

Trade Liberalization and Human Security in South Asia

Indra Nath Mukherji

Over the past decade all South Asian Countries have undertaken substantial trade liberalization as an essential component of structural adjustment programmes undertaken at the behest of the Britton Woods Institutions in the early 1980s. For some countries the pace of liberalization was slow and halting in the early 1980s, but gathered momentum in the 1990s. Currently the peak tariffs in most South Asian countries have been brought around 20 percent (excluding agriculture) from the very high levels exceeding 100% in the seventies and eighties.

The reduction in tariff barriers was accompanied by the removal of quantitative restrictions through prohibitions was greatly reduced from 315 products in 1989-90 to 124 in 1997. In Indian all quantitative restrictions on exports were removed for all South Asian Countries in August 1998 and for all other countries from April 2001.

There is no evidence to show that trade liberalization has adversely affected the rate of growth of South Asian countries. In fact, the rate of growth improved along with trade liberalization in India and Bangladesh. In Pakistan and Sri Lanka due to political reasons this link is tenuous.

Trade liberalization when targeted at essential raw materials, intermediate products and capital goods can make some industries competitive by making available to them cheaper inputs that could facilitate industrialization. Again when trade liberalization is directed to essential consumer goods or articles of daily consumption, they help to keep the cost of living lower, benefiting the consumer.

Further, by fostering competition with domestic industries, they reduce improvement in resources use and bring down prices.

However the pace and pattern of trade liberalization has to be so calibrated that the governments revenues are not adversely affected nor are the livelihood concerns of a larger Number of domestic producers are at stake. The governments would need to widen their tax base in the domestic economy to obtain alternative sources of revenue foregone due to import liberalization. Besides in order to meet the increased requirement for foreign exchange, they must earn the same through enhanced exports. Besides in any democratically elected government the interests of various stakeholders affected by reforms need to be factored in.

The objective of this paper is to highlight the point that import liberalization while being desirable, must be so calibrated as not to adversely affect the livelihood concerns of a large section of the population (particularly in agriculture) who are likely to be adversity impacted by it. Further this paper makes the proposition that trade liberalization can work best on a level playing ground. In this context this paper highlights the various legitimate instruments available with South Asian counties to safeguard the livelihood concerns of a vast majority of their population that could result from global pressure to hasten the indiscriminate opening up of their economics, with particular reference to agriculture.

Although the World Trade Organization (WTO) Agreement on Agriculture (AoA) emphasizes the importance of trade in improving the agricultural sector in WTO member countries, it nonetheless also highlights the need to gives due recognition to the various non-trade concerns in this sector.

The countries participating in discussions on AoA have emphasized two sets of issues. The first is what may broadly be termed as the multifunctional character of agriculture, where the range of functions, that agriculture performs, apart from providing food and fibers, has been enunciated by the European countries. These relate primarily to the environment in general and conservation of biodiversity in particular. The second, emphasized by developing countries, is the more created aspect of food security, which needs to have a non-trade perspective. It has been argued that if trade is made the singular basis of policy making in the agricultural sector in particular, domestic production of food grain could be seriously undermined which in turn, threatens the realization of food security, an essential component of human security.

We discuss below some of the instruments available to South Asian countries to protect human security in general and food security in particular which at the same time participating in the process of globalization,. In particular, we shall highlight the “July Package”, the WTO General Councils’ post Cancun decision declared on 31 July 2004.

Agricultural Tariffs

For reasons stated above agricultural products have been subject to high tariff, both in the industrial as also in developing countries.

The AoA contains provisions in three broad areas of trade and agriculture policies: market access, export subsidies and domestic support. Under market access, the agreement states that there can be no restrictions on farm trade except through tariffs. This means that quantitative resections (quotas, import restrictions through bans, permits, import licensing) as were in existence before the

Agreement came into being, were to be replaced by tariffs on imports to provide the same level of protection and were then to be followed by progressive reduction of tariffs levels. Tariffs resulting from the “tariffication process” as well as other tariffs are to be reduced by a simple average of 36 percent over six years in case of the developed countries and 24 percent over 10 years in case of developing countries.¹

In order to secure its of agricultural population threatened from cheap subsidized imports from industrial countries, India had bound its tariffs at a high level, viz, 100% for primary products, 150% for processed products and 300% for edible oils (except for some times which were historically bound at a lower level in the earlier negotiation).²

It is now well documented that developed countries extend subsidies in three forms to their agriculture;

(a) “Amber” subsidies are intended to encourage more production; (b) “Blue Box” provide incentives to limit production; and (c) Green Box subsidies are provided primarily in the name of research and development. The total subsidy extended by the developed countries to their farmers has been increasing year by year in spite of the Agreement and currently it stands at US \$ 320 billion or nearly a billion dollars per day. Such heavy subsidization keeps the prices of primary agricultural products down. As consequence, in spite of having comparative in agriculture, the South Asian countries not only fail to export their available surplus grains to the industrial world but in fact, become vulnerable to their becoming the dumping ground for them.

¹ E:\human Security \Focus on India and WT agric.htm.)

² *ibid.*

While, in the industrial countries agricultural population accounts for no more than around 5% of their total population, in developing South Asian countries the rural population accounts for around 70-80% of their total population. Whereas in the industrial countries agriculture is looked upon as commercial enterprise, in the developing South Asian countries agriculture provides food security and livelihood concerns for millions of farmers and their families.

In view of the above indicated factors and given that tariffs became so sole an instrument for protecting the farmers, India chose to bound its tariffs at a very high level, even though its actual tariffs on most agricultural products were much lower. Nevertheless the binding of tariffs at a high level gave India some leverage in dealing with sudden possible surges in subsidized exports from industrial countries disrupting the domestic agricultural market and throwing out farmers from their employment. This also provided India some bargaining strength when negotiating the limitation or removal of farm subsidies by the industrial countries.

In contrast to India, Sri Lanka chose to bind its agricultural tariff under the Uruguay Round AoA at a modest level of 50%, while allowing the applied rate to be at 35%. In 1998 all non-tariff barriers (NTBs) were removed. While this was accepted with acclaim by the global community as the demonstration of “free-trade”, the social consequences for taking such a decision were far from honorable, particularly given that Sri Lanka is a relatively high cost producer of agricultural products. With the disbanding of NTBs and fixing tariffs at 35% on agricultural commodities, Sri Lanka faced a surge of imports of “sensitive” agricultural crops to the country. This impacted negatively on production and incomes of farmers as well as on rural employment in areas where these crops are

cultivated. Consequently, commodity specific taxes had to be introduced in the short term to prevent a permanent damage to the agricultural community. However Sri Lanka's option in this regard were limited, having agreed to maintain its bound tariff rates at no more than 50%³.

Industrial Tariffs

The Doha Ministerial declaration in November 2001 sought to reduce or eliminate, tariffs on industrial products, including reduction in tariff peaks, high tariffs and tariff escalation as well as non tariff barriers, in particular on products of export interest to developing countries. The declaration noted the special needs of developing and least developed countries and recognized the need for less than full reciprocity in their reduction requirements. To this end, the negotiating Group on market Access was created at the first meeting of the trade Negotiations Committee in early 2002.⁴

Non-Tariff Measures

Article VI of the GATT provides for the right of contracting parties to apply anti-dumping measures, that is measures against imports of a product at an export price below its "normal" value⁵ if such dumped imports cause injury to a domestic industry in the territory of the importing country. In case domestic price cannot be used to make comparison because of peculiar market situation, then cost of production could be used to draw a comparison.

Rules on Anti-dumping were concluded at the end of the Tokyo Round. The revised Agreement provides for greater clarity and more detailed rules in

³ Ranawerea N.F.C., "Agreement Trade Policies and Further Subsidies – its Impact in Sri Lanka", Paper presented at Regional Workshop on Trade Policies in South Asia, Colombo, Doctor 2-3, 2003.

⁴ www.wto.org.

⁵ Usually the price of the product in the domestic market of the exporting country.

relation to the method of determining that a product is dumped. Among other provisions, a new provision required the immediate termination of an anti-dumping investigation in cases where the authorities determine that the margin of dumping is de minimis, defined as less than 2%, expressed as a percentage of the export price of the product, or that the volume of dumped imports is negligible – generally when the volume of dumped imports of the product in question into the imports of the product question into the importing country.⁶

According to a study done by USA based Institute for Agriculture and Trade Policy (IATP) in 2003, U.S. has been dumping major agricultural commodities like wheat, soyabean, maize rice, and cotton since 1990 in world agricultural markets. According to this study, from 1990-2001, the levels of US dumping floated around 140% for wheat, 57% for cotton and between 25-30% for maize.⁷

A recent study of Oxfam released on 14 April 2004, threw new light on EU taxpayers paying 819 million every year in six sugar companies to dump sugar in world agricultural markets.⁸

Can South Asian dumping disciplines in problem under existing dumping disciplines in GATT/WTO/ A comparison of export price with the cost of production can establish the extent of dumping. Nevertheless dumping become actionable only when it can be provided to have resulted in material injury to domestic industry.

In the field of agriculture, notwithstanding clear evidence of dumping dealing to material injury no antidumping duties are being imposed on imports of

⁶ http://www.wto.org/English/dogs_e/legal-eursum-e.html//to Agreement.

⁷ Ranjan Prabhash, "Anti dumping – Antidote to Farm Subsidy Venon," 16-31 August, 2004, in World Trade Review, No. 16, Vol. 4)

⁸ Ibid.

agricultural commodities. The reason for this is that farmers in developing countries are apart from being ignorant of discipline on dumping, are the scattered and un-organized. In this context a valuable suggestion has been made to have a separate discipline on agricultural dumping. Under this discipline a separate *de minimus* dumping margin for different agricultural commodities, depending on the sensitivity of each commodity, should be determined. Once this margin is violated, material injury should be presumed and the importing country would have the right to impose anti-dumping duties on agricultural commodities. This would enable many marginal and subsistence farmers to protect themselves from the ranges of a surge in imports of sensitive agricultural products bearing on their food and livelihood security.⁹

Agreement on Sanitary and Phytosanitary Measures.

This WTO agreement concerns the application of sanitary and phytosanitary measures (SPS) concerning food safety and animal and plant health regulations. The Agreement recognizes that governments have the right to take SPS measures, but they should be not be applied only to unjustifiably discriminate between Members where identical or similar conditions prevail.¹⁰

In order to harmonize SPS measures on as wide a basis as possible, Members are encouraged to base their measures on international standard guidelines and recommendations where they exist. However Members may maintain or introduce measures which result in higher standards if there is scientific justification or as a consequence of consistent risk decisions based on

⁹ Ibid.
¹⁰ (op.cit n(a))

an appropriate risk assessment. The Agreement includes provisions on control, inspection and approval procedure.¹¹

The basic purpose of health and safety standards is to protect human, animal and plant life as well as preserve the environment. The food and drug that people consume need to be safe for their health. A country's right to protect its consumers and environment against substandard products, both local and foreign, is undeniable. This implies that these standards have to be applied with both MFN and national treatment principles so that there is no discrimination among imported products by origin or between imported products on the one hand and those produced domestically in terms of regulations.

SPS measures are applied on trade both in developed as well as in developing countries. However along with gradual removal or reduction in tariff barriers, SPS measures are being strengthened, particularly in the industrial countries. To illustrate, the rules imposed by the US on imports to preempt terrorism, requiring prior notice to the US Food and Drug Administration, have proved enormously complex as well as costly in terms of compliance by the developing countries. This places the developing countries, whose major markets lie in the industrial countries, at a disadvantage.¹²

Agreement in Safeguards

Article XIX of the WTO agreement allows a Member of take 'safeguard' measures to protect a specific domestic industry from a unforeseen increase of imports of any product which is causing, or which is likely to cause, serious injury to the industry.

¹¹ Ibid.

¹² For details see Zaidi H.H, "Non-traditional Trade Barriers", *The World Trade Review*, 16-131 August, 2004).

The Agreement sets out the items for “serious injury and the factors which must be considered in determining the impact on imports. Generally the duration of measure should not exceed four years though this could be extended up to a maximum of eight years, subject to confirmation of continued necessity by the competent national authorities and if there is evidence that the industry is adjusting. Safeguard measures would not be applicable to a product from a developing country member, if the share of the developing country members with less than 3% import share collectively account for no more than 9% of total imports of the product, concerned.¹³ The South Asian countries have not been using this measure to safeguard their domestic industries. However many international institutions such as the World bank has been suggesting that Safeguard measures should be used in lieu of anti-dumping measures.

Rules of Origin

This instrument is particularly relevant under Regional Trading Arrangements (RTAs). Under RTAs the Member States reduce mutual trade restrictions without doing the same from non members to encourage intra-regional trade. However the Member States under such arrangements are free to set their tariff levels with non-members at a level they deem appropriate.. Under such a situation Member States having relatively lower tariffs with non-members could deflect trade to Member States maintaining relatively higher tariffs on similar products. Under such a situation the markets of the latter Members State could be flooded with low tariffs imports from the former Member State. In order to prevent this happening, most RTAs set Rules of Origin (ROO) that specifies the

¹³ Op. cit.n

minimum local raw material component on products required for eligibility for preferential treatment.

In this context we may recall the progressive liberalisation of Indo Nepalese Trade and Transit Treaties over the years culminating in the Treaty of 1996 which totally waved the ROO requirement for Nepalese imports to India. Only a certification by a competent authority in Nepal was all that was required. This led to a surge in imports of a number of sensitive products to the Indian market. Nepalese imports of a number of products such as copper wire rod, scrap and sheet, polythelene granules, vegetable oil, and acrylic yarns increased rapidly, far above the domestic needs of the country. These were deflected in large quantities to the Indian market, taking advantage of the loop hole in the treaty. This caused a large number of vegetable oil processors and acrylic fibre manufacturing units in northern Indian states to shut down their operations threatening livelihood security to a large number of operators and those employed in their units. Consequently a revised protocol to Article V and the new protocol to Article IX of the Treaty had to be incorporated in Indo Nepal Treaty of Trade from March 2002 setting a minimum ROO criteria of 25%.¹⁴

Implications of ‘July Package’

This section examines the General Council’s post-Cancun decision on the Doha Agenda works programme agreed on 31 July 2004 setting framework for future negotiations that could impact on the livelihood security of vast rural population in South Asia.

It might be recalled that the Cancun round ended in a fiasco because of the stubborn attitude of the US and EU countries not to discuss reduction of

¹⁴ Indo Nepal Treaty of Trade, Letters exchanged between Government of India and this Majority’s Government of Nepal, 2nd March, 2002).

agricultural subsidies, but to push Singapore issues, namely investment, competition, government procurement and trade facilitation. Since India, Brazil, China, Indonesia, Egypt, Malaysia, the Philippines, Bangladesh and other developing countries voiced their strong opposition to the Cancun (2003) draft, the negotiations ended in total failure.

The Indian Commerce and Industry Minister, Mr. Kamal Nath, has claimed that Geneva framework has been able to extract substantial gains on export of industrial goods and services while at the same time safeguarding the interests of farmers.

The developed countries have agreed to do away with direct and indirect subsidies produced to their exports. They have also agreed to bring about substantial reduction of domestic support provided to their farmers. In particular the Geneva framework required that there would be a minimum reduction in such support to 80% of the pre-existing levels in the very first years “and throughout the period of implementation”.

The Blue Box support has been capped at 5% of a Member’s average total value of agricultural production during an historical period, to be established in the negotiation.

The framework recognises the need for special and differential treatment for developing countries in terms of quantum of tariff reduction, tariff rate quote expansion, number and treatment of sensitive products, and the length of the implementation period.

Further, the developing countries have the right to identify the number of special products, based on the criteria of food security, livelihood security and rural development needs, which could be eligible for flexible treatment.

Finally, a Special Safeguard Mechanism has been provided in the framework against disruptive imports, the details of which are to be worked out. The developed countries have also accepted the adoption of the less-than full reciprocity principles for the developing countries. While on paper the Geneva framework appears to be a step forward to addressing the needs of developing countries, some analysts have exercised caution on the real outcome.

While the developed countries have agreed to eliminate export subsidies, it is not clear as to what time frame is involved. Only ongoing negotiations will reveal this.

One major weakness of the framework is that Blue Box subsidies have been legitimized. The declaration states: “Members recognised the role of the Blue Box for promoting agricultural reforms. Besides the framework states: “in cases where a member has placed an exceptionally large percentage of its trade distributing support in the Blue Box some flexible will be produced on a basis to be agreed to ensure that such a Member is not called upon to make a wholly disproportionate cut”.¹⁵ Similarly the declaration accepts that the Green Box subsidies will not be subject to reduction commitments in future. Given this, it is quite probable for the developing countries to shift some of their subsidies from Amber and Green Box to Blue Box, a practice they have been following since the past several years. This is confirmed by a statement made by Senator Charles Grassely, Chairman of the Senate Finance Committee that oversees trade agreement legislation. He reassured American farmers in a radio broadcast on 3rd August 2004 that the WTO framework agreement would not bring about changes in the US farm programmes until after the current farm bill expires

¹⁵ Ibid. para 15)

(2007), and said that US subsidies would likely to be shifted from category to another, but not necessarily reduced. He stated

“I see in the final analysis, maybe the total support for American agriculture not being decreased but being changed from production-related subsidies to... (support for) environmental practices”¹⁶ Grossley further stated that the framework provides new flexibility for US counter-cyclical payments. Under the framework such payments can be shifted from the Amber Box of trade distorting supports to the Blue Box of subsidies that are decoupled from production and are considered less trade distorting. Counter cyclical payments, included in the 2002 farm bill, are used to compensate US farmers when global prices for commodities fall below government fixed targets.¹⁷

On agricultural subsidies, Paragraph of the framework says:

As the first installment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80% of the sum of final bound total AMS¹⁸ plus permitted *de minimis* plus the Blue Box at the level to be determined in Paragraph 15”.

However since the actual AMS in EU is less than the bound, commitment level, the level of actual as opposed to bound AMS based total support plus *de minimis* support, plus Blue Box support stood at Ecu.78.0 billion in 2000-01 which is lower than the post-minimal reduction level of ECU 81.2 billion. This would enable EU Members not only to retain their existing level of subsidies, but in fact, to even raise them.¹⁹

¹⁶ Suberi A.Q., A False Unfolding in the World Trade Review, 10-15 September 2004.

¹⁷ Ibid.

¹⁸ Aggregate Measurement of Support.

¹⁹ Ibid.

Regarding non agricultural market access the July package recognized that a formula approach was the key to reducing tariffs peaks and escalation through non linear formula applied on a line by line basis which would take into account the special needs and interest of developing and LDCs including less than full reciprocity in reduction commitments. The package specifies the flexibilities that could be so applied. These are

- (a) Applying less than formula cuts up to 10% of the tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed 10% of the total value of member participants' imports.
- (b) Keeping as an exception, tariff lines unbound, or not applying the formula cuts for up to 5% of tariff lines provided they do not exceed 5% of the total value of member participants' imports.
- (c) LDCs are exempted from applying formula or participating in sectoral approach, but are required to substantially increase their binding commitments.

Another notable feature of the package is that developed countries (and other participants who agree), should offer duty-free and quota free market access for non agricultural products originating from LDCs by the year to be decided.

Concluding Observations

Global trade liberalisation is expected to improve the efficiency of resource use and thereby enhance human welfare. However this assumes level playing ground for all participants who are non LDCs and non developing countries. For the latter group of countries special and differential treatment is endorsed in the WTO rules. However these countries must work out how they could protect their vulnerable population both in agriculture and in non agriculture making the best use of the

flexibilities that are available to them. This would involve among other measures, identification of products they could include in their sensitive lists. Since LDCs have been provided considerable protection, it is the non LDCs in developing world and in particularly South Asia to make the best use of flexibilities offered to them. *However even with the best use of flexibilities the protection may not be adequate so long as the industrial countries find ways and means to avoid capping their agricultural subsidies and eliminating them or reducing them substantially..*