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THE TROJAN HORSE OF A TRADE PACT THAT INDIA SHOULD GUARD AGAINST

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Worries that China’s gains would exceed ours if we sign up for the RCEP are valid in the absence of the agreement’s details

Regular readers of this column will know that advocacy of free trade is, as it were, hard-wired into trade economists such as myself—at any rate, those of us who have been students of a great free trader such as economist Jagdish Bhagwati has been fighting the good fight for liberal trade for decades.

However—and this is the crux—support for free trade, or even freer trade, does not necessarily imply that one ought to support any particular preferential trading deal that falls short of genuine multilateral trade liberalization under the aegis of the global system administered by the World Trade Organization. In particular, the Regional Comprehensive Economic Partnership (RCEP), currently under negotiation, is one such problematic so-called “mega" preferential trade deal, for it departs from genuine multilateral freer trade in two distinct and important ways.

First, trade liberalization within a bloc is not equivalent to trade liberalization among all global trading nations. Agreements that achieve the latter are necessarily “trade creating", while the former may give rise to baleful “trade diversion", to use the celebrated terminology coined by Canadian economist Jacob Viner. As Viner famously showed, and research by economists following him confirmed, a preferential trade agreement—such as the proposed RCEP—could actually make everyone worse-off, by distorting trade patterns in light of the pattern of preferences built into the agreement. In simpler terms, preferential deals are always two-faced—they are liberalizing vis-à-vis one’s partners but they increase the margin of protection vis-à-vis non-partners.

Second, as this column has observed in the context of the flailing Trans-Pacific Partnership (TPP), today’s trade deals have very little to do with trade and are mostly concerned with non-directly-trade-related matters such as intellectual property, government procurement, investor protection and so forth. These other elements that are lumped into mega deals turn them into Frankenstein’s monsters that do little to liberalize trade but do a lot to pursue the narrower agenda of stakeholders looking for market access. Thus, the previous as well as the current Union governments have correctly shunned the TPP as not being in India’s national economic interest. As I have earlier described it, the TPP is a little more than a Trojan horse, intended to foist a US-style domestic regulatory system on India, something that should be a domestic choice for the country to make.

The acid test of whether any component of a trade deal is genuinely concerned with freer reciprocal trade is to ask: Is there necessarily mutual gain? Or rather, is there a transfer of “rents" (as economist David Ricardo termed it; use the Marxian term “surplus" if you prefer) from one to the other country? Thus, leaving aside the issues of trade diversion for the purpose of this discussion, if all members of the RCEP lower tariffs against all other members, there is the prospect of mutual gain.

If, however, all countries adopt the domestic regulatory norms of one of the countries—or of a non-member of the group, such as the US—no mutual gain can be presumed. India, in particular, will come out a loser if it is forced to ratchet up intellectual property protection (IPP) norms to rich country levels. The generic pharmaceuticals industry, for instance, would virtually disappear overnight if India were forced to adopt US-style IPP norms.

The problem with the RCEP, like the TPP before it, is that all negotiations occur in secret among member governments, and the public has no idea exactly what is being negotiated, except insofar as governments are willing to share that information—and then, it is not always clear if this is genuine information or strategic communication intended more to disinform negotiators on the other side rather than enlighten the public.

Unfortunately, governments the world over seem to have learnt little from the current outbreak of anti-globalization sentiment. Whether you are sympathetic or not to the broader concerns raised by anti-globalists, they are right to criticize globalists for undermining democratic legitimacy and accountability. After all, if the public does not even know exactly what is contained in the RCEP agreement, how are they supposed to form an enlightened opinion on whether to support it or not?

If news reports are to be believed, there is the possibility that the RCEP may actually find formal agreement among its members at an upcoming summit meeting in Bangkok on 4 November. The putative members include 10 members of the Association of Southeast Asian Nations, along with six additional partners in the Asia Pacific region, comprising China, India, South Korea, Japan, New Zealand and Australia.

Meanwhile, in India, opposition to the RCEP is building. On 25 October, the Indian National Congress party announced that it was opposed to the deal—not forgetting that negotiations began under its own watch back in 2012. The Congress party has been joined by a chorus of other domestic groups, which fear that the RCEP will be an opportunity for China to increase its penetration of the Indian market even more than is already the case, without much in the way of Indian gains in the Chinese market.

We have no way to ascertain whether such fears are valid or overblown. But the fact that we have not seen the text of the agreement gives us legitimate grounds for concern.

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