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RCEP COULD STILL ACT AS A TRIGGER FOR DOMESTIC REFORMS

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Future RCEP membership could yet give the government an alibi it may need to reform the economy

It has been seven years since talks began on a Regional Comprehensive Economic Partnership between 10 members of the Association of South-East Asian Nations (Asean) and six other countries. In its early days, it was seen as a China-led counter to the Trans Pacific Partnership (TPP) initiated by the US. Signed during US President Barack Obama's term, the TPP was a 12-member mega trade treaty that pointedly excluded China, and cherry-picked other partners from South-East Asia. The TPP offered carrots for not only free access to America's consumers, but also to move production to the TPP bloc away from China and other non-TPP members. One of President Donald Trump's earliest decisions was to break away from TPP, rendering it effectively dead. Trump has often said that US trade partners get a free ride without reciprocal access to their markets. Perhaps he thought that the TPP was stacked against US interests, or maybe he just wanted to undo Obama's legacy. With the TPP dead, some members of the RCEP wondered if there was any zeal to pursue it, since it was anyway meant as a counter-treaty. Surprisingly, the majority of RCEP members, egged on by Australia, argued for even more determination to conclude the deal. India was soon isolated as the sole naysayer and spoiler. This was not the first time that India found itself alone in international trade negotiations. Remember the World Trade Organization's (WTO's) Bali meetings and the agreement on trade facilitation? India was sought to be painted as an anti-trade villain for its stand on getting safeguards on agriculture and food security before signing up.

On Monday, India opted to stay out of the RCEP for the time being. Unlike the Doha round of WTO negotiations launched in 2001, the RCEP is not sputtering; a pact is close to being signed. But domestic pressure in India has mounted, with high-decibel cries against it reminiscent of the countrywide opposition to the Dunkel Draft of the General Agreement on Tariffs and Trade in 1994, which eventually led to India joining the newly-created WTO. Then, as now, there emerged a coalition of political opposition from both the left and right. Even most of the manufacturing sector seems wary, afraid of a deluge of cheap Chinese imports. India always seems to approach trade negotiations with a defensive stance, of how not to get hurt by more competition. The bold body language of a $3-trillion economy keen to tap new duty-free markets seems rare. Even some allies of the ruling party seem opposed to India signing the RCEP, because of the perceived damage to domestic producers. Kerala's assembly passed a unanimous resolution opposing it, with its sole Bharatiya Janata Party member abstaining.

It is useful to sort out political opportunism from the real issues. India is unique among its Asian peers, in that it consistently has a high merchandise trade deficit. Two-thirds of its deficit with the RCEP grouping is just with one country, China. India also has qualms about the decade-old trade deal signed with Asean. An impartial third party review of India's free-trade agreement with Asean is pending, but it is clear that the trade deficit has worsened with almost each of its members, except Singapore. India's hope that its merchandise deficit would be offset with service exports has been belied. If India's current account balance, which is always negative, is not disastrous, it is because of inward remittances and an impressive performance on service exports, which are dominated by software and, to a lesser extent, tourism, which is woefully underexploited. Service exports have been handicapped by the absence of a special visa for the movement of persons required for the delivery of services. Apart from software or high-end

consulting, these cover paramedical, elderly care, nursing services, and semi-skilled work and education. Alas, the movement of people gets mixed up with issues of immigration, and will remain a thorny problem.

Which brings us to manufacturing and its scope for exports. India suffers a cost disadvantage in energy, logistics and capital. Added to this is lack of scale, inflexible labour laws, incoherent policies for special zones and clustering, and endless bickering among upstream and downstream players across various sectors. The heavy burden of indirect taxes is not fully offset by refunds, which tend to be heavily delayed. Multiple jurisdictions of various ministries add to that burden. An inspector raj reigns; self certification and faceless statistical sampling are an exception. Agricultural exports are far from deregulated. Inverted duties— higher on raw materials and zero on finished goods—are still a bane in many sectors. The textiles sector, a potential export winner, has a fragmented value chain that lacks scale and sees schizophrenic treatment of synthetic and natural fibres; for lessons, we should look at Bangladesh's success with garments. To top it all, the Indian rupee is mostly overvalued, as compared to its Asian peers.

All this offers a domestic reform agenda for exports. Just as the WTO sign-up of the early 1990s led to big reforms like currency deregulation and tariff reduction, and raised productivity, maybe the RCEP is a chance to push domestic reforms, with a future deal as an alibi for the government. India has just lost a case at the WTO, which, on a US complaint, has ruled various export incentive schemes illegal. We cannot forever use subsidy schemes to compensate for a lack of cost competitiveness and innovation-led value addition. Reforms are an imperative, and we could yet use the RCEP as a trigger.

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