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WHY INDIA MUST OPEN ITS DOORS FOR RCEP

Relevant for: International Relations | Topic: RCEP and India

SINGAPORE : Earlier this November, on a virtual Zoom window, 15 leaders and trade ministers of Asia-Pacific countries stood triumphantly, hoisting binders affirming their commitment to the Regional Comprehensive Economic Partnership Agreement (RCEP).

The world's largest free trade agreement took eight years of negotiations involving countries including Japan to New Zealand and Australia to Myanmar. The ceremony was appropriate for unusual times—each trade minister signed a copy of the agreement while the head of state or government looked on, all linked to a common video link.

Prime Minister Narendra Modi nor his commerce minister Piyush Goyal was on that screen since India opted to stay out of the agreement after withdrawing from negotiations this July. The seemingly-conspicuous absence followed India's last-minute exit from RCEP negotiations late last year.

The domestic commentariat's response to RCEP's finalization this week has matched, if not exceeded, the vitriol heaved last year. Critics argue that India has long missed the Asia-Pacific trade bus and this decision is the latest manifestation of that impulse.

While India had some merits in resisting RCEP, ostensibly driven by fears of an ascendant China and a politics of self-reliance, exiting the agreement does hamstring India from being able to shape future trade discussions that could coalesce around this agreement and the negotiating space it bequeaths.

Demerits aside, India should have signed the agreement for that reason—to influence the institutional politics of regional trade that will revolve around the RCEP ambit even if the agreement would have entailed accepting certain costs in the interim.

The agreement

RCEP was signed at the end of the annual Association of Southeast Asian Nations (Asean) Summit held virtually this year. The agreement that includes 15 countries (10 from Asean and Australia, China, Japan, New Zealand and South Korea) covers nearly a third of the global population, almost 2 billion people. The collective GDP amounts to $26 trillion— a third of the global number.

RCEP countries have agreed to progressively abolish 90% of all tariffs on goods between participating members; signatories will then have two years to ratify before the agreement becomes effective.

The agreement also simplifies customs procedures and rules-of-origin laws between countries. Rules of origin restrictions generally tend to constrain the development of regional supply chains, which means new provisions will reduce potential regulatory frictions for firms and countries in terms of production.

Provisions concerning trade in services are hollow. Neither does the agreement contain provisions on issues like environment, labour or intellectual property, which the CP-TPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) had.

As it stands, RCEP binds some of the most dynamic economies, both developed and developing, without the de facto driver of global trade, the US. It should also serve as a framework where these 15 countries can deepen future trade cooperation. As countries across north and south-east Asia grow, RCEP's value could increase, as a bloc that relies on two poles—China and Japan—that will have to shape regional trade patterns and consequent rules to safeguard those economic networks.

RCEP will have to do it alongside the CP-TPP that also reduces tariffs and other bilateral trade agreements outside the ASEAN. Prevailing estimates suggest that RCEP will generate $186 billion to global trade by 2030 which is insignificant compared to other agreements but definitely not trivial.

The value is political and geopolitical: RCEP's signing affirms a regional commitment to trade liberalization and continued integration when countries are itching to erect barriers and decouple from existing supply chains due to the pandemic and the Trump administration's trade war with China.

The China factor

Was India's RCEP decision a foregone conclusion given China's inclusion and ongoing tensions with Beijing following border clashes in June? Possibly. Analysts have gone out of their way to assuage fears that RCEP is a “China-led" project, emphasising, instead, its Asean-centric origins.

Such fears appear facile since RCEP is, in current form, a shallow agreement riddled with exceptions, exemptions, exclusions and transition periods on many issues allowing countries that sign to gradually adhere to provisions. The agreement does not have rules covering the environment or labour. Agriculture allows for exemptions, including fisheries. Rules on trade in services, including data, are weak with sufficient exceptions giving signatories scope to draft necessary domestic data rules.

Chinese leaders have used the vacuum to portray Beijing as the reliable partner of choice for economic growth, trade, and investment. But to describe RCEP as a China-led trade initiative misses broader trends in Asia, where countries are focused on diversifying trading partners, solidifying supply chains, and achieving economic and job growth through a pan-regional trade agreement.

This push was also shaped by the WTO's inability to function as a central node driving trade. RCEP represents a statement that Asia-Pacific countries can finalize an agreement endorsing trade liberalisation, low tariffs and piecemeal rules to advance services without American push.

India's qualms that the agreement does not roll back China's economic model have not been addressed. The agreement does not affect Chinese economic policies and different kinds of support Beijing dispenses to domestic industries and firms. China's state-managed capitalism survives unscathed. RCEP could possibly entrench China's economic position that has rebounded well among major economies reeling from the pandemic.

It is the prospect of an untrammelled Chinese power that raised Indian anxieties before June 2020, making them pause on RCEP. It is likely this fear shaped Delhi's reasoning to steer clear of RCEP despite a “door" remaining open for Indian entry. Beijing has been a strong proponent of RCEP all along, repeatedly emphasising to regional partners that China is and will be a reliable partner when it comes to trade.

China will likely benefit more from RCEP from an export and import point of view by virtue of its size and the impending need to reorient its economy toward consumption. RCEP rules do not require China to make any changes that cover exchange rate policies or domestic subsidies, reforms other countries wanted to ensure a level playing field.

Though China agreed to some concessions on e-commerce and data in the agreement which allow for the free flow of information so long as it relates to “the conduct of a business of a covered person", sufficient room exists for all countries to draft necessary data rules given “security and public policy exceptions."

As a result, RCEP provisions, once ratified, could make Asean member states and other RCEP signatories more vulnerable to Chinese power and coercion. This was a gamble that other countries, not India, were willing to make for various reasons, including the existence of CP-TPP; ongoing efforts to restructure regional supply chains; deepening security relations through the Quad and Indo-Pacific; Japanese leadership; and possible American re-engagement through a more engaged Biden administration.

It is clear that these developments did not assuage India enough to enter an exception-filled-RCEP that could have partially met Indian interests.

India’s interests

A country’s attitude to trade agreements is a function of trade politics or the distributional costs some groups are willing to bear in return for market access abroad. In the 1980s, India’s approach at the Uruguay Round was shaped by officials aware of market constraints experienced by Indian firms in industries like textiles, services and agriculture.

The rational bet that was made then was for a gradual opening up in specific sectors in return for foreign market access. India also conceded on intellectual property rights. The focus then was tariff reductions to drive India’s upward economic trajectory. Protectionist fears were neutralized by positive economic conditions.

The climate now is markedly different. Covid-19 has altered the domestic economic landscape and policies instituted under the rubric of self-sufficiency to revive India’s economy. Tensions with China have renewed and hardened concerns of Chinese imports flooding India. Trade has, in effect, been sacrificed. Specifically, a rational approach to trade has been lost at the expense of crises and geopolitical constraints that were in some ways present before but not central to the decision.

Crises aside, the current RCEP should have satisfied some of India’s concerns especially with the exceptions and exemptions being strewn in on issues like data and e-commerce.

There is no investor-state dispute settlement system in RCEP, though negotiations did cover this issue. Indian officials had long been wary of such a body. No big changes are required when it comes to government procurement. Over time, India’s services sector would have had to open up to foreign investors, a trend we are seeing now in certain areas.

India’s exit and subsequent upbraiding of RCEP after its signing appears to be driven by a vitiated, not instrumental, politics that equates trade to deindustrialization and distress. A denunciation of trade was in some way required to buttress an ideology of economic self-sufficiency that currently pervades public discourse.

Prevailing Fears

Did India have sufficient cause to reject the agreement, given the fears? Most of India's concerns can be attributed to the prospect of imports entering the Indian market. Indian officials had consistently pushed back against specific goods like dairy and agriculture from markets like Japan and Australia which would have harmed domestic producers.

The current agreement does not adequately address India's concerns in this respect though tariff reduction is incremental. In fact, India's trade deficit with the Asean worsened from 2018-19 to 2019-20 from $22 billion to $24 billion while remaining more or less constant with the remaining five—China, Japan, South Korea, Australia and New Zealand.

Undeniably, it is difficult to sign and ratify a trade agreement when your trade balance is not improving with countries that are part of the deal. Ratifying RCEP would have further exposed Indian traders and manufacturers to Chinese imports, imperiling jobs, businesses and industries.

Whether or not India's withdrawal generates sufficient economic losses to justify ratification, it will, however, ensure India remains outside the institutionalized orbit where future discussions, amendments, additions and revisions to RCEP could occur.

Soon enough, RCEP could become an institutionalized core with a secretariat, staff and platform where regional trade officials will be discussing a widening RCEP agenda. This platform could necessitate discussions on issues RCEP does not cover now like artificial intelligence, digital currency and block chain, for instance. Such discussions and potential rules will facilitate trade not just between the Asean but the other five.

The institutional effects of RCEP must not be underestimated as trade patterns evolve in this dynamic region and as new issues enter the expanding trade remit. Given the WTO's troubles, countries across the Asia-Pacific will likely engage through frameworks like RCEP to clear immediate bottlenecks and secure extra market access.

Indeed, RCEP's institutional legacy could have far-reaching effects—fostering trust, creating standards, fixing gaps and so on. India's absence from this vital institutional orbit could solidify the insular economic orientation and strategies adopted, like Atmanirbhar Bharat, to realize that goal. Unconstrained by pressures, Indian officials or firms will not be compelled to innovate or adapt their internal operations for a regional market evolving beyond their reach. That prospect could end up being more harmful for India.

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