Who's afraid of RCEP?

Dropping out protects Indian industry in the short run. But trade pact serves our long-term interests

NAUSHAD FORBES

C R Sasikumar

THE REGIONAL COMPREHENSIVE Economic Partnership (RCEP) brings together the 10 countries of ASEAN in South East Asia, along with Japan, South Korea, Australia, New Zealand, China and until last week — India. These 16 countries account for over a third of world GDP and trade, and are collectively growing at a rate that is double the rest of the world. The Indian economy is large, but the rest of the RCEP is eight times its size. It is by far the most attractive market in the world today, and will be for the next 20 years. But, after protracted negotiations that began in 2012, India announced last week that it is not pursuing membership in the RCEP. The 15 remaining RCEP members are going ahead and have committed to signing an agreement early next year. They have kept the door open for India, and India has responded with a mixed message about "staying out" while being open to "offers" to join in.

The world is full of various regional trade agreements (the World Trade Organisation recognises well over 400 RTAs). India is no exception: We already have RTAs with Sri Lanka, Bangladesh, ASEAN, Japan and South Korea, and were negotiating a trade agreement with Australia and New Zealand. Such trade agreements cover similar ground. All address the trade in goods, and often include some combination of trade in services, trade facilitation and classification, non-tariff barriers, intellectual property, competition policy, investment policy, and dispute resolution. The RCEP is ambitious in both scale (the 16 countries combined make up an economic area exceeding the European Union) and scope (going well beyond trade in goods).

Trade agreements involve balancing defensive interests and offensive interests between the access one provides to one's own market and the access one gets to the trading partner's market. But it goes further. Foreign competition can play a decisive role in forcing one's own firms to do a better job. As the Indian economy opened up post 1991, that is exactly what happened. Firms selling old designs and poor quality products were forced to improve or were pushed out of business. The Indian consumer benefited massively. But, so did the Indian producer. Imports soared after 1991. But, as firms rapidly became more competitive, exports soared too. India's share of world exports, which had fallen to 0.5 per cent in 1991, rose to 2 per cent by 2010. Foreign firms invested in India, and Indian firms invested abroad. Exports were a substantial driver of our growth performance, contributing roughly a quarter of our record 8 per cent growth between 2000 and 2010. The Indian economy integrated with the world.

The only countries among the 16 RCEP negotiators who do not have an RTA in play or one being negotiated between them are India and China. China is the big exception and the big fear. The contours of an agreement which provides less access for China and a longer adjustment period were already in place. For example, the RCEP covered 90 per cent of all traded items (tariff lines in trade negotiator jargon) for ASEAN, Japan and South Korea, but only 74 per cent of all traded items for China. For ASEAN, Japan and South Korea, most items had zero duty from now, but for China, a long adjustment period of 5, 10, 15, and 20 years was provided before we moved to zero duty. Finally, India had asked for a safeguard against a sudden surge in imports of any item from China. Although the details have not been made public, it would seem that China's refusal to accept this last demand contributed to India dropping out of the RCEP.

Some have said that India dropped out because of a need to protect the Indian farmer. This is surprising as almost all agricultural items, including milk, were in the excluded list. Dairy products were included. So was it the Indian food processing company, and not the Indian farmer that we sought to protect?

A perception exists across Indian industry that it has suffered as a result of our trade agreements. Instead, the facts show that they have had little impact. In 2000, before we signed any trade agreements, 17 per cent of our imports came from and 15 per cent of our exports went to countries we later signed trade agreements with. In 2018-19, 18 per cent of our imports and 18 per cent of our exports went to countries with trade agreements. Overall, a negligible impact. Instead, China, with whom we have no trade agreement, has seen the biggest jump — from 2.6 per cent of our imports in 2000 to 13.7 per cent last year. The fear of being flooded with imports from China led many sections of the Indian industry to argue strongly against the RCEP. Our decision to drop out of the RCEP reflects this desire to protect the short-run interests of Indian industry instead of the long-run interest of enabling it to compete with the world.

Trade patterns reflect underlying industrial competitiveness. It is no accident that we have seen the greatest growth over the last 20 years in our imports from China (up 54 times), South Korea (up 15 times) and Vietnam (up 65 times). These are among the world's most competitive countries and almost any country's trade balance has moved substantially in favour of these three. We might complain about non-tariff barriers and higher costs of doing business, but improving our competitiveness is the surest way of improving our trade balance.

> India has two alternatives. The first is to avoid trade agreements, raise tariffs (as we have done in nine rounds in the last three years), believe that our firms cannot compete with the best, and protect the economy from imports. That is the approach which kept us, as firms, cosseted till 1991, and India poor. The second is to see in the world a huge opportunity to grow our market many times over, using trade agreements as a way of forcing our firms to compete with the best.

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The message, then, is clear. A trade agreement, even a major one like RCEP is both an opportunity and a threat. It all depends on what one makes of them. Missing out on a market eight times the size of India's is closing off to the world we will regret for decades. We need to get back in before February.

The writer is co-chairman Forbes Marshall, former president CII, Chairman of Centre for Technology Innovation and Economic Research and Ananta Aspen Centre