

# RCEP: More delays will be a mistake for India

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For *The Straits Times*

Narendra Modi's recent re-election as India's Prime Minister gives him plenty of political capital to spend, with a host of measures slated to be introduced as part of a first "100 days" programme. But an equally important signal of his government's reforming intent arrives later this month, when talks resume over the Regional Comprehensive Economic Partnership (RCEP) trade deal.

India has been the biggest stumbling block to concluding the 16-nation RCEP deal, which would bring it together with the 10 South-east Asian economies of Asean, as well as Japan, South Korea, Australia, New Zealand and, crucially, China. The pact had been on hold in the run-up to India's election, given the difficulties Mr Modi would have faced signing up prior to the polling. Now it is decision time.

If Mr Modi is serious about transforming India's economy, as well as playing a larger geopolitical role in Asia, the logic of joining the RCEP remains strong. Signing up would send a firm signal both about his seriousness in pushing through domestic reforms, and India's readiness to play a more significant role in Asia's economic integration. More urgently, if India does not act, there is a small but growing risk that the RCEP's other parties, notably China, could move ahead without it.

Parties to the RCEP have been in negotiations since 2013, bringing together nations that collectively produce around a third of the world's economic output. Were the deal to be signed later this year, as many hope, it would also show Asia's ability to breathe life into a global trade system battered by the United States-China trade war.

But that does not make India's task easier. In earlier rounds of negotiations, it was reluctant to make deep cuts in tariffs for fear of a flood of goods from China, in particular electronics and steel. Also, Indian farmers fret about agricultural competition from Australia and New Zealand. India worries more generally about its large and growing trade deficits with almost every RCEP member, especially China.

The fact that the RCEP is not likely to involve much liberalisation in services, an area where India's economy is stronger, does not help.

These difficulties cannot be wished away, given that they stem from India's position as a less developed economy than its RCEP partners. But they are not insurmountable either.

Under almost any scenario, India will run trade deficits with China for the foreseeable future. But



Indian Prime Minister Narendra Modi (right) arriving for a meeting with his new Cabinet in New Delhi last Friday. The RCEP is a chance for Mr Modi to develop his country's manufacturing sector, say the writers. PHOTO: AGENCE FRANCE-PRESSE

rather than a deluge of televisions and smartphones, this deficit comprises mostly useful intermediate goods that India needs for its own manufactured products.

The RCEP should also be viewed as a chance for Mr Modi to develop his country's manufacturing sector, and is one reason he had earlier said India should sign up. Here there is much work to be done, given Mr Modi's 2014 "Make in India" drive aimed at increasing manufacturing's share in gross domestic product to 25 per cent. It managed a paltry increase to 17 per cent last year.

A recent strategy paper by India's government think-tank NITI Aayog emphasises the importance of developing manufacturing clusters that can help the country integrate

into global production networks. The RCEP should make it easier for Indian companies to plug themselves into Asia's manufacturing supply chains, especially at a time when the trade war is forcing many multinational companies to seek new production locations in response to US and Chinese tariffs.

Much of India's hopes for rapid economic development rest on winning a share of the manufacturing business that is set to relocate from China, and which could end up in Indian industrial states like Gujarat and Tamil Nadu, rather than other countries such as Thailand and Vietnam. Clusters of manufacturing excellence in industries like carmaking, pharmaceuticals or textiles already exist in various parts of India. The

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question is whether India can become a manufacturing hub for a wider range of industries, with its companies contributing components to pan-Asian production networks. This aim would be greatly aided both by improvements in hard infrastructure and supporting logistics at home, but also through favourable trading rules with major partners, of the sort that the RCEP would provide.

Taking advantage of this opportunity also requires supportive domestic reforms, both to prepare local industries for competition and to facilitate trade for companies. In this sense, India needs to mimic China's approach to reforming its own domestic markets in advance of becoming a member of the World Trade Organisation in 2001.

This in turn requires Mr Modi to deal with powerful domestic economic constituencies likely to be affected by the deal, in areas ranging from clothing, textile and agriculture, to steel, aluminium and copper. It also means facing down critics within his own Hindu nationalist political movement, many of whom are instinctively sceptical of free trade.

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India can try to win concessions at the next round of talks, slated for the end of this month in Australia, while there will be further opportunities to build consensus around a possible deal at the upcoming Group of 20 meeting in Japan. But ultimately, Mr Modi is likely to face a choice between signing up to more tariff reductions than India might ideally like, and to seek yet further delays.

The choice to defer is now risky for India, however, given China's recent decision to float an alternative "Asean + 3" trade deal, which would include only the South-east Asian bloc along with China, Japan and South Korea. As yet, this proposal is not being treated seriously, in part because it seems deliberately designed to nudge India into action. But were Mr Modi to delay RCEP further, China's fallback option would become more plausible.

For India, this would be a grand missed opportunity. The RCEP has significant potential economic benefits, giving the country the chance to realise its longstanding "Act East" policy of creating new connections in East and South-east Asia. With that comes the promise of greater manufacturing prowess and job creation. The RCEP would have strategic benefits too, not least in balancing China's economic influence in the region.

In 2017, the US made a major mistake when President Donald Trump withdrew from the Trans-Pacific Partnership, another mega-regional trade deal, which the US itself had helped to create. With the RCEP, India now faces a similar choice. Its trading partners must hope that Mr Modi does not follow Mr Trump's lead.

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