RCEP and India

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Manifest pedagogy

RCEP and other regional groupings are important to leverage India's concern under globalisation 4.0, protectionism, trade wars and India's belief in multilateralism. Groupings and its membership, structure, roles and importance are both important for prelims and mains

In news

Recently 13 countries have opposed India's proposal for strict criteria to determine the source country of a product in the 16-national Regional Comprehensive Economic Partnership (RCEP) trade pact.

Placing it in syllabus

- India and regional groupings (not explicitly mentioned)

Static dimensions

- RCEP
- Trans Pacific Partnership (TPP)
- Trade facilitation in WTO
- Economic integration

Current dimensions

- India and ASEAN
- India- ASEAN-RCEP relations

Content

Led by China and excluding the United States, the sprawling RECP is poised to become the biggest global trade deal, linking half the world's people and expected to cover about a quarter of the world's exports

RCEP

RCEP is a proposed **regional economic integration agreement** among the **10 ASEAN countries** and its six free-trade agreement partners—**Australia, New Zealand, Japan, China, South Korea and India**. These six members have FTAs with the ASEAN currently. If it materialises, the combined geo-political resources would make it the most important economic grouping of the world. The idea of RCEP negotiations was discussed during the **East Asian Summit** in Phnom Penh (Cambodia) in November 2012. This will help in furthering the aims and objectives of India's own Look-East Policy. Its aim is to break down trade barriers and promote investment to help emerging economies catch up with the rest of the world.

Recently 13 countries including Australia, Japan and New Zealand have opposed India's proposal for strict criteria to determine the source country of a product, based on which they get tariff concessions or duties in the RCEP trade pact. The ASEAN bloc too has opposed India's proposal. India wants strict rules of origin to prevent Chinese goods from flooding the country through member countries that may have lower or no duty levels. Chinese garments are making their way into India through the duty-free route under the South Asia Free Trade Pact and the Duty-Free, Quota-Free window from Bangladesh.

Strict origin norms are crucial for India, which had a trade deficit with 11 RCEP members including China, South Korea and Australia in 2018-19. The gap with China alone was $53.6 billion. India's aluminium and copper industries are worried about China's presence in the grouping and anticipate widening of the trade deficit due to an "alarming" spike in imports and a potential threat to the Make in India initiative.

Australia and New Zealand are pushing for so-called high quality rules around labour and environmental protections. Strengthening intellectual property terms is another issue with RCEP.

Trans-Pacific Partnership (TPP)

It is a defunct proposed trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States signed on 4 February 2016, which was not ratified. After the United States withdrew its signature, saying it funnelled off US jobs, the agreement could not enter into force. The remaining nations negotiated a new trade agreement called **Comprehensive and Progressive Agreement for Trans-Pacific Partnership,** which incorporates most of the provisions of the TPP and which entered into force on 30 December 2018

Trade facilitation in WTO

Trade facilitation is an agreement signed under WTO’s Bali Ministerial Conference in 2013. The agreement aims to simplify and speed up customs procedure by member countries for enhancing trade, reducing costs and improving their speed and efficiency. It will be a legally binding agreement and entered into force on 22 February 2017. It is the first major new agreement reached by the member countries after the establishment of the WTO in 1995. The text of the TFA was adopted by WTO Members at the 9th Ministerial Conference in Bali, 2013.

The objectives of Trade Facilitation Agreement are to speed up customs procedures, make trade easier, faster and cheaper; provide clarity, efficiency and transparency, reduce bureaucracy and corruption, and use technological advances. It also has provisions on goods in transit, an issue particularly of interest to landlocked countries seeking to trade through ports in neighbouring countries. Part of the deal involves assistance for developing and least developed countries to update their infrastructure, train customs officials, or for any other cost associated with implementing the agreement.

It will give a benefit between $ 400 billion and $1 trillion to the world economy by reducing costs of trade by between 10% and 15%. Increased trade flows, revenue collection, stable business environment and enhanced foreign investment etc…are the other benefits of the TFA.

Economic integration

These differ in the degree of unification of economic policies, with the highest one being the completed economic integration of the states, which would most likely involve political integration as well.

A “preferential trade area” (also preferential trade agreement, PTA) is a trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. A PTA can be established through a trade pact. It is the first stage of economic integration.

A “free trade area” (FTA) is formed when at least two states partially or fully abolish custom tariffs on their inner border. To exclude regional exploitation of zero tariffs within the FTA there is a rule of certificate of origin for the goods originating from the territory of a member state of an FTA.

A “customs union” introduces unified tariffs on the exterior borders of the union (CET, common external tariffs).

A “common market” is usually referred to as the first stage towards the creation of a single market. It usually is built upon a free trade area with no tariffs for goods and relatively free movement of capital, services and labour, but not so advanced in reduction of non-tariff trade barriers.

An “economic union” combines customs union with a common market. It introduces a shared fiscal and budgetary policy. In order to be successful the more advanced integration steps are typically accompanied by unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of supranational bodies, and gradual moves towards the final stage, a "political union" which is a larger and consolidated group of nations or states that share a joint government that is internationally acknowledged

India and ASEAN

The journey of India as a dialogue partner of ASEAN started in early 1990s with the initiation of **Look East Policy (LEP)**. In the following years, the geographic ambit of LEP expanded from Southeast Asia to include the Oceania as well as East Asia, encompassing a significant part of the Indo-Pacific. The renaming of LEP as **Act East Policy (AEP)** in 2014 reflected this reality.

ASEAN is an inevitable partner for India if it has to become a major Indo-Pacific power. ASEAN is a recognised production base, with most of its members witnessing upward growth for the last couple of years. Domestic consumption and private investments have become the principal factors in ASEAN's economic development.

India's position in ASEAN's external trade and investment flows has not yet experienced any special momentum. In its external trade, ASEAN's major partners are China, European Union and the US. On the other hand, in Foreign Direct Investments (FDI), EU, Japan, the US and China are the principal sources of investment inflows.

India's Trade with ASEAN Over the past ten years, India's trade with ASEAN has almost doubled from US$ 35 bn in 2007 to US$ 65 bn in 2016. Both exports and imports too almost doubled over the period. **India stands as ASEAN's 11th largest trading partner in the year 2016.**

- India stands as Indonesia’s 8th largest trading partner and a net importer from Indonesia. India’s share in Indonesia’s total international trade accounted for 5.5% in 2016.
- India ranks as Thailand’s 16th largest trading partner and a net importer from Thailand, with a share of 2% in Thailand’s total international trade.

India has a separate Free Trade Agreement with Thailand and Malaysia other than the India-ASEAN FTA. India and South Korea had signed a comprehensive economic partnership agreement in August 2009. This was also India’s first bilateral trade agreement with an OECD country. India and South Korea signed a joint statement in July, 2018 to upgrade negotiations under CEPA.

Facts Pertaining to ASEAN-India Economic Partnership

- India contributed only 1.8 per cent of total FDI inflows to ASEAN between 2010 and 2016 and 2.6 per cent in ASEAN’s total external trade.
- Indian investments in ASEAN are heavily concentrated in Singapore.
- India’s stock of outward FDI in ASEAN is dominated by the service sector as mentioned in the ASEAN Investment Report.
- On the other hand, ASEAN as a group contributed almost 16 per cent of total FDI flows to India between 2010 and 2016.
- ASEAN’s share in India’s total exports and imports have risen between 2010-2016.
- The two-way trade between India and ASEAN is tilted towards ASEAN with the trade gap expanding rapidly.
- Despite having a Free Trade Agreement (FTA) in goods (being implemented since 2010) and trade in services and investment agreement (signed in 2015), India is not benefitting much from its economic cooperation with ASEAN.

- Though there has been a steady growth in the total trade between India and ASEAN in the last few decades, India suffers from tariff reductions in imports from ASEAN.
- In value-added sectors including chemicals and applied products, plastics and rubber, minerals etc… India’s negative trade balance has been increasing and these sectors constitute almost 75 per cent of India’s exports to ASEAN.

India-ASEAN- RCEP relations

ASEAN strongly promotes the RCEP which is viewed by it as a next step towards larger integration with six of its FTA partners. But India is worried that RCEP will increase its already vast negative trade balance with China. This may worsen India’s negative trade balance with ASEAN as well. India’s domestic entrepreneurs, especially those in pharmaceuticals, textiles, dairy and wheat products etc., will suffer, as they may not be able to face the competition from other member countries like Japan, Australia and New Zealand.

India is unhappy with the restrictions RCEP member countries are putting in place in all modes of services, which include movement of professionals. India wants to ensure liberalisation in services in the RCEP mega-trade bloc but other members are not keen on it. The other problem area relates to India’s preferred three-tier approach regarding tariff reductions on imports, which was rejected by ASEAN and other RCEP members.

Despite these challenges in the economic partnership, India’s commitments towards ASEAN have never been compromised. India is committed to assist the CLMV countries (Cambodia, Laos PDR, Myanmar and Vietnam) in their economic development. Connectivity has become the key word in ASEAN-India cooperation. ASEAN and India have expressed their willingness to enhance intra-regional tourism and people-to-people connectivity and civilisational and cultural influences have been reiterated by both sides.

Furthermore, the ASEAN region wants a strong Indian presence as a counter-balance to the growing Chinese influence. This has become evident as India’s defence and security partnership with countries like Vietnam has experienced several positive developments in the recent years. Reciprocity and mutual understanding on common concerns will help both ASEAN and India to overcome some of the challenges facing their relationship. This also would result in fruitful implementation of RCEP.