

RCEP: Did India miss the bus?

■ Dr. T. K. Jayaraman



A last minute decision by India early this month to not join the Regional Comprehensive Economic Partnership (RCEP) stunned the 10-member ASEAN group and the five Asia-Pacific states. The ASEAN group comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The other five Asia-Pacific states are China and Japan (the world's second and third largest economies), Australia, South Korea, and New Zealand.

The question is: Did India miss the bus to growth and prosperity?

This was an opportunity to participate as a major player (with a big market next only to China) in a single market of great potential of 3.6 billion people by producing and trading and growing more rapidly. The original 16 initiator countries with India have a combined population of close to 50% of the world's population with a trading volume of more than \$10.3 trillion or 29% of world trade. The negotiations at official levels for forming RECP have been going on since 2012. About 27 rounds of negotiations were held so far and two ministerial summits were also completed. In the latest November 2019 Summit in Bangkok, what would have been the final summit, before sealing the deal in 2020, India withdrew.

The reasons put forward by India were it wanted to protect its working class in the manufacturing of consumer goods as well as farmers. There were fears that cheap goods from China and others would swamp the Indian economy and unemployment would rise.

That disappointed some ASEAN countries. They were keen for India to be part of the group for balancing the region to counter China's growing influence. ASEAN press even expressed

anguish by comparing India's action to the similar withdrawal by President Trump from Transpacific Pacific Partnership (TPP) in 2017, soon after his election to the highest office in US. That was his campaign promise to quit TPP which was agreed to by President Obama and by Australia, Brunei, Chile, New Zealand, Peru, Singapore, Vietnam, Japan, Malaysia, Canada and Mexico. It was initiated by the US to keep China at bay and reduce its influence.

Trump was against all decisions by his immediate predecessor. Trump wanted to project himself as the saviour of all jobs in his country and against every country with which the US has trade deficits. The developments since then are well known. China and the US initiated a trade war with tit-for-tat tariffs on each other goods. China started wooing the ASEAN nations towards arranging a trading and currency block. RCEP is a convenient tool.

The Bangkok Post wrote, "When it comes to sweeping global free-trade agreements, President Donald Trump isn't the only party-pooper. Protectionism played a part; in both cases, the show goes on."

An unfortunate comparison

India has been opening the doors much more widely in recent years and continuing with the liberalisation measures initiated in the 1990s. Having been the victim of autarkic policies of shutting the doors to the rest of the world for pursuing a "socialistic pattern of society" since the 1950s, it is not easy to get out of the eternal dilemma of equity versus efficiency. The handouts and subsidies and "quit poverty" measures of bank melas of the 1970s have saddled the nationalised banks with bad loans. They are all part of the Albatross around the neck of the Indian economy.

In the context of the declining growth, protests led by opposition parties on behalf of the agriculture farmers and dairy industry and joined by the ever eager "eternal infants" in the manufacturing sector enjoying tariff protection and export subsidies, the last minute announcement to quit RCEP is not a surprise. It is expected to be a tactical withdrawal, as we all know the present government is far more liberal, and a proactive globalist.

The government is well aware of the likely major gains from RCEP and from encouraging competition in the long run. Aside from weeding out inefficient firms, the most attractive gains are from participating in the expanding process of global supply chains; promoting greater employment; raising manufacturing skills; keeping up with world standards in production; transfer of knowledge; and promoting managerial efficiency.

The 15 RCEP members, including China have indicated they would welcome India back, possibly with positive response and of course with some new suggestions. The earlier suggestions put forward by India for reducing trade deficits with China and free trade partners (South Korea, ASEAN and Japan) by country specific tariff schedules; an auto-trigger mechanism to control a sudden rise in imports from a particular country; and stricter rules have all been duly rejected.

Free trade optimists

No doubt, data assembled by anti-RCEP interests have highlighted India's huge trade deficit with China which is at \$53 billion. However, trade deficits with other countries in ASEAN and outside ASEAN have been modest. Exports to them have also risen with imports. In their well researched article in Economic Times of November 8, Professors Praveen Kumar and Arvind Panagariya compared India's trade shares between 2007 and 2017 with 10 individual countries (including Japan, South Korea, Malaysia and Singapore) and under pluralistic agreements with ASEAN and MERCOSUR countries in South America. In the case of 10 bilateral agreements, India's imports were 13.3% of total trade in 2007; and they fell to 11.8 % in 2017; and exports remained at the same level. Similarly, in regard to ASEAN trade, India's imports share rose from 9.6% in 2007 only to 10.8% in 2017; and exports share increased faster from 9.5% in 2007 to 12% in 2017.

TABLE 1

India's Trade with 10 Bilateral Partner Countries: 2007-17
(share of imports and exports as percent of India's total trade)

	2007	2017
Imports	13.3	11.8
Exports	13.7	14.0

Source: Krishna and Panagaria, Economic Times, Nov 8 2019

TABLE 2

India's Trade with ASEAN Countries: 2007-17
(share of imports and exports as percent of total India's total trade)

	2007	2017
Imports	9.6	10.2
Exports	9.5	12.0

Source: Krishna and Panagaria, Economic Times, Nov 8 2019

The fears are misplaced. Imports are a function of growth. As India's growth picks up, it only reflects growth in the need for imports of capital and intermediate goods, all meant for growth enhancing purposes. The just released research findings of Sunitha Raju and Raveendra Saradhi of Indian Institute of Foreign Trade are relevant here. Using trade and manufacturing output data from 26 Indian manufacturing industries, they concluded imports from China did have a favourable impact on industry output and production efficiency. Between 2007-08 and 2015-16, growth in imports from China was associated with growth in gross value added (GVA) and output in Indian industries. The GVA declined for only three industries—steam generators, iron and steel and games and toys. They also show imports of intermediate goods boosts output the most (by 163%), followed by capital goods imports (by 93%) and consumer goods imports (by 73%). Aside from forcing out inefficient firms and allowing efficient firms to increase their market share, competition with China has contributed in particular to boost the chemicals and pharmaceuticals sector outputs as well as improving their export performance.

Less complex RCEP

Turning to the West and rejecting "East Look Policy" is not a wise move.

RCEP is a more relaxed agreement, as it pertains only to trade liberalisation. FTA negotiations with EU or the US are far more complex. They go beyond trade and involve non-trade issues such as environment, intellectual property rights, labour regulations and human rights.

India has a cooling period: two months to go for 2020.

Free trade optimists suggest that India can resume talks with China for market access in areas such as pharmaceuticals and IT services where India has comparative advantage; and for seeking exclusions of vulnerable sectors such as dairy industry and for gradual liberalisation in other products.

Trade talks are pure politics: lose some, but gain more! Otto von Bismarck observed, "Politics is the art of the possible, the attainable — the art of the next best." ■



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[The views expressed by the author in this article is his own.]