



# Keep the RCEP option open

By not joining the trading arrangement, India risks becoming a rule taker rather than a rule maker

India chose not to join the consensus reached at Bangkok in November last year when member countries decided that the Regional Comprehensive Economic Partnership (RCEP) would move to the final phase of text-based negotiations and conclude the agreement by the end of 2020. India was not prepared to accept a regional trading arrangement in which it had limited entitlement to deal with import surges.

There were issues relating to rules of origin. This is inherent in dealing with an already regionally integrated trading network based on supply chains. Typically, a product from any of the trading partners is made up of components and intermediates from several countries. Country specific trade measures and tariffs have little meaning. Not being part of these supply chains, India is at a disadvantage, since selectivity in tariff treatment of its numerous partners makes rules of origin a complex exercise. However, if India believes that the future of its trade lies in becoming part of regional and global supply chains then staying out of the RCEP contravenes that objective. A better strategy would have been to leverage the size of the Indian market to obtain entry into supply chains within the RCEP. This would have also triggered more urgent improvements in infrastructure, trade facilitation measures and quality, which count more in supply chains than tariffs. Supply chains can only work in a low-tariff regime allowing liberal import of components and intermediates.

The latest Economic Survey has recommended that India should "chart a China-like, labour intensive, export trajectory and thereby create unparalleled job opportunities for a burgeoning youth." It calls

for a focus on "network products", which are produced across value chains, enabling assembling products "at mammoth scale." This, it is argued, will integrate "Assemble in India" into "Make in India." In her speech presenting the Budget, the finance minister echoed the Economic Survey, stating, "India needs to manufacture networked products. That will make it a part of global value chains. This in turn gets more investment and generates more employment for our youth."

In this context, India should have demonstrated that it does have an open mind on the RCEP, as it has claimed, by responding positively to Asean's invitation to an informal meeting of RCEP members in Bali held on February 3 and 4. Its negotiators could have brought this new "Assemble in India" strategy to the negotiating table, linked tariff concessions to its entry into supply chains and tested the willingness of its partners to address some of its genuine concerns. This could turn out to be a lost opportunity.

As pointed out earlier, supply chains operate through low-tariff regimes, while the trend over the last four Budgets, including the current one, has been to progressively raise tariffs.

India is turning away from the 25-year trend towards enhanced economic liberalisation and embrace of globalisation. An import substitution strategy is becoming increasingly salient but its policy fallout is somewhat confused. Should not this policy choice be reflected in a weaker rupee exchange rate? Should foreign investment be invited in sectors where Indian players are weak?

The shift towards a protected economy is clear from the following observation of the finance min-

ister, "It has been observed that imports under free trade agreements (FTAs) are on the rise. Undue claims of FTA benefits have posed threat to domestic industry. Such imports require stringent checks. In this context, suitable provisions are being incorporated in the Customs Act. In the coming months we shall review Rules of Origin requirements, particularly for certain sensitive items, so as to ensure that FTAs are aligned to the conscious direction of our policy."

One such proposed amendment to the Customs Act is specifically referred to. A clause in Section 11(2) empowers the central government, for prevention of injury to the economy of the country, by the uncontrolled import or export of gold and silver, to prohibit their import or export. This clause is being amended to include "any other goods" in addition to gold and silver in its ambit. This would be a very significant and sweeping trade restricting measure and it is not clear whether it would be in keeping with our World Trade Organization (WTO) obligations.

Most global trade is now conducted through large regional trade arrangements such as the North American Free Trade Area, the European Union, Mercosur (in Latin America). The RCEP would be their counterpart in Asia. The role of WTO has been declining progressively and with it the concept of unrestricted trade and investment flows and, importantly for developing countries, an acceptance of the principle of non-reciprocity based on levels of development. We are now moving towards a global trade regime, which will be more explicitly based on the principle of reciprocity, and trade flows will be influenced less by tariffs and more by standards, specifications, intellectual property safeguards and environmental standards. This new global regime, overseen through a reformed and restructured WTO, will be a bargain negotiated by the major regional trading arrangements. Individual countries, except for major trading nations such as China and the US will have limited leverage. India's external trade volume is now back to less than 2 per cent of the global volume. If India is not part of one of these trading arrangements, it will end up being a rule taker rather than one of the rule makers. We must think this through carefully because it will impinge on our future economic prospects as well as geopolitical clout.

In 1991, when India adopted far reaching economic reforms and liberalisation policies, there were fears that Indian industry would be hollowed out. These were not only belied but India embarked on a sustained high growth trajectory. Why abandon a remarkably successful economic strategy and return to a failed import substitution strategy? More importantly, should not there be greater coherence in our trade and investment policies? It is incongruous to talk about making India a global assembly hub and then adopting policies that make it unlikely.

*The writer is a former foreign secretary and is currently Senior Fellow, CPR*



SHYAM SARAN