developed countries (LDCs) of the region (Bangladesh, Bhutan, Maldives and Nepal), lack of investments due to low savings rate, and technological backwardness. The policy-induced constraints include the presence of trade barriers, inadequate trade facilitation (TF) mechanisms and regulated investment regimes.

SAPTA experience also shows that an adequate understanding of various issues pertaining to trade imbalances, rules of origin, and the benefits of importing low unit-value items from within the region was required. On trade imbalances among the SAARC member countries, the experience shows that this should have been approached in a pragmatic manner. Larger countries' exports to smaller countries could thus be viewed as a catalyst in promoting industrialisation in smaller countries' as well as stimulating the overall development process. Thus, the approach to imbalances required an agenda to build production and supply capacity in smaller SAARC countries if trade imbalances were to be reduced. SAPTA experience also shows that SAARC member countries were exposed to higher costs due to extra-regional sources of supply of many of their import requirements.

***SAPTA experience also shows that SAARC member countries were exposed to higher costs due to extra-regional sources of supply of many of their import requirements***

The following abstract from a speech by the Prime Minister of Bangladesh, Begum Khaleda Zia (delivered in Kathmandu, Nepal in January 2002), reflects some of the shortcomings of SAPTA:

“Reducing poverty needs a high growth rate. SAARC’s success will depend on how we cooperate in core economic areas of trade and investment. Negotiations for tariff reduction under the SAPTA have taught us some valuable lessons. We are now aware how inadequate they are, if we exclude commodities of interest to all countries and if tariff concessions do not extend to actively traded commodities. Trade promotion calls for dismantling of non-tariff barriers. It must also reduce value added requirements under the rules of origin. Failure to

redress these impediments will affect the creation of region-wide trading space. We also equally believe that all future SAARC trade initiatives should reduce asymmetry in trade exchanges and bilateral trade imbalances. This calls for decisive steps to encourage trade where opportunities already exist, especially to promote trade creating investments and other facilitating measures. This includes greater interaction among our business people and investors and co-operation among financial institutions.”

The following is a list of the shortcomings of SAPTA, which must be considered if SAARC member countries are serious about promoting economic co-operation within the region<sup>9</sup>:

*The experience of other regional organisations has shown that an equitable sharing of benefits of cooperation is the key to the success of regionalism*

- Under the SAPTA regime, modalities of tariff reduction following product-by-product and chapter-wise negotiations led to nowhere. There is a need for wide-ranging reduction in tariffs. Member countries may like to protect some sensitive sectors/commodities from liberalisation commitments, at least in the short and medium term. Therefore, a more realistic negative list has to be agreed upon, wherein countries need to specify sectors/commodities they would like to exclude from tariff reduction commitments.
- The experience of other regional organisations has shown that an equitable sharing of benefits of co-operation is the key to the success of regionalism. Therefore, measures such as providing a longer time period for freeing of trade for LDCs and allowing them to resort to ‘trade remedies’ for a relatively longer period of time to tide over imports could go a long way in providing LDCs an equitable share in the benefits of trade liberalisation. These measures should also be supplemented by the establishment of a fund for compensating revenue loss due to reduction of tariff and creation of a reasonably large-sized fund for addressing supply side constraints of the LDCs.
- Despite relaxation in rules of origin provisions in SAPTA, products manufactured in LDCs faced difficulties to qualify for market access under the regional preferential arrangement. Considering the economic realities of the region, a much more flexible rules of origin regime is needed so that trade deflection is minimised so as not to impair the ability of weaker countries of the region to take advantage of opening up of the market.
- Non-tariff barriers have been a highly contentious issue and most of the quantitative restrictions (the major form of NTBs) have already been phased out in most of the SAARC countries. The only major NTBs that need to be tackled now are the ones relating to standards on health and consumer safety grounds. Mutual recognition of standards and/or their harmonisation at the regional level could help reduce this problem.
- SAPTA provided for only two types of trade remedies: safeguards and on balance of payment grounds. There is a need to include other forms of trade remedies such as anti-dumping and countervailing measures in the SAFTA agreement.
- The dispute settlement process under SAPTA was inadequate. It should have been fair and transparent by providing member countries the option to either resort to the regional dispute settlement mechanism or to the WTO dispute settlement mechanism as in the case of NAFTA<sup>10</sup>. Due to asymmetry in the size and relative economic strengths of some countries within South Asia, this approach should be replicated in SAFTA.

*It should have been fair and transparent by providing member countries the option to either resort to the regional dispute settlement mechanism or to the WTO dispute settlement mechanism as in the case of NAFTA*

- SAPTA was notified under the Enabling Clause of the WTO. If SAFTA is to be a serious RTA, it should be ensured that liberalisation of “substantially all the trade” be the touchstone for ascertaining its compatibility with Article XXIV of the WTO.
- In order to prevent SAFTA from becoming a case like SAPTA, it is necessary not only to take the above-mentioned points into consideration but also to take a wide spectrum of stakeholders into confidence during the process of implementation of SAFTA.

There is no doubt that South Asia has a vast stock of natural resources, but, unfortunately, they have not been optimally and efficiently utilised for the benefit of the people of this region. Collective and collaborative strategies and joint ventures by SAARC member countries have been lacking. It is believed that the primacy of politics over economics largely explains the sluggish growth of regional trade and pronounced volatility of trade between the South Asian countries. SAARC, tragically, is the world’s only region, which has failed to tap its potential for social-cultural exchange and economic co-operation. Intra-SAARC trade is dismally low (below five percent of the total trade of SAARC countries) and the collective share of the region in world trade was just about one percent (Figure 3).

*SAARC, tragically, is the world’s only region, which has failed to tap its potential for social-cultural exchange and economic co-operation*

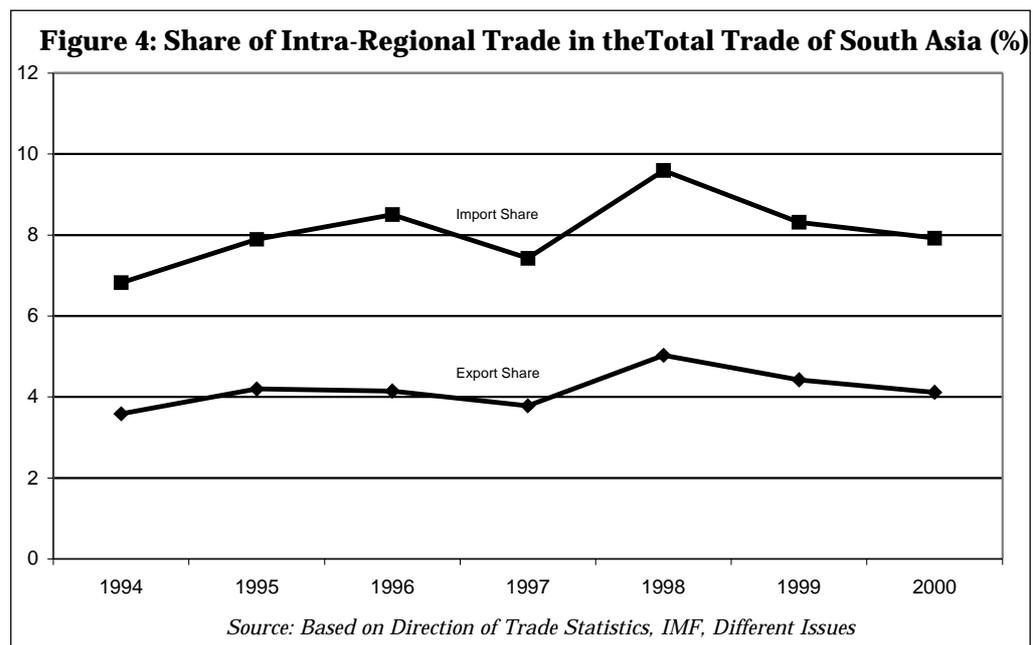
There is no doubt that the most important aspect of co-operation in South Asia is trade. The pre-condition for the success of SAFTA is that countries must believe in trade with neighboring countries. Speculative apprehensions have been highlighted in relation to insignificant intra-SAARC trade and poor progress on SAPTA. Therefore, it is necessary that SAARC members must create conditions for greater trade among themselves. Increased trade can help achieve better trade relations with the rest of world as well, because intra-regional trade can help in generating exportable surplus, which will help each member country to increase trade with the rest of the world.

## Chapter 4 Intra-SAARC Trade

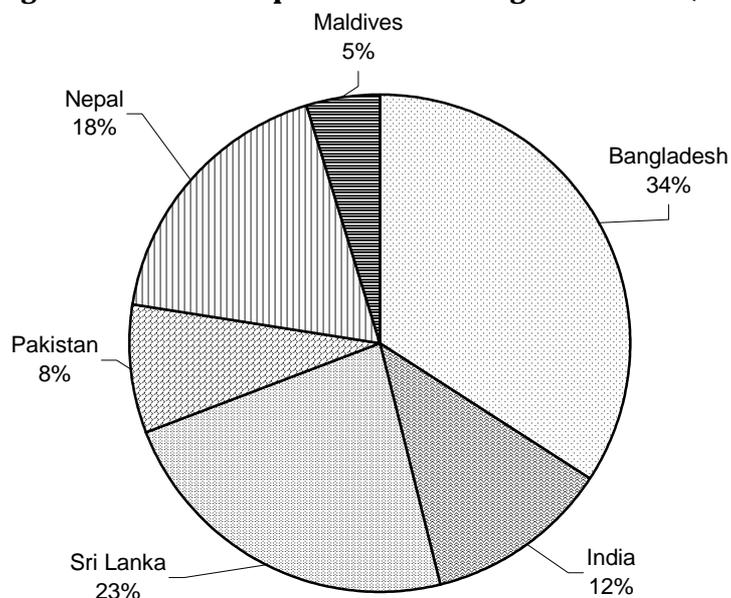
Over the years a number of initiatives have been taken by the South Asian countries to liberalise intra-regional trade at unilateral, bilateral and regional levels. However, despite such initiatives the proportion of regional trade and investment has remained small. The level of intra-regional trade in South Asia is insignificant compared to such trade in other parts of the world. Figure 4 provides the intra-regional import and export shares in South Asia in the region's total trade. It shows that the intra-regional import share is slightly higher than the export share but both are rather low, about 8 and 4 percent of the total values of import and export, respectively. The trade structure has remained largely unchanged overtime.

*The figure identifies India as the dominant exporter in the region with a share of 72 percent, followed by Pakistan with 10 percent, Sri Lanka and Nepal 7 percent each, Bangladesh 3 percent and Maldives around 1 percent*

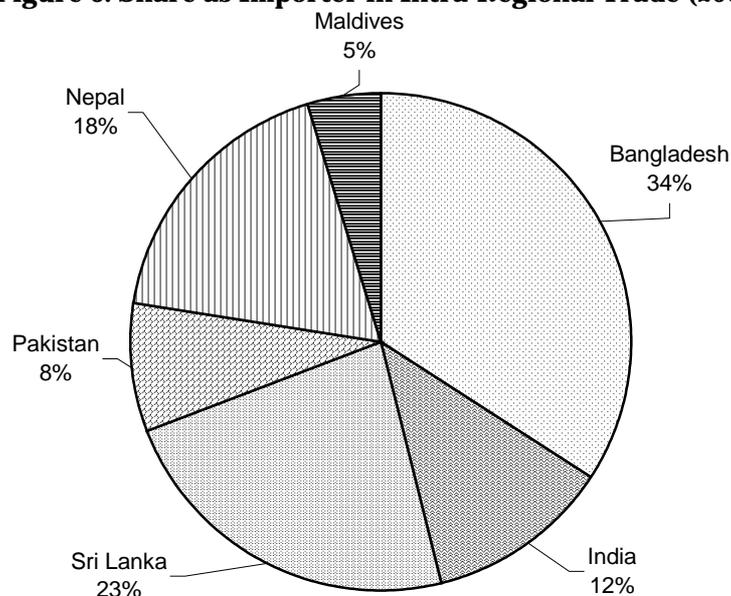
Figure 5 shows the share of South Asian countries in intra-regional trade as exporters in the year 2000. The figure identifies India as the dominant exporter in the region with a share of 72 percent, followed by Pakistan with 10 percent, Sri Lanka and Nepal 7 percent each, Bangladesh 3 percent and Maldives around 1 percent. As regards imports, Bangladesh has the largest share of 34 percent followed by Sri Lanka with 23 percent, Nepal 18 percent, India 12 percent, Pakistan 8 percent and Maldives 5 percent (Figure 6). All South Asian countries except India have a trade deficit within the region. Bangladesh has the largest trade deficit among them all.



**Figure 5: Share as Exporter in Intra-Regional Trade (2000)<sup>11</sup>**



**Figure 6: Share as Importer in Intra-Regional Trade (2000)<sup>12</sup>**



*The export basket for most of the SAARC countries is composed of primary goods (agriculture and allied products) or low-tech labour-intensive manufacturing (textiles, garments, clothing, etc)*

For intra-SAARC trade, composition of export and import items of each member country is given in Table 4 and 5. The export basket for most of the SAARC countries is composed of primary goods (agriculture and allied products) or low-tech labour-intensive manufacturing (textiles, garments, clothing, etc). Their exports are in bulk, which means that the component of value-added at the country level is low and hence restricts the export base since the larger and more lucrative value-added market is not available to South Asian countries. Typically, other countries tend to take advantage of this market. Likewise, their imports are either intermediate goods (resource/raw material-based) like petroleum and chemicals, or capital goods (machinery/equipment-based).

| <b>Sri Lanka</b>  | <b>Nepal</b>  | <b>India</b>   | <b>Pakistan</b>                                     | <b>Maldives</b> | <b>Bhutan</b>  | <b>Bangladesh</b>  |
|---|---|--|---|-----------------|--|--|
| Textiles and garments, tea, leather and footwear, diamonds and other gems, coconut products, petroleum products | Carpets, clothing, leather goods, jute goods, grain | Gems and jewellery, engineering goods, clothing, chemicals, software, cotton textiles, leather, iron ore | Raw cotton and textiles; rice; leather manufactures | Fish, clothing  | Cardamom, gypsum, timber, handicrafts, cement, fruit, electricity (to India) precious stones, spices | Garments and knitwear, ceramic tableware, frozen fish, jute and jute goods, tea, urea fertilizer, leather and leather products |

| <b>Sri Lanka</b>   | <b>Nepal</b>                              | <b>India</b>   | <b>Pakistan</b>                                    | <b>Maldives</b>  | <b>Bhutan</b>  | <b>Bangladesh</b>   |
|--|---|--|--|--|--|---|
| Cotton and textiles, machinery and equipment, food and drink, consumer durables, petroleum | Petroleum products, fertilizer, machinery | Petroleum and petroleum products, machinery, iron and steel, edible oils, chemicals, fertilizers | Petroleum; machinery and transport equipment; food | Consumer goods, Petroleum products, Intermediate and Capital goods | Fuel and lubricants, grain, machinery and parts, vehicles, fabrics, rice | Capital goods, foodgrains, petroleum, textiles, chemicals, vegetable oils |

*Intra-SAARC trade as a proportion of SAARC's total trade would be much higher if one takes into account unofficial or informal trade along with official figures*

The present state of intra-SAARC trade is given in Table 7. According to this data, intra-SAARC exports as a proportion of total SAARC exports increased from 3.16 percent in 1990 to 4.90 percent in 1999. The intra-SAARC imports as a proportion of total SAARC imports increased from 1.91 percent in 1990 to 4.12 percent in 1999.

However, intra-SAARC trade as a proportion of SAARC's total trade would be much higher if one takes into account unofficial or informal trade along with official figures. In this sense, official figures do not reflect the true status of intra-SAARC trade vis-à-vis SAARC countries' total global trade. If only India's informal trade with neighboring South Asian countries is taken into consideration, intra-SAARC trade as a proportion of SAARC's total trade with the world stands at 6.48 percent in 1999 (see Table 6). This is much higher than the corresponding figure based on only official trade flows, which was 4.46 percent in 1999. This emphasises the importance of intra-SAARC trade.

| <b>Table 6: Importance of Intra-SAARC Trade in Total SAARC Trade</b>  |              |
|---|--------------|
| (Values in mn US\$)   |              |
| Intra – SAARC Exports   | 2781         |
| Total SAARC Exports to World  | 56796        |
| Intra – SAARC Exports as a percent of Total SAARC Exports to World  | 4.9 percent  |
| Intra – SAARC Imports   | 2944         |
| Total SAARC Imports from World  | 71489        |
| Intra – SAARC imports as a percent of Total SAARC Imports from World  | 4.12 percent |
| Intra – SAARC Exports (Including Unofficial Figures)*   | 3254.15      |
| Total SAARC Exports to World (Including Unofficial Figures)*  | 57269.15     |
| Intra – SAARC Exports (Including Unofficial Figures) /<br>Total SAARC Exports to World (Including Unofficial Figures)   | 5.68 percent |
| Intra – SAARC Imports (Including Unofficial Figures)**  | 3080.23      |
| Total SAARC Imports from World (Including Unofficial Figures)**   | 71625.23     |
| Intra – SAARC Imports (Including Unofficial Figures)/<br>Total SAARC Imports from World (Including Unofficial Figures)  | 4.30 percent |
| Total Intra-SAARC Trade   | 5725         |
| Total SAARC Trade With World  | 128285       |
| Total Intra-SAARC Trade/ Total SAARC Trade With World   | 4.46 percent |
| Total SAARC Trade (Including Unofficial Figures)***   | 8494.38      |
| Total SAARC Trade With World (Including Unofficial Figures)***  | 131054.38    |
| Total SAARC Trade (Including Unofficial Figures) /<br>Total SAARC Trade With World (Including Unofficial Figures)   | 6.48 percent |
| Notes: 1. Figures on unofficial trade are of different years in 1990s for different countries. The official trade figures pertain to 1999.                                      |              |
| 2. * includes only unofficial export figures between India and Bangladesh, Bhutan and Sri Lanka.  |              |
| 3. ** includes only unofficial import figures between India and Bangladesh, Bhutan and Sri Lanka.   |              |
| 4. *** includes only unofficial trade figures between India and Bangladesh, Bhutan, Nepal and Sri Lanka.  |              |
| <i>Source: South Asia Development and Cooperation report 2001-2002 by Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi, India.</i> |              |

| Table 7: Intra-SAARC Trade |            |      |        |      |       |        |       |      |          |      |          |              |           |      |             |                  |
|----------------------------|------------|------|--------|------|-------|--------|-------|------|----------|------|----------|--------------|-----------|------|-------------|------------------|
|                            |            |      |        |      |       |        |       |      |          |      |          | (in mn US\$) |           |      |             |                  |
| From/ To                   | Bangladesh |      | Bhutan |      | India |        | Nepal |      | Maldives |      | Pakistan |              | Sri Lanka |      | Grand Total |                  |
|                            | 1990       | 1999 | 1990   | 1999 | 1990  | 1999   | 1990  | 1999 | 1990     | 1999 | 1990     | 1999         | 1990      | 1999 | 1990        | 1999             |
| <b>EXPORTS</b>             |            |      |        |      |       |        |       |      |          |      |          |              |           |      |             |                  |
| Bangladesh                 |            |      |        |      | 22    | 48.7   | 7     | 6.8  |          |      | 23       | 26.6         | 8         | 4.4  | 60          | 86.5<br>(1.97)   |
| India                      | 297        | 1063 |        |      | 40    | 342    | 40    | 342  | 5        | 7*   | 43       | 141          | 102       | 564  | 487         | 2117<br>(5.42)   |
| Maldives                   |            |      |        |      |       |        |       |      |          |      |          | 1*           | 7         | 14*  | 7           | 15*<br>(16.13)   |
| Nepal                      | 1          | 10*  |        |      | 14    | 65*    |       |      |          |      |          | 1*           |           | 6*   | 15          | 81*<br>(20.56)   |
| Pakistan                   | 103        | 113  |        |      | 49    | 145    | 1     | 4*   | 1        | 1*   |          |              | 69        | 100  | 223         | 363<br>(4.36)    |
| Sri Lanka                  | 10         | 6.7  |        |      | 20    | 48.5   |       | 2*   | 7        | 30.1 | 32       | 32.1         |           |      | 69          | 119.4<br>(2.73)  |
| <b>Grand Total</b>         |            |      |        |      |       |        |       |      |          |      |          |              |           |      | 861         | 2781.9<br>(4.90) |
| <b>IMPORTS</b>             |            |      |        |      |       |        |       |      |          |      |          |              |           |      |             |                  |
| Bangladesh                 |            |      | 7      | 4*   | 170   | 1169.1 | 2     | 17.4 |          |      | 70       | 87.8         | 8         | 7.3  | 257         | 1285.6<br>(14.9) |
| India                      | 15         | 54   |        | 11*  |       |        | 15    | 156  |          |      | 45       | 160          | 22        | 47   | 97          | 428<br>(0.94)    |
| Maldives                   |            |      |        |      | 7     | 7*     |       |      |          |      | 1        | 2*           | 10        | 27*  | 18          | 36*<br>(8.31)    |
| Nepal                      | 8          | 1*   |        |      | 43    | 159*   |       |      |          |      | 1        | 5*           |           | 2*   | 52          | 167*<br>(13.04)  |
| Pakistan                   | 38         | 31   |        |      | 46    | 155    |       | 1*   |          |      |          |              | 37        | 35   | 121         | 223<br>(2.23)    |
| Sri Lanka                  | 9          | 4.9  |        |      | 118   | 666.3  |       | 5*   | 6        | 18.1 | 51       | 109.7        |           |      | 184         | 804.0<br>(12.63) |
| <b>Grand Total</b>         |            |      |        |      |       |        |       |      |          |      |          |              |           |      | 729         | 2943.6<br>(6.98) |

Note: \* refers to data of 1997. Figures in parentheses are in shares in total exports/imports of a particular country.

Source: South Asia Development and Cooperation report 2001-2002 by Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi - India.

## *Chapter 5*

# **Main Features of the SAFTA Agreement**

The inability of SAPTA to promote intra-regional trade made it necessary to establish a SAFTA to:

- steadily eliminate tariff and NTBs;
- set up a sensitive list of commodities, which SAARC members would like to exclude from tariff concessions; and
- decide on safeguard and anti-dumping measures to take care of unexpected developments.

*The 12-page SAFTA agreement has 25 Articles. Article 4 includes six major instruments on the basis of which the agreement will be implemented*

This treaty has laid down legally binding schedules for freeing trade among the SAARC countries and provided a predictable and transparent time path for achieving a free trade area in the South Asian region. The draft Treaty of SAFTA was signed during the 12<sup>th</sup> SAARC Summit held in Islamabad, Pakistan in January 2004 with a view to strengthen intra-SAARC economic co-operation to maximise the realisation of the region's potential for trade and development for the benefit of its people. It is also hoped that this agreement would contribute significantly to the expansion of investment and production opportunities and increase trade and foreign exchange earnings as well as lead to the development of economic and technological co-operation.

The 12-page SAFTA agreement has 25 Articles<sup>15</sup>. Article 4 includes six major instruments on the basis of which the agreement will be implemented. These instruments include trade liberalisation programme, rules of origin (RoO), institutional arrangements, consultations and dispute settlement procedures, safeguard measures and any other instrument that may be agreed upon. Article 6 consists of arrangements relating to tariffs, para-tariffs, non-tariff measures and direct trade measures. The agreement will take effect from January 1, 2006. According to SAFTA, more developed countries in the SAARC region (viz. India, Pakistan and Sri Lanka) will reduce their customs duties to zero-five percent within seven years after the agreement takes effect. The remaining four least developed countries (Bangladesh, Bhutan, Maldives and Nepal) are scheduled to follow suit within 10 years. In addition, non-LDCs are required to bring down their tariffs in the range of zero-five percent for products of LDCs by 2009.

*Article 6 consists of arrangements relating to tariffs, para-tariffs, non-tariff measures and direct trade measures. The agreement will take effect from January 1, 2006*

As a first step, developing countries will reduce import duty on all goods to a uniform duty of 20 percent within a period of two years. The LDCs are allowed to maintain tariff rate at 30 percent (see Table 8).

During the second phase of liberalisation, India and Pakistan will reduce tariff to zero-five percent by 2013 and Sri Lanka will do it by 2014 while the LDCs will get the transitional period of eight years,

from the third year of the Agreement coming into force i.e. these countries will have to implement the same by 2016 (see Table 9). Ultimate objective would be to reduce import duty to zero.

It is observed from these tables that at the end of SAFTA implementation, a maximum tariff of 5 percent may prevail. Furthermore, SAARC countries will eliminate all non-tariff barriers (not conforming to WTO regulations) on a gradual basis within a period of three years (5 years for least developed countries), beginning from the date of the enforcement of the agreement.

***SAFTA is, a Framework Agreement and some substantive issues like list of sensitive products, rules of origin, dispute resolution mechanisms, revenue compensation for LDCs are to be negotiated in the next two years***

SAFTA is, however, a Framework Agreement and some substantive issues like list of sensitive products, rules of origin, dispute resolution mechanisms, revenue compensation for LDCs are to be negotiated in the next two years. A comparison between SAPTA and SAFTA is shown in Table 10.

**Table 8: Tariff Reduction Plan under SAFTA: First Phase**

| <b>Countries</b>          | <b>Existing Tariff Rates*</b> | <b>Tariff Rates Proposed under SAFTA</b> | <b>Time Schedule</b> |
|---------------------------|-------------------------------|--|----------------------|
| Developing Countries      | More than 20%                 | 20% (Maximum)                            | Within 2 Years       |
|                           | Less than 20%                 | Annual reduction of 10%                  | Each of 2 Years      |
| Least Developed Countries | More than 30%                 | 30% (Maximum)                            | Within 2 Years       |
|                           | Less than 30%                 | Annual reduction of 5%                   | Each of 2 Years      |

*\* The tariff rates on the date of enforcement of SAFTA.  
NB: All tariff rates are actual tariff rates.*

**Table 9: Tariff Reduction Plan under SAFTA: Second Phase**

| <b>Countries</b>          | <b>Existing Tariff Rates</b> | <b>Tariff Rates Proposed Under SAFTA</b> | <b>Time Schedule</b> |
|---------------------------|------------------------------|--|----------------------|
| Pakistan<br>India         | 20% or below                 | 0-5%*                                    | Within 5 Years       |
| Sri Lanka                 | 20% or below                 | 0-5%*                                    | Within 6 Years       |
| Least Developed Countries | 30% or below                 | 0-5%**                                   | Within 8 Years       |

*\*In equal annual installments, but not less than 15% annually.  
\*\* In equal annual installments, but not less than 10% annually.  
NB: Second Phase will begin at the end of the first phase of two years.*

| <b>Table 10: A General Comparison between SAPTA and SAFTA</b>   |   |   |                 |
|---|---|---|-----------------|
| <b>Subject</b>  | <b>Treatment Under SAPTA</b>  | <b>Treatment Under SAFTA</b>  | <b>Comments</b> |
| Trade Liberalisation  | Provides for arrangements relating to tariff, para-tariff, non-tariff and direct trade measures   | Provide for an elaborate 'trade liberalisation programme' under article 7   | SAPTA plus      |
| Additional Measures   | These relate to trade facilitation and communication provisions   | SAPTA plus harmonisation of standards, mutual recognition of tests and accreditation of testing labs, simplification of banking procedures for import financing, removal of barriers to intra-SAARC investment, rules for fair competition and promotion of venture capital and simplification of procedures for business visas (Article 8)   | WTO plus        |
| Special and Differential Treatment to LDCs  | Provisions for deeper and wider tariff preferences, removal of non-tariff and para-tariff barriers, special consideration in the application of safeguards, flexibility in use of quantitative restrictions and favorable terms for technical assistance (Article 10 and additional measures I Annex 1) | Longer time frames for tariff reduction and flexibility in derogation for products of export interest (Article 7); consider acceptance of price undertakings in the application of trade remedies, list of possible areas for technical assistance to be negotiated and incorporate in text, appropriate mechanism for compensation for loss of custom revenue (Article 11); application of safeguards (Article 16.8) | WTO plus        |
| Proposed Methodology for Negotiations   | Product – by – product, sectoral or across the board, based on positive list approach   | Implicitly "across the board", negative list approach   | SAPTA plus      |
| National Treatment  | No Provision  | Provision under Article 5 in accordance with Article III of the GATT  | SAPTA plus      |
| Safeguard Measures  | Aggrieved Contracting State(s) have the right to withdraw equivalent concessions in the event of non-resolution   | Provisions in details for investigation procedures; upper time limit for suspension on concessions at 3 years; provision for emergency safeguards in "critical circumstances;" S&D for LDCs   | SAPTA plus      |
| Rules of Origin   | Detailed in Annex 3   | To be negotiated and incorporated into the text of the Agreement  |                 |
| Modification or Withdrawal of Concessions   | Provided for in Article 17  | No provisions   | SAPTA plus      |
| Dispute settlement  | Committee has 120 days to resolve the dispute   | Detailed provisions in Article 20. The committee of experts and SAFTA Ministerial Council perform the functions of the Panel and the Appellate Body, respectively. Dispute resolution may take from 30 days (min) to 240 days (max)   | SAPTA plus      |
| <i>Source: Huma Fakhir (2004) Presentation on "SAFTA: Issues and Options" at Lahore Chambers of Commerce and Industry on February 16, 2004.</i> |   |   |                 |

## Chapter 6

# SAFTA from Select Stakeholders' Perspectives

### Civil Society

*A widely expressed and shared concern is that the government does not properly consult the private sector and civil society while negotiating international trade agreements*

From civil society perspective, peoples' movement and co-operation among countries is vital for peace and prosperity in the region. Trade (in goods and services) may provide a useful tool for peoples' movement and co-operation. Trade can also help in securing better livelihoods for the poor, provided right policies are in place and are implemented properly. It is significant to note that civil society (NGOs) across the region respect each other and they are likely to help promote trade on a sustainable basis if trade rules are fair. A free and fair regional trading arrangement will also help in promoting multilateralism.

Despite this positive attitude towards trade and its relationship with development, a widely expressed and shared concern is that the government does not properly consult the private sector and civil society while negotiating international trade agreements and as a result, agreements do not succeed when practiced. Press statements all over the region suggest that the governments have not properly consulted diverse interest groups while signing the SAFTA agreement.

Thus, the civil society approach is that any development towards free trade in the region will be of no use if it does not have regard for socio-cultural values and respect for the needs of the future generations. While putting in efforts to increase a country's economic growth, SAFTA must place emphasis on raising people's living standards, preserving their socio-cultural values and protecting the natural environment.

South Asia is alleged to be highly gender insensitive although women constitute almost half of the population. SAFTA does not say anything clearly about promoting women's participation in economic activities having links with international trade.

*With its population of 1.4bn, South Asia is the largest potential market in the world. However, consumers are still denied the advantage of lower prices that is possible only under a free trade regime*

### Consumer's Perspective

With its population of 1.4bn, South Asia is the largest potential market in the world. However, consumers are still denied the advantage of lower prices that is possible only under a free trade regime. Consumers are believed to reap benefits from the SAFTA regime. In a market having a variety of products, consumers will definitely have more price options and will be able to exercise their right to choose.<sup>16</sup>

This is, however, not as straight forward as it seems and purchasing power is an important factor. Thus, advantages to consumers will depend on the impact of SAFTA on employment generation in the region. Consumer's interest will be maximised if the SAFTA regime improves the employment scenario or at least it does not affect it negatively.

A fair trading system needs inbuilt provisions for the benefit of less developed partners. A level playing field for all SAARC countries will lead to fair competition in the market place and consumers could, in fact, become a sustainable tool to regulate and monitor the SAFTA treaty. Only those products will exist in the market, which will suit consumers and satisfy their demand. In Pakistan, for instance, a few multinationals are charging much higher prices for medicines as compared to India and it is expected that under the SAFTA regime they will be forced to reduce their profit margins to be able to compete in the market.

#### Commerce and Industry Perspective

Most of the people from the private sector believe that they are going to get better access to a huge market. With some policy changes, they have the potential to compete in the market with better planning and management. Comments of some leading Commerce and Industry officials are quoted below, which present a fair amount of issues related to opportunities and fears from SAFTA.

***A fair trading system needs inbuilt provisions for the benefit of less developed partners. A level playing field for all SAARC countries will lead to fair competition in the market place***

According to Jamil Mehboob Magoon, Vice President of the SAARC Chamber of Commerce and Industry (SCCI), removal of trade barriers and all other irritants hampering free trade in the SAARC region would be a win-win situation for all, be it the governments, the common people or businessmen.<sup>17</sup> He said that the agreement would not only facilitate free trade in the region but in future it would also help promote joint ventures and investment from within the region and from the rest of the world.

Zahid Anwar, Chairman, National Businessmen Forum, Pakistan has, however, revealed his fear that Indian goods may flood Pakistani markets at the cost of its domestic industry by taking advantage of cost of production, which is highest in Pakistan as compared to other South Asian countries.<sup>18</sup> He demanded that the government should convene a roundtable meeting of all segments to dispel the apprehensions of the business community, in addition to encouraging domestic industry to compete with the developed Indian industry.

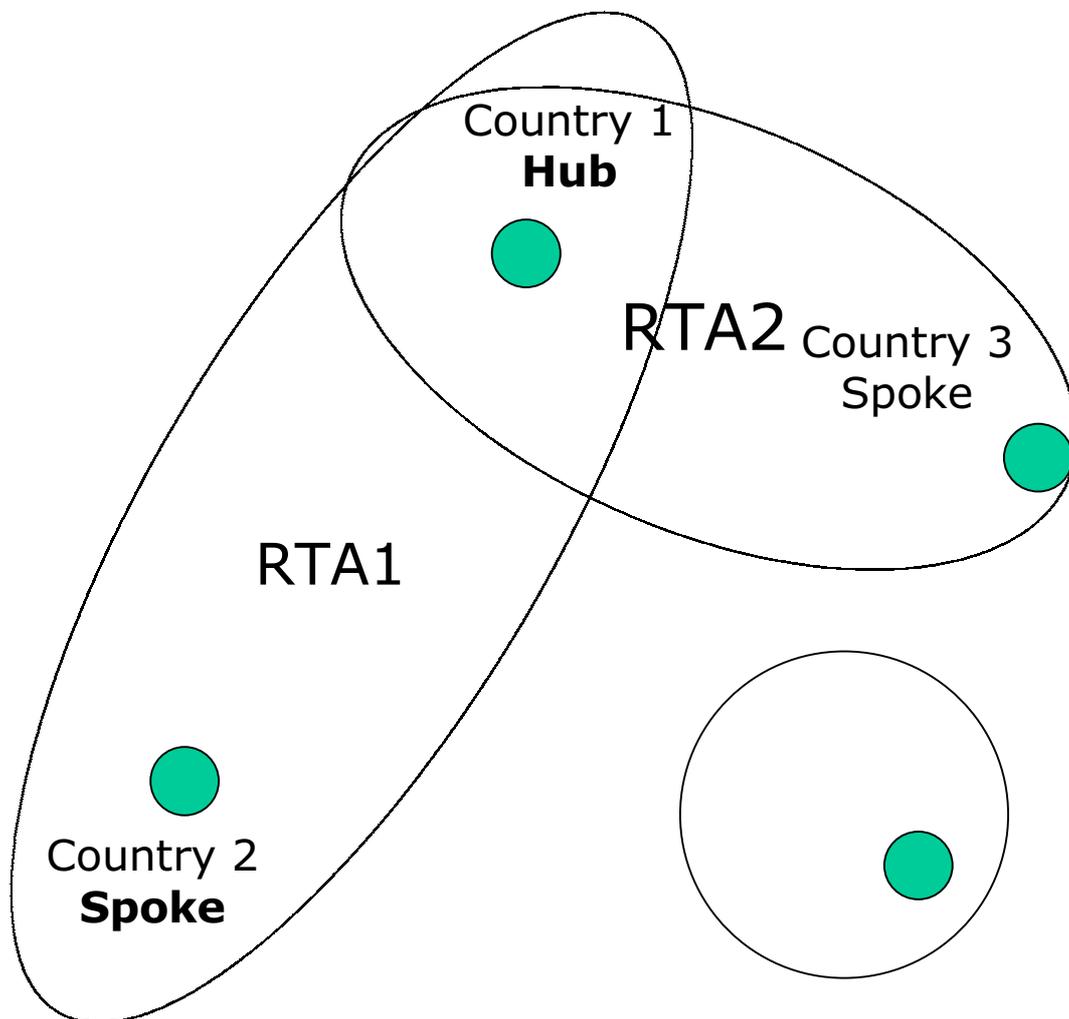
In brief, SAFTA poses opportunities as well as threats to all member countries and, of course, every country will not be competitive in all products. It can, however, be believed that the private sector is dynamic and has the capacity to come out with ideas and find sectors where it can do well by adapting to the competitive situation. What are needed are timely research and good planning by the private sector.

## SAFTA: Analysis of Some Issues

*One way to understand their (RTAs) success is the fact that generally one of these countries was technologically more developed and the essential technology transfer to the rest of the countries of the region helped achieve this success*

In the contemporary world economy, there are several examples of successful RTAs. Huma Fakhar, Consultant of All Pakistan Textile Mills Association (APTMA), while presenting a paper on “SAFTA: Issues and Options” at the Lahore Chambers of Commerce and Industry (LCCI) on February 16, 2004, said that one way to understand their (RTAs) success is the fact that generally one of these countries was technologically more developed and the essential technology transfer to the rest of the countries of the region helped achieve this success. She presented The Hub and The Spoke Theory as shown in Figure 7, according to which one country, technologically more developed, served as a hub for the rest of the countries of the region.

Figure 7: The Hub and The Spoke Theory



Association of South East Asian Nation (ASEAN) is, however, another successful model but it does not contain any country serving as the hub and all member countries are spokes. She attributes this success to the level of trade liberalisation and to the sustained commitment of the members of ASEAN Free Trade Area (AFTA) to keep aside their bilateral disputes. To date, one quarter of ASEAN's external trade is within the region.

It may be of interest to examine a few illustrations from AFTA<sup>19</sup> that would provide some insights into SAFTA. Box 2 presents a brief account of AFTA and its progress so far.

### **Box 2: ASEAN Free Trade Agreement (AFTA)**

The ASEAN heads of State decided to establish an AFTA in 1992. A vital step in this direction is the liberalisation of trade through the elimination of tariffs and non-tariff barriers among the ASEAN members. This activity has begun to serve as a catalyst for greater efficiency in production and long-term competitiveness.

In principle, the free trade area covers all manufactured and agricultural products, although the timetables for reducing tariffs and removing quantitative restrictions and other non-tariff barriers differ.

Products in the Inclusion List are those that have to undergo immediate liberalisation through reduction in intra-regional tariff rates and removal of quantitative restrictions and other non-tariff barriers. Tariffs on these products were down to a maximum of 20 percent by the year 1998 and to 0-5 percent by the year 2002. The new Members of ASEAN have up to 2006 (Vietnam), 2008 (Laos and Myanmar) and 2010 (Cambodia) to meet this deadline. By the year 2000, there were 53,294 tariff lines in the Inclusion List representing 82.78 percent of all tariff lines in ASEAN. The timetable laid down for the phase out of tariff restrictions is presented as below:

#### **TIMETABLE FOR ACCELERATING AFTA FOR THE ORIGINAL SIX COUNTRIES**

| <b>YEAR</b> | <b>COMMENTS</b>   |
|-------------|---|
| 2000        | A minimum of 90% of the six countries' total tariff lines must have tariffs of 0-5 percent. Individually, each country would commit to achieve minimum of 85 percent of the Inclusion List with tariffs of 0-5 percent. |
| 2001        | Each country would achieve a minimum of 90 percent of the Inclusion list in the 0-5 percent tariff range.   |
| 2002        | 100 percent of items in the Inclusion List would have tariffs of 0-5 percent, but with some flexibility.  |

Under Temporary Exclusion List (TEL) products can be shielded from trade liberalisation only for a temporary period of time. However, all these products would have to be transferred into the Inclusion List and begin a process of tariff reduction so that tariffs would come down to 0-5 percent. Starting on 1 January 1996, annual installments of products from the TEL have been transferred into the Inclusion List. By the year 2000, there were only 9,674 tariff lines in the TEL representing about 15.04 percent of all tariff lines in ASEAN. Under Sensitive List are contained unprocessed agricultural products, which are given a longer time frame before being integrated with the free trade area. The commitment to reduce tariffs to 0-5 percent, remove quantitative restrictions and other non-tariff barriers has been extended up to the year 2010. The new members of ASEAN have up to 2013 (Vietnam), 2015 (Laos and Myanmar) and 2017 (Cambodia) to meet this deadline. By the year 2000, there were 370 tariff lines in the Sensitive List making up 0.58 percent of all tariff lines in ASEAN. Under General Exception (GE), products are permanently excluded from the free trade area for reasons of protection of national security, public morals, human, animal or plant life and health and articles of artistic, historic and archaeological value. There are 1,036 tariff lines in the GE List representing about 1.61 percent of all tariff lines.

In order to prevent SAFTA from becoming a failure like SAPTA, it is necessary to learn lessons from AFTA. Coping with bilateral disputes separately, AFTA took product coverage, investment, services and dispute settlement simultaneously for opening up of regional trade. On the contrary, SAFTA seems inadequate as it only covers trade in goods. Services sector, as shown in Figure 2, is dominant in all countries of the region and this would have been more helpful to LDCs, as they have minimal comparative advantage in exports as compared to India and Pakistan.

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Thus, SAFTA treaty itself does not incorporate all the necessary components that are essential for the effective functioning of a free trade area and there are some associated fears that need to be addressed immediately or at least in the near future.

As stated earlier, with a population of 1.4bn, South Asia is expected to be the biggest free trade area of the world. However, the real market hardly consists of 400mn people - 200mn in India, 55mn in Pakistan, 45mn in Bangladesh and 100mn in the other four member countries: Bhutan, Maldives, Nepal and Sri Lanka. SAFTA needs to turn the people of the region into consumers and enable them to play a meaningful role in economic activity.

Abid Qayyum Suleri and Bhaskar Sharma, in one of their articles,<sup>20</sup> analysed the SAFTA treaty as follows:

- A number of apprehensions arise due to the fact that the SAFTA treaty has some confusing provisions and grey areas.
- Some of the important and apparent drawbacks in the SAFTA treaty are the inability of the member countries to draw concrete consensus on certain issues, namely revenue compensatory mechanism, rules of origin, sensitive list and technical assistance for least developed members, among others. Moreover, rules and regulations for the effective implementation of the trade liberalisation programme and granting of special and differential treatment to LDC members have not been clearly spelled out. Until and unless concrete and constructive negotiations are concluded on these issues, the future of SAFTA would remain uncertain.
- Many of the issues highlighted above have been left for future negotiations and finalisation. However, deadlines for completion of negotiations have not been mentioned in most of the cases. The only case in which a deadline for completion has been specifically mentioned is in Article 11(e) that relates to the rules and regulations with regard to the Revenue Compensatory Mechanism for the benefit of the LDCs. The rules and regulations are to be finalised before SAFTA is formally launched in 2006. In other cases, such as harmonisation of legislation, identification of special needs of the LDCs, the number of products under the sensitive list, areas of technical assistance for LDCs and rules of origin, the treaty make no mention of deadlines. This is likely to create complications in the actual implementation of the treaty, unless of course the proposed actions are completed before the implementation of the trade liberalisation programme.
- Likewise, there are some ambiguous provisions in the treaty. The

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ambiguity needs to be reduced because the treaty is a legal and binding document, and such ambiguities find no place in a binding document. For example, Article 3(2)(f) states that the special needs of the LDCs would be clearly recognised by 'adopting concrete preferential measures in their favor on a non-reciprocal basis'. Due to the lack of deadlines and concrete plans for the identification of the special needs of LDCs, this provision is ambiguous.

- Besides, the treaty has hardly any provisions relating to anti-dumping, subsidies and countervailing measures, technical barriers to trade, and sanitary and phyto-sanitary measures. These issues are pertinent when a region moves into a free trade arrangement. The shortcomings in the treaty have to be identified and rectified in order to move towards a free trade regime.

### Competitiveness

LDC's have relative cost disadvantage as compared to non-LDCs of the SAARC region in some goods that they export to SAARC countries or outside. SAFTA framework has not yet formulated rules in most of the sensitive issues that affect the growth of LDCs within the SAARC. As in the future economic activities will mainly be guided by efficiency and profitability, it is more likely that this situation will support only efficient economies like India and Pakistan.

LDCs are not concentrating on the development of economies of scale and on increasing intra-regional trade and investment flows. Constraints such as inadequate infrastructure, unstable prices and exchange rates, the existence of uneconomic and sick industries, non-transparent economic policies, locally-oriented production, absence of an adequate regulatory structure and a low level of intra-regional trade have so far led to a lack of exploitation of potential industrial complementarities in LDCs.

If LDCs want to improve, they need to decrease current reliance on one or a few export products by increasing the value addition of processed raw materials and by diversifying the product base. In this way, their industrial complementarities are possible with production, processing and marketing being spread on a regional basis.

### Negotiating Capacity

What is finalised now is only a Framework Agreement, which means the actual negotiation on the list of goods and tariff rates is yet to start. Article 13 notes that, notwithstanding the measures as set out in the SAFTA Agreement, its provisions shall not apply in relation to preferences already granted outside the Framework. It gives enough room for entering into negotiated settlement for mutual benefit among the members. But countries like Nepal and Bhutan lack negotiating skills and they might not show the confidence and insight that other SAARC countries show at the bilateral and multilateral negotiations. There is a problem of inadequate information. LDCs need to maintain trade and investment statistics through the development of a uniform database system.

LDCs also need to improve their administrative system. Otherwise, these weaknesses may have a negative effect in their negotiating

*If LDCs want to improve, they need to decrease current reliance on one or a few export products by increasing the value addition of processed raw materials and by diversifying the product base*

ability, reducing the chances of receiving special and differential treatment (S&DT) to be provided to the LDCs. Therefore, capacity building and governance reform are important steps for LDCs to get benefits from SAFTA.

#### Regional Trading Blocs: Costs and Benefits

It is argued that when a country in a regional grouping experiences high costs of production, trade diversion occurs. As a result, an importing country begins to import from cost efficient countries. Therefore, SAFTA is also likely to bring about trade diversions for LDCs. On the contrary, it is also argued that the effects of short-run static trade diversion are outweighed by long-run positive (and dynamic) effects of regional integration in terms of increased competition, economies of scale and benefits of intra-industry trade. There should be a proper analysis of product-specific short and long-term costs and benefits, particularly in LDCs.

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#### Tackling the Issue of Dumping

Many SAARC countries are not well prepared to take advantage of anti-dumping measures as per the WTO agreement. In Pakistan, for instance, manufacturers lack the ability to challenge such imports. The structure, largely unorganised, of an industry is a major issue. A recent case of dumping of cheap shoes by China in the Pakistani markets is an example. The National Tariff Commission of Pakistan has not taken up the complaint lodged by three large shoe manufacturers against the dumping of Chinese shoes, as they together produce less than 25 percent of the concerned product manufactured in the country. The anti-dumping agreement of the WTO requires that the market share of the affected local manufacturers should be at least 25 percent of the total internal market before a complaint can be lodged to initiate an anti-dumping procedure. It should be mandated that a product that has been directly or indirectly subsidised in a country and has the potential to affect local manufacturing, should not be allowed to enter the other country's market without appropriate import tariffs.

## Conclusion and Recommendations

*South Asian countries, with the highest number of poor in the world, cannot afford to keep SAARC as a meaningless coalition. The need of the hour is to make SAARC a strong economic bloc, leaving aside bilateral disputes*

South Asia has not achieved the required economic growth and prosperity as compared to other economic regions such as Europe, North America and South East Asia. Thorough research and adoption of common strategies are missing, which are necessary for a sustainable economic co-operation. The seriousness of these issues is evident from the fact that SAARC is still lagging behind almost all other regional groupings in the world, even after having held 12 summits in the last 18 years.

South Asia has great economic strength in terms of its market potential (one third of humanity resides in this area) and in terms of the rich natural resources and capable human resources. South Asian countries, with the highest number of poor in the world, cannot afford to keep SAARC as a meaningless coalition. The need of the hour is to make SAARC a strong economic bloc, leaving aside bilateral disputes. Under these circumstances, progress towards SAFTA is very important.

Although some experts have criticised the long timeframe for SAFTA to come into force, the fact is that regional differences require time to be resolved. To reap the benefits of increased regional trade, however, all SAARC states have to prepare themselves for the new challenges of the free trade area. Industries may collapse and adjustment costs will have to be incurred, but this pain will be tenable if it means a better price for the consumer and a better future for the poor people of the region. Appropriate safety nets are to be devised in order to insulate people from adverse shocks.

As the Framework Agreement for SAFTA has just been signed (in January 2004), it is difficult to draw conclusions and make recommendations on the basis of quantitative analysis. However, some broad recommendations are listed below, which are to be taken into consideration during the process of SAFTA negotiations:

*The fundamental objective of economic cooperation under SAFTA should be to achieve an integrated South Asian economy, in a step-by-step manner, in order to accomplish the shared aspirations of 1.4bn people*

- The fundamental objective of economic co-operation under SAFTA should be to achieve an integrated South Asian economy, in a step-by-step manner, in order to accomplish the shared aspirations of 1.4bn people. So far, the action to achieve this has been more in form than in substance. The employment generation rate across the region must be a major parameter to judge the success of SAFTA.
- Some arguments presented in this paper need data support. It is, thus, recommended that SAARC countries should carry out thorough research in each sector. To reiterate, despite the SAFTA agreement, SAARC countries will be far from making it a reality unless they undertake extensive homework on creating a South Asian economy catering equitably to the requirements of large and

small economies. Member countries have not gathered information on each other's import needs, economic opportunities, market and work force, investment opportunities, export potential and constraints. A sector-wise and product-wise analysis, including comparisons with competing countries, has to be undertaken. This will point out the areas where members should concentrate and the areas where they should not waste their resources. Such analysis will help the countries to negotiate SAFTA in a win-win manner.

*In ASEAN, for instance, President Suharto of Indonesia offered its huge market to many other countries without insisting on reciprocal action by them*

- SAFTA is only a Framework Agreement and substantive issues like sensitive lists, rules of origin, dispute resolution mechanism and revenue compensation for LDCs are to be negotiated in the next two years. To deal with the emerging situation, governments must set up an independent body, comprising of policy-makers, business organisations and NGOs, to study the impact of tariff reduction, and recommend suitable options. Governments also need to have more institutionalised interaction with the private sector and NGOs.
- Being the two big and medium-sized powers of South Asia, India and Pakistan need to provide leadership and become the major stakeholders in South Asian economic co-operation. Otherwise, it will be difficult for SAFTA to realise its potential. Pakistan should take regional co-operation seriously and not mix it with bilateral disputes. India has to show greater accommodation for smaller countries. In ASEAN, for instance, President Suharto of Indonesia offered its huge market to many other countries without insisting on reciprocal action by them. India has to develop a vision to accommodate the needs of the smaller countries of the region for common economic upliftment.
- The SAFTA treaty should recommend that increased trade should begin with raw materials, followed by semi-finished items and, at a later stage, finished items. Thus, imports of finished items will be restricted to only those, which do not have a negative impact on local industries. Over time, this will help weak economies, especially the LDCs, to attain a level playing field in terms of competitiveness.
- In order to promote intra-regional investment, SAARC countries must also agree to an intra-regional treaty on investment promotion. This will go a long way in building confidence, which is needed for promotion of intra-regional investment. Not only that, this may also make South Asia an attractive place for foreign direct investment from other parts of the world.
- During negotiations, SAFTA treaty must be made as comprehensive as possible. The language of the treaty must be simple.
- Member countries need to change laws and policies to make them compatible with the SAFTA treaty.
- Consistency in SAFTA commitments is crucial and SAARC countries will have to sustain this in all circumstances. Experience shows that bilateral political tensions pose serious hurdles in promoting intra-regional trade and it is a fact that an economic relationship cannot flourish under the shadow of a bad political environment. One major reason for SAPTA not being so successful is conflict (internal as well as external) in the region. Better economic relationships in the region will have huge peace dividends, as happened in the case of Europe (after the World War II).
- It is also vital that South Asian countries should take appropriate measures for trade facilitation, including improvements in sea and

*In order to promote intra-regional investment, SAARC countries must also agree to an intra-regional treaty on investment promotion*

land ports. Trade and transport facilitation will save a huge amount of resources, which can be appropriately used to develop infrastructure facilities (to overcome supply-side bottlenecks).

- Visa restrictions must be made as minimal as possible for free movement of people within the region.
- SAFTA should include a section on trade in services which will be more helpful to LDCs, as they have minimal comparative advantage in exports as compared to India and Pakistan.
- Trade promotion calls for dismantling of non-tariff barriers. The major NTBs that need to be tackled are the ones relating to standards. Mutual recognition of standards and/or their harmonisation at the regional level could help reduce this problem.
- Informal trade among member countries needs to be discouraged through sensibly opening up borders. Informal arrangements can be made to encourage “border area” trade (instead of more conventional border trade) as other than developing more people to people contact this will help in the development of the marketplace in some of the poorest parts of the region.
- SAPTA experience shows that by excluding commodities of interest to all countries and by not extending tariff concessions to actively traded commodities, regional trade cannot progress. Trade initiatives should reduce asymmetry in trade exchanges and in bilateral trade imbalances. This calls for decisive steps to encourage trade where opportunities already exist, especially to promote trade creating investment and other facilitating measures. This includes greater interaction between the business and investor community and co-operation among financial institutions.
- Member countries may like to protect some sensitive products from liberalisation commitments, at least in the short and medium terms. Thus, a sensitive products list is to be drawn. However, SAFTA must have a timetable to abolish most of the items in the sensitive list.
- Time frames and deadlines must be fixed for each and every matter to be discussed as per the SAFTA Framework Agreement.
- SAFTA treaty must also reduce value added requirements under the rules of origin. Despite the relaxation in rules of origin provisions in the SAPTA regime, products manufactured in LDCs faced difficulties in qualifying for market access under the preferential arrangement. Considering the economic realities of the region, a much more flexible rules of origin regime is needed so that trade deflection is minimised.
- The SAFTA treaty has hardly any provisions relating to anti-dumping, subsidies and countervailing measures, technical barriers to trade, and sanitary and phyto-sanitary measures. These issues are pertinent when a region moves into a free trade arrangement. The shortcomings in the treaty will have to be identified and rectified accordingly.

*Informal trade among member countries needs to be discouraged through sensibly opening up borders. Informal arrangements can be made to encourage “border area” trade (instead of more conventional border trade)*

## Endnotes

- 1 SAARC member countries are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- 2 This refers to the failure of 5th WTO Ministerial held recently at Cancun-Mexico from 10-14 September 2003.
- 3 Huma Fakhar (2004) Presentation on "SAFTA: Issues and Options" at the Lahore Chambers of Commerce and Industry on February 16, 2004.
- 4 <http://www.bologi.com/analysis/052.htm>
- 5 Agriculture, Trade and the WTO in South Asia by Merlinda Ingco, a World Bank publication published in October 2003.
- 6 Agriculture, Trade and the WTO in South Asia by Merlinda Ingco, a World Bank publication published in October 2003.
- 7 <http://www.himalmag.com/2004/january/perspective.htm>
- 8 Mohanty S. K. (2003) Regional Trade Liberalisation Under SAPTA and India's Trade Linkages with South Asia. Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi-India.
- 9 <http://www.nepalnews.com.np/contents/englishdaily/ktmpost/2003/jan/jan10/features1.htm>
- 10 This provision was included in NAFTA at the insistence of Canada and Mexico, which suspected that NAFTA mechanism could favor the largest country within their agreement.
- 11 South Asian Free Trade Area: An Analysis for Policy Options for Bangladesh by M. Asaduazzaman of Bangladesh Institute of Development Studies (BIDS), Dhaka in July 2003.
- 12 Ibid
- 13 <http://www.himalmag.com/2004/january/perspective.htm>
- 14 Ibid
- 15 For full text, see [www.thenetwork.org.pk/wwg/safta.htm](http://www.thenetwork.org.pk/wwg/safta.htm).
- 16 For an analysis of costs to consumers due to non-cooperation among the SAARC countries, see "Cost of Non-cooperation in the SAARC Countries: An Illustrative Study", Consumer Unity & trust Society, India, 1996.
- 17 [http://www.dailytimes.com.pk/default.asp?page=story\\_6-1-2004\\_pg5\\_8](http://www.dailytimes.com.pk/default.asp?page=story_6-1-2004_pg5_8).
- 18 <http://www.brecorder.com/story.php?id=105372&currPageNo=1&query=&search=&term=&supDate=>
- 19 For full text of AFTA see <http://www.aseansec.org/home.htm>.
- 20 <http://www.jang-group.com/thenews/feb2004-weekly/nos-08-02-2004/pol1.htm#1>

## CUTS' PUBLICATIONS

### TRADE, ECONOMICS AND ENVIRONMENT

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#### STUDIES

##### 1. Policy Shift in Indian Economy

A survey on the public perceptions of the New Economic Policy in the states of Maharashtra, Rajasthan, Tamil Nadu and West Bengal in India conducted during June/July 1995 and recommendations to the government which were discussed at the above mentioned India-Nepal Training Seminar.

(100pp, #9512, Rs.100/US\$25)

##### 2. Policy Shift in Nepal Economy

A survey on the public perceptions of New Economic Policy in Nepal conducted during June/July 1995 and recommendations to the government which were discussed at the above mentioned India-Nepal Training Seminar. (80pp, #9513, Rs.30/US\$15)

##### 3. Environmental Conditions in International Trade

A study on the impact on India's exports in the area of Textiles and Garments including Carpets, Leather and Leather Goods, Agricultural and Food Products including Tea and Packaging, for the Central Pollution Control Board, Ministry of Environment & Forests, Government of India. (39pp, #9508, Rs.200/US\$50)

##### 4. Costs on Consumers due to Non-Co-operation Among SAARC Countries

A study by noted scholars on the costs on consumers of the countries in South Asia due to economic non-co-operation among them. (#9605, Rs.50/US\$25)

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The study finds that the existence of escalating tariff structure, particularly in developed countries, results in "third-best" allocation of resources. It also harms both environment and development, and crucially the balance of trade.

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The study shows, with some evidence, that the provisions in the TRIPs agreement concerning

biotechnology are of great concern to the developing world. According to the new GATT agreement, all bio-technology products may be patented. Nearly 80 percent of all biotechnology patents are currently held by large multinationals.

(Rs.100/US\$25, ISBN 81-87222-02-6)

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In the scenario of a growing interest in banning child labour this research report argues that trade restricting measures have every potential of eliminating the child itself. The report provides logical arguments and a case study for those groups who are against the use of trade bans for the solution of this social malaise. It also makes certain recommendations for the *effective* solution of the problem. (Rs.100/US\$25, ISBN 81-87222-23-9)

##### 9. Non-trade Concerns in the WTO Agreement on Agriculture

This research report written by Dr. Biswajit Dhar and Dr. Sachin Chaturvedi of the Research and Information System for the Non-aligned and Other Developing Countries, New Delhi, provides a detailed analysis of non-trade concerns, covering the various dimensions indicated by the Agreement on Agriculture of the World Trade Organisation.

(Rs.50/US\$10, ISBN 81-87222-30-1)

##### 10. Liberalisation and Poverty: Is There a Virtuous Circle?

This is the report of a project: "Conditions Necessary for the Liberalisation of Trade and Investment to Reduce Poverty", which was carried out by the Consumer Unity & Trust Society in association with the Indira Gandhi Institute for Development Research, Mumbai; the Sustainable Development Policy Institute, Islamabad, Pakistan; and the Centre for Policy Dialogue, Dhaka, Bangladesh, with the support of the Department for International Development, Government of the UK.

(Rs.100/US\$25, ISBN 81-87222-29-8)

##### 11. The Functioning of Patent Monopoly Rights in Developing Economies: In Whose Interest?

Advocates of strong international protection for patents argue that developing countries would gain from increased flows of trade, investment and technology transfer. The paper questions this view by examining both the functioning of patents in developing economies in the past and current structural trends in the world economy in these areas. The historical research revealed no positive links between a strong patent

regime and FDI and technology transfer. Current trends are largely limited to exchanges amongst the industrialised countries and to some extent, the newly industrialising countries. While increased North/South trade flows are expected, negative consequences are possible. (Rs.100/US\$25, ISBN 81-87222-36-0)

## **12. Negotiating the TRIPs Agreement:**

### **India's Experience and Some Domestic Policy Issues**

This report shows particularities about the subject that distinguished the TRIPs (Trade Related Aspects of Intellectual Property Rights) negotiations from other agreements that make up the Uruguay Round results. It also analyses the way in which the TRIPs Agreement was actually negotiated and handled.

The author finds that many of the lessons that can be drawn from India's experience with the TRIPs negotiations are the same as those that can be drawn from the negotiations more generally and true for many other countries. It goes beyond a narrow analysis of events relating strictly to the negotiations during the Uruguay Round and looks at the negotiating context in which these negotiations took place.

The research findings draw lessons from what actually happened and suggest how policy processes can be reformed and reorganised to address the negotiating requirements in dealing with such issues in the future. (Rs.100/US\$25, ISBN 81-87222-50-6)

## **13. Multilateral Environmental Agreements, Trade and Development: Issues and Policy Options Concerning Compliance and Enforcement**

The latest report of CUTS on Multilateral Environmental Agreement, Trade and Development, examines the role of provisions for technology and financial transfer as well as capacity building as an alternative to trade measures for improving compliance and enforcement. It acquires specific significance in the light of the fact that the WTO members for the first time, in the trade body's history, agreed to negotiate on environmental issues at the Fourth Ministerial Conference of the WTO at Doha.

This study also examines pros and cons of Carrots and Sticks approaches, and analyses incorporation of these approaches in three major MEAs, the Montreal Protocol, The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the Basel Convention, to find out which approach has been more successful in ensuring enforcement and compliance.

A must read for different stakeholders involved in this process, as this study would provide useful inputs towards trade and environment negotiations.

(Rs. 100/US\$25, ISBN 81-87222-58-1)

## **14. Market Access Implications of SPS and TBT: Bangladesh Perspective**

As both tariffs and other traditional trade barriers are being progressively lowered, there are growing concerns about the fact that new technical non-tariff barriers are taking their place, such as sanitary and phytosanitary measures (SPS) and technical regulations and standards.

The poor countries have been denied market access on quite a number of occasions when they failed to comply with a developed country's SPS or TBT requirements or both. The seriousness of this denial of market access is often not realised unless their impact on exports, income and employment is quantified.

In this paper, the author focuses on the findings of a 1998 case study into the European Commission's ban of fishery products from Bangladesh into the EU, imposed in July 1997.

This research report intends to increase awareness in the North about the ground-level situation in poor and developing countries. At the same time, it makes some useful suggestions on how the concerns of LDCs can be addressed best within the multilateral framework. The suggestions are equally applicable to the developing countries.

(Rs. 100/US\$10, ISBN 81-87222-69-7)

## **15. Voluntary Self-regulation versus Mandatory Legislative Schemes for Implementing Labour Standards**

Since the early 1990s, globally there has been a proliferation of corporate codes of conduct and an increased emphasis on corporate responsibility. The idea is that companies voluntarily adopt codes of conduct to fulfil their social obligations and although these companies are responsible only for a fraction of the total labour force, they set the standards that can potentially lead to an overall improvement in the working conditions of labour.

These voluntary approaches are seen as a way forward in a situation where state institutions are weakened with the rise to dominance of the policies of neo-liberalism, and failure of the state-based and international regulatory initiatives.

Given this background, this paper examines how the failure of 1980s codes, regulated by international bodies, resulted in the proliferation of corporate codes of conduct and an increased emphasis on corporate social responsibility.

This paper further tries to explore whether voluntary codes of conduct can ensure workers' rights in a developing country like India.

(Rs.100/US\$25, ISBN 81-87222-76-X)

## **16. Child Labour in South Asia: Are Trade Sanctions the Answer?**

South Asian Countries have the highest rates of child labour practices in the world. As a result of the advocacy by powerful political lobbying groups supported by Europe and the US, the trade sanction approach to encounter the issue of child labour has gained influence, since the nineties.

These sanctions were exercised to alleviate the problem of child labour by US policy-makers and also by some countries in the EU. But, the question arises – have the trade sanctions imposed by these countries in any way helped eliminate this problem? This research report of CUTS Centre for International Trade, Economics & Environment tries to address this question.

It has explored the impact of these trade sanctions and finds that these sanctions resulted in the contradiction of the basic objective, i.e., elimination of child labour. By banning the import of those goods in the production process of which child labour was used wholly or partly, the developed countries have aggravated the sufferings of child labour and their families.

Besides highlighting the causes of child labour, the report makes some very useful recommendations on how the issue of child labour can be addressed best at the domestic as well as international level.

(Rs.100/US\$25, ISBN 81-87222-82-4)

## **17. TRIPs and Public Health: Ways Forward for South Asia**

Trade Related Aspects of Intellectual Property Rights — or TRIPs — has always been one of the most contentious issues in the WTO. Several studies have been conducted on the political economy of TRIPs *vis-à-vis* WTO, the outcome of which are crucial to the policymakers of the developing economies more than those in the rich countries. Increasing realisation of the poor countries' suffering at the hands of the patent holders is yet another cause of worry in the developing and poor countries.

This research document tries to find an answer to one specific question: what genuine choices do policymakers in South Asian developing nations now have, more so after the linkage between the trade regime and pharmaceuticals? Starting with a brief overview of the key features of the corporate model of pharmaceuticals, the paper provides some insight into the challenges faced by the governments in South Asian countries. The aim is to anchor the present discussion of public health and the impact of TRIPs in the socio-cultural environment of this region.

(Rs.100/US\$25, ISBN 81-87222-83-2)

## **18. Bridging the Differences: Analyses of Five Issues of the WTO Agenda**

This book is a product of the project, EU-India Network on Trade and Development (EINTAD), launched about

a year back at Brussels. CUTS and University of Sussex are the lead partners in this project, implemented with financial support from the European Commission (EC). The CUTS-Sussex University study has been jointly edited by Prof. L. Alan Winters of the University of Sussex and Pradeep S. Mehta, Secretary-General of CUTS, India.

The five issues discussed in the book are Investment, Competition Policy, Anti-dumping, Textiles & Clothing, and Movement of Natural Persons. Each of these papers has been co-authored by eminent researchers from Europe and India.

(Rs.350/US\$50, ISBN 81-87222-92-1)

## **19. Dealing with Protectionist Standard Setting:**

*Effectiveness of WTO Agreements on TBT and SPS* Sanitary and Phytosanitary Safeguards (SPS) and Technical Barriers to Trade (TBT) Agreements — enshrined in the WTO — are meant to keep undesirable trade practices at bay. These Agreements try to ensure adherence to standards, certification and testing procedures, apart from technical protection to the people, by countries while trading in the international arena.

This research report is a sincere attempt to fathom the relevance of SPS and TBT Agreements, their necessity in the present global economic scenario and, of course, the development of case law related to the Agreements, along with a brief description of the impact of this case law on developing countries.

(Rs.100/US\$25, ISBN 81-87222-68-9)

## **20. Competitiveness of Service Sectors in South Asia: Role and Implications of GATS**

This research report attempts to emphasise on the relevance of GATS for developing economies, particularly in South Asia. It also examines the potential gains from trade liberalisation in services, with a specific focus on hospital services, and raises legitimate concerns about increases in exports affecting adversely the domestic availability of such services. It highlights how the ongoing GATS negotiations can be used to generate a stronger liberalising momentum in the health sector. (Rs.100/US\$25, ISBN 81-8257-000-X)

## **21. Demystifying Agriculture Market Access Formula: A Developing Country Perspective After Cancun Setback**

At the Cancún meeting, a draft ministerial text on agriculture emerged, known as the Derbez Text. It was not surprising that at Cancún the WTO members failed to accept a ministerial text on agriculture. The Derbez Text had made the framework very complex, which the paper, “Demystifying Agriculture Market Access Formula” tries to demystify.

(#0417, Rs. 100/US\$25, ISBN 81-8257-033-6)

## **22. Trade-Labour Debate: The State of Affairs**

The purpose of the study is not to rehearse the never-ending story on the pros and cons of the trade-labour linkage. It not only seeks to assess the current and possible future direction of the debate from the developing countries' perspective. It is hoped that this approach will provide developing countries with concrete policy suggestions in terms of the way Forward

(#0410, Rs. 100/US\$25, ISBN 81-8257-025-5)

## **23. Liberalising Trade in Environmental Goods and Services: In Search of 'Win-Win-Win' Outcomes**

Trade in environmental goods and services has assumed a centre-stage position. The excellent analysis of this issue involved in environmental trade concludes with soundly reasoned policy recommendations which show the direction that future negotiations must take if the originally envisaged 'win-win-win' situation is to be achieved. (#0402, Rs. 100/US\$25, ISBN 81-8257-019-0)

## **24. Protectionism and Trade Remedial Measures**

Many have argued that there is no economic rationale behind the use of trade remedial measures and therefore, they should be scrapped. In the WTO acquis, three types of trade remedial measures are recognised. These are anti-dumping, countervailing and safeguard measures.

This paper examines how protectionism has influenced the use of trade remedial measures. It examines the trends of imposition of trade remedial measures. This trend clearly shows that countries have found anti-dumping measures a safe haven for extending protection to domestic industries. In order to highlight the protectionist nature of anti-dumping measures, the paper looks at the manner in which the countries have interpreted the WTO agreement on anti-dumping. The paper also makes a comparison between anti-dumping measures and safeguard measures. It demonstrates that countries have preferred using anti-dumping measures over safeguard measures because the former can be easily used for extending protection to domestic industry for a longer time.

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## **25. FDI in South Asia: Do Incentives Work? A Survey of the Literature**

Over the last two decades or so along with trade barriers, countries around the world have progressively dismantled restrictions on foreign direct investment (FDI). Apart from the main objective of increasing investment through inflow of foreign capital, the positive externalities of FDI to the host country are the other important reason for countries competing against each other for foreign direct investment.

The present paper has looked at the understudied issues of FDI policies in South Asia, particularly from the point of view of the effectiveness of performance requirements imposed by host countries and the costs

of accompanying incentives. The survey of theoretical literature on performance requirements indicates that a case can be made for imposing such requirements in South Asia, particularly from the welfare point of view. As regards the costs of incentives, which a country offers to foreign firms, so far, only a few studies have tried to quantify them. These incentives are normally given as quid pro quo with performance requirements. But, in the bargain, it has been found, these incentives tend to be particularly costly over a period of time.

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## **26. WTO Agreement on Rules Of Origin: Implications for South Asia**

The importance of rules of origin (RoO) has grown significantly over the years. The recent and rapid proliferation of preferential trading agreements and the increasing number of countries using RoO to discriminate in the treatment of goods at importation has focused considerable attention on this issue. RoO can be divided into two categories: non-preferential and preferential.

The paper tries to critically examine the WTO proposal on the harmonised rules of origin. The study has looked at its implications on South Asian countries, especially India. Further, in view of the contentious nature of the RoO pertaining to textiles, and the big stakes involved for South Asia, the study places special emphasis on textiles and clothing.

(#0422, Rs. 100/US\$25, ISBN 81-8257-038-7)

## **27. WTO Agreement on Agriculture and South Asian Countries**

Agriculture, in all its manifestations, has always been a sensitive and emotional issue for all countries, but it is more so for the poor countries of the South. It is the source of livelihood and employment for millions of people. Therefore, the deadlock on this issue in the arena of trade negotiations comes as no surprise. From the time one can remember, there has been a tussle between the rich countries like the European Union and the US on the one hand, and the developing countries like Brazil, India and South Africa on the other, to discipline the farm regime in the WTO in their favour.

Given this background, this paper looks into various commonalities in the economic situation of South Asian countries, their sensitivity attached to agriculture, and above all, a common approach to globalisation. In view of these realities, the paper tries to explore a common agenda that South Asian countries can follow during future negotiations on the WTO Agreement on Agriculture. Now the Doha Round of trade negotiations has entered into a crucial phase after the July developments. The "July Package" has resulted in agreement over the framework for establishing modalities in agriculture. In light of this, there cannot be a more opportune time for publishing this paper.

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## DISCUSSION PAPERS

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A much appreciated paper written by Pradeep S Mehta and presented at the GATT Symposium on Trade, Environment & Sustainable Development, Geneva, 10-11 June, 1994 which highlights the inconsistencies in the contentious debates around trade and environment. (10pp, #9406, Rs 30/US\$5)

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Bipul Chatterjee and Raghav Narsalay analyse the impact of the GATT Agreements on developing countries. The analyses takes stock of what has happened at the WTO until now, and flags issues for comments. (#9810, Rs.100/US\$25)

### 3. Domestically Prohibited Goods, Trade in Toxic Waste and Technology Transfer: Issues and Developments

This study by CUTS Centre for International Trade, Economics & Environment attempts to highlight concerns about the industrialised countries exporting domestically prohibited goods (DPGs) and technologies to the developing countries that are not capable of disposing off these substances safely, and protecting their people from health and environmental hazards. (ISBN 81-87222-40-9)

## EVENT REPORTS

### 1. Challenges in Implementing a Competition Policy and Law: An Agenda for Action

This report is an outcome of the symposium held in Geneva on "Competition Policy and Consumer Interest in the Global Economy" on 12-13 October, 2001. The one-and-a-half-day event was organised by CUTS and supported by the International Development Research Centre (IDRC), Canada. The symposium was addressed by international experts and practitioners representing different stakeholder groups viz. consumer organisations, NGOs, media, academia, etc. and the audience comprised of participants from all over the world, including representatives of Geneva trade missions, UNCTAD, WTO, EC, etc. This publication will assist people in understanding the domestic as well as international challenges in respect of competition law and policy. (48pp, #0202, Rs.100/US\$25)

### 2. Analyses of the Interaction between Trade and Competition Policy

This not only provides information about the views of different countries on various issues being discussed at the working group on competition, but also informs them about the views of experts on competition concerns being discussed on the WTO platform and the possible direction these discussions would take place in near future. It also contains an analyses on the country's presentations by CUTS. (Rs.100/US\$25, ISBN 81-87222-33-6)

## MONOGRAPHS

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### 2. Social Clause as an Element of the WTO Process

The central question is whether poor labour standards result in comparative advantage for a country or not. The document analyses the political economy of the debate on trade and labour standards. (14pp, #9804, Rs.50/US\$10)

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Economic policy is not an easy area for either the laity or social activist to comprehend. To understand the process of reforms, Dr. Kalyan Raipuria, Adviser, Ministry of Commerce, Government of India, wrote a reader-friendly guide by using question-answer format. (29pp, #9805, Rs. 50/US\$10)

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The question is whether benefits of the reforms are reaching the poor or not. This study aims to draw attention to this factor by taking into account inter-state investment pattern, employment and income generation, the social and human development indicators, the state of specific poverty alleviation programmes as well as the impact on the poor in selected occupations where they are concentrated. (15pp, #9806, Rs. 50/US\$10)

### 5. Regulation: Why and How

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#### **9. ABC of the WTO**

This monograph is about the World Trade Organisation (WTO) which has become the tool for globalisation. This monograph is an attempt to inform the layperson about the WTO in a simple question-answer format. It is the first in our series of monographs covering WTO-related issues and their implications for India. Its aim is to create an informed society through better public knowledge, and thus enhance transparency and accountability in the system of economic governance. (36pp, #0213, Rs.50/US\$10)

#### **10. ABC of FDI**

FDI — a term heard by many but understood by few. In the present times of liberalisation and integration of world economy, the phenomenon of Foreign Direct Investment or FDI is rapidly becoming a favourite jargon, though without much knowledge about it. That is why CUTS decided to come out with a handy, yet easy-to-afford monograph, dwelling upon the how's and why's of FDI. This monograph is third in the series of "Globalisation and India – Myths and Realities", launched by CUTS in September 2001. "How is FDI defined?" "What does it constitute?" "Does it increase jobs, exports and economic growth?" Or, "Does it drive out domestic investment or enhance it?" are only some of the topics addressed to in a lay man's language in this monograph. (48pp, #0306, Rs.50/US\$10)

#### **11. WTO Agreement on Agriculture: Frequently Asked Questions**

As a befitting reply to the overwhelming response to our earlier three monographs, we decided to come out with a monograph on *WTO Agreement on Agriculture* in a simple Q&A format. This is the fourth one in our series of monographs on *Globalisation and India – Myths and Realities*, started in September 2001.

This monograph of CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE) is meant to inform people on the basics of the WTO Agreement on Agriculture and its likely impact on India. (48pp, #0314, Rs.50/US\$10)

#### **12. Globalisation, Economic Liberalisation and the Indian Informal Sector – A Roadmap for Advocacy**

India had embarked upon the path of economic liberalisation in the early nineties in a major way. The

process of economic liberalisation and the pursuit of market-driven economic policies are having a significant impact to the economic landscape of the country. The striking characteristic of this process has been a constant shift in the role of the state in economic activities. The role of the state is undergoing a paradigm shift from being a producer to a regulator and a facilitator. A constant removal of restrictions on economic activities and fostering private participation is becoming the order of the day.

Keeping these issues in mind, CUTS with the support of Oxfam GB in India, had undertaken a project on globalisation and the Indian Informal sector. The selected sectors were non-timber forest products, handloom and handicraft. The rationale was based on the premise that globalisation and economic liberalisation can result in potential gains, even for the poor, but there is the need for safety measures as well. This is mainly because unhindered globalisation can lead to lopsided growth, where some sectors may prosper, leaving the vulnerable ones lagging behind. (ISBN 81-8257-017-4)

#### **13. ABC of TRIPs**

This booklet intends to explain in a simple language, the Trade-Related Intellectual Property Rights Agreement (TRIPs), which came along with the WTO in 1995. TRIPs deals with patents, copyrights, trademarks, GIs, etc. and continues to be one of the most controversial issues in the international trading system. The agreement makes the protection of IPRs a fundamental part of the WTO. This monograph gives a brief history of the agreement and addresses important issues such as life patenting, traditional knowledge and transfer of technology among others.

(38pp, Rs. 50/US\$10, #0407) ISBN 81-8257-026-3

#### **14. Trade Policy Making in India – *The reality below the water line***

This paper discusses and concludes the issues, in broad terms, that India struggles with trade policy making, essentially because domestic and international thinking on development and economic growth is seriously out of alignment, and that there are few immediate prospects of this changing, for a variety of entirely domestic political reasons.

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#### **15. ABC of GATS**

The aim of the GATS agreement is to gradually remove barriers to trade in services and open up services to international competition. This monograph is an attempt to educate the reader with the basic issues concerning trade in services, as under GATS. The aim of this monograph is to explain in simple language the structure and implications of the GATS agreement, especially for developing countries.

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## 16. WTO Agreement on Textiles and Clothing – *Frequently Asked Questions*

This monograph attempts to address some of the basic questions and concerns relating to the textiles and clothing. The aim is to equip the reader to understand the fundamentals of and underlying issues pertaining to trade in textiles and clothing.

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Enable and empower representatives of the civil society, from developing countries in particular, to articulate and advocate on the relevant issues at the appropriate fora.

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CUTS Centre for International Trade, Economics & Environment

D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India

Ph: 91.141.228 2821, Fax: 91.141.228 2485

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