RCEP: A dangerous drift*

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In another instance of lack of clarity in economic decision making, the NDA government seems to be drifting into signing on to the Regional Comprehensive Economic Partnership (RCEP) Agreement potentially involving 16 Asia-Pacific partners. Under discussion for 7 years now, the agreement is slated to be sealed by a November 2019 deadline, for which negotiations have been fast-tracked. Expectations are that in a best-case scenario from the perspective of the Agreement's advocates, signatories would include, all 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), and their free trade agreement (FTA) partners Japan, South Korea, Australia, New Zealand, India and China.

The scale and scope of the agreement are bound to be large. The potential partners together account for close to one half of the world's population, around two-fifths of global production and 30 per cent of global trade. The agreement if signed would cover multiple areas such as trade, investment, intellectual property rights, e-commerce and government procurement, and goes substantially beyond WTO rules. Not surprisingly, the going has been tough with each likely partner assessing the gains, losses and net benefits that would result from membership in the arrangement. But more recently, there seems to be a renewed thrust to take the negotiations to completion, driven in particular by the ASEAN, whose separate trade agreements with the remaining six provide the foundation on which the new arrangement is to be built.

Given differentials in development and competitiveness across sectors, it is to be expected that not all countries would garner net benefits to the same degree, and some may turn out to be net losers. Moreover, even if a country proves to be a net beneficiary from freer trade within the cooperation framework in the short run, it could lose out heavily in other areas such as those governed by the chapters on investment or intellectual property rights, which could undermine its competitiveness in the medium or long term. Finally, within each country there are bound to be winners and losers, since the process of integration is by all accounts corporate driven, which threatens sections such as small producers, workers and peasants with considerable losses. For example, the steel industry and the dairy sector in India are among those expected to be adversely affected by substantially enhanced imports from China, Australia and New Zealand. Early leaks of drafts under negotiation indicated that Japan and South Korea were pushing participating countries to accept the 1991 convention of the Union for the Protection of New Plant Varieties. The seed patenting rules in that convention prevent farmers from saving and reusing patented seeds, which is obviously against the interests of the farming community.

Given these differentials in outcomes from the point of view of different stakeholders, it is to be expected that the clauses being negotiated must available in the public domain, and consultations with those affected must precede any government's decision to offer or accept any concessions or restrictions in the run up to an agreement. In practice, however, the negotiations have been shrouded in secrecy, with citizens offered only assurances from the government that their interests will be protected, even if not advanced.

In India's case, secrecy has been accompanied by signs that the government itself is not clear on what it expects the country to gain from joining the RCEP. The evidence on the trade front is clear: the outcomes of the free trade agreements which India has entered into with the ASEAN, Japan and Korea, have been adverse. India's trade deficit with the ASEAN has risen from $5 billion in 2010-11 to $22 billion in 2018-19, that with Japan from $3.5 billion to $8 billion, and that with Korea from around $7 billion to $12 billion. This has prompted the India government to request its FTA partners to agree to a review of the agreements. Though India has not entered into an FTA with China, its trade with that country has overwhelming benefited the latter. Not only does India incur a large deficit, placed at $50 billion in 2018-19, in its trade with China, but exports have been largely of raw materials and primary products, whereas imports have been of capital equipment and manufactured consumption goods. That clearly puts India at the losing end of the trading relationship. These trends are of particular significance because the RCEP countries account for 30 per cent of India's trade (imports plus exports) and 65 per cent of its trade deficit. Deterioration of India's trading position with this set of countries will be damaging for the balance of payments.

So unless there is a significant change in India's competitiveness vis-à-vis these countries, there is no sense in going beyond the existing bilateral FTAs to make way for a mega-trade agreement like the RCEP. However, given the clauses that are likely to be incorporated in the investment and IPR chapters of the agreement, adopting policies that can help strengthen competitiveness may prove difficult, widening the differential in trade performance between India and its potential future partners. Staying out of the RCEP seems to be the best option, which explains the government reticence to join the agreement on the broad terms specified by the other countries engaged in the negotiations, involving, according to some sources, coverage of more than 90 per cent of commodities currently traded.

Given this evidence, it is not surprising that besides small producers and peasants who rightly fear being adversely affected by the regional liberalisation, opposition to the agreement comes from sections of business, including big business, as well. Concerns have been expressed by industry leaders from sectors like iron and steel, dairy, marine products, electronic products, chemicals and pharmaceuticals and textiles, that significant tariff reduction can lead to a surge in imports into India, with deleterious effects on domestic production and capacity utilisation.

Interestingly, government spokespersons too have expressed apprehensions on the likely impact of the RCEP. India's External Affairs Minister S. Jaishankar reportedly stated at an event at Singapore that one of the big concerns for India with regard to the RCEP was the "relationship with China" because of India's "enormous trade deficit with China." Accusing China, Trump-style, of pursuing one-sided trade policies, he more or less made it clear that if India finally chose to stay out of RCEP, it would use the China-factor and the "unfair market access" and "protectionist policies" of that country as an explanation.

Given these apprehensions in almost all circles, the question arises as to why India has not pulled out of the negotiations and has been stretching itself recently to get the other participating countries to agree to a less ambitious agreement, with less coverage and lower tariff reduction. One stated reason is that some sections believe that India would get significant benefits in the export of services if the agreement included liberalised conditions for the cross-border movement of skilled professionals offering on-site services. But it is unlikely that the interests of just services suppliers would persuade the government to risk the interest of many other sections.

A second reason could be that the Modi government wants to be seen as one firmly committed to a neoliberal agenda, for which continuous trade and foreign investment liberalisation is a must. It cannot be seen as staying out of a mega agreement of the kind that RCEP is, but on the other hand it also cannot risk the adverse consequences that can flow from RCEP participation, particularly at a time when growth has decelerated sharply at home. So it may be trying to stay in the RCEP by persuading its partners to limit the ambition of the agreement.

Third, with the 'Make in India' initiative failing to take off, the Modi government is possibly looking to becoming an important hub in Asian production value chains, as China's competitiveness erodes and that country turns to growth based on domestic markets. Joining the RCEP is possibly seen as imperative for becoming a manufacturing export hub in Asia.

Finally, there is the strategic issue, sought to be captured in the idea that its time that India adopted an 'Act East' rather than a mere 'Look East' policy. Here too the target is China. India possibly fears that staying out of agreements like the RCEP gives China a strategic advantage in East Asia, which it wants to neutralise. Espousing the Modi government viewpoint, Jaishankar said: “"We look at an open, inclusive and balanced region connected by secure seas, integrated by trade and investment, underpinned by the rule of law and anchored in Association of Southeast Asian Nations unity and centrality with East Asia Summit as its principal forum.” But he recognised that “"RCEP, at the end of the day, is an economic negotiation. It has a strategic implication but the merits...have to be economic." Those merits, however, are missing. That possibly explains the indecisive drift of the government into an agreement that would be economically damaging.

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