Regional Comprehensive Economic Partnership (RCEP)

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Source: *The Hindu*

Manifest pedagogy: Controversy with respect to India joining RCEP and concerns related to a surge in imports especially of dairy products prompted the government to withdraw temporarily from negotiations. However, India is hoping for a deal more suitable for its needs. Issues of RCEP are important both from prelims and mains perspective.

In news: India has declined to join RCEP

Placing it in syllabus: Regional Trade blocs

Static dimensions:

- Failure of World trade organisation (WTO)
- Stages of Economic Integration
- Trade Blocs

Current dimensions:

- Trade facilitation
- RCEP and its positives and negatives
- India’s concerns

Content:

Failure of WTO:

The developing countries do not believe that the WTO works for their benefit. The general perception is that **dominant economic powers like the United States and Europe have hijacked the system.** Each of the 164 members has their own protectionist agendas. E.g. US protectionist policies.

WTO holds **conferences which usually have no outcomes.** Even if is to achieve some sort of a breakthrough, the administrative cost of achieving this would far outweigh any benefits. It is **not accountable for the money it spends.**

WTO has simply failed the interests of **developing nations** like India, Pakistan and African nations which are still largely dependent on agriculture. Their prices **would be competitive in the international market if it were not for subsidies provided by Western nations.** The common belief is that the WTO is merely a proxy for safeguarding Western interests.

WTO is often considered as being a forum which is used by nations to further their hidden agendas. **Governments use it as a forum to bestow economic benefits on their political allies.**

Stages of economic integration:

Preferential Trade Areas (PTA) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. Agreements may be bilateral or multilateral.

Free Trade Areas (FTA) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members. E.g. The North Atlantic Free Trade Agreement (NAFTA).

Customs Union involves the removal of tariff barriers between members, together with the acceptance of a common (unified) external tariff against non-members. E.g. Gulf Cooperation Council

Common Market is the most significant step towards full economic integration. Here all barriers are eliminated to allow the free movement of goods, services, capital, and labour. In addition, non-tariff barriers are also reduced and eliminated. E.g. Mercosur

Monetary Union is the first major step towards macro-economic integration and involves scraping individual currencies, and adopting a single shared currency, common exchange rate, a common monetary policy, including interest rates and the regulation of the quantity of money, and a single central bank. E.g. European Union

Fiscal Union is an agreement to harmonise tax rates, to establish common levels of public sector spending and borrowing, and jointly agree national budget deficits or surpluses.

Political union represents the potentially most advanced form of integration with a common government and the sovereignty of member country is significantly reduced. Only found within nation states, such as federations where there is a central government and regions having a level of autonomy. E.g. European Political Union

Trade blocs:

Trading blocs are a **formal agreement between two or more regional countries** that remove trade barriers between the countries in the agreement while keeping trade barriers for other countries. **Different types** of Trading Blocs are FTA, Customs Union, Common Market, Monetary Union.

Advantages:

- An **increase in foreign direct investment (FDI)** results from trade blocs and benefits the economies of participating nations.
- It **increases local investments** since the trading bloc increases the overall size of markets for firms.
- Open trade leads to **faster transfer of technology across borders.**

- **Increases economic leverage** for the trading bloc as a whole. The average cost of production is decreased because mass production is allowed.

Disadvantages:

- A trading bloc is likely to lead to at least **partial loss of sovereignty** for its participants.
- The **countries become increasingly dependent on each other.**

Trade facilitation:

- Trade facilitation is the **simplification, modernization and harmonization of export and import processes**.
- Trade Facilitation Agreement (TFA) **entered into force on 22 February 2017** following its ratification by two-thirds of the WTO membership.
- **Section I contains provisions for** expediting the movement, release and clearance of goods, including goods in transit.
- **Section II contains special and differential treatment (SDT) provisions** that allow developing and least-developed countries (LDCs) to determine when they will implement individual provisions of the Agreement.
- **Section III contains provisions** that establish a permanent committee on trade facilitation at the WTO and require members to have a national committee to facilitate domestic coordination.

According to the estimates, full implementation of the **TFA could reduce trade costs by an average of 14.3%** and boost global trade by up to $1 trillion per year, with the biggest gains in the poorest countries.

RCEP and its positives:

RCEP involves all 10 countries from the Association of Southeast Asian Nations **(ASEAN) bloc and five of its major**

trading partners: Australia, China, Japan, New Zealand and South Korea.

Together, the **15 countries** make up close to one-third of the world population and global GDP. India recently decided not to join the trade pact over concerns that it would hurt the domestic producers. The **RCEP covers trade in goods and services, and investments, economic-technical cooperation, competition and intellectual property rights.**

Positives of RCEP:

- RCEP would **boost commerce** across the group by **lowering tariffs, and standardizing customs, rules and procedures.**
- It **widens market access** especially among countries that don’t have existing trade deals.
- RCEP would act as a **solution to US-China trade war,** which hurt many Asian exporters by reducing demand for their goods and slowing down growth.
- The deal will allow businesses to sell the same goods within the bloc but **do away with the need to fill out separate paperwork** for each export destination.
- For **companies that export goods** outside the bloc, there’ll be **incentives to build their supply chains across RCEP** member countries.

Negatives of RCEP and India’s concerns:

India pulled out of RCEP calling the now 15-nation pact **unsatisfactory**.

- RCEP, unlike Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) **lacks the call for commitments from member countries to protect workers’ rights and the environment.**
- RCEP **covers fewer service sectors,** in which India has an upper hand.
- RCEP would have exposed the Indian businesses and

agriculture to **unequal competition from other exporting countries.**

- In **agriculture**, domestic players dealing in dairy products, spices, rubber, and coconut **would face dumping from** the South Asian majors like Sri Lanka, Vietnam, Indonesia.
- Australia and New Zealand are waiting for a free access to India for their dairy products.
- **Of the 15 RCEP countries, India has serious trade deficits with at least 11 countries.** Given the export-import equation with the bloc, an FTA with the grouping would have increased it further.
- Widening trade deficit **would empty foreign exchange reserve of India** at a faster rate.
- The **Niti Aayog report in 2017** showed that imports from FTA countries increased to India while exports to these destinations did not match up. The report found that **FTA utilisation by India has been abysmally low between 5 and 25 percent.**
- Several industries in India red-flagged the **Chinese agenda of flooding the Indian market which cheap goods using the RCEP countries as a connecting network.**
- India wanted a key clause to be included in the RCEP pact for **auto-trigger mechanism as a shield against sudden and significant import surge from countries.**