



Steel rims at a dockyard in Mumbai. RCEP negotiators meeting in Singapore this week would be wise to think of new concessions, not just to keep India at the table but to persuade it to sign the deal itself, say the writers, noting that with India in the deal, Asean has the chance to place itself at the heart of a new, balanced regional trading order. PHOTO: REUTERS

Why India is crucial to RCEP trade pact

While New Delhi is a major stumbling block with its demands, it provides strategic balance

James Crabtree and Blake Berger

For *The Straits Times*

Asean's leaders have issued a stark warning about rising protectionism at their latest summit, promising "to exert all efforts to resolve outstanding issues" delaying the critical Regional Comprehensive Economic Partnership (RCEP) trade agreement.

It is no secret that India is the biggest stumbling block, leading some to worry that India may be left out of the trade pact entirely. This would be a mistake. RCEP negotiators meeting in Singapore this week would be wise to think of new concessions, not just to keep India at the table but to persuade it to sign the deal itself.

First launched in 2013, the RCEP was originally aimed at tidying up pre-existing trade deals between the 10-member Asean and six other nations – Australia, China, India, Japan, New Zealand and

South Korea. As a group, they account for 3.4 billion people and more than a third of global gross domestic product.

Since then, the RCEP has taken on greater significance against a backdrop of concerns about the worsening health of the world trading system.

Pressure to complete the RCEP agreement has increased in the past year, first after President Donald Trump pulled the United States out of the Trans-Pacific Partnership (TPP) trade pact, and now amid growing fears of a US-China trade war.

As Singapore's Prime Minister Lee Hsien Loong noted last Saturday, the RCEP's conclusion would send a clear signal that Asian nations "are pressing forward with trade liberalisation".

This is where India comes in. The latest round of RCEP negotiations, which will be conducted throughout this week, is its 22nd in five years. All have happened behind closed doors, and there have been few hints about how close a deal may be.

PM Lee says the RCEP can be completed this year. Yet, without first fixing the problems faced by India, this timeline will be all but impossible.

Trade deals are notoriously complex but India's problems are easy to understand. Its US\$2.5 trillion (S\$3.3 trillion) economy is at an earlier stage of development than its richer RCEP partners. It suffers from unproductive agriculture and weak manufacturing exports, which it balances with a strength in services in areas like IT outsourcing.

India is thus reluctant to agree to big reductions in goods tariffs, but is keen on services liberalisation, in particular those that allow its software professionals to work abroad.

Politicians in New Delhi worry too about agricultural exports from countries like Australia and New Zealand, which would hit a farming sector that still employs roughly half of all Indians.

These concerns are heightened with national elections due next year, where farmers make up a powerful voting lobby.

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India is often a belligerent trade negotiator and there is a tendency to roll eyes at its demands. But on this occasion its problems are real enough.

It was scarred by the experience of its India-Asean free trade deal in 2003, after which its Asean trade deficit jumped, hitting nearly US\$10 billion last year.

Today, India also suffers a yawning US\$52 billion trade gap with China, which it fears will balloon if the RCEP agreement is signed. Last week, an Indian government think-tank said "opening our market to China can prove to be disastrous".

Prime Minister Narendra Modi thus faces an awkward choice. He supports the RCEP, both for its long-term economic gains and as a cornerstone of his Act East foreign policy, which aims to improve ties with East Asian nations. But joining the RCEP is also likely to mean plenty of short-term pain. In an election year, that makes it hard for Mr Modi to sign up without new concessions.

To be fair, India is far from the only sticking point that the RCEP must overcome. But it is the one that could fundamentally change the character of the deal. This should give other RCEP nations pause. Having India in the RCEP remains of huge strategic value, not least given India's considerable long-term growth potential.

But there is a wider point of balance too. Without India, Chinese clout during the remaining negotiations would increase, and Asean's long-term economic dependence on China will only increase.

With India in, Asean has the chance to place itself at the heart of a new, balanced regional trading order. Indeed, it is no exaggeration that keeping India inside the RCEP is a decision as important as earlier, failed moves to keep the US within the TPP.

So what can be done? One avenue is the so-called "Asean minus X" approach, in which India's full involvement is put on hold while the other 15 move ahead. But this is far from ideal. A better option would be to give India a far longer "phase in" period to reduce its tariffs for goods from China in particular, giving India's industries more time to adjust.

Tighter restrictions on what are called "rules of origin", meaning the regulations governing how exports are classified, could also help assuage India's worries about China.

Finally, greater reductions in non-tariff barriers to trade within Asean for goods like pharmaceuticals and agricultural products could help India curb its rising Asean trade deficit too.

On services, India has previously proposed a new kind of RCEP business visa for professionals. Political worries about migration elsewhere in Asean make this difficult. But it might be possible to meet India halfway, or for Asean to allow India high-skilled professionals special access to particular projects or sectors.

Whatever the measures, the RCEP's negotiators must be imaginative. The long-term economic and geopolitical value of having India inside the RCEP will greatly outweigh the short-term cost of the concessions that can make a deal possible.

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