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INDIA SHOULD NOW GET ITS TRADE NEGOTIATION ACT TOGETHER

Relevant for: International Relations | Topic: RCEP and India

The country needs a strategy for trade talks that is proactive enough to influence them to its advantage

India opted out of the Regional Comprehensive Economic Partnership (RCEP) negotiations this week. A mega free trade agreement (FTA) in the works, the RCEP currently comprises ten countries of the Association of Southeast Asian Nations (Asean), along with Australia, China, Japan, New Zealand and South Korea. In addition to conventional trade-related issues, like custom duties and dispute settlement mechanisms, an imminent RCEP agreement is expected to cover a wide range of new areas, including intellectual property, competition and e-commerce. India had participated in the RCEP process since its inception in 2013, dedicating a significant part of its limited state capacity to extensive trade negotiations. Therefore, India's late decision to exit the RCEP took many observers by surprise.

The long-term economic trade-offs in complex trade deals are never easy to quantify, chiefly because markets are dynamic. For instance, while India can leverage its strengths in services trade with RCEP members today, lack of new innovations may change this paradigm in the future. And India's situation is not unique. The remaining RCEP countries must equally confront such uncertainties while negotiating with the rest. China may not remain the manufacturing hub of the world, South Korean chaebols may falter, Japan may not be able to solve its demographic challenges, and so on. In such circumstances, it is useful to assess India's decision through a wider strategic prism.

First, if India remains outside the RCEP, it will need to redouble efforts to ensure that the World Trade Organization (WTO) functions smoothly and in the country's favour. However, the US has lately held the WTO to ransom through its veto power—for instance, by demanding sweeping institutional changes in exchange for approving appointments at the WTO's appellate body. Another US demand is a change in the "developing country" status accorded to emerging economies like India. While graduating to developed country status within the WTO may initially seem like a cause for celebration, what it means is that India will no longer receive special and differential treatment on account of its development needs. It will have to compete on a level-playing field with industrialized nations.

India must reject American demands by building a consensus among developing nations on viable counter proposals. Simply saying "no", as it did in the case of the RCEP, will not yield anything substantive.

However, by leaving the RCEP, India has lost some of the goodwill it requires to mobilize forces effectively at the WTO, especially among its regional Asian allies. India's inability to champion development is a relatively recent phenomenon in global trade. For several decades, leading up to the Marrakesh Agreement that established the WTO, the country was at the helm of the Group of 77 developing nations. Today, it is scarcely able to engender a consensus even on softer issues like cross-border e-commerce, whereas dozens of developing countries have found common cause with related proposals of developed countries.

Second, India must enhance its ability to negotiate bilateral deals if it wants to stay out of plurilateral engagements like the RCEP. Here, it must take a leaf out of China's playbook. As far

as trade spats go, the US-China trade dispute may be the most shrill and high-stakes one yet. However, both countries are simultaneously engaging each other in several forums, recognizing the exigencies of a global system that has enmeshed them. Their multi-pronged engagement includes discussions on e-commerce at the WTO within a group of 76 countries, excluding India. At the last G20 Summit, the US and China were also among the 24 co-signatories to the “Osaka Track", reinvigorating their commitment on e-commerce. India, however, stayed outside this conversation too.

Importantly, China does not share all of the US’s interests on e-commerce. It diverges on several fronts. For instance, it has an internet firewall that keeps the likes of Google and Facebook out of its domestic market. It also imposes data localization requirements antithetical to the logic of seamless cross-border e-commerce. China also has a poor track record of protecting intellectual property. Yet, Beijing recognizes the value of bilateral conversations. If nothing else, staying engaged with its trading partners sparks regular internal reforms. At the 66th meeting of its State Council last month, China enacted deep regulatory changes, effectively strengthening its intellectual property regime to encourage innovation-linked investments. This is in stark contrast with India, which has been unable to capitalize on the US-China dispute, despite a two-year window.

Last, if India decides to join the RCEP at a later date—an option it can still exercise—it must anticipate suboptimal outcomes. India did not participate in the initial stages of the Trade-Related Aspects of Intellectual Property Rights (Trips) negotiations during WTO’s Uruguay Round between 1986 and 1993. When it eventually joined—as it is likely to do in the case of the RCEP—the key pillars of the agreement had already been established. There are several such instances of delay or inertia inadvertently undermining the national interest. If negotiating strategies don’t improve, history may repeat itself. That would be unfortunate.

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