

Crunch time on RCEP

India should not risk getting isolated in the region

The Union government is shortly going to have to make a momentous decision about India's economic orientation. The deadline for the conclusion of talks on a proposed free-trade agreement (FTA) known as the Regional Comprehensive Economic Partnership (RCEP) is fast approaching. The FTA, which is envisaged to link the 10 members of the Association of Southeast Asian Nations (Asean) with the People's Republic of China, South Korea, Japan, Australia, New Zealand as well as India, is due to be concluded by the time Asean meets next in November. It has become clear over the past years that the major stumbling block to concluding this agreement is the attitude of New Delhi, which understandably worries that entering into an FTA with China — with which India already runs a substantial trade deficit — might be disruptive for the domestic economy. The attempt has, therefore, been made to postpone lowering tariff barriers against Chinese goods in particular, especially in more sensitive lines of trade. Other members of the RCEP seem to have taken it for granted that almost all tradable goods — nearly 90 per cent — should see the elimination of tariffs in short order. India, if it intends to remain a part of the RCEP process, will clearly have to make some compromises, as has been underlined at the recently concluded ministerial-level RCEP meeting in Bangkok. Some members of the RCEP have reportedly asked India to make up its mind if it wants to stay in the grouping.

The question is how many compromises New Delhi will permit its negotiators to make, and whether its final position will be acceptable to the other countries. India already has FTAs with Asean, South Korea, and Japan, although these have not been fully implemented in some particulars. The concerns are not just about cheap manufactured goods from China but also, for example, dairy products from Australia and New Zealand. The Union commerce ministry has in recent years complained that FTAs that India has signed have not been productive from the point of view of Indian industry — imports into India from FTA countries have done better than exports from India to those countries. But it is futile to blame this on trade agreements. That is a consequence of an unwillingness to take the important domestic reform steps that would enhance the competitiveness of Indian industry and enable it to take on producers from Asean and elsewhere.

There is little doubt that, in its tariff policy, India has taken a turn towards protectionism and import substitution in recent years. Concern about Chinese imports is also high. In this context, entering into an FTA with countries including China would be a significant deviation from the direction of the current policy. The government thus faces two options. It can continue with its current protectionism, at the cost of both being excluded from the RCEP process and, essentially, being isolated in the region. Or it can use the RCEP as a tool — the way Beijing did with its membership of the World Trade Organization in the initial years of this century — to force through important domestic reform measures. There is no question that the second option would be both better for the Indian economy in the long run and also for New Delhi's international standing. The question is whether the government has the political will to take the hard decisions that are required.