

India ASEAN Free Trade Agreement - Challenges for Pakistan

by Khalid Mahmood, Phoenix Consulting, Lahore.

The India-ASEAN Free Trade Agreement (FTA) was finally signed, on 13 August 2009 at Bangkok, after six years of negotiations. The FTA is part of the Framework Agreement on Comprehensive Economic Cooperation signed with ASEAN in 2003, which included goods, services and investments and is to be functional by 2016. The agreement, effective from January 1, 2010, is only for trade-in-goods and does not include services and investments. Negotiations for agreements on services and investment sectors are underway since October 2008 and are expected to be completed by 2010.

This agreement opens a 1.7 billion consumer market to the member countries with a combined GDP of \$ 2.3 trillion. The likely beneficiaries in India are the exporters of machinery, steel, oilcake, wheat, buffalo meat, auto components synthetic textiles, refined petroleum products, organic chemicals, pharmaceutical, gems and jewellery.

ASEAN is India's fourth-largest trading partner after the E.U., the United States and China. Two-way trade between India and ASEAN was \$ 47 billion in 2008. Both the parties to the FTA are expecting a \$10 billion increase in trade even in the first year.

It is a major step in India's "Look East" policy in reducing its dependence on trade with U.S. and E.U. and turning towards South East Asia- its fourth largest trade partner. By this FTA, India will have access to the flourishing ASEAN market and ASEAN will be able to reduce its heavy dependence on China with whom they already have a thriving FTA.

The main hurdle from the Indian side for this long delay of over 6 years was the big number (over 1400) items on its sensitive and negative list at the initial stages. It took six painstaking years of negotiations of give and take to address concerns raised by the Indian industry and objections raised by some ASEAN countries like Indonesia and Malaysia to conclude an amicable agreement.

The FTA would eliminate tariffs for about 4,000 products (which include electronics, chemicals, machinery and textiles) out of which duties for 3,200 products will be reduced by December 2013, while duties on the remaining 800 products will be brought down to zero or near zero levels by December 2016..

The 489 items excluded from the list of tariff concessions and 590 items excluded from the list of tariff eliminations in the agreement pertain to farm products, automobiles, certain auto-parts, machinery, chemicals, crude and textile products. Tariff cuts in respect of some sensitive items like palm oil, tea, coffee and pepper will be graduated during a period of 10 years.

Regional Trade Agreements (RTAs) have become in recent years a very prominent feature of the Multilateral Trading System (MTS). The surge in RTAs has continued unabated since the early 1990s. Some 421 RTAs have been notified to the GATT/WTO up to December 2008. Of these, 324 RTAs were notified under Article XXIV of the GATT 1947 or GATT 1994; 29 under the Enabling Clause; and 68 under Article V of the GATS. At that same date, 230 agreements were in force.

If we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 RTAs which are scheduled to be implemented by 2010. Of these RTAs, free trade agreements (FTA's) and partial scope agreements account for over 90%, while customs unions account for less than 10 %.

India is at an advanced stage of negotiations to conclude an FTA with European Union in 2010 which includes goods, services and investments. Indian economy is a vital market for most of significant world trade and investing countries. No wonder, India has

become a vital direct or indirect part of almost all major trading and financial arrangements of the world.

Pakistan has also concluded few Free trade Agreements with SAARC countries (SAFTA), China, Malaysia and Sri Lanka and one Regional Trade agreement with ECO. SAFTA has so far been held hostage to internal conflicts and deflated political willingness and, hence, has not rendered significant benefits to the region as whole and to Pakistan in particular. It is ironic that intra region trade is the most dynamic trade in the world whereas the intra region trade among member countries of SAARC is one of the lowest among trading blocks in the world.

Pakistan has recently been trying to improve its market access with European Union and USA with little success. Recently, few government officials have claimed at some public forums having approached European Union and convinced to launch a Free Trade Agreement (FTA) process. The same is not confirmed at any level by EU or Ministry of Commerce.

Efforts of improved market access arrangement with USA are apparently not heading towards concrete concessions. Much talked about Reconstruction Opportunity Zones (ROZ's) are still in process of legislation and may take considerable time to get through. The relevance of ROZ's is questionable due to its geographic scope and restricted product coverage. Further, uncertain security situation along with northern borders and Fata may render this move a non-starter till the time a sustainable peace is not achieved in the area.

Pakistan needs quick support through improved market access which can provide impetus to the ailing export sector and infuse stability in the economy. Pakistan efforts of converting huge investment pledges into quick economic aid and deliverable investments have met a cold response in recently concluded conference of so called Friends of Pakistan at Istanbul, Turkey.

Disbursements of US\$ 1.5 billions aid approved by US are strictly tied up through stringent project based process being micro managed by USAID with preconceived priority areas and sectors. Though priority areas are very vital for economy e.g., Energy, Jobs, Trade etc. but effectiveness of these program will take significant time. Most of aid programs are focused on developing infrastructure and capacity building at gross root level which would effect the economy in an indirect process and that too with its own time schedule.

Pakistan is apparently and forcibly being drifted towards IMF for loans to stabilize the fast deteriorating macro economic indicators. Regional conflict has already afflicted heavy causality on Pakistan image abroad for which export sector is paying dearly. Special market access arrangements like FTA's/ RTA's are long term and sustainable steps to ensure secured market access and boost industrial activities in Pakistan.

It is high time that government accelerate its efforts to attain more meaningful market access arrangement with its two largest trading partners i.e., European Union and USA. It is also vital to make existing FTA's a meaningful economic success with wider industry participation while embarking on new market access arrangements. ♦