

India faces its Berlin Wall moment in trade

With the global economic landscape facing disruption, it must overcome its objections to the RCEP

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In 1989, when the Berlin Wall came down, many who saw the toppling concrete slabs knew the world order had suddenly changed. In the years that followed the felling of that Cold War symbol, economic growth and trade interdependence expanded globally, and most Asian economies grew at double-digit rates.

While 2019 is not 1989, it nevertheless has a similar feel about it.

With the World Trade Organisation (WTO) becoming less effective, it will no longer be able to enforce the global trade rule book, which has underpinned the spectacular growth in international trade that we have witnessed in the past three decades.

The global trade regime without a referee like the WTO is not really a

regime if the largest players in the system are not interested in playing by the rules any more.

In this slow-motion Berlin Wall moment, the global trading system is collapsing, with major countries putting up barriers to trade via ad hoc tariff barriers.

Companies consequently are scrambling to figure out how to respond. The system that has allowed firms to be multinational and let even tiny companies buy and sell to global customers is under threat.

This has a chilling effect on the investment climate so critical to growth as firms hold back for fear of growing trade risks.

WHY THE RCEP MATTERS

While Asia has been an exporting powerhouse for decades, Asian countries have not been particularly focused on buying and selling goods and services to their neighbours. This is changing.

For Asia, it means redirecting trade away from traditional final markets in the United States and

Europe towards greater intra-Asian consumption.

One thing that is missing, however, is a structure to manage an evolving economic landscape for Asia. The existing institutional arrangements and current host of regional free trade agreements do not suit a future order very well. Keeping in mind the coming disruptions in the global trade regime, 16 countries have spent years working on a comprehensive trade arrangement for Asia: the Regional Comprehensive Economic Partnership (RCEP). The 16 member governments (Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand and Vietnam) are struggling to complete negotiations by November.

THE INDIAN HURDLE

The stakes for the RCEP are greater than most Asian participants imagine. For India, it is even more so – its next stage of growth requires a second growth engine of exports to Asian markets as its traditional Western markets become less dependable in future.

And yet, as the 16 Asian countries strive to conclude this trade agreement by November, India is seen by others as a stumbling block. India's delaying tactics have exasperated participants to the extent that there is a serious option now of signing the RCEP without it.

The bureaucracy in India is seen as inwardly focused and in league with the country's traditionally protectionist industrial sector. It does not seem to understand the give and take inevitable in any trade agreement.

The political system is unable to rise above these domestic concerns, although many policymakers see the inevitability

of signing up to the RCEP for access to growing Asian markets.

Shorn of bureaucratic, India's current objections are primarily twofold:

- No major support for its competitive service industry, especially freer movement of professionals.
- The threat of Chinese exports overwhelming its domestic industry.

India also fears the threat posed by Australia to its agricultural trade.

The fear of competition from China and Australia is not unique to India, but other countries consider the longer-term advantages of comprehensive access to all Asian markets as more important than the protection of inefficient domestic industry.

Is India right in its objections about the service sector? India's service industry has traditionally done very well in the English-speaking world, with its biggest gains in the US and the UK. But its impact on the non-English-speaking world has been at best marginal. Asia, with few exceptions, is largely non-English speaking. Any concession besides better business visa regimes for travelling executives is pointless as the Indian IT industry will (and is already) recruiting locals to implement service obligations.

The threat of Chinese dumping is more real though. India needs a strategy of give and take with China to resolve this. One way would be to insist on early harvest items with China where India is competitive, such as IT, media, auto components and generic pharmaceutical products.

Additionally, it should negotiate with the Chinese to agree to a longer time span of, say, 10 years for opening up specific sectors in India, for example, steel. Ditto with

Australia and New Zealand on the agricultural sector.

India needs political intervention at the highest level to break this logjam and be seen to be proactive and sincere in its RCEP negotiations.

In 1991, India opened its closed economy boldly to foreigners, regardless of objections from its domestic industry, and signed on to the WTO. The result was a spectacular growth spurt for two decades.

Another such 1991 moment awaits in the RCEP. It is the only readily available platform for managing trade and economic issues in Asia.

Failure to get the RCEP done now will be more than a missed opportunity for India. Without the RCEP, India's integration with fast-growing Asia will be incomplete. Its plans to attract Asian supply chains – currently centred in China – to build and grow its manufacturing base will remain on paper. Foreign investors will be better assured knowing that Indian policy will be tethered to the RCEP platform and policy reversal will be avoided.

With a thumping election win behind him, Prime Minister Narendra Modi has the backing of the nation to take the bold steps he is known for, to "Act East" rather than just "Look East".

This is India's Berlin Wall moment. How it decides will determine its fate for decades to come.

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