Revenue concessions to RCEP may touch ₹60k cr

Govt Points To Gaps In Asean Trade Pact, Fears Impact On 'Make In India' Initiative

Sidhartha@timesgroup.com

New Delhi:

Hidden in the Budget documents is a number that has gone virtually unnoticed — India's revenue foregone due to the trade agreement with Asean more than doubled to nearly Rs 26,000 crore in 2018-19 from the previous fiscal, as it allowed duty-free and lower duty import of more goods from the trading bloc.

Last fiscal's giveaway — which is as much as the Centre hopes to collect through the super-rich tax this year — may rise in the coming years as the current utilisation of the trade pact is only around 40% of its potential. But the bigger fear for policy makers, especially those in the finance ministry, is the revenue foregone due to the Regional Comprehensive Economic Partnership (RCEP) agreement that is currently under negotiation. With the talks gathering steam, the revenue department has raised the red flag, arguing that concessions could easily top Rs 30,000 crore a year once they kick in and will nearly double to Rs 60,000 crore after the agreement is fully in force.

Many, however, see it as a notional revenue loss since a large part of the trade would not take place in the absence of the free trade deal. Going by the experience of past agreements, India's imports from a trading partner have gone up at a faster pace than exports, with little gains accruing on the services front.

In contrast, India stands to gain little as import duty in some of the countries is much lower. World Bank data base estimated that in 2017, India's average duty was 5.2% (including agriculture goods), compared to 3.8% in China and 2.1% in Indonesia.

Besides, India's imports from the 15 countries added up to around $173 billion, while exports were of the order of $68 billion. "Low duty imports will have a massive impact on our manufacturing sector. We can virtually forget about the Make in India," said a revenue officer. It will not only result in trade creation, which will lead to domestic production being replaced by imports, but also see goods from other countries, such as the US, getting replaced by cheaper rivals from China and Vietnam, officials warned.

During a recent meeting with the Asean troika led by Indonesia, commerce and industry minister Piyush Goyal himself highlighted at least nine concerns with the India-Asean Comprehensive Economic Cooperation Agreement (CECA) that has been in place for close to a decade now, in a suggestion to ensure that RCEP does not suffer from such drawbacks.

Like RCEP, where the entire focus is on removal of tariffs, Asean too saw a massive import duty cut. But, Goyal pointed out that non-tariff barriers were preventing India's exports from entering several markets. For instance, in Japan and South Korea, steel exports meet barriers erected by local industry. Several officials have pointed out that there is a need to discuss ways to prevent non-tariff barriers from holding up exports.

Similarly, the government pointed out that the review mechanism needs to be robust as India's concerns on Asean CECA haven't been addressed since 2011, with the 10 countries putting the blame on each other. "If there are more countries, a review may be even tougher," said an officer.