

Regional Comprehensive Economic Partnership (RCEP)

June 13, 2020

Why is it in the news?

- Recently, India decided not to join this agreement

What is RCEP?

- It is a free trade deal involving the 10 countries of the Association of Southeast Asian Nations (Asean), Australia, China, South Korea, Japan, as well as New Zealand.
- The pact aims to cover the trade in goods and services, as well as investment, intellectual property and dispute resolution.
- The purpose of the deal is to create an “integrated market” spanning all 16 countries. This means that it would be easier for the products and services of each of these countries to be available across the entire region.
- The countries involved account for almost half of the world’s population, over a quarter of world exports, and make up around 30% of the global Gross Domestic Product (GDP).

Why did India decide to opt out of RCEP?

▪ Trade Deficit:

- In financial year 2019, India registered a trade deficit with 11 out of the 16 RCEP countries.
- India’s trade deficit with RCEP countries stood at \$105 billion, out of which China alone accounted for \$52 billion.
- At present, India ships 20 percent of all its exports to the RCEP countries and receives 35

percent of all imports from them. China is the ringmaster of this export-import circuit.

▪ **Inadequate protection against surges in imports:**

- There is concern about the dumping of cheaper goods such as dairy and farm products, and electronic items, especially from China.
- The RCEP deal format required India to abolish tariffs on more than 70% of goods from China, Australia and New Zealand, and nearly 90% goods from Japan, South Korea and ASEAN. This would have made imports to India, cheaper.

▪ **Demand of market access:**

- India has also not received any credible assurances on its demand for more market access and its concerns over non-tariff barriers. RCEP participants like China are known to have used non-tariff barriers in the past to prevent India from growing its exports to the country.

▪ **Country of Origin:**

- Its concerns on a “possible circumvention” of rules of origin (the criteria used to determine the national source of a product) were also not addressed. Current provisions in the deal reportedly do not prevent countries from routing, through other countries, products on which India would maintain higher tariffs. This is anticipated to allow countries like China to pump in more products.

▪ **Concerns of using base year before 2014:**

- India had sought to safeguard the interests of its domestic industry through measures like seeking a 2014 base year for tariff reductions instead of 2013, when negotiations on RCEP began. As it has raised import duties on several products between 2014 and 2019.

▪ **Past Experience:**

- The Niti Aayog, in 2017, had published a report

that pointed out that free trade agreements have not worked well for India.

▪ **Concerns in Agricultural Sector:**

- RCEP will permanently bring down import duties on most agricultural commodities to zero which will lead to countries looking to dump their agricultural produce in India which would lead to a drastic drop in prices.
- Spices, chiefly pepper and cardamom and coconut would face dumping from the South Asian spice majors. Sri Lanka is already giving a tough time to Indian spice growers.

▪ **Plantation products like rubber:**

- Vietnam and Indonesia have very cheap rubber to export.

▪ **Dairy Sector:**

- New Zealand is the second largest exporter of milk and milk products. New Zealand's milk producers are more efficient than India's small producers. Both Australia and New Zealand are waiting for free access to India for their dairy products.

▪ **Services trade:**

- India has "long pushed for other countries to allow greater movement of labour and services" in return for opening up its own market. Any agreement on trade in goods without simultaneous agreement on services trade and investment will only harm India's interests. The ITA was established through a Ministerial Declaration on Trade in Information Technology Products which was concluded on 13 December 1996 at the WTO ***Singapore Ministerial Conference***