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India's Trade Negotiations: The Imperative of Flexibility

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India continues to be labeled 'obstructive' in its ongoing trade negotiations such as the RCEP for refusing to eliminate tariffs in agriculture, dairy and automobiles and insisting on easier access for its professionals in partner country markets. This paper highlights the futility of the approach and the risk of India's isolation from the trade rule-making process. It urges flexibility in India's negotiating posture including bilateral discussions with key negotiating partners for resolving differences.

India's approach for negotiating regional and bilateral free trade agreements (RTAs/FTAs) is again in sharp focus with concerns raised over long delays in concluding various agreements it is negotiating. Foremost among these is the Regional Comprehensive Economic Partnership (RCEP) involving the ten ASEAN economies, Australia, China, India, Japan, Korea and New Zealand.

On both the RCEP and the inconclusive FTA with EU, India is being criticized for being obstructive and delaying the negotiations. India's Commerce and Industries Minister has

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dismissed these allegations and blamed some of the negotiating partners for the lack of progress in trade talks with the latter continuing to demand deep tariff cuts from India in ‘sensitive’ sectors like agriculture, dairy and automobiles, while not acceding to India’s demands for easier migration of professionals to their home markets². There are, however, contrary opinions within the government urging more proactive engagement by India in ongoing FTAs for their speedy conclusion, even if it entails ‘compromise’³.

Negotiating Non-Negotiables

India’s approach to negotiating FTAs has become characterized by its emphasis on apparent ‘non-negotiables’ that have made its posture overtly defensive and unproductive.

The RCEP negotiations are pertinent examples. Various negotiating partners within the RCEP want India to reduce tariffs in agriculture and dairy. Many RCEP members, such as Australia, Malaysia, Indonesia, Thailand and New Zealand have strong comparative advantages in export of agriculture (e.g. fruits, cereals, rice, oilseeds) and dairy products and want greater access in India’s large domestic market. Slashing import tariffs in these sectors is ‘non-negotiable’ for India given the political sensitivities attached to their opening-up. While most RCEP members know this, the lure of the large Indian market at a time when China is importing less from regional agricultural and dairy exporters, is compelling their negotiators to keep demanding greater access from India with no success.

India has established comparative advantages in service exports. A lot of these exports involve Indian professionals travelling overseas and working on-site in IT and software projects. Indian service providers are also filling up skill gaps in many advanced country labour markets where such gaps are prominent like in medical service, higher education, finance and human resources. These professionals have been major sources of inward remittances for India. As a result, India keeps demanding easy access for its professionals

² ‘Commerce Minister complains of ‘sledging’ in trade talks’, *The Hindu*, 2 May 2016; <http://www.thehindu.com/news/national/commerce-minister-nirmala-sitharaman-complains-of-sledging-in-fta-talks/article8544415.ece>

³ ‘India needs to seal FTA with EU even on compromise: NITI Aayog CEO Amitabh Kant’, *The Economic Times*, 29 April 2016; <http://economictimes.indiatimes.com/news/economy/foreign-trade/india-needs-to-seal-fta-with-eu-even-on-compromise-niti-aayog-ceo-amitabh-kant/articleshow/52040432.cms>

from negotiating partners as it is at the RCEP. But for many countries, granting access to foreign professionals is politically sensitive and ‘non-negotiable’.

Negotiations on ‘non-negotiable’s wouldn’t yield meaningful outcomes with both sides being inflexible. The situation is similar with the EU, where the latter’s demand for lower import duties on automobiles and auto components is being vociferously resisted by Indian industry forcing the government to stay firm on tariffs. The EU too is reluctant to allow easier entry to Indian professionals given the domestic demand for protecting local jobs.

RCEP, Tariffs and Obstruction

It is easy to figure out why many RCEP members consider India ‘obstructionist’. Despite having several members common with the Trans-Pacific Partnership (TPP) –Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam – the RCEP is a much less ambitious trade agreement and is not negotiating many complex ‘new generation’ trade issues (e.g. government procurement, state-owned enterprises, labour, environment) that the TPP has. But within its limited scope it is aiming to achieve greater market access than what is available to members through existing FTAs.

Eliminating tariffs among members is a major objective of the RCEP with removal of at least 95% tariffs being the general expectation⁴. This is not difficult for most RCEP members since their average tariffs are already less than 5%. India’s applied average tariffs are around 15%. Eliminating tariffs would mean much greater cuts for India than the rest. It would also mean India giving up much greater market access than what it can get. This makes tariff elimination a far more politically difficult prospect for India than other RCEP members and forces it to be defensive.

Leaving aside political sensitivities, from a policy perspective, eliminating tariffs is an easier decision than allowing entry to foreign professionals. Most RCEP members, particularly those with whom India does not have existing FTAs, such as Australia, China and New

⁴ Peter Drysdale, ‘Asia’s Next Growth Frontier’, *EastAsiaForum*, 1 May 2016; http://www.eastasiaforum.org/2016/05/01/asias-next-growth-frontier/?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter2016-05-02

Zealand, need to consult their provincial governments on immigration. Achieving a federal consensus on the subject is a tall order. But tariff cuts do not require provincial consultations. India, therefore, in the perspective of the rest of the RCEP, is defending a turf that is administratively easier to concede than what it is demanding. Even if some RCEP members are willing to allow easier access to Indian professionals, it will take them considerable time to obtain consensus and get prepare negotiating offers. With India refusing to budge on tariffs till that time, negotiations are bound to prolong.

Flexibility is the Need of the Hour

Making ‘non-negotiables’ fundamental to trade negotiations is an economically counterproductive approach and reflects the view that exports are good, but imports are bad. Trade is a two-way traffic and imports are essential for exports. India’s recent export stagnation clearly illustrates the causality⁵.

Negotiating FTAs is important not for making them contestable turfs on national comparative advantages, but for long-term economic benefits of participating economies. With RTAs and FTAs being considered the way forward on trade by almost all major economies, regressive negotiating strategies can isolate India from the rule-making space of world and regional trade. Opinions from within the government of India have expressed concerns on this⁶.

Trade negotiations must focus on trade-offs for greater economic benefits. Defending agricultural tariffs and prolonging talks at the RCEP and with EU are depriving Indian apparel, pharmaceuticals and jewellery exporters greater access to Asia-Pacific and European markets. Demanding more access for Indian professionals is complicating matters further at a time when immigration is a sore issue with developed country markets.

⁵ Amitendu Palit, ‘Falling Indian Exports: The Import Factor’, Financial Express, 2 May 2016; <http://www.financialexpress.com/article/fe-columnist/column-falling-indian-exports-the-import-factor/246514/>

⁶ ‘Preferential Trade Agreements’, *Economic Survey 2015-16*, Ministry of Finance, Government of India; Volume 1, Chapter 8, Page 129. <http://indiabudget.nic.in/es2015-16/echapvol1-08.pdf>

Greater flexibility, if not compromise, has to be the way forward. One possible option is greater bilateral discussions with key RCEP members. If the US and Japan can resolve huge outstanding differences on market access for facilitating the TPP, there is no reason why India cannot work out differences bilaterally with China, Australia, New Zealand and other key ASEAN members for concluding RCEP.

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