Source : www.thehindu.com Date : 2019-11-07

AFTER RCEP OPT-OUT, THE CHALLENGE OF A SHAPE-UP

Relevant for: International Relations | Topic: RCEP and India

In an unprecedented move, India decided to withdraw from the 16-member mega regional free trade agreement, the Regional Comprehensive Economic Partnership (RCEP). At the Third RCEP Summit, in Bangkok, Thailand, earlier this month, the Prime Minister announced India's decision to withdraw from the RCEP; the summit was convened to announce the conclusion of negotiations before the agreement was finally signed. The Leaders' Statement issued at the summit end announced the conclusion of negotiations, but when it was done, one of the most important RCEP participating countries (RPCs) had ceased to be a part of the deal.

What led India to disassociate itself from an agreement which, till recently, was backed by the Union Commerce and Industry Minister? The immediate answer lies in the concerns expressed by all major stakeholders, namely, farmers, trade unions, major industry associations and civil society organisations, about the adverse implications of import liberalisation. Despite being a fairly open economy, India still uses tariffs to protect the significant levels of vulnerabilities, especially in agriculture but also in the manufacturing sector. The present structure of tariff protection is so designed that together with the relatively and generally low tariffs on most manufactured imports, moderately high tariffs are imposed on agricultural imports. The preponderance of small and marginal farmers and their inability to face competition from global agri-business has been the primary reason why the government has always excluded agriculture from import liberalisation, both in the World Trade Organization (WTO) as well as in bilateral free trade agreements (FTAs). Thus, in the FTAs with the Association of Southeast Asian Nations (ASEAN), Korea and Japan, most of the major agricultural products were excluded from import tariff cuts.

The RCEP threatened to alter the template of import protection that was an almost settled issue for India. The "Guiding Principles and Objectives for Negotiating RCEP", the de facto negotiating mandate, stated that "RCEP will aim at progressively eliminating tariff and non-tariff barriers on substantially all trade" and that tariff "negotiations should aim to achieve the high level of tariff liberalization". The wording of the negotiating mandate left little scope for India to maintain its regime of import protection in response to domestic vulnerabilities, as for example in agriculture. Yet another implication of the RCEP negotiating mandate on tariff elimination for India was that China would have had to be given similar levels of market access. This set alarm bells ringing for India's manufacturing sector which faces an increasing threat from cheap Chinese products. The major concern of this sector was that imports from China increased from less than $11 billion in the middle of the previous decade to over $76 billion in 2017-18; this could quickly increase further when India grants preferential tariffs to its northern neighbour as a part of the RCEP deal.

The agriculture and dairy sectors also got into the mix of tariff cuts essentially because of the presence of Australia and New Zealand, two countries that have significant interests in these sectors. Australia has large export interests in wheat and sugar, two of the most politically sensitive commodities for India. It is important to point out that in recent months, Australia has initiated a dispute against India in the WTO arguing that subsidies granted to sugarcane producers violate the rules of the Agreement on Agriculture. Three other RPCs, China, Indonesia and Thailand, have joined the dispute as third parties. The strategy of these countries is to ensure that India reduces sugar subsidies, which would threaten the viability of sugar producers in the country. The resultant vacuum can then be plugged by these interested parties.

Given this backdrop, India's commitment on market access under the RCEP could have provided an additional handle to exploit India's market.

The threat faced by stakeholders in the dairy business from the RCEP has been widely discussed. New Zealand is the second largest exporter of milk and milk products, and this group of products has contributed between a third and a fourth of the country's total exports in recent years. New Zealand milk producers are also more efficient than India's small producers, which would have given the former a price advantage in India's market — if the market for dairy products was opened under India's RCEP commitments.

Above all, the factor that militates against India's acceptance of any commitments under the RCEP is the declining fortunes of both the agriculture and manufacturing sectors. The growth numbers that were used to show India as the fastest growing economy have now been replaced by significantly lower growth expectations. Under these circumstances, an aggressive opening of the Indian economy would have only added to the uncertainties faced by the domestic entities, and whose impact on the labour market could have been catastrophic.

It is interesting to note that the government has been aware of the need to protect India's agriculture and manufacturing sectors, both within and without the RCEP. Within the RCEP, the government's first offer on tariff liberalisation made in 2015 (that was also put out in the public domain), took a rather conservative position. It spoke of a tariff elimination on 80% of imports from ASEAN and just 42.5% of imports from China, which would have addressed the vulnerabilities discussed earlier. Subsequently, India changed its stance and agreed to deep cuts in tariffs. Two critical process issues need to be raised in this context: the first is that the circumstances under which the change from the initial negotiating position was made is not clear. And the second is that unlike the initial tariff offer, the subsequent offers that the government made in the negotiations were not brought in the public domain.

India's continued engagement in RCEP negotiations on market access that had set complete tariff elimination as the objective seemed even more intriguing because the government had resorted to reversing the process of autonomous liberalisation since 2017. In response to the demands made by several sectors, tariffs were increased; as a result, average tariffs for manufactured products increased from below 11% in 2017 to nearly 14% in 2018, while for agricultural products, the average tariff hikes were from below 33% to nearly 39%.

A final issue that needs to be addressed is whether joining the RCEP could have contributed in any way in increasing India's exports and participation in value chains. This is an issue that has repeatedly been spoken of in the aftermath of India's pull-out from the mega regional trade agreement. The reality in this regard can be understood by taking a quick look at the FTAs with ASEAN, Korea and Japan. In all these agreements, India has run increasing trade deficits, essentially because the exports have not seen the desired levels of expansion. The explanation of this phenomenon lies in the lack of competitiveness of Indian enterprises, both in agriculture and the manufacturing sectors. Throughout the period in which economic reforms have played out, successive governments have not focused on policies that can increase the efficiency of domestic enterprises. As the dust settles after the RCEP exit, the government must focus on the mechanisms through which India can create globally competitive sectors that can demand market access in India's partner countries. Until then, India will be saddled with a defensive mindset in trade negotiations.

Biswajit Dhar is Professor, Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, New Delhi

END