

## Positive contribution towards trade policy in South Asia

**Inaugural address by the chief guest, Jeyaraj Fernandopulle, Minister of Trade, Commerce, Consumer Affairs, and Marketing Development, at the International Conference on 'South Asia in the WTO' organised by the Institute of Policy Studies of Sri Lanka (IPS) and Friedrich Ebert Stiftung (FES), Grand Cinnamon Hotel, Colombo, 18 May 2006.**

**SPEECH:** It is a pleasure for me to be present here today, on the invitation of the Institute of Policy Studies of Sri Lanka and Friedrich Ebert Stiftung - Sri Lanka, to inaugurate this Regional Conference on 'South Asia in the WTO.'

At a time when the future of the multilateral trading system embodied in the WTO system hangs in the balance, it is indeed vitally relevant that the South Asian Countries, which first came together on the basis of regional cooperation 20 years ago, take individual and collective stock of their role in the future of the trading system.

I would therefore welcome this conference, which has a valuable contribution to make to the ongoing dialogue in this area.

Trade plays an important role in the national and regional economic growth in the region. Although Sri Lanka, as a small

country, has for a long time been very trade-dependent, the 1990s also saw India, which had been relatively a closed economy, progressively liberalising its trade and investment regimes, accompanied by rapid growth in trade.

Yet, despite the importance of trade to the region, when the WTO system came into being in 1995, the region only accounted for 0.9 per cent of world merchandise exports and 1.1 per cent of world merchandise imports.

After 10 years with the WTO, the region's shares of world exports and imports were still only 1.2 per cent and 1.7 per cent, respectively, in 2005.

This raises a question as to how far the anticipated gains of the WTO system have been realised for the region's WTO Members. It is well known by all of us that, in many important respects, the WTO system has failed to deliver the anticipated gains to the developing countries (including the least-developed countries).



Minister Jeyaraj Fernandopulle at the conference

In the first place, the very Agreements reached at the end of the Uruguay Round, including the Agreements on TRIPS, Customs Valuation, SPS and TBT have placed onerous burdens on developing countries, while developed countries failed to deliver market access for products of interest to the developing countries.

The early direction of WTO negotiations also did not reflect the issues of importance to the developing countries. At the 1996 Singapore Ministerial Conference, the 'Singapore Issues' that entered the negotiating agenda were framed according to the needs of the developed countries.

Only the 2001 Ministerial Meeting in Doha showed some hope, with the launch of a 'development round' focusing on concerns of developing country members, including the redress of past imbalances.

However, by 2003 the optimism of developing countries began to give way, with the collapse of the Cancun Ministerial Conference when developing countries rejected a deal on agriculture which was widely viewed as unfair.

Now, the focus of the round lies on the 2004 'July Package', a set of framework agreements that brought the Doha Round back on track following the Cancun stalemate that there may be some relief for developing countries.

The July Package seeks to address concerns and commitments in the specific areas of agriculture, NAMA, services, development issues and rules.

However, it is evident that specific issues such as market access and tariff reduction in both agriculture and NAMA continue to prove contentious areas, as has negotiations in services.

In addition, implementation related problems in relation to the WTO agreements and special and differential treatment have been discussed ever since Doha Development Agenda was launched.

As a region, we must, however, congratulate ourselves on the important leadership South Asian WTO Members have provided to developing countries in ensuring an equitable outcome from the Doha Round.

India played an instrumental role in the formulation of 'July Package' and is one of the main spokesmen for the developing countries in the WTO.

Bangladesh has become the main spokesman for the least-developed countries in the WTO, while Nepal, Pakistan and Sri Lanka have taken strong issue-specific negotiating positions.

Regional groupings have increasingly become important in exerting pressure on the decision-making process of the WTO, which is based on consensus.

While the need for identifying common interests among the South Asian countries was set aside during the first two WTO ministerial meetings, after the tenth SAARC summit, South Asian countries were prepared to put forward a common position for the third WTO ministerial in Seattle, which was followed by a common position at the fourth WTO ministerial meeting in 2001 in Doha, Qatar.

The SAARC Commerce Ministers first issued a joint declaration for the 1998 WTO Ministerial in Geneva, followed by a preliminary joint statement for the 1999 Seattle Ministerial and another joint statement for the 2001 Doha Ministerial Conference.

Meanwhile, another important regional trend which has been gaining momentum since the mid-1990s has been the increasing level of regional economic integration.

The idea of liberalising trade among SAARC countries was first mooted by Sri Lanka, at the sixth SAARC summit held in Colombo in 1991. The subsequent SAARC Preferential Trading Arrangement (SAPTA) which came into force in 1995, was closely followed by the South Asian Free Trade Area (SAFTA) in 2004.

This has been another step forward towards closer economic integration. SAARC member countries have, also pursued bilateral free trade agreements among themselves.

Examples of such FTAs already in force or under negotiation are Bangladesh - Pakistan, Bhutan -India, India - Nepal, India - Sri Lanka and Pakistan - Sri Lanka.

While this highlights our common realisation that the Doha Development Agenda offers tremendous prospects for us to achieve our objectives of sustainable development and poverty reduction, there have been a number of obstacles to formulating and maintaining common positions on WTO issues at the regional level.

Foremost is the diversity of the region, which comprises of two large developing countries (India and Pakistan), four least developed countries (Bangladesh, Bhutan, Maldives and Nepal) - two of which are land-locked (Bhutan and Nepal.) - and a small developing country (Sri Lanka).

For instance, while larger economies like India and Pakistan are in a position to make reciprocal commitments, LDCs like Bangladesh, the Maldives and Nepal hope to benefit from special and differential provisions.

In addition, LDCs concerns such as rules related to accession, implementation issues in regard to S and D treatment, and concerns of Net Food Importing Countries may not have the same priority for other members of the developing countries group.

As a result, national development priorities reflect many differences. In addition, regional politics have also sometimes acted against achieving a common position.

Some of these differences can be highlighted by briefly explaining Sri Lanka's positions in negotiations.

In agriculture, for instance, while many developing countries stand to benefit from the reforms, countries like Sri Lanka stand to lose from further liberalisation of the agriculture sector. Given Sri Lanka's low binding of agricultural tariffs, our conviction is that Sri Lanka should not be pressurised to undertake any farther tariff reductions.

The Special Products and Special Safeguard Mechanism proposals, we believe, should find its due place in the final package of agriculture.

Furthermore, as a Net Food Importing Developing Country (NFIDC), Sri Lanka also has concerns about the effect subsidy reductions may have on world food prices.

In NAMA, while Sri Lanka has an interest, like many developing countries, in the reduction or elimination of tariff peaks, high tariffs and tariff escalation as well as non tariff barriers in particular on products of exports interest to developing countries, at the same time we have sought, and obtained, exemption from tariff reduction due to our unique situation as a country has bound less than 35 per cent of its total industrial products, and which applies a low average tariff across its tariff lines.

Despite differences such as these South Asian countries, can take a collective position on agreeable issues. For instance, South Asian populations depend on agriculture and their interest lies in protecting the agriculture sector.

While India would gain tremendously from the removal of agricultural subsidies in industrialised nations, Bangladesh, the Maldives, Nepal and Sri Lanka are likely to lose because of increased food import bills. In addition, tariff and subsidy reduction in India would result in gains for the entire region.

Therefore, it might be in the regional interest to have a common position on the elimination of subsidies in developed countries but maintaining most favoured nation tariff protection and then liberalising tariffs on agricultural products among themselves under regional agreements.

Also, despite the differences in the country positions, all six WTO members in the region collectively demand for actualisation of 'less than full reciprocity' principle.

All the South Asian countries should also be careful to ensure that they need sufficient and appropriate Special and Differential treatment and these issues are expeditiously settled.

Our divergent interests, therefore, does not preclude the possibility of arriving at common positions on important issues. However, given the limited negotiating resources, there is a need to prioritise the issues on the basis of their importance so as to create a better impact on the poor of South Asia.

It is also necessary for all the countries to be engaged in the WTO negotiations so as to ensure the resolution of unresolved issues in the July Package.

With all of these developments that the countries of South Asia are taking part in outside the WTO and with the present deadlock in the Doha Round providing little hopes of the anticipated major trade gains for the developing countries, it is opportune that this Conference is going to take stock of the role of South Asia in the WTO.

I hope the discussions would provide a positive contribution to the direction of trade policy in the region. We in the Government will find your recommendations useful in shaping our position in the WTO in the near future.