RESEARCH REPORT

THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

FINANCE AND INVESTMENT CELL
SHRI RAM COLLEGE OF COMMERCE

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RCEP

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

The regional comprehensive economic partnership (RCEP) is an agreement between 10 countries of ASEAN and 5 countries with which ASEAN has free trade agreements. The member countries of RCEP together make up one third of the world GDP and 29% of the world population. Amidst a global pandemic that has led to poor global economic growth and has raised concerns about de-globalisation, this agreement will help sustain trade and also promote economic growth.

China will dominate the trade of Southeast-Asia and it also shows geo-politically that these countries are willing to have trade negotiations without the US. The purpose of this agreement is to create a relationship between the member countries which is modern, mutually beneficial, comprehensive and aids global economic growth.

THE BACKGROUND OF RCEP

The Association of Southeast Asian Nations (ASEAN) is an association of ten Asian countries to promote intergovernmental cooperation and facilitate economic, political, security, military, educational, and sociocultural integration among its members and other countries in Asia. The member countries of ASEAN include Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Currently it has six free trade agreements signed with the neighbouring countries. They are:

- **ACFTA (People's Republic of China)**
- **AKFTA (Republic of Korea)**
- **AJCEP (Japan)**
- **AIFTA (India)**
- **AANZFTA (Australia and New Zealand).**

THE BACKGROUND OF RCEP

These 16 countries came together and started the negotiations for RCEP. 16 Economic Ministers in August, 2012 endorsed the Guiding Principles and Objectives for Negotiating (RCEP). These were launched by Leaders from 10 ASEAN Member States and six ASEAN FTA partners during the 21st ASEAN Summit. The RCEP negotiations commenced in early 2013. The main objective of putting forth RCEP negotiations was to achieve a comprehensive, high-quality, modern and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA partners.

After several rounds of negotiation, on november 4th, 2019, India decided not to be a member country of RCEP. Even though India was an original partner in RCEP negotiations, it decided not to sign the deal as it would apparently increase the Chinese goods in India. So, on november 15th, 2020 all the 15 countries, except India, signed the RCEP deal virtually.

THE MAIN FEATURES OF THE AGREEMENT

- **Modern**: The agreement does not only focus on today but also tomorrow. It has carefully considered the emerging age of electronic commerce and also the importance and growth of MSMEs.
- **Comprehensive** : It has an extensive coverage and consists of 20 chapters. It has chapters on trade of goods, rules of origin, sanitary measures, etc. It also covers trade in services like that of professional and financial services.
- **High Quality**: It has covered aspects not part of ASEAN. It has recognised the different levels of economic development of each country and how to drive competition that will increase productivity, sustainability and employment.
- **Mutually beneficial**: RCEP has considered the difference in economies and even ease of doing business. It has made special provisions for Myanmar and Cambodia considering their development. RCEP recognises that its success depends on the common benefit of all member countries.

RCEP NEGOTIATIONS WERE GUIDED BY THE FOLLOWING PRINCIPLES

The RCEP will be consistent with the WTO, including GATT Article XXIV and GATS Article V

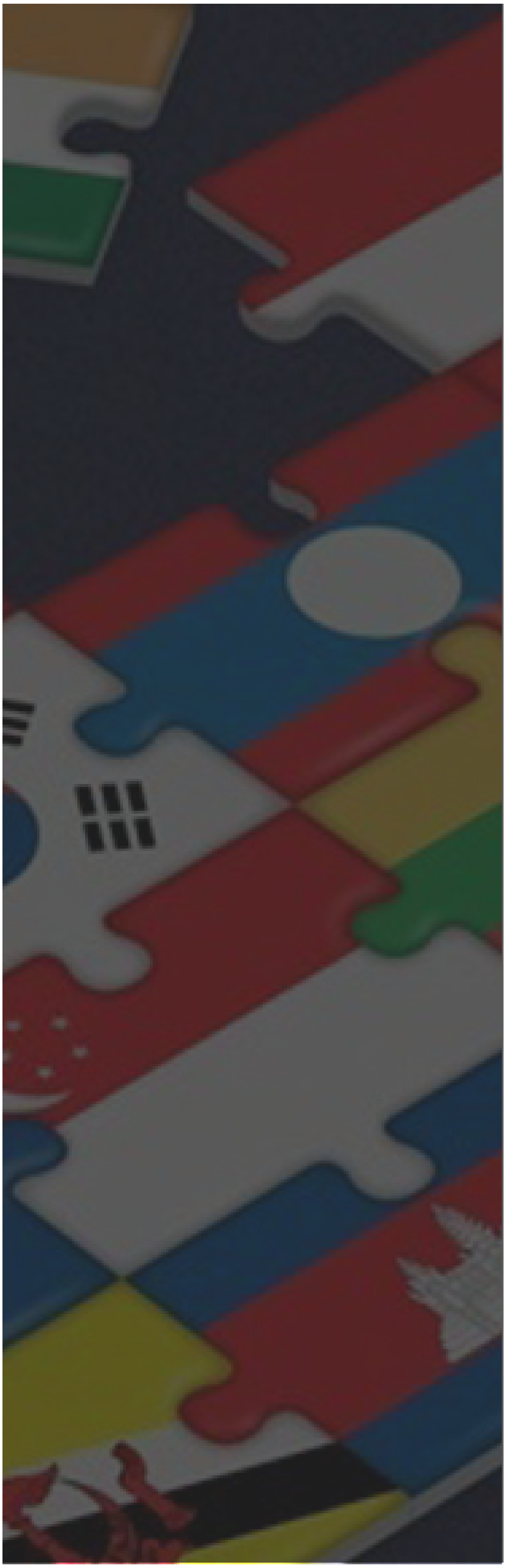
- The RCEP will have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries.
- The RCEP will include provisions to facilitate trade and investment and to enhance transparency in trade and investment relations between the participating countries, as well as to facilitate the participating countries' engagement in global and regional supply chains.
- Taking into consideration the different levels of development of the participating countries, RCEP will include appropriate forms of flexibility including provision for special and differential treatment plus, providing additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs, as applicable.
- The negotiations on trade in goods, trade in services, investment and other areas will be conducted in parallel to ensure a comprehensive and balanced outcome.

- The ASEAN+1 FTAs and the bilateral/plurilateral FTAs between and among participating countries will continue to exist and no provision in the RCEP agreement will detract from the terms and conditions in these bilateral/plurilateral FTAs between and among the participating countries.
- Any ASEAN FTA Partner that did not participate in the RCEP negotiations at the outset would be allowed to join the negotiations, subject to terms and conditions that would be agreed upon

The RCEP negotiations covered trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium enterprises (SMEs) and other issues. Let us discuss them in detail.

- with all the other participating countries. The RCEP agreement will also have an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations
- Provisions for technical assistance and capacity building may be made available, building upon the ASEAN+1 FTAs, to the developing and least-developed countries participating in the RCEP to enable all parties to fully participate in the negotiations, implement obligations under the RCEP and enjoy the benefits from the RCEP.

TRADE IN GOODS



RCEP will aim at progressively eliminating tariff and non-tariff barriers on substantially all trade in goods in order to establish a free trade area among the parties.

Tariff negotiations will be conducted on a comprehensive basis. Such negotiations should aim to achieve a high level of tariff liberalization, through building upon the existing liberalization levels between RCEP participating countries and through tariff elimination on a high percentage of both tariff lines and trade value. The scheduling of tariff commitments should seek to maximize the benefits of regional economic integration.
Priority will be given to early tariff elimination on products of interest to the least developed ASEAN Member States.

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TRADE IN SERVICES

RCEP will be comprehensive, of high quality and will substantially eliminate restrictions and/or discriminatory measures with respect to trade in services between the RCEP participating countries.

Rules and obligations on trade in services under the RCEP will be consistent with the General Agreement on Trade in Services (GATS) and will be directed towards achieving liberalization commitments building on the RCEP participating countries' commitments under the GATS and the ASEAN+1 FTAs. All sectors and modes of supply will be subject to negotiations.

INVESTMENT

RCEP will aim at creating a liberal, facilitative, and competitive investment environment in the region. Negotiations for investment under the RCEP will cover the four pillars of promotion, protection, facilitation and liberalization.

ECONOMIC AND TECHNICAL COOPERATION

Economic and technical cooperation under the RCEP will aim at narrowing development gaps among the parties and maximizing mutual benefits from the implementation of the RCEP agreement. The economic and technical cooperation provisions in the RCEP will build upon existing economic cooperation arrangements between ASEAN and ASEAN's FTA partners participating in the RCEP. Cooperation activities should include electronic commerce and other areas that would be mutually agreed upon by the RCEP participating countries.

INTELLECTUAL PROPERTY

RCEP will aim to reduce intellectual property (IP) related barriers to trade and investment by promoting economic integration and cooperation in the utilization, protection and enforcement of intellectual property rights.

COMPETITION

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Provisions on competition will form the basis for parties to cooperate in the promotion of competition, economic efficiency, consumer welfare and the curtailment of anti-competitive practices while being cognizant of the significant differences in the capacity and national regimes of RCEP participating countries in the area of competition.

DISPUTE SETTLEMENT

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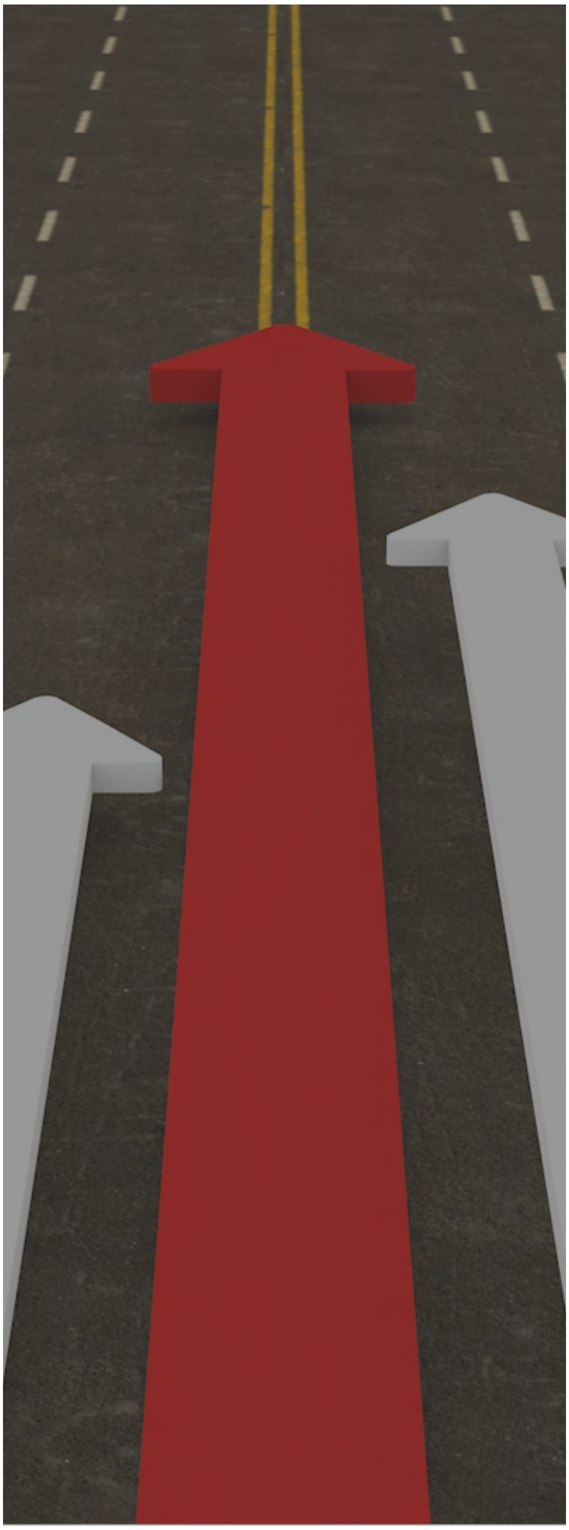
RCEP will include a dispute settlement mechanism that would provide an effective, efficient and transparent process for consultations and dispute resolution.



OTHER ISSUES

RCEP negotiations will consider including other issues covered by FTAs among RCEP participating countries, which may be identified and mutually agreed upon in the course of negotiations, and take into account new and emerging issues relevant to business realities.

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PROPOSED BENEFITS OF RCEP WHICH LED TO ITS FORMATION

According to the Peterson Institute of International Economics (PIIE), the RCEP may add around $186 billion to the world economy. China, Japan, Korea are expected to gain the most- $85 billion, $48 billion and $23 billion respectively. This is in terms of the income gains. However, the ASEAN countries like Malaysia, Thailand, Vietnam will be key beneficiaries in terms of national GDP.

From the point of view of individual sectors, the manufacturing industry, electronics and machines, in particular, will benefit the most. The members have committed to reduce tariffs to 0% in the next decade for upto 90% of their products. Although many members had other FTAs, there was no agreement linking China, Japan and Korea. This will strengthen the regional supply chain to a great extent by providing more tariff free zones.

Besides this, the agreement holds a promise for investments and service trade liberalisation. 7 member countries including Australia have ''negative lists'' which means that trade is allowed unless specified . While other countries including China have maintained a ''positive list'' which means that trade is restricted unless specified. China further promised to liberalise trade in finance, business and construction.

RCEP'S IMPACT ON MEMBER COUNTRIES

RCEP can bring large scale opportunities to the member countries as it is going to include 45% of the world population and one third of the global domestic product. It encompasses a trade area of 10 trillion dollars and accounts for about 26 percent of foreign direct investment. The agreement aims to lower tariffs on imported goods and lead to creation of additional trade. This will improve the access of goods to the member countries and lead to transparency in the trade and investment. It is also believed to provide better inclusion of ASEAN's small and medium enterprises.

SINGAPORE

The impact of RCEP on Singapore is not going to be visible in the short run. This is because Singapore already has additional free trade agreements with the non-ASEAN countries which include China, Japan, South Korea and New Zealand. Also, any significant reduction in the tariffs of important items of export will take place in a phased manner. Therefore, the impact on the volume of Singapore's trade will be visible only in the long run.

However, since Singapore has a free port status, every trade agreement that it signs allows more activity along its ports. Singapore's shipping ecosystem is estimated to benefit a lot. It is also predicted that Singapore's electronics sector will benefit too because of the protection that RCEP provides in case of intellectual property which protects Singapore as a high-end manufacturer.

THAILAND

The RCEP is projected to have a significant impact on Thailand and increase its exports tremendously. This is because Thailand’s exports amount to almost 70% of its gross domestic product. The integrated market and large supply chains will enable it to acquire cheap raw materials. The market will provide it with an increased number of sellers. This will further incentivise its exports and lead to higher profits.

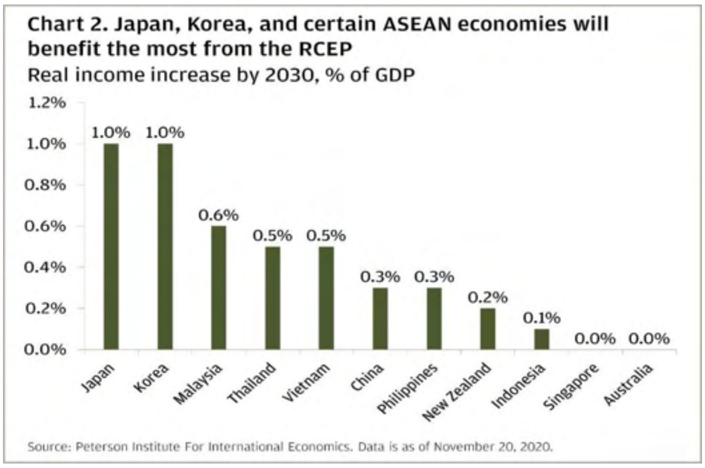
Although the USA is not part of RCEP, it is one of Thailand’s leading importers .The impact is going to be marginal on Thailand’s agricultural imports from the US. This is because prior to RCEP, most agricultural commodities like wheat and cotton were being imported without any duties. In addition to this, there is also going to be negligible impact on US consumer goods in Thailand as most of them are already being imported duty free from ASEAN members as well as the separate free trade agreements that Thailand has with Australia, New Zealand, Japan etc . However, since RCEP has promised to eliminate tariffs on fish and sea creatures, Thailand’s imports of fish from the USA is expected to decline. Again, this will happen only in the long run.

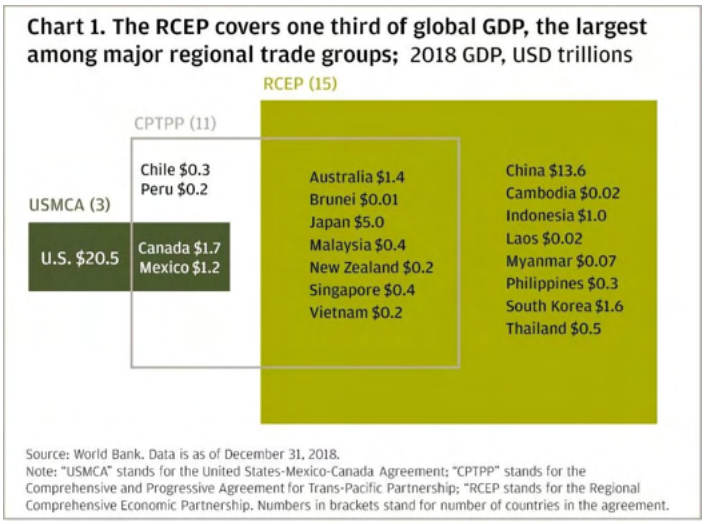
PHILIPPINES

The RCEP is projected to open the market for around 92% of Philippines products. It will provide a market for the export of services like IT programmers, teachers and even seafarers. The demand for services is seen to originate from Japan and South Korea. RCEP is expected to lead to many economic benefits for the Philippines. Opening up the markets is going to lead to a considerable amount of job creation in the next 10 years. The Philippines young entrepreneurs are going to get better infrastructure to innovate and invent and hence, it is seen as an opportunity for them to grow. The Philippines also expects its export competitiveness to increase especially in products such as garments, preserved food and even the automotive industry. Additionally, University of Asia and the Pacific Economist George N Manzano has said that in the current situation, countries that do not have much bargaining power need international trades for the COVID-19 vaccine. He believes that this agreement will aid the Philippines in the acquisition of the COVID-19 vaccine and further its distribution too.

MALAYSIA

Due to RCEP, Malaysia's GDP and trade openness is expected to increase by a great amount. Thus, by becoming a part of this trade agreement Malaysia can expect a significant growth in its economy as well as increased foreign investment. Further, the economic benefits that come due to the inverse relationship between exports and exchange rates will allow Malaysia to become much more competitive in the international markets. In the long run, Malaysia hopes that will help it reduce imports to a great extent, start local manufacturing and increase exports to make up for the trade deficit. Also, since a large percentage of Malaysia's trade is with RCEP members only, this agreement will provide the companies in telecommunications, banking and financial services with enhanced and improved co-operation. The agreement will also ensure Malaysian businesses get raw material at competitive prices yet maintain their quality.





ARGUMENTS FOR INDIA BEING A PART OF RCEP

When looked at objectively, RCEP is capable of creating multiple benefits for the entire trading bloc. It involves the formation of an ambitious pan Asia-Pacific supply chain, the provision of more cost effective substitutes, increased standards of living and the introduction of newer technology. It also gives a confidence boost to the investors about the safety of their investments, an increase in the real GDPs of the member countries and the development of more sophisticated and valuable end products.

RCEP is a step towards the creation of a value chain that will set the ball rolling for further trade between the member countries. Even though free trade may come at a cost to India, in the long run, there is a genuine possibility that Indian producers will be left behind if they aren't a part of the deal. It establishes several provisions which are simpler than the existing FTAs between the countries. Therefore, producers will be incentivised to look for suppliers and customers located in the trade region itself due to the predictability and ease of doing business. When supply chains are established, realistically, businesses have a tendency to take advantage of the set up already in place. Not being a part of these changes will come at a great opportunity cost for the Indian producers as they will find it difficult to collaborate and integrate themselves within the trade community in future. Also, the stronger economies will be finding opportunities to further their exports while also increasing their imports to increase their overall consumption. Thus, the trade deficit at present will be further exacerbated even if the increase in imports is blocked.

Considering that imports are supposed to benefit the consumers of a country, India's move of opting out of the agreement will prove to be disadvantageous for them as they will not have access to quality products at a cheaper rate. Imports lead to competition among the producers and India's defensive approach towards imports will decrease the intensity of competitiveness among the local producers. Such a situation might lead to a sense of laxity among the producers and the non-urgency of innovation will ultimately hamper productivity. This implication also highlights the problem India is going to face in the long run by not being a part of RCEP. India's refusal also means that China has relatively more trade relations, which has paved the way for China to continue its monopoly when it comes to Asian countries.

After the New Economic Policy of 1991, a lot of businesses got the opportunity to integrate new technologies, got exposed to new business practises and reached out to new customer bases.

It's fair to ask, therefore, whether giving Indian producers further time will lead to growth. The lack of growth that ails Indian industries is mainly due to insufficient government support and not because of the presence of increased competition. Thus, it may not be beneficial to hamper long term development for unclear objectives of the present.

A large number of industries are already dependent on the imports from China for production because no other country can compete with it in terms of the scale and cost of production. It is without benefit, therefore, to keep on trying to develop in already mature areas when the competition does not stop improving. It is better to take advantage of the changing circumstances and look for areas of possible improvement. The scope already exists for the knowledge work and services outsourcing. At the same time, the import of crucial raw materials in the pharmaceuticals, telecom, chemical, electronic and hospitality industries will allow greater downstream growth providing the opportunity to generate value by creating better end products. The focus should be on reducing the import of finished goods by developing the ability to satisfy international demand. The outlook needs to change from import pessimism to positive export optimism.

RCEP is expected to benefit its members while the same can not be said about non-members. It is being expected that this agreement might increase the GDP of the trading bloc as a whole by 0.4%, a 0.3% increase in the case of China, and 0.2% for ASEAN countries. India's agreements with technologically advanced countries like Japan, Australia and New Zealand would have boosted the telecommunication services and agriculture industry in the country. Taking into account the current stage at which India is, the pharmaceutical, cotton yarn and services industry would have gotten a huge push, resulting in substantial gains due to the greater availability of essential raw materials. RCEP will provide a great boost to this trend by promoting the reduction in tariffs and new innovation that increases the utility of local products.
It can be seen how, a world order facilitating free trade and near perfect mobilisation of labour capital may lead to common prosperity.

ARGUMENTS AGAINST INDIA BEING A PART OF RCEP

After many years of negotiations, India decided to leave the Regional Comprehensive Economic Partnership (RCEP). The country's decision to not join the accord can be seen from the impact this partnership would have had on its sectors, namely primary (agricultural), secondary (manufacturing) and tertiary (services) industry.

One of the main reasons behind India's decision was the fact that the country's current trade surplus in agri and allied products, textiles and gems and jewellery would have been completely wiped out had it joined the trade agreement.

India is primarily an agrarian country and is self-sufficient in all agricultural products except edible oils and pulses, which need to be imported.
The RCEP proposed to do away with tariffs which would be detrimental to the dairy industry as it would raise the threat of dumping of dairy products from New Zealand and Australia which in turn would affect the livelihood of Indian farmers. The partnership would have had a direct impact on the livelihood of Indian farmers as, in general, Indian farmers have one or two cattle and limited resources. According to the data used for PM Kisan Samman Nidhi, there are 10 crore small and marginal farmers in India. A majority of these farmers raise cattle to supplement their meagre income from farming which is dependent on monsoons as dairy products help them stabilise their earnings.

As opposed to this, for the dairy farmers in New Zealand and Australia, it is a matter of commercialization. Both countries produce multiple times the dairy requirements of their respective countries, therefore they are in search of avenues to expand their reach and sell to international markets. India being a country with a large population would serve their purpose, but this would adversely affect the state of Indian farmers.
Similarly, experts also felt that the inclusion of RCEP may lead to the dumping of Malaysian palm oil in India.

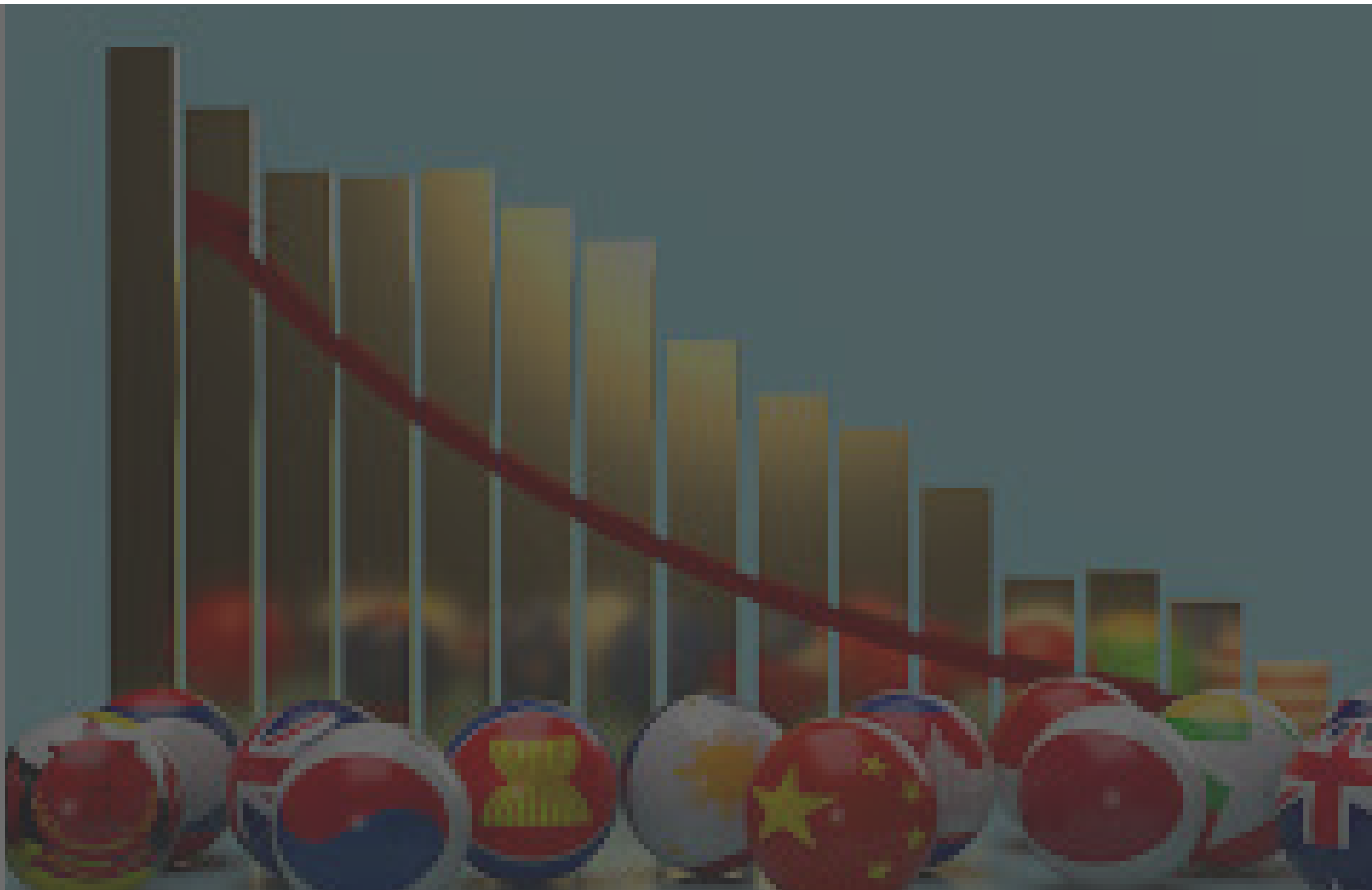
The main cause of concern for Indian dairy farmers was their inability to match up with the cheap imports and products that would have been brought in by their foreign counterparts.

India has always followed a protectionist policy with regards to its primary sector as the country is predominantly filled with small and marginal farmers that undertake farming for subsistence rather than for commercial purposes which makes it difficult with them to compete with other countries. While comparing RCEP with other foreign trade agreements India had signed previously, namely Korea in 2009 and Japan in 2011, the trade deficit with these countries increased after the FTA and Indian exports did not see commensurate benefits.

Similarly, in case of wheat, Australia, which is the 16th largest exporter of agricultural products, has exported wheat to India. Wheat is the 2nd most important staple in India which provides for nearly 50% of the calorie and protein requirement of the majority of the Indian population. Its production provides income and employment to nearly 6.7 crore people. Increased import of wheat from countries like Australia which can provide it at cheap rates would only pose a threat to the economy.

In RCEP, the trade agenda would have only benefitted large corporations and not the individual farmers who consist of the majority of the population.

Since RCEP has not been introduced in India, examples from past trade agreements showcase the detrimental effects such trade agreements have had on farmers and the Indian agricultural sector at large.



INDIA-SRI LANKA FTA

This foreign trade policy had a huge impact on farmers.
One of the sectors affected was the spice industry, pepper in particular. Under its Tariff Liberalization Program, it was possible for Sri Lanka to export spices like pepper to India (originally from Vietnam) which led to the fall in pepper prices from Rs.720 per kg in 1999 to Rs. 330 in a couple of years, thereby negatively affecting the spice farmers.

Even tea plantations were affected. Before the agreement, the price in India for its raw green tea leaf was Rs.16 per kg which dropped to Rs.6 per kg in 2004 due to the agreement. This adversely affected the sentiments of tea plantation workers and owners as it subsequently led to lower wages, profits, etc. due to the intense foreign competition.

ASEAN-INDIA FTA

ASEAN – INDIA FTA

This policy majorly affected the edible oil industry in India. Due to this agreement, in Kerala, which is the largest coconut producing state in India, coconut production was halved to 300 crore nuts in 2016-17 from 600 crore nuts in 1999-2000. Most villages had an edible oil extraction unit which had to be shut down due to increased imports which in turn led to 0.5 million people losing their jobs.

This policy also had its bearings on the rubber industry in India. Before this FTA was brought into place, India was self-sufficient in rubber production; however, after the agreement rubber imports increased. The imports almost doubled between 2013 and 2015 from 2.6 lakh metric tonnes to 4.4 lakh metric tonnes. This further affected the domestic industry.

From the above examples, it can be seen that implementing RCEP would have a direct bearing on the prices of commodities sold in the agricultural sector. As this sector primarily consists of small and marginal farmers, they would not be able to compete with the cheap imports that this policy would bring in, thereby putting their livelihood in danger. The only beneficiary from this agreement would be the large corporate houses in India which can afford to survive even with the implementation of RCEP. Therefore, as the agricultural sector is not in a position to compete with cheap imports from other countries, it was wise on the part of the Government to leave the RCEP.

One of the main reasons why India chose to leave RCEP was also the adverse impact the agreement would have had on India's domestic manufacturing. The manufacturing sector contributed 27.5% to India's GDP in 2019. The Government has been proactive in increasing domestic production through various initiatives like 'Make in India' and 'Atma Nirbhar Bharat' and providing the producers many Production Linked Incentives (PLI). Becoming a part of the RCEP might well have become a very big hindrance for India in her pursuit of achieving the aim of a 5 trillion-dollar economy.

India currently has 14 Free Trade Agreements in force. These agreements are ideally supposed to help India increase its exports so that net exports (a component of aggregate demand/ GDP) increase which is equivalent to economic growth. But according to a report published by the NITI Aayog in 2017, imports from these FTA partners into India increased more than India's exports to partner countries post signing of FTAs. Thus, India has a trade deficit with 11 members of the RCEP.

INDIA-JAPAN FTA

INDIA- JAPAN FTA

India's Comprehensive Economic Partnership Agreement (CEPA) with Japan came into effect in 2011. The agreement provided for a tariff reduction on 90 percent of goods traded between the two countries. In the years following the signing of the trade agreement, imports from Japan have risen faster than exports of India. Out of India's export basket to Japan, 12 items (at the 2-digit HS code level) have a value of more than US$ 100 million; for Japan's exports to India, there are 18 such products. The main exports from India are petroleum products, chemicals, jewellery, marine products, and textiles. Meanwhile, the main exports from Japan to India are machinery, plastic, transport equipment like motor vehicles and ships, iron & steel products, electrical machinery, manufactures of metals, coal and briquettes, and optical instruments.

One important point of analysis would be to look at the sectors that comprise India's strengths, but do not figure in its top exports to Japan. One such sector is pharmaceutical products. Incidentally, this sector figures in the top ten imports of Japan. India's exports of pharmaceutical products to Japan was valued at US$ 61 million in 2018. Another important task for India in order to address its rising deficit with Japan, is to identify domestic supply constraints that are affecting the export potential.

For example, certain sectors had a zero Most Favoured Nation (MFN) status and thus the CEPA did not have a tariff reduction benefit. However, domestic factors played a role. This includes the iron ores exports (that features in the top 12 exports to Japan from India) that was affected by export limits imposed by the Supreme Court, and the other is soybean meal export that could not compete with lower international prices. In view of its expanding trade deficit with Japan, India may also need to compensate in other areas such as investment. After all, India has been ranked as one of the top investment destinations for Japanese companies. Overall, India's current share in Japan's total FDI remains small. The total investments from Japan from 2000 to June 2019 has been around US$ 32 billion (Japan ranks third among the major investors in India.) Japanese FDI into India has mainly been in the automobile, electrical equipment, telecommunications, chemical, financial (insurance), and pharmaceutical sectors. In 2014, India initiated a Japan Plus programme under which Japan offered to invest 3.5 trillion yen (US$ 33.5 billion) in India by way of public and private investment and financing over the subsequent five years. It is beyond the scope of this brief to scrutinise these investments, but it argues that India should address the key hurdles that are faced by Japanese investors.

INDIA-SOUTH KOREA FTA

INDIA- SOUTH KOREA FTA

India's Comprehensive Economic Partnership Agreement (CEPA) with the Republic of Korea (ROK, or South Korea) came into effect in 2010, covering trade in goods and services, investment, competition, and intellectual property rights (IPRs). The tariff reductions were divided into six different categories. The tariff reduction for ROK took place at the 8-digit HS Code level, and for India, at the 10-digit level. Further, it is noteworthy that tariff reductions were deeper for India as it has higher tariff rates as compared to South Korea, to begin with. India, however, has a number of items under the exclusion list.

Further, the average annual growth rate of exports from South Korea between 2010 and 2018 has been at 39 percent, whereas that of exports from India has been at four percent. After the initial increase in exports, the value of exports declined continually, albeit slightly recovering in 2018.

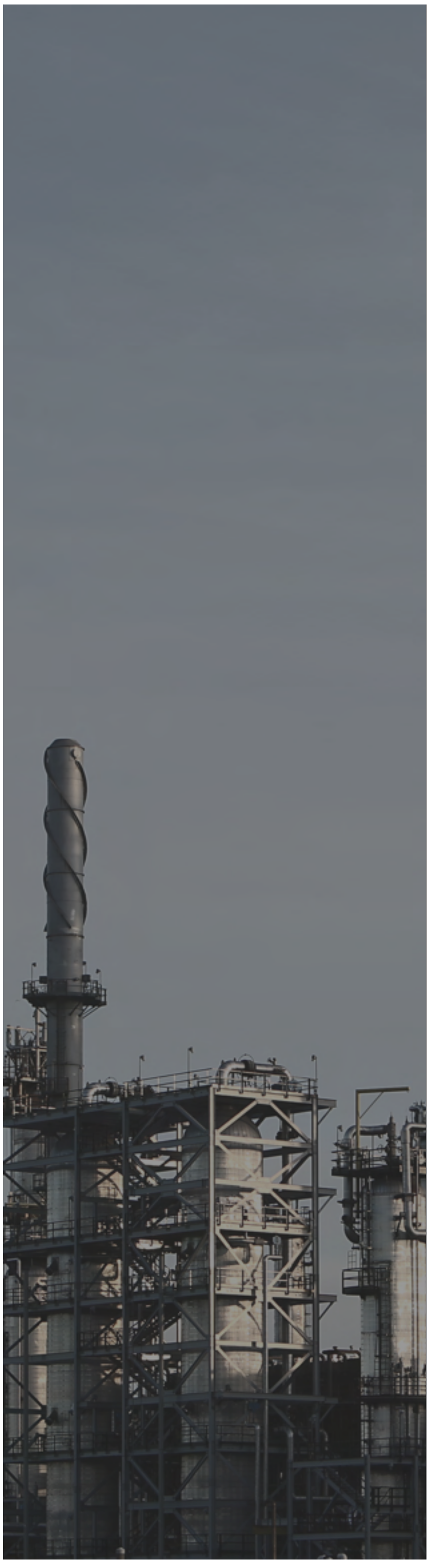
The export value increased to US$ 7.9 billion in 2011 but thereafter declined, dropping to US$ 4.2 billion in 2016. The trade deficit in favour of ROK reached US$ 10.5 billion in 2018. The growth rate of exports from India, and the composition of the export markets, have been a few factors that have led to an increase in the trade deficit. Overall, the utilisation rate for exporters, as per ROK data, has been 67 percent in 2014. It is amongst the lowest utilisation rates amongst all the FTAs signed by Korea. Unfortunately, as also in the case of Japan, India does not maintain any data on utilisation rates. Such a database would help identify the sector-specific reasons for low utilisation and more targeted action can be taken to improve the utilisation rates.

MANUFACTURING SECTOR

India has a free trade agreement with all ASEAN countries, Japan and South Korea and is negotiating agreements with Australia and New Zealand. That only leaves one member of RCEP with whom India does not have an FTA – China. Among all the member countries of RCEP, China has the highest manufacturing capacity and if India reduces tariff on the goods being imported from China, it will flood the Indian markets. Considering the stance of the United States against China, Chinese exports to the US fell by around 50 billion dollars in 2019.

China is looking for other demand avenues for its exports and Indian consumers, who are very price sensitive, will prefer buying Chinese products and this will further disincentivise the Indian manufacturers.

The steel industry in India raised concerns over India signing the RCEP as China being the largest producer of steel will be able to export steel at lower rates thereby affecting the prices and margins of domestic manufacturers. The solar PV and cell manufacturing industry in India has about 100 companies that fear getting wiped out because of the economies of scale and subsidies that their Chinese counterparts receive.



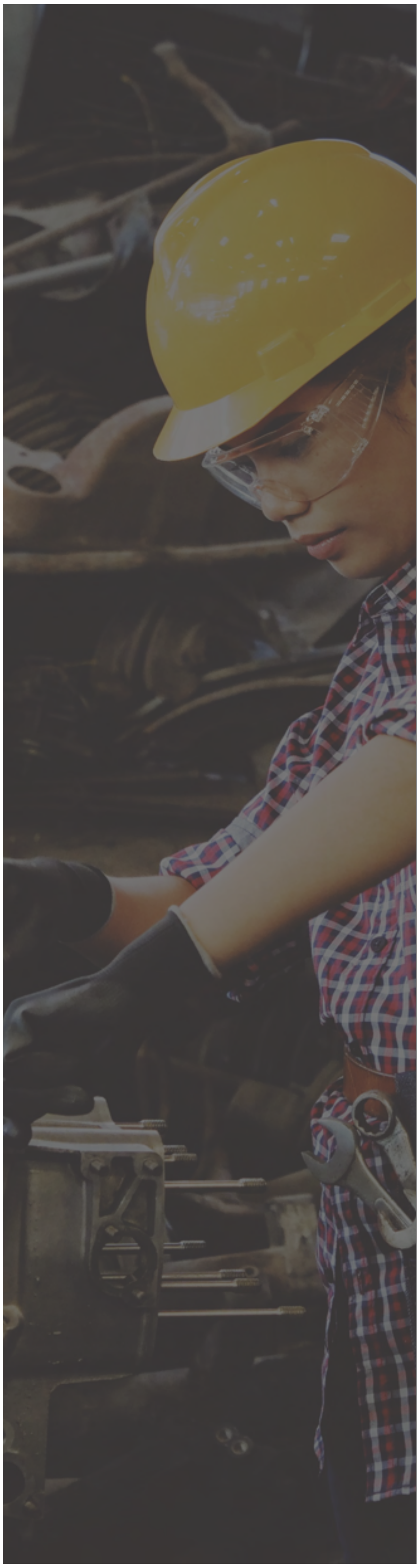
To protect its domestic manufacturing, India had proposed two major safeguards:

1. **Auto-Trigger Mechanism:** This means that if India's imports for a particular commodity crossed a particular mark, the auto trigger of safeguard duties on imports will be initiated.

2. **Rules of Origin:** Let's say that China has reached its maximum limit of importing steel to India and the duties as per the auto trigger mechanism has been increased. But China can still send steel into India at lower rates by routing it via some other RCEP country. This can be the case with any other country which is not a part of RCEP. They may make use of the lower duty of exporting products to India from the RCEP countries.

The member countries did not agree to these proposals as that would not enable them to access the Indian markets in its entirety. India's trade deficit with the RCEP has increased from 9 billion dollars in 2005 to 83 billion dollars in 2017 and China alone accounts for 60% of this deficit. FTA's do create Global Value Chains and make raw materials available at cheaper rates but these benefits can only be availed depending upon a country's existing level of industrial and technological capabilities. India certainly has been an economy dominated by the service sector but as the Government is initiating projects to develop infrastructure and boost production, cheaper imports will only have a negative effect on the manufacturing sector.

As a country with one of the highest average tariff rates on all imports among RCEP members, India would be among those making the largest cuts to get tariffs to zero. It also wasn't clear whether the benefits of the deal would make up for that cost: according to a report by NITI Aayog, an Indian government think tank, purchases of Indian exports have been more linked to changes in income in other countries than to changes in the prices of goods themselves resulting from trade concessions.



On their own, tariff reductions by RCEP member countries were not necessarily likely to significantly boost imports of Indian goods around the region. China has already covered most markets united under the RCEP umbrella. The same report pointed out that China has changed the trade equation with the ASEAN countries after inking ACFTA - standing for ASEAN-China free trade agreement - in 2010.

Many of these RCEP countries are also resisting India's offer on export of services. They want India to accept provisions on domestic regulations in services. The free movement of investments will benefit investors in the US, Singapore, Japan and China, but very few Indians will be taking advantage of this.New Delhi is also worried that the RCEP will open backdoor negotiations and may lead to the country losing out on Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreements. China’s ambitious plan to become the next economic superpower was visible from the pressure it was putting on member countries to conclude the RCEP at the earliest. Without any trade agreement, India’s trade with China is already very skewed due to the presence of a robust manufacturing capacity in most of the sectors. Out of India’s total trade deficit, half of it is with China.

As a result, India, without first solving the outstanding domestic concerns and enhancing infrastructure facilities, did not want China to invade the domestic markets. China’s success would have implied a worsening of India’s existing trade deficit. Finally, hollow provisions related to trade in services, where India has a comparative advantage, as opposed to the manufacturing sector and pressure from the interest groups in the steel and agricultural sectors steered the Indian government to opt out of the RCEP.

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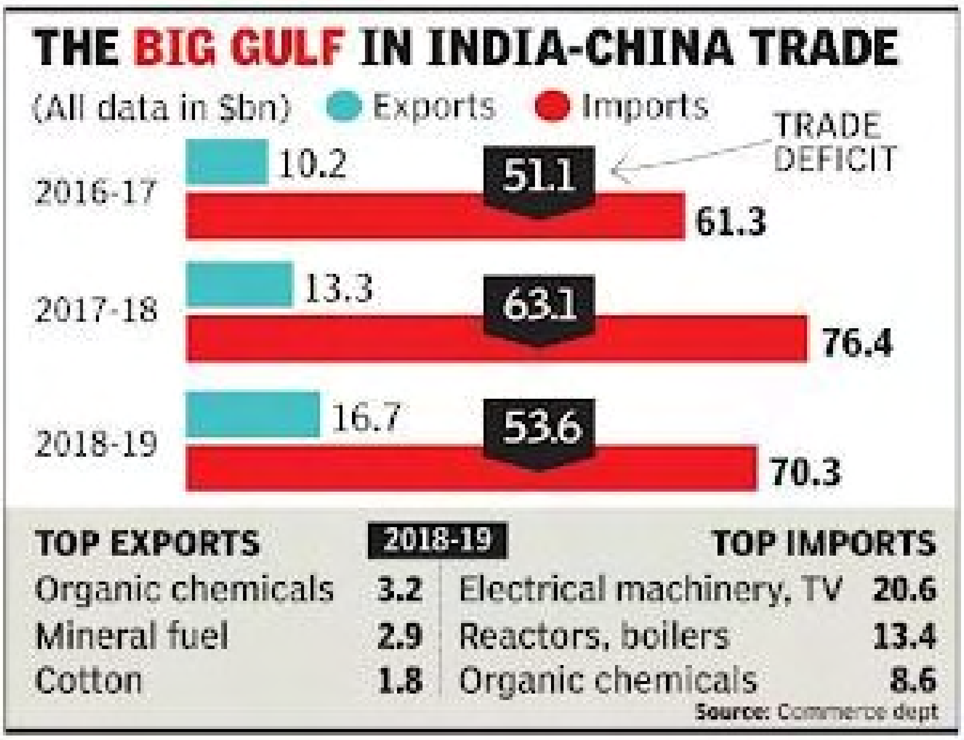
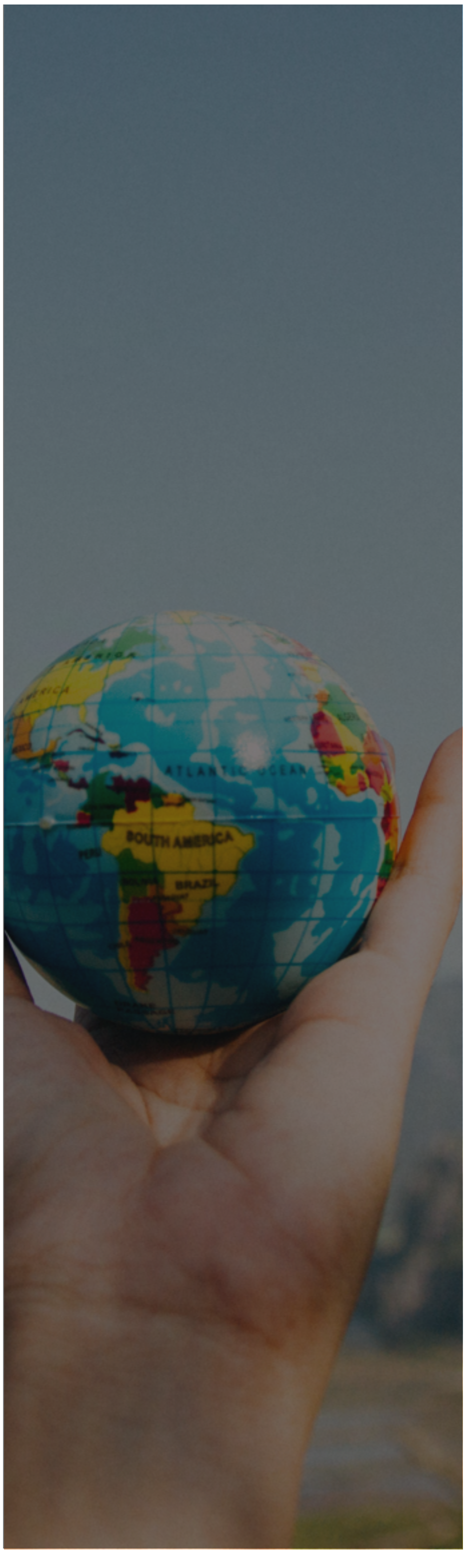

THE BIG GULF IN INDIA-CHINA TRADE
(All data in $bn) Exports Imports
TRADE DEFICIT
2016-17
10.2
51.1
61.3
2017-18
13.3
63.1
76.4
2018-19
16.7
53.6
70.3
TOP EXPORTS
2018-19
TOP IMPORTS
Organic chemicals 3.2
Mineral fuel 2.9
Cotton 1.8
Electrical machinery, TV 20.6
Reactors, boilers 13.4
Organic chemicals 8.6
Source: Commerce dept

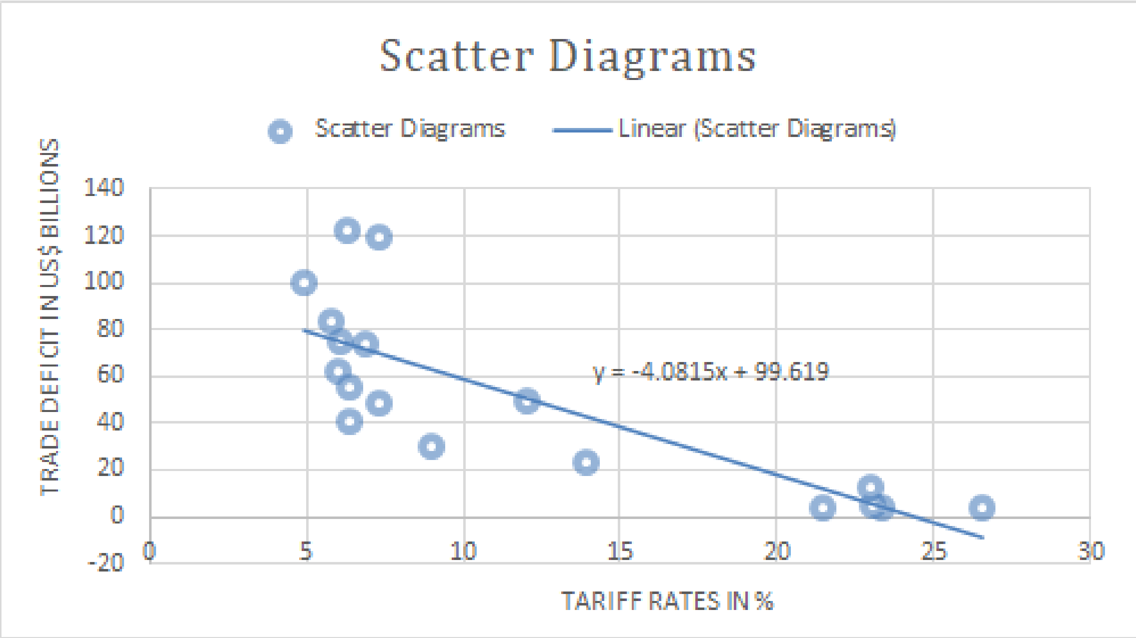
REGRESSION ANALYSIS

The purpose of Free Trade Agreements (FTAs) is to aid trade across borders and ideally should help a country increase its exports. They have clauses which reduce paperwork and red tapism thus, facilitating easier trade. But a major aspect of any FTA is the reduction of tariffs. Herein, we study the impact of tariffs on the trade deficit of India to conclude whether India took the correct decision by opting out of RCEP.

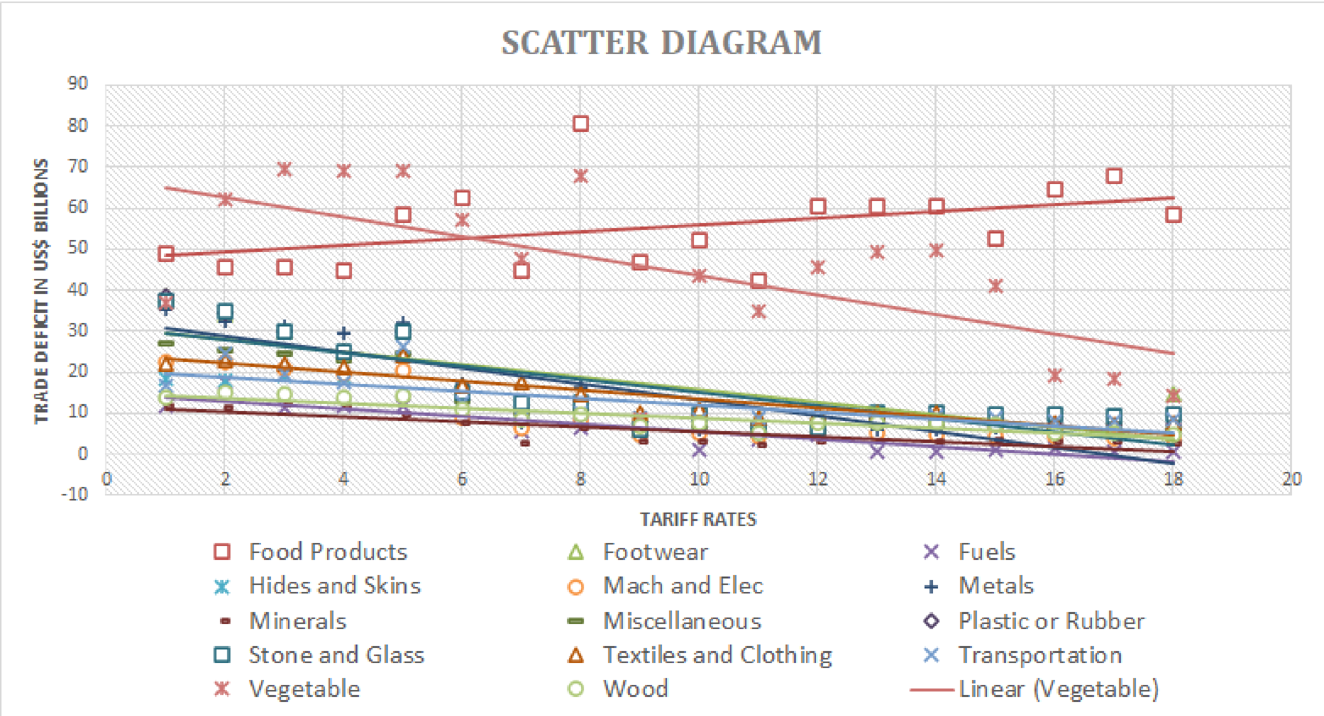
India had signed its first FTA with Sri Lanka in 2000 and since then, India has become a part of 14 such agreements.
In the Scatter Diagram below, the tariff rates in % (independent variable) for different product industries have been plotted along the horizontal axis and the trade deficit of India in $US Billions (dependent variable) is plotted along the vertical axis. The tariff and trade deficit data taken is for the years 2000 to 2018, excluding 2014 due to a lack of availability of data.

Several assumptions have been made in this analysis. The tariff data has been taken only for the imports by India. Weighted average tariffs have been calculated in the original source by assigning weights on the basis of the individual tariff product's share in the total imports. Weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups and import weights.





Years	Trade Deficit in US$ Billions	Tariff rates in%
2000	4.25	23.36
2001	4.25	26.51
2002	5.05	23.08
2003	4.23	21.45
2004	12.66	22.96
2005	22.9	13.9
2006	29.98	8.99
2007	49.73	11.99
2008	62.02	5.98
2009	73.43	6.84
2010	74.62	6.1
2011	119.28	7.33
2012	122.91	6.32
2013	55.38	6.34
2015	48.31	7.32
2016	40.53	6.35
2017	83.76	5.78
2018	100.38	4.88


SCATTER DIAGRAM
TRADE DEFICIT IN US$ BILLIONS
90
80
70
60
50
40
30
20
10
0
-10
0
2
4
6
8
10
12
14
16
18
20
TARIFF RATES
Food Products
Footwear
Fuels
Hides and Skins
Mach and Elec
Metals
Minerals
Miscellaneous
Plastic or Rubber
Stone and Glass
Textiles and Clothing
Transportation
Vegetable
Wood
Linear (Vegetable)

FUTURE PROSPECTS

2020 has been a tumultuous year for the export-oriented economies of the Asia-Pacific region. With escalating tensions in US-China trade relations, wildfires in Australia, floods in the Philippines and Vietnam, unstable governments in Japan and Myanmar, and finally the Covid-19 pandemic which has prompted lockdowns and travel restrictions across the world have pushed the already ailing economies of the region into recessions. In this background, the Regional Comprehensive Economic Partnership (RCEP) comprising 15 countries which together account for almost a third of the world's gross domestic product and population, attempts to reduce existing tariff and non-tariff barriers to trade and providing member countries with greater access to each other's markets.

RCEP has set out an ambitious aim "to establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership that will facilitate the expansion of regional trade and investment and contribute to global economic growth and development". The partnership is expected to provide a big incentive to regional trade and income growth over time. The Peterson Institute of International Economics (PIIE) estimates that RCEP will append $186 billion to the world economy and the global income benefits of RCEP will more than compensate for the losses of the US-China trade restrictions. Compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the absolute gains of RCEP will be almost twice that of CPTPP. Albeit, RCEP's 80 per cent reduction in tariffs seems to disappoint as compared to CPTPP's 100 percent relaxation. Still, the economic benefits of RCEP are clearly more noticeable and outweigh those of the CPTPP. While ASEAN already has free trade agreements(FTAs) with China and Japan, there are no such agreements between China and Japan. Thus, by bringing these countries together, RCEP not only extends the reach of the existing FTAs but also gives a big boost to the regional manufacturing supply chain.

The benefits of RCEP for a developing country like India are self-evident. Which is why India's refusal to join Acta Non Verba seems bold. But, there are legitimate concerns among Indian experts and economists over the agreement. While RCEP might augment the size of the existing economic pie, the distribution of the gains of the pie is not expected to be equal. The stronger signatories especially China, Japan, Korea and Singapore might eat away a significant chunk of the gains.

Karthik Nachiappan, a research fellow at the Institute of South Asian Studies, National University of Singapore points out how the agreement might negatively impact India's agriculture and electronics industry. Most notably he writes, "In terms of agriculture, firms producing commodities like dairy, pepper, coconuts and cardamom will face pressures from both high-end producers like Australia and New Zealand, and also like-minded competitors in ASEAN, which is the case for Indian rubber". Also, even the existing FTAs with Korea, Japan, and ASEAN trade deficit between India and these countries has only been widening, thus limiting the benefits that India has derived from signing any FTAs.

Another reason why India opted out is that it is feared there would be a surge in imports from China for which India might not have adequate protection.

It is said that India's decision to opt-out might have been influenced by industry lobbying which preferred protectionism. Even during the negotiations, India seems to have focused on the harm that the producers might face and not the potential gain to the consumers. In order to effectively combat the current declining economic growth and GDP shrinkage, a decision of staying out of the world's largest trade-block should ideally be temporary. Moreover, just like the LPG policies of the 1990s, there is a desperate need for drastic economic reforms to make existing industries more competitive, export-oriented and capable of reaching a global standard.

CONCLUSION

The pandemic being the east wind that blew over the world has brought about a paradigm shift in how countries perceive the impermeability of their boundaries. It has brought the world to a crossroads of major structural reforms in the field of trade and liberalisation. This lends India the opportunity to not only make historic trade reforms and secure its position as a major economic power but also to make its industries strong enough to survive the cutthroat competition in international markets.

But India clearly isn't prepared for a trade deal like RCEP at present. India's manufacturing sectors aren't established enough to take advantage of the trade deal and increase their exports like that of some other members of the RCEP. FTAs, while beneficial, must be entered into on India's own terms. They should provide mutual benefits keeping in mind the impact they will have on the poorest of the poor. It has been made sufficiently clear that RCEP may prove to be in the interest of each member considering their individual circumstances.

Still, critically evaluating the propositions in the Indian context, it is highly possible that India will only end up being a large market for international products while being dealt a massive blow to its own indigenous industries. One must not forget that the economic models built to elaborate real life world phenomenon work on assumptions and constants while the real world is ever changing. Same is the case with models that are built to praise free trade. They fail to take into account the fact that, in reality, labour and capital markets are not perfectly mobile. Economies of scale, non-trade barriers, subsidies, etc. end up accruing advantages to the stronger economies which end up monopolising the advantages from such trade expansion.
Some 8-10 years down the line, if India is successful in establishing quality infrastructure that aids the growth of industries, India can really benefit by joining RCEP. Till then, becoming 'Vocal for Local' and developing an 'Atma Nirbhar Bharat' should be the way to go.

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