

## Unit 7 Asian and Global Environment

### Globalization Concept:

- The process of becoming a part of global village is globalization.
- Globalization is the process of integrating nations and peoples—politically, economically, and culturally—into a larger community.
- Globalization most often refers to the increasing degree of connection between various countries and their economies.
- Globalization refers to the increasing unification of the world's economic order through reduction of such barriers to international trade as tariffs, export fees, and import quotas. The goal is to increase material wealth, goods, and services through an international division of labor by efficiencies catalyzed by international relations, specialization and competition. (Wikipedia)

### Forms of Globalization:

- Economic Globalization:** Economic globalization can be defined as the process of increasing economic integration between two countries, leading to the emergence of a global marketplace or a single world market.
  - Increasing deregulation, privatization, ease in transportation, and improved communication lead to economic globalization.
  - Economic globalization is promoted by WTO, SAFTA, BIMSTEC, ASEAN etc. in Nepal.
- Cultural Globalization:** Cultural globalization refers to the transmission of ideas, meanings and values around the world in such a way as to extend and intensify social relations.
  - This process is marked by the common consumption of cultures that have been diffused by the Internet, popular culture media, and international travel.
  - Western Hip-hop, pop music, foods, movies are being a part of Nepalese Youth.
- Political Globalization:** It refers to the integration of the world in terms of political ideology.
  - Political globalization is when governmental action takes place on a global level, where responsibilities, such as the welfare of citizens and economic growth, are acted upon by an international political body.

- Uniting politically for addressing the common needs of nations.
- d. **Environmental /Ecological Globalization:** It refers to the integration of the world in terms of environmental issues such as; global pollution, ozone layer depletion, loss of bio –diversity, acid rain etc.
- It further deals with global environmental law and policies.

### **Drivers of Globalization:**

- Political
- Technological
- Market
- Cost
- Competition

### **Regional Economic grouping of Nations**

Regional integration can be defined as the association of nations in a specific area or region of the world.

#### **The major objectives of regional integrations are:**

- To promote economic activities within the region for mutual betterment.
- To promote free flow of goods between nations.
- To remove the trade and other barriers gradually among nations.
- To build trust and cooperation between nations

### **Regional Trade Agreement in South Asia**

**South Asian Association for Regional Cooperation (SAARC)** was established in 8th December 1985 with 7 member states, Nepal, Indian, Bhutan, Bangladesh, Maldives, Pakistan, and Sri Lanka. In 2007 Afghanistan became an 8<sup>th</sup> member state in SAARC.

#### **SAARC Preferential Trading Agreement (SAPTA):**

SAPTA was an attempt of the SAARC countries to promote economic cooperation in them. In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. Given

the consensus within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

**The basic principles underlying SAPTA are:**

- *overall reciprocity and mutuality of advantages* so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
- negotiation of *tariff reform* step by step, improved and extended in successive stages through periodic reviews;
- recognition of the special needs of the Least Developed Contracting States and agreement on *concrete preferential measures* in their favor; and
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

Four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous Rounds.

**South Asian Free Trade Area (SAFTA)**

The Agreement on the South Asian Free Trade Area is an agreement reached at the 12th SAARC summit at Islamabad, capital of Pakistan on 6 January 2004. It creates a framework for the creation of a free trade area covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives. **The seven foreign ministers of the region signed a framework agreement on SAFTA with zero customs duty on the trade of practically all products in the region by end 2016.** The new agreement i.e. SAFTA, came into being on 1 January 2006 and will be operational following the ratification of the agreement by the seven governments.

SAFTA requires the developing countries in South Asia that is, India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty

will be reduced to zero in a series of annual cuts. The least developed nations in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives have an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC ratified the SAFTA protocol on the 4th of May 2011.

- The objective of the agreement is to promote good competition in the free trade area and to provide equitable benefits to all the countries involved in the contracts.
- It aimed to benefit the people of the country by bringing transparency and integrity among the nations.
- SAFTA was also formed in order to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and barriers and also to provide special preference to the Least Developed Countries (LDCs) among the SAARC nations.

### **The impacts of SAFTA on Nepal's Economy:**

#### Positive Effects

- a. The tariff and non-tariff concessions negotiated and exchanged amongst member states shall be incorporated in the national schedules of concessions.
- b. Member countries can focus on development, production and trading of products that provide them sustainable comparative advantages. For example, Nepal and Bhutan can focus in tourism and hydropower, Bangladesh can focus on natural gas and fisheries.
- c. SAFTA will help SARRC members to present strong voice regarding their common problems in multilateral agreements.
- d. Free trade will increase people's movement between countries.
- e. Being a LDC, Nepal further receive following privilege;
  - Duty –free access, exclusive tariff preference or deeper tariff preference for export product.
  - Special consideration of export from LDC member states in the application of safe guard measures.

### Negative Effect or limitation

- a. The region is not cohesive in the same sense that it has diversity in socio-political and economic conditions. Similarly, there is also vast difference among countries in their size, location and infrastructure.
- b. SAARC countries import products from non-member countries though the product is sufficiently produced in the region. This indicates weaker trade links among SAARC countries.
- c. There are political consideration and geographical disadvantages for some countries ,which are responsible for affecting intra-regional trading.(The case of India and Pakistan)
- d. Informal trade in the borders of the countries has been increasing. This has adversely affected the formal flow of trade between the countries. There is a greater flow of primary commodities within the region. The capital and technology that are required to process these commodities are lacking in the region .Hence, the intra-regional flow of capital and technology is very limited.
- e. Transit is another issue for increasing trade with SAARC. There are several transit problems for Nepal and Bhutan. Free trade within the region cannot flourish unless these transit problems are removed. Nepal suffers from high transport costs as it is at a disadvantaged geographical position.
- f. Intra-regional movement of people is also equally important for promoting trade and investment. There are many formalities and entry problems at the borders, which make the free intra-regional movement of people difficult.

### **Bay of Bengal Initiative for Multi- Sectoral and Technical Economic Cooperation (BIMSTEC)**

- **On 6 June 1997**, a new sub-regional grouping was formed in Bangkok and given the name BIST-EC (Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation).
- After membership granted to Myanmar in **22<sup>nd</sup> December 1997** the name was changed to BIMST-EC.

- Nepal was granted observer status by the second Ministerial Meeting in Dhaka in December 1998. Subsequently, full membership has been granted to Nepal and Bhutan in **2004**.
- In the first Summit on 31 July 2004, leaders of the group agreed that the name of the grouping should be known as BIMSTEC or the **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation**.

### **BIMSTEC Priority sectors:**

BIMSTEC has thirteen priority sectors cover all areas of cooperation.

- Trade and Investment, led by Bangladesh
- Transport and Communication, led by India
- Energy, led by Myanmar
- Tourism, led by India
- Technology, led by Sri Lanka
- Fisheries, led by Thailand

*( upto 19<sup>th</sup> November 1998)*

- Agriculture, led by Myanmar
- Public Health, led by Thailand
- Poverty Alleviation, led by Nepal
- Counter-Terrorism and Transnational Crime, led by India
- Environment and Natural Disaster Management, led by India
- Culture, led by Bhutan
- People to People contact, led by Thailand

*(from 19<sup>th</sup> December 2005)*

### **Major Objectives of BIMSTEC:**

- To create an enabling environment for rapid economic development, accelerate social progress in the sub-region.

- To promote active collaboration and mutual assistance on matters of common interest.
- To provide assistance to each other in the form of training and research facilities.
- To cooperate more effectively in joint efforts that are supportive of and complementary to national development plans of member states.
- To maintain close and beneficial cooperation with existing international and regional organizations.
- To cooperate in projects that can be dealt with most productively on a sub regional basis and which make best use of available synergies.

### Difference between SAFTA and BIMSTEC

SAFTA	BIMSTEC
1. SAFTA includes only trade in goods	1. BIMSTEC covers both trade in goods and services.
2. SAFTA's aim is to bring down the tariff to a 0-5 percent level.	2. BIMSTEC aims for total elimination of tariffs.

**\*Pakistan and Maldives are not the members of BIMSTEC and Thailand and Myanmar are not the part of SAFTA. This composition of memberships would create conflicting obligation.**

### World Trade Organization (WTO)

The WTO's predecessor, the **General Agreement on Tariffs and Trade (GATT)**, was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation - notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund.

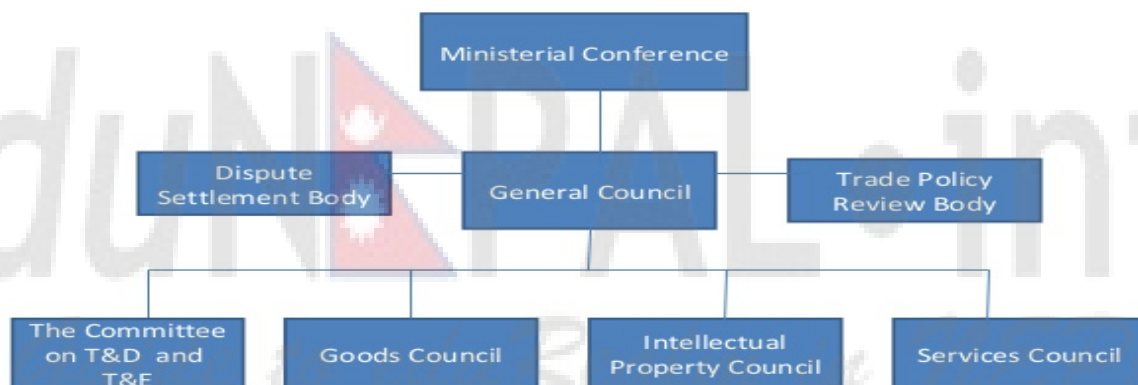
Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy. In response to the problems identified in the 1982 Ministerial Declaration the eighth GATT round — known as the Uruguay Round — was launched in **September 1986**, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the

talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed during the April 1994 ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement. From 1<sup>st</sup> January 1995 GATT officially succeeded to WTO.

## Structure of WTO

### STRUCTURES OF WTO



- Ministerial Conference: It is a apex body of WTO. It meets at least once in every two years.
- General Council: It consists of ambassador level members. It oversees the day-to-day operation and management of WTO.
- Trade policy review body: It periodically reviews the trade policies and practices of all member states.
- Dispute settlement body: It looks after the implementation and effectiveness of the dispute resolution process for all WTO agreements.
- Other councils: Goods and Service councils, Trade development and environment committees, Intellectual property right council.



## Functions of WTO

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.
- It is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making.
- The assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.
- Regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.
- Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

### Nepal's Membership: Opportunities and Threats for the Nepalese Business

#### Opportunities:

- a. Market access:** Market access opportunities provided by the WTO system can lead to further investment addressing the constraint of limited domestic market for economic scale of productive operation, which will also help to raise investment, economic production of goods and services and industrialization process.
- b. Special and differential treatments:** The WTO offers special and differential treatments for LDCs like Nepal. These include longer transition periods for the implementation of the agreements, technical support, due restraint on disputes involving LDCs, and special treatment while liberalizing the services sector.
- c. Transit right:** One of the reasons why Nepal had sought membership of the General Agreement on Tariffs and Trade (GATT) was the transit problem it had encountered during the Indo-Nepal transit stalemate in 1989. It was expected that under the GATT/WTO, Nepal would be granted access to the sea as a right as per Article V of the GATT. In theory, as a WTO Member,

Nepal should benefit from access to international markets without discrimination.

- d. **Policy stability:** The WTO regime provides opportunity for policy stability internally which is of utmost urgency in the context of the existing political instability in order to provide an environment of predictability for investment and industrialization.
- e. **Attract foreign direct investment: Policy** stability due to WTO membership provides credibility to the nation in terms of economic activities with predictable environment. Such environment is essential to attract foreign direct investment (FDI) and technology to expedite industrialization process in Nepal. Additionally, the mandatory provision of WTO in protecting intellectual property rights creates a better situation for attracting investment
- f. **Gearing up domestic institutional capability:** Joining WTO reflects national commitment in gearing up domestic institutional capability in delivering services related to trade and economic transactions. Similarly, the challenge to business community in enhancing their competitive capability certainly builds pressure to look at their own existing lapses and inefficiency, paving the way for the effective actions to correct them.
- g. **Benefit from liberalization:** Nepal has and could benefit from liberalization through better allocation of natural resources towards industries with the strongest advantages, enhanced learning and newer technology from interacting with the rest of the world.
- h. **Access to dispute settlement body:** WTO's best achievement is dispute settlement body. A WTO membership would accord Nepal the right to challenge in any measures taken by trading partners, which are against Nepal's economic and trade interest.
- i. **Mobilization of trade related technical assistance:** WTO provides and has initiated the programs of aid for trade and Enhanced Integrated Framework (EIF) to enhance the supply side capacity of the developing countries.

### Challenges:

- a. **Employment:** Employment opportunities may dry up by using sophisticated technology to boost the local organization to meet WTO standard competition.
- b. **Negotiation for more benefits:** The task of negotiation for accession with the objective of gaining more and losing less is challenging for Nepal primarily due to lack of knowledgeable and skillful human resources with the government as well as private sector.
- c. **Strengthening Institution:** Given the financial constraint of the government and the lack of proper policy intervention to cope with the responsibility and obligations posed by the WTO membership, the task of strengthening institutions seems difficult to achieve.
- d. **Specialization in some products and services:** This is a challenging task of Nepal, when there is lack of proper physical and institutional infrastructure, capital and resources for industrialization.
- e. **Making industries cost effective:** The old industries of Nepal need urgent restructuring and modernization in order to make them capable of producing quality goods at a competitive price. It is not possible to make industries cost effective without investment.
- f. **Income distribution and Poverty:** Because of the powerful impacts of MNCs and INGOs, which influence the both rule of laws ( in creating monopoly market, less employment and conflict on local bodies) and government the country may force to remain in low equilibrium poverty trap.