After recent months of back and forth attempting to negotiate a better trade agreement for India to join the Regional Comprehensive Economic Partnership (RCEP), the Indian government (and rightly so) decided not to join the trade forum and be excluded from what has been seen as one of the biggest plurilateral free-trade partnerships in the world.

The RCEP includes 16 nations that are home to more than half of the world’s population (10 of which belong to the Asean group), six of these include Free Trade Agreement partners, i.e. China, South Korea, India, Japan, Australia, New Zealand.

As a number of commentators may remain divided in analyzing both, the political and economic consequences of India’s action, it may be critical to address a more fundamental concern attached with the nature of trade agreements today (especially those involving many nations or are plurilateral in nature) and their complex dimensions.

The principle of comparative advantage realized from gains made from trade remain the ‘crown jewels’ of the economics vocation, and even though almost all economists agree that more trade makes a country relatively better off in the medium-to-long term, the instrument—a trade agreement, by which trade is facilitated remains under-emphasized.

Trade agreements today not only contain details on defining some of the terms of trade but on aggregate, reflect a negotiated outcome on the distributive effects realized from the trading partnership (i.e. in simple terms who gets what and in what proportion). This makes it extremely difficult to measure (or actually predict) if a given trade agreement—which in principle seems appealing as ink-on-paper, is actually beneficial for a member country or not.
Consequently, trade agreements and partnerships like the RCEP (or TPP, NAFTA etc.) aren’t only about eliminating trade restrictions to boost or enable more trade between concerned nations. As Dani Rodrik accurately describes it: “Contemporary trade agreements go much beyond traditional trade agreements made at the border. They cover regulatory standards, health and safety nets, investment, banking and finance, intellectual property, labor, the environment, etc.”

According to one calculation, 76-79% of the preferential trade agreements today cover at least some aspect of investment; 62-64% cover intellectual property rights protection, and 46-48% cover environmental regulations. And if one makes a terrible bargain in not being able (or capable) of negotiating on fairer terms across these areas while signing up for a trade agreement, then that may inhibit actual gains from trade as against increasing it (something that Mexico experienced from NAFTA or Cambodia from Asean’s trade partnerships).

In case of the RCEP, Indian trade negotiators questioned the design of the trade agreement, which argued for an elimination of import duties on 85-95% of all traded goods. India already has a massive trade deficit with China and a lower custom duty-invoked by this trade agreement, would have made its commodity markets extremely vulnerable to an influx of Chinese goods. Another key issue for India was the unavailability of the Most Favored Nation (MFN) clause that would have made India to give the same treatment to RCEP nations that it gave to others. Other technical issues included points of contention on the choice of base year used for calculation of tariff reduction etc.

A default attitude to analyzing the successful or unsuccessful outcomes from joining or not joining a trade forum may in fact be quite precarious today. A rather more dominant political economy perspective on trade agreements and plurilateral trade forums highlights how signatories to these agreements remain largely guided by a set of special interests alone which make such interest groups negotiate terms that are reflective of rent-seeking, narrow self-interested behaviour, as against being guided by principles of progressive liberalization.

Progressive Liberalization is one of the core principles that has been the foundation for an international trading system since the Bretton Woods era, which allowed for nations to create trade-enabling and efficiency-enhancing conditions. Unfortunately, as seen with TPP and now with the RCEP, their current nature, content and pattern of trade partnerships leave little space for actual ‘progressive trade liberalization’. And while this makes some of the emerging markets extremely vulnerable to dominant, subsidy-providing export markets (like China), there is very little clarity on interpreting (or analyzing) the benefits of such trade agreements.

The Modi government is also correct in recognizing the possible negative effects of joining the RCEP on small and medium scale farmers, traders and industries, which are already experiencing a chronic slowdown. At this critical juncture, it may be wise for the government to focus on key domestic economic reforms that allow productivity levels to rise across sectors (especially in agriculture, industry and manufacturing) and deepen its market integration with regional actors (in the neighborhood) and others through bilateral means.
At the same time, a decision not to participate in the RCEP mustn’t allow India’s trade policy to turn more inward or protectionist. It is vital for India and its foreign policy on trade to pursue measures with respect to trade that result in freer, mutually beneficial trade through better regulations and standards for labour, environment and other involved factors of production.

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