Photo: Bloomberg

India must remain within the Regional Comprehensive Economic Partnership (RCEP), a group of 16 nations negotiating a trade agreement. Indian industry is wary of the potentially adverse impact of preferential Chinese imports. But this is the only chance of securing a rules-based framework with China.

The multilateral trading system—most conducive to the interests of a developing country—is likely to remain comatose. This is compelling trading nations to resort to regional trade agreements to expand their markets. The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) will become effective, sans the US, after the requisite ratifications. Thus, between these two agreements, 26 trading nations would have implemented preferential arrangements, potentially at the cost of India. India’s exports have been stagnating for some years now. It has not concluded a significant trade agreement in a decade.

The ongoing trade war has already created turbulence and uncertainty in global markets. This is bound to affect the nature and direction of global trade flows. Modern production networks stretch across manufacturing economies and trade agreements are important institutional mechanisms to facilitate countries' access to such value chains. India must look for opportunities to hook into them.

The India-China economic relationship should be seasoned with realism in these turbulent times, when geopolitics is transitioning. India must, therefore, establish a more in-depth understanding with its neighbour on economic issues as they unfold over the next decade or so. China's average industrial tariff is 8.5%—by no means low. The preferential tariff framework can give India better access to the Chinese market. Further, the opaque and discriminatory regulatory framework in China needs to be addressed for which a plurilateral framework, where several others have similar concerns, is better than a bilateral framework.

India's reform agenda pervades all spheres of the economy. Positive developments have been reported in trade facilitation, ease of doing business, helped along by systemic reforms such as the goods and services tax, strengthening and expansion of infrastructure and greater focus on technology facilitation. Today, only globally competitive industries can survive. Reliance on government largesse is neither possible nor desirable from a sustainability perspective. Therefore, a shakeout and repositioning is imminent.

Having been threatened by US unilateralism, China should be more amenable to calls of cooperation and understand India's predicament. India also has leverage in the form of its potential market size. It must, therefore, negotiate with greater confidence and craftsmanship and not be swayed by the threats of its partners. India's exclusion from RCEP will cost others heavily. The stage for negotiations at the diplomatic level seems to have passed. Some critical parts of such deals can only be concluded at the highest political levels. Some straight-talking with the major proponents is overdue.

Most frontline trading nations now negotiate deeper trade agreements, which involve multiple layers of trade engagement such as non-tariff ecosystems, regulatory frameworks and even some so-called non-trade issues. Most of our agreements are shallow and relatively less rigourous on non-tariff issues. It must be underlined that these negotiations are not simple. Most of the time, India's approach to trade negotiations has been typified by a defensive stance. This is because of the huge diversity in our economic and industrial architecture and consequent complexity in our positions. While some sectors continue to seek government support to cover their inefficiencies, some potential winners will need support.

India can ask for a long-term tiered approach to tariff reduction/elimination. It can seek front-loading of concessions from a trading partner like China. It can specifically pick those tariff lines where it has greater interest to integrate into regional value chains in the list of front-loaded items. India should negotiate annexes to the main agreement on sectoral regulatory frameworks and processes/protocols. The idea is to not only agree on concession schedules but to also freeze processes and regulatory rules for assured transparency.

Further, India can also ask for the establishment of a regular mechanism for settling access-related issues and a dispute settlement framework within the agreement. A large part of Chinese economic activity is conducted via state-owned enterprises, creating discrimination and opacity.

India must implement an extensive programme on technical regulations based on international standards. This will facilitate access to partner markets and protect domestic industry from cheap imports. A stronger framework for intellectual property law enforcement is also desirable.

This discussion will be incomplete if the value of services-related market access is not acknowledged, but we need to underplay our excessive focus on disciplines for movement of natural persons. Regional demography and continued focus on domestic services reforms will position us to take advantage of regional demands. Therefore, we should build an evolutionary architecture to be reviewed periodically.

Last but not least, industry must create a B-team of sectoral experts to support government negotiators. If negotiated well, the RCEP has the potential to be a game-changer for India.

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