

Preferential Trade Arrangements

Untying the South Asian Gordian Knot

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The South Asian region has always been of great interest in terms of geo-political manoeuvres. A region with large economic disparities, it has of late taken centre-stage with the rapid and seemingly sustainable moves towards enduring peace and enhanced economic cooperation. Geopolitics has given way to geo-economics.

Despite the apparent failure of multilateral engagement in economic cooperation and the fillip given to regionalism, worldwide and the shift towards regional cooperation and integration, the South-Asian region has been somewhat of a laggard in terms of economic engagement.

Current events in the sub-continent indicate a move towards more peaceful times to come. Trade and economics can obviously flourish only in times of peace. Rather, that is a peace dividend. The players in this arena, therefore, need to be more sensitive to this reality.

In this light, faster economic co-operation, seems like a panacea. However, mere government-to-government initiatives are somewhat inadequate, because eventually it is the people who are the ones impacted; and unless society-to-society engagement does not take off, the fruits of development will not have social sanction. Social sanction may not be sufficient but it is necessary to make this engagement work.

With the world around moving at break-neck speed towards economic cooperation in whatever manner and at whatever cost, the time seems limited. If regional cooperation does not get into a sufficient momentum, one may miss the bus for good.

One must, therefore, look seriously at how this move towards enhanced regional cooperation can be increased in momentum. Countries with geographical contiguity would be ideally ready for regional cooperation. In the event that this does not happen, as in South Asia, the trend is to join up with any country for bilateral trade. A reconsideration and serious thought to this logic however, seems opportune.

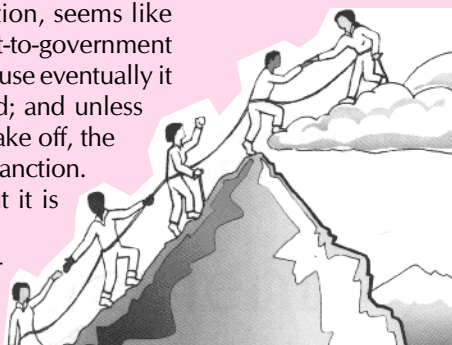
The often-voiced complaints regarding enhanced trade between bordering countries of South Asia tend to point to border disputes, non-tariff barriers (NTBs) and complementarity as some of the hurdles to enhanced trade. However, on delving deeper into the issue it seems like a Pandora's box. The issue cannot be merely restricted to these few constraining factors. On the contrary, the co-operant factors are themselves quite important in the move towards regionalism.

Most often, its seen that the stranglehold of the establishment and the politicians, control, direct and orient all talks and moves towards regional integration or cooperation. The question that comes to mind is that what we see as concerted efforts speak volumes of the understanding, rather non-understanding of issues and motivations.

The overwhelming impression one gets is, have the politicians really understood the issue or are they just exploiting the situation? In addition to this administrative approach that is lethargic, disinterested and rather negative, can drive the issue to the rocks.

How does one then move ahead in times of crisis and unsupportive frameworks, institutions and mechanisms? There is no sure shot answer, nor is there a panacea for the ills that have plagued the systems of the countries. The possible approach seems to be an inclusive approach that needs to be pursued with vigour and commitment.

This approach seems obvious. However, what is not so obvious is the fact that unless a concerted effort is undertaken, the affected segments of the society will not be party to the movement towards regionalism. The politicians or the administration are not the only stakeholders.



A larger interest in the process is that of society, the intelligentsia and business. Therefore, governments apart, the civil society, the intelligentsia, the business community, the NGOs - all must emphatically promote awareness about the need and advantage of regional cooperation. The key stakeholder is the common man and the benefits accruing from regional cooperation has to be passed down to him.

Moreover, efforts have to be made to increase his awareness by educating him about the possible benefit of regional cooperation. Here, the role of civil society in advocacy and awareness generation has to be proactive. Increasingly, the success of any regional integration, be it multilateral or bilateral, is dependant on social engagement and civil society can make it happen faster.

Not to be left unsaid, is the role of business-to-business engagement. Eventually, economic cooperation rests heavily on trade and business. Hence, unless business-to-business engagement drives the mood towards regionalism or regional cooperation, all efforts tend to normally fail. As widely accepted today, the regional thawing of relationships in South Asia, has been primarily broken through business initiatives rather than any other effort.

Despite the pros and cons to regionalism in a newly evolving rules based trading framework, the issue is not of what is right and wrong. The good of many is probably the good of each one. Untying the Gordian knot of regional problems is an option that seems the need of the times.

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It's Time to Talk Moolah

Indian industry is delighted about the possibility of opening of trade routes across the Radcliffe Line and creating joint ventures between Pakistan Inc and India Inc to set up operations beyond borders as the way to move forward. The rudimentary groundwork at the industry level has been going on for some time now. The current mood at the business level was aptly captured by the President of Karachi Chamber of Commerce and



Industry to Confederation of Indian Industry (CII) members: "Why should we give dollars to others when we can share the profit amongst each other?"

According to the Director General of CII, the most significant development, according to Indian industry is the possibility of opening the borders to trade, which is expected to give a big fillip to bilateral trade.

India can easily absorb US\$1bn worth of imports from Pakistan without any problems given the requirement in the domestic market. Pakistan that imports US\$11bn worth of goods, can source a part of it from India.

The President of Federation of Indian Chambers of Commerce and Industry (FICCI) said that instead of small positive lists, Pakistan should come up with a negative list of sectors that they may wish to protect and all other sectors must be opened up.

(ET, 19.04.05)

Call to Overhaul Trade Pact

Two of Thailand's largest business associations, Federation of Thai Industries (FTI) and the Board of Trade called on the Government to overhaul its proposed trade pact with Japan or scrap the deal altogether.

Both bodies said that a free trade agreement (FTA) with Japan would result in massive damage to the automotive, automotive parts, steel and agricultural industries in Thailand, while the Kingdom stands to gain little by having access to Japan's agricultural market.

People in the agricultural sector also thought that a renegotiation with Japan was necessary, as they had not made enough concessions on trade in agricultural products. Thailand wants Japan to bring down the tariff for sugar to zero percent immediately. Non-tariff issues were also contentious ones.

(The Nation, 06.05.05)

China and Indonesia Sign Deal

China and Indonesia signed a package of agreements to establish a broad 'strategic partnership' to increase trade to US\$20bn in the next three years. Beijing has established similar partnerships globally as part of its bid to project its newfound strength and secure access.

A strategic partnership between Indonesia and China "would have been unthinkable 10 years ago," said Dewi Fortuna Anwar, a political analyst at the Indonesian Institute of Sciences. Chinese leaders also see a need to manage Indonesia more closely than other Southeast Asian nations because of the two countries' troubled past.

Much of the increased trade between the two is likely to come from commodities. Resource-rich Indonesia has been trying for some time to exploit the Chinese appetite for commodities and analysts expect China to overtake Japan as the biggest investor in the archipelago in years to come.

(FT, 26.04.05)

Howard opens Trade Talks

Australia and Malaysia are to begin formal negotiations on a bilateral trade deal as part of efforts to improve their relations. Leaders of the two countries stressed their determination to build on what they said was a strong bilateral relationship, but there were reminders of their continuing differences.

However, Malaysia pointedly refused to back Australia's attempt to be included in the East Asia Summit due to be held by the Association of Southeast Asian Nations (ASEAN) plus three bloc.

Australia already has bilateral trade agreements with New Zealand, Singapore, Thailand and the US, and is expected to announce the launch of formal negotiations with China in April, 2005.

(FT, 08.04.05)

Dhaka-KL Agree for Closer Ties

Bangladesh and Malaysia have agreed to promote closer cooperation between the private sectors. They are to establish a Malaysia-Bangladesh Chamber of Commerce.

On trade financing arrangements, both the sides agreed to examine the possibilities of a new arrangement. Bank Negara-Malaysia and Bangladesh Bank will conduct a technical discussion to design appropriate trade financing arrangements that will cater to the specific requirements of Malaysia and Bangladesh.

The Malaysian side further requested Bangladesh to consider measures to improve a more business-friendly environment including providing sovereign guarantee for BOT (Built-Operate-Transfer) projects.

(The Daily Star, 08.06.05)

Indo-US Pact on Services

Indian Commerce and Industry Minister Kamal Nath suggested a bilateral Indo-US Agreement on services. It is likely to consider involving US companies in a big way across the sectors, especially in energy, banking, financial services and trading.

At a meeting organised by the American Chamber of Commerce in New Delhi, Nath raised the issue of problems faced by the Indian professionals in getting business visa to the US to undertake short-term work. "We need to have a balanced approach and a level-playing field based on reciprocity of interests," he said.

Robert Blake, Charge d'Affaires of the US Embassy in India said that trade restrictions resulted in Indian consumers have fewer choices and pay higher prices. He argued for removal of restrictions on FDI in the banking sector and the need to reform the retail sector.

(HT, 26.05.05 & 29.04.05)

Long Way to Go for Zambia

Zambia has so far failed to benefit fully from preferential trading arrangements (PTAs). This was mainly because of impediments in the participation of local companies in trade and investment.

This was stated by Peter Daka, Chairman of Monetary and Financial Affairs of the African Parliament. He further observed that despite having a positive investment climate, Zambia failed to attract sufficient FDI.

Citing Zambia Investment Centre (ZIC) data, Daka said that the country in 2004 had received investment commitments worth US\$123.5mn, up from US\$120mn in 2003. But this, Daka noted, did not translate into tangible benefits because little of it went into production.

(The Post, 20.05.05)

SACU-US FTA to Kick-off

South African Government is to revive talks with the US regarding a trade agreement involving members of the Southern African Customs Union (SACU). Besides South Africa, this bloc consists of Botswana, Lesotho, Namibia and Swaziland. South Africa is lending technical support to these countries.

According to sources, the SACU-US FTA negotiations will be narrowed down to negotiating for goods and services. The talks were stalled in 2004, on issues, such as investment, competition, and government procurement.

In terms of opening of services, the difficulty is regarding the 'methodology' of opening such sectors. SACU countries are keen to re-start negotiations to have greater access to US markets.

(BuaNews, 04.05.05)

Rise in Kenya's Regional Trade

Kenya's exports to Africa registered a high 20.3 percent growth in 2004. The development has helped consolidate the position of the continent as a leading market for Kenyan goods.

According to the 2005 Economic Survey, South Africa, Rwanda, Egypt, Tanzania and Uganda are listed as key partners that have contributed enormously to the growth of Kenyan exports.

Exports to European Union (EU) countries also increased, registering 8.9 percent growth. Some of the gains in the export to EU are attributed to expanding its membership. Exports to Sweden and Netherlands increased by 71.6 percent and 20.9 percent, respectively.

(The East African Standard, 27.05.05)

CAFTA Deal Expected

The US Senate is expected to vote on the Central American Free Trade Agreement (CAFTA) in the first week of July. A victory in the Senate could give the deal a boost ahead of a vote in the House, where the agreement faces tougher opposition.

However, a deal on the divisive issue of sugar imports has remained elusive. The powerful sugar industry lobby opposes provisions in CAFTA that would allow a 50 percent increase in imports from Central America over the next 15 years.

Others are waiting for CAFTA to be signed. Peter Mandelson, EU's Trade Commissioner, said: "A lot of people outside of America are banking on this (CAFTA) going through. We want to see it happen." "If CAFTA goes down to defeat, it is going to cast a chilling shadow over America's trade agenda and our place in the global economy," said Dan Griswold, Director of the Centre for Trade Policy Studies at the Cato Institute, Washington DC.

(FT, 30.06.05 & Washington Times, 18.06.05)

Red Tape in Deal with US

Five African presidents have criticised the economic criteria they must meet before their nations can qualify for a preferential trade deal that gives Africa greater access to the US market. The leaders of Botswana, Ghana, Mozambique, Namibia and Niger said that they have to be "poor enough" to export to the US under the African Growth and Opportunity Act (AGOA).

"We tend to qualify when it comes to good governance, a democracy, respect for human rights, the rule of law, the open economies... policies and so on, but then, when it comes to per capita income, we're struck out because it says that we are not poor enough. And yet we are poor," said Festus Mogae, President of Botswana.

The US says that because of AGOA, Malawi has seen some 70,000 new jobs created. But development groups said that the plan offers only slightly improved access to US markets to select countries and for select products.

(Inter Press Service, 14.06.05)

Trade Tops Afro-Asian Priorities

African and Asian leaders signed a new strategic partnership to ensure peace, stability and security in the two continents. They hope to achieve it by boosting trade. Leaders signed a four-page declaration on the New Asian-African Strategic Partnership (NAASP) in the Indonesian town of Bandung. In 1955, at this place, the first attempt to forge South-South cooperation was made.

"We will pool together the vast resources and the tremendous



creative energies of Asia and Africa to solve some of the most persistent problems of development," said Indonesian President Susilo Bambang Yudhoyono.

The NASSP emphasised on the need to promote practical cooperation between the two continents in trade, investment and other issues. The NASSP shall be conducted through three tiers of interaction:

- an inter-governmental forum;
- sub-regional organisations; and
- people-to-people interaction, particularly business, academia and civil society.

(FE, 25.04.05)

Flop Trade Agreements: *Exports Need Policy Impetus, Not Low Tariffs*

Rahul Bajaj*

Free trade Agreements (FTAs) are the current flavour in India. There was a recent suggestion to enter into one with China, but the consensus was to move slowly on the matter. The Indo-Thai FTA has been in effect from September 2004. The SAARC Free Trade Agreement (SAFTA) is expected to come into effect from January 2006. Some people are talking about similar agreements with the EU and the US. How should we go forward?

Trade economist Jagdish Bhagwati said that FTAs divert trade and he does not favour these “spaghetti bowl” arrangements. But all countries seem to be tripping over each other to get into them. Till recently, the focus was on regional trade agreements (RTAs), like the EU, Association of South East Asian Nations (ASEAN) and the North American Free Trade Agreement (NAFTA).

The WTO has 250 trade agreements registered with it, and they are growing by the day. Sixty percent of global trade now happens within FTAs. With India not being part of any large geographical grouping, it experiences a sense of isolation.

What about the WTO route to liberalisation and lowering of tariff barriers? The FTA protagonists, especially the US and EU, feel that the WTO moves very slowly, and with the emergence of the G-20 they are unable to have their way. The global experience on FTAs suggests that the regional FTAs (e.g. EU) and those between the North & the South (NAFTA) work.

However, South-South FTAs are less inspiring. A key issue is whether the economies of the countries entering into an FTA complement or compete with each other. Till recently, India had a preferential tariff agreement (PTA) only with SAARC countries. In 1999, we entered into an FTA with Sri Lanka. In 2003, we signed framework agreements with Thailand, ASEAN, Afghanistan, Singapore and a PTA with a Latin American trade bloc, Mercosur. In 2004, we signed SAFTA. We’ve recently signed one with Mauritius.

While FTAs have a political context, they have serious economic consequences. An assessment of costs and benefits of an FTA should be the paramount criteria for deciding on them. In the US, it is mandatory for the government to consult with the legislature before finalising an agreement, and present an analysis of its impact. A similar process needs to be put in place in our country.

Exports of Indian industry have been increasing rapidly, across size and age of companies. They are over 12 percent of their sales from seven percent five years ago. More Indian companies are seeking export markets and not merely defending their domestic turf. I am for more trade with all countries. In our experience, tariffs are not barriers to increasing our exports. Indo-Thai and Indo-ASEAN might

be ways to engage with Asia, but to whose benefit it is not very clear. We are competitors in a number of fields in both agriculture and industry.

Therefore, we should be cautious in our dealings with ASEAN. At the same time we need to note that Asia, especially China, is growing very rapidly and we cannot afford to miss the bus. The experience so far with the Indo-Thai FTA has not been encouraging. Till 2004, we had a significant trade surplus with Thailand.

In January-February 2005, there was a deficit. Perhaps PTAs, which permit greater fine-tuning, should be considered first. The Indian economy is inefficient for policy reasons – be it inverted tariffs, inflexible labour policy, high cost and irregular electricity and inefficient logistics. These are estimated by McKinsey and ICRA to increase costs by 15-20 percent.

At least this level of import tariff is necessary to provide a level playing field. Removing these policy glitches should precede our entering into FTAs. I understand that even the Commerce Minister is of this view. In fact, when these FTAs were signed, there was a commitment from the government that issues like anomalies in the duty structure would be resolved before the

FTAs are implemented.

But this has not happened. The Government must take into account how a proposed FTA would affect value addition, employment and technology upgradation in the country. There is a danger that FTAs would create a disincentive to invest in India, something that we are seeing in the auto and consumer durables sectors after the Indo-Thai FTA. Some Japanese companies have frozen or rolled back investment in India.

Even a cursory look at the composition of trade between China and India and an understanding of the Chinese economy and regime would make one pause about an FTA with China. We essentially export commodities like iron ore and import manufactured products.

China is not a market economy, a fact endorsed not only by us, but also by the US and EU. Are we rushing in where angels fear to tread? SAFTA can help us. However, the benefits of other deals, such as Indo-Thai and Indo-ASEAN, may not be very promising till our handicaps are removed. Economic ties with China should be encouraged, but an FTA is unviable.

Unlike other countries, we do not adequately pursue our interests. A few weeks ago the Chinese Government increased customs duties on car components from 15 to 30 percent, to incentivise value addition. We should pursue openness but of the kind which does not blow us off our feet.

(* Chairman, Bajaj Auto; Excerpts from Times of India, 28.04.05)

