

## **South Asia in the WTO Concept Note**

Institute of Policy Studies of Sri Lanka, Colombo  
Friedrich Ebert Stiftung, Colombo

### **Background**

The Fourth Ministerial of the World Trade Organization (WTO) held in Doha in 2001 made a breakthrough in multilateral trade negotiations with the launch of the 'Doha Development Agenda (DDA). While it was anticipated that the new round of negotiations would be completed by end 2005, sharp division of views between developed and developing countries on several key issues – primarily on agriculture – saw the near collapse of the Doha Round at the fifth Ministerial Conference of the WTO held in Cancun in 2003. Nevertheless, WTO member countries were finally able to provide the necessary platform to the negotiations with the adoption of the Doha Work Programme on 1<sup>st</sup> August 2004 (referred to as the July Framework). The July Framework consists of general commitments for the Doha agenda, followed by a series of annexes on specific agreements dealing with five key issues, namely: agriculture, non-agricultural market access (NAMA), services, development issues, and rules (including trade facilitation). The aim was to have a first draft of the negotiation framework ready by July 2005. However, the meeting of the WTO General Council ended without adopting any new agreements leaving much work ahead for the Sixth Ministerial. Subsequently, the 148 members of the WTO met in Hong Kong in December 2005 to discuss the Doha Round issues. The Ministerial also recorded only limited progress; the key outcome was the agreement on 2013 as the end-date for the elimination of agricultural export subsidies. Many issues remain unresolved with the deadline for negotiating modalities on agriculture and NAMA scheduled to be completed by end April 2006 and a review of outstanding agreement-specific proposals on special and differential (S&D) treatment to be completed by December 2006.

The outcome of the new round of negotiations on DDA will have significant implications on trade and development of developing countries as trade is overwhelmingly linked with those countries' livelihood and poverty reduction strategies. For South Asia too, their negotiating positions on the key agreements are critical if engagement in the multilateral arena is to improve prospects for achieving the fundamental policy objectives of sustainable development and poverty alleviation. Regional groupings have increasingly become important forums through which collective positions can be arrived at to strengthen the negotiating positions of individual countries. The efforts undertaken by South Asian countries in this regard have been reflected at some of the previous Ministerial Meetings.

The issues and priorities for South Asian countries with respect to the five key issues of the July Framework are many and varied. These are discussed briefly below:

### **Agriculture**

The three main areas of negotiations on agriculture are on market access, domestic support and export subsidies. The outcome of negotiations on agriculture can be expected to play a critical role in rural development, food security and more broadly, poverty alleviation strategies, across South Asia. An important element in the market access pillar is the tariff reduction formula. India and Pakistan as members of the G-22 have been playing a critical role in the negotiations on a formula for tariff cuts while Sri Lanka as a member of G-33 has been focusing on issues of food and livelihood security and rural development needs. The extent of tariff reduction commitments and its impact on domestic agriculture sectors, flexibilities offered under the 'Special Products' (SPs) and Special Safeguard Mechanism (SSM) and the impact on net food importing developing countries (of removal of export subsidies) will be critical areas of concern across South Asia.

### **NAMA**

At the Doha Ministerial, member countries agreed to engage in negotiations to reduce, or as appropriate, eliminate tariffs including the reduction or elimination of tariff peak, high tariff and tariff escalation and reduction of non-tariff barriers. The declaration clearly mentions that liberalization should consider the products that are of export interest to developing countries and take into account fully the special needs of developing countries. According to the July Framework, Bangladesh, Nepal and Maldives are not required to undertake any tariff reduction commitments under NAMA. In addition, paragraph 6 of the July Framework which allows room for member countries with a binding coverage of less than 35 per cent to be exempted from making tariff reduction commitments would apply to Sri Lanka. However, issues of preference erosion is likely to be a cause of concern to LDC countries of South Asia as well as countries self-designated as small and vulnerable economies in the region.

### **Services**

DDA mandated negotiations on trade in services to promote economic growth in all trading countries. However, unlike in some other areas at the WTO, services negotiations are moving even more slowly; negotiations are based on a bilateral 'request-offer' approach which takes more time. While developed countries are aggressively seeking to open up many sectors in the developing countries, the latter for the most part remain cautious. For the South Asian countries, Mode 4 (Movement of Natural Persons) is a common area of interest given that in countries like Bangladesh, India, Pakistan and Sri Lanka, remittances contribute a significant proportion of total foreign exchange earnings. India, in particular, has experienced substantive growth in its services sector and made one of the most comprehensive submissions in 2000.

## **Development Issues**

In the area of development issues, implementation related concerns and S&D treatment to developing and least developed countries have dominated the agenda. The proposals forwarded by developing countries are mainly related to implementation issues, enhanced market access and flexibility in rules and capacity building commitments. However, progress has been extremely limited, particularly on implementation related issues. S&D treatment, technical and capacity building needs are key concerns for the LDC countries of South Asia. The key element of the Hong Kong Ministerial in addressing development issues was with regards to providing duty and quota free access for LDC products to developed countries' markets. However, such moves can hold adverse implications for non-LDC economies in the region and need careful study.

The countries have also tended to enter into other forms of liberalization arrangements in the unilateral sphere, and now increasingly under bilateral and regional initiatives. The importance South Asian countries attach to trade liberalization efforts and removal of trade barriers has been reflected in efforts made at the country level and initiatives at bilateral, sub-regional and regional levels. Such initiatives include – the India-Sri Lanka Free Trade Agreement (FTA), SAARC Preferential Trading Agreement (SAPTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the scheduled South Asian Free Trade Area (SAFTA) etc. Despite notable efforts to integrate South Asian economies and improve international competitiveness, most of those initiatives have yielded limited results. In addition, increasingly inter-dependent world trade has brought into greater focus on globally accepted rules while some issues such as agriculture can be seriously tackled only on a global basis. Given the binding nature of WTO commitments, negotiation positions of South Asian countries at the WTO hold significant implications for those countries and therefore, negotiating for a free and fair multilateral trading system, which supports the needs of developing nations, is vital for them.

Most of the South Asian countries have made some progress in easing restrictions on trade by addressing trade protective measures through the implementation of structural reform programmes including liberalization of trade and payments, promotion of private sector development, decontrol of prices and interest rates, foreign investment promotion and financial sector reforms. Yet, they would have problems with the commitments undertaken under multilateral framework due to overall policy inconsistencies, existing domestic protection measures, cost implications of proposed measures and overall development goals that they set for themselves. South Asia, therefore, faces formidable challenges in actually being able and having the capacity to contribute to the actual negotiations. Capacity constraints in South Asia consist of common factors such as inadequate legal provisions and its limited capacity in liberalization and regulatory reforms, inadequate skilled manpower, restrictions on infrastructure, administrative problems, widespread bureaucratic practices and lack of coordination among and between countries in the region.

The negotiation strengths also differ across the region. The smaller economies are likely to face numerous difficulties, including the ability to follow and participate in the negotiations; the ability to analyze and synthesize proposals and submissions made by other WTO member countries and evaluate the implications of those proposals and finally the capacity and ability to develop negotiating proposals. All these factors might reduce the bargaining position of South Asian countries in the WTO negotiations.

### **Objectives and Expected Outcome**

Given the importance of the areas under negotiation, it is important to analyze the negotiating positions of individual South Asian countries on the various issues of the July Framework Agreement in the aftermath of the WTO Ministerial in Hong Kong and identify areas where common positions are emerging and areas where there are divergences of interest. Therefore, the proposed conference on “South Asia in the WTO” intends to take stock of each country’s latest position in the WTO negotiations based on papers to be submitted by identified resource persons. It is expected to provide an open forum for discussion and debate to a wider audience of policymakers, researchers, private sector participants and civil society organizations with the aim also of enhancing trade policy capacity building in the region.