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On

Regional Comprehensive Economic Partnership (RCEP) – Impact on India and way ahead

Under the Supervision of

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<u>CERTIFICATE</u>

I have the pleasure to certify that **CAPTAIN (IN) Satpal Singh** has pursued his research work and prepared the present dissertation titled as***:*** **Regional Comprehensive Economic Partnership (RCEP) – Impact on India and way ahead** under my guidance and supervision the dissertation is result of his own Research and to the best of my knowledge no part of it has earlier comprised in other monograph, dissertation or book.

This is being submitted to the Panjab University Chandigarh for the degree of Master of philosophy in Social Sciences in partial fulfilment of the requirement of the Advanced Professional Programme In Public Administration of Indian Institute of Public Administration New Delhi. I hereby recommend that the dissertation of Captain Satpal Singh is worthy of consideration for the award of M Phil degree of Panjab University Chandigarh.

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(Approved by the Guide)
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Satpal Singh
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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
FTA	Free Trade Agreement
RTA	Regional Trade Agreements
NTB	Non-tariff Barrier
ROO	Rules Of Origin
CLMV	Cambodia, Laos, Myanmar and Vietnam
APEC	Asia-Pacific Economic Cooperation
WTO	World Trade Organization
DDA	Duha Development Agreement
CEPEA	Comprehensive Economic Partnership Agreement in East Asia
ERIA	Economic Research Institute for ASEAN and East Asia
EAS	East Asian Summit
EAFIA	East Asia free trade agreement
FTAAP	Free Trade Agreement Asia Pacific
AEC	Asian Economic Community
GATS	General Agreement on Tarde and Services
TPP	Trans Pacific Partnership

AFPS	ASEAN Foreign Partners
ISDS	Investor-state Dispute Settlement
SMEs	Small and Medium-sized Enterprises
IPRs	Intellectual Property Rights
BCIM	Bangladesh–China–India–Myanmar Forum for Regional Cooperation
AAGC	The Asia-Africa Growth Corridor
SAARC	South Asian Association for Regional Cooperation
LPI	Logistic Performance Index
BBIN	Bangladesh, Bhutan, India, Nepal
CPEC	China Pakistan Economic Border
GPON	Gigabit Passive Optical Networks
NTMS	Non Taxes Measures
TBT	Technical Barriers to Trade
IPNs	International Production Pnetworks
TIVA	Trade in Value Added
GVCs	Global Value Chains
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CEPEA	Comprehensive Economic Partnership Agreement in East Asia
ISDS	Investor-state Dispute Settlement

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CHAPTER 1

INTRODUCTION

Regional Trade Agreements

International trade permits us to expand our market for both goods and services, that otherwise may not have been accessible to us. International trade is interchange of capital, goods and services across international borders. Industrialization, advanced transportation, globalization, multinational co-operations and outsourcing are all having a major impact on international trade system. Increasing international trade is essential to the continuance of globalization. There are two types of international trade, one is free trade and another is restricted trade. 'According to the pure theory of international trade, Free trade is a best policy of trade' (Mannur, 2002). But in real world the natural and man-made barriers to trade exists, and 'the international trade takes place with hard realities of restricted trade' (Mannur, 2008). The trade restrictions may be natural barriers to trade like transport cost and man-made barriers to trade like tariffs, quotas, non-tariffs measures, etc. These man-made barriers are mostly used by a country to reduce or limit their imports, thus generally these man- made barriers are the part of the imports substitution trade policy of a country. During 1950s-1970s, most of the countries of the world have adopted the traditional imports substitution strategies. But because of its failure, the countries adopted the exports promotion policies in 1980s-1990s and they also implemented the reform programs and trade liberalization policies designed by an International Finance Institution. ‘Thus the process of trade liberalization had started in many developed and developing countries of the world in early 1980s and intensified in the 1990s’ (Kohpaiboon, et.al.2011). As a result advanced nations have meaningfully lowered their trade restrictions. Such trade liberalization has stanched from two approaches. ‘The first approach is a reciprocal reduction of trade barriers on a non-discriminatory basis’ (Suominen, 2009). Under the General Agreement on Tariffs and Trade (GATT) and its Introduction [2] successor, the World Trade Organization (WTO) member nations acknowledge that tariff reductions by any two nations, will be drawn out to all other members. Such an international approach encourages, a great reduction of tariffs throughout the world. A second approach to trade liberalization occurs when a small group of nations, typically on a regional basis, forms a Regional Trading Agreement. 'Under this system, member nations agree to impose lower barriers to trade within the group, than to trade with non-member nations. Each member nation remains continuous to decide its domestic policies, but the trade policy of each contains preferential treatment for group members' (Francis, 2011). Regional Trading Agreements (free trade areas and custom unions) have been an omission to the principle of non-discrimination embodied in the World Trade Organization. Thus in case of Regional Trade Agreements, a group of two or more countries form an association or union and the member countries agree to eliminate tariffs on imports from each other but not on imports coming from the rest of the world (Lynch, 2010). This form of economic integration or geo-graphical tariff discrimination is aimed at raising the welfare of member nations. The RTAs reintroduce free trade among member nations but imposes trade restriction on non-member countries of the world; therefore Regional Trade Agreement is a synthesis of the policies of free trade and restricted trade.

1.1 Regional Trade Agreements: Definition and Existence

When a group of countries eliminates (artificial) barriers to international trade and competition on a regional than a global scale, it is known as Regional economic integration. According to Inter-American Development Bank, 'Regional Trade Agreements are usually established between neighbouring countries to reduce trade barriers like custom duties on imports. Regional Trade Agreements violates the Most Favoured Nations (MFN) clause, a fundamental principle of World Trade Organization (WTO)'. The theoretical benefits and costs of Regional Trade Agreements can be defined by two perspectives. First are the static effects of economic integration on productive efficiency and consumer welfare. Second are the dynamic effects of economic integration, which Introduction [3] are related to long run rates of growth of member nations. In 1950, Jacob Viner introduced the concept of trade creation and trade diversion, to analyze the effects of RTAs. In these days the opinions of economists are also divided among two groups one, who say that 'RTAs are "building block" and second group of economists, who says that RTAs are "stumbling block" (Frankle & Fellow, 1996). Even though during last two decades the regional trade agreements became interesting phenomena for the all countries of the world, and RTAs are perceived as building block, by major developed and developing economies of the world. So that the world trading system has observed a growing number of regional integration initiatives in recent times. 'Today more than half of the world trade is being regulating by regional trade agreements' (Lynch, 2010). The extraordinary surge in number of RTAs is a remarkable development in the history of the world trading system. The economists have divided the progress of regional integration in world, into two waves. The first wave of the regional integration was occurred after the formation of European Economic Community (EEC) that was established in 1957. 'And the second wave of regionalism or 'new regionalism' was arisen during mid-1990s; a substantial increase in the numbers of the RTAs entered into force has been recognized in this year' (Jha, 2011). The initial push towards this new regionalism was occurred due to the persuasion of developing countries that they want to tie their voice heard against the developed countries. The slow movement of WTO/GATT was also cause of upsurge of RTAs in recent years. As the major purpose of WTO is to promote trade liberalization through worldwide agreements, however getting a large numbers of countries to agree on transformations can be enormously difficult. By the early 2000s, the WTO was failing to achieve a global trade agreement, and thus the countries gradually looked to narrower, Regional Trade Agreements, as an alternate approach for trade liberalization.

1.2 Various Types of Regional Trade Agreements

Regional Trade agreements can be of various types, depending on their degree of integration. There are different forms of trade arrangements which fall within the ambit of RTAs. Though broadly classified as Free Trade Areas and Customs Unions in the legal text, there also exists trading arrangements with much higher economic integration. In fact, regional economic integration has many names, shapes and forms, each with different implications and nuances. The depth and breadth of RTAs vary from one agreement to another. Classification of regional trade agreements and arrangements can be based on the nature (legality) of the agreement as well as on the range of integration of the agreements. Regional economic integration under various agreements occurs on a variety of levels ranging from loose cooperative arrangements to tightly structured agreements. They differ in their degree of institutionalization as well as integration. While it is difficult to categorise regional trade organizations or arrangements, some generally accepted classifications have been developed (Winters 1996).

Free Trade Areas (FTAs) are regional trade arrangements which have substantially eliminated internal barriers between members for all or groups of goods, while member countries maintain individual external trade barriers and commercial policies towards non-member countries.

Customs Unions (CUs) share the same characteristics as FTAs, with the addition of a common external commercial and trade policy. This means that all imports entering the customs union are subject to the same barriers to trade regardless of the country of entry. A customs union also has a central administrative body to aid in policy coordination, facilitate communication and oversee operations.

Common Markets (CMs) incorporate the features of a CU plus the free movement of labour and capital. The harmonization of taxation and many domestic regulations must be undertaken to prevent the creation of false trade flows to ensure 'a level playing field' for businesses across all member countries. Economic Unions require, in addition to the features incorporated into a common market, the complete harmonization of government spending and procurement as well as the coordination of the operation of central banks (WTO 1995a).

Preferential Trade Agreements (PTAs), where partner countries grant partial tariff reduction to each other.

1.3 Economic Unions require, in addition to the features incorporated into a common market, the complete harmonization of government spending and procurement as well as the coordination of the operation of central banks (WTO 1995a).

1.4 India and Regional Trade Agreements

India has entered into bilateral and regional trading agreements over the years. These agreements, besides offering preferential tariff rates on the trade of goods among member countries, also provide wider economic cooperation in the fields of trade in services, investment, and intellectual property. Few of these TAs have gone beyond tariff cuts in trade in goods and encompass other components like liberalisation in services and investment. The first TA of which India became a member was the Bangkok Agreement in 1975. In 2005, this regional initiative between developing economies was re-incarnated as Asia Pacific Trade Agreement (APTA). India's first bilateral TA, the India-Sri Lanka FTA (ISFTA) was signed in December 1998 and came into force in the year 2001. Subsequently India implemented South Asian Free Trade Agreement (SAFTA) in 2004, Comprehensive Economic Cooperation Agreement (CECA) with Singapore in 2005, IndoASEAN FTA in 2010, Indo-Korea Comprehensive Economic Partnership Agreement (CEPA) in 2010, Indo-Malaysia CECA and Indo-Japan CEPA in 2011. SAARC Preferential Trading Agreement (SAPTA) is a preferential agreement between India and other South Asian Association for Regional Cooperation (SAARC) countries. In the past decade India's trade policy has seen a marked shift towards regionalism. India has preferential access, economic cooperation and FTAs with about 54 individual countries. India has signed bilateral trade deals in the form of CEPA/ CECA/ FTA/ Preferential Trade Agreements (PTAs) with around 18 groups/7 countries. The preferential arrangement/ plans under which India was receiving tariff preferences are the Generalised System of Preferences (GSP) and the Global System of Trade Preferences (GSTP). India and several Asian countries have signed CECA, which is an integrated package of agreements encompassing trade in goods, services, investments and economic co-operations in education, science and technology, air services and intellectual property. These agreements prescribe rules of origin that must be fulfilled for exports to be eligible for tariff preference.

Major Bilateral and Regional Trade Agreements of India

S. No.	Acronym	Groupings	Member Countries		FTAs/PTAs
			No.	Names	
1	APTA	Asia Pacific Trade Agreement	6	Bangladesh, China, India, Laos, Republic of Korea, Sri Lanka	Partial Scope Agreement (PSA) and Economic Integration Agreement (EIA)
2	India ASEAN TIG	India ASEAN Trade in Goods Agreement	11	Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam	FTA and EIA
3	BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation	7	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand	Under Negotiation
4	GSTP	Global System of Trade Preferences	43	Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Columbia, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Iran Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania, Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Venezuela, Vietnam, Zimbabwe.	PSA
5	MERCOSUR India	Southern Common Market India	5	Argentina, Brazil, Paraguay, Uruguay and India	PSA
6	SAFTA	South Asia Free Trade Agreement	8	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka	FTA
7	ISLFTA	Indo Sri Lanka FTA	2	India and Sri Lanka,	FTA
8	IMCECA	Indo Malaysia CECA	2	India and Malaysia	FTA and EIA
9	ISCECA	India Singapore CECA	2	India and Singapore	FTA and EIA
10	JICEPA	Japan India CEPA	2	India and Japan	FTA and EIA
11	IKCEPA	India Korea CEPA	2	India and South Korea	FTA

Source: Ministry of Commerce, Government of India.
World Trade Organisation.

1.5 RCEP (The Regional Comprehensive Economic Partnership)

The Regional Comprehensive Economic Partnership (RCEP) has grown out of five existing free trade agreements (FTA) with ASEAN. Meeting at the Seventh East Asia Summit in November 2012, RCEP was announced as a new trade agreement which would further the process of regional integration across 16 countries in Asia: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand and Vietnam.

A dialogue for developing trade had been opened between ASEAN and its neighbours through the development of an ASEAN+3 track in 1996 with ASEAN, Korea, Japan and China. This ASEAN+3 process paved the way for Japan and Korea to argue for a common trade deal in East Asia. By 2005, Japan wanted to expand on the progress being made in trade agreements with ASEAN. ASEAN had begun working on FTAs with China in 2002, Korea in 2004 and Japan in 2005. All of these were signed and put into effect in 2005, 2007 and 2008, respectively, coming out of the ASEAN+3 dialogues. ASEAN also negotiated FTAs with India and Australia/New Zealand in 2004 that were signed and put into effect in 2010.

1.6 Consolidation into an ASEAN-Led RCEP

ASEAN had been pursuing economic regionalism as a tool for growth for decades. In 2007, AEC leaders identified their key goals moving forward—fully five years before the development of RCEP. The most important item on their agenda was "ASEAN centrality." The regular meetings of the AEC and economic ministers (AEM) advanced the proactive development of ASEAN trade arrangements.

ASEAN officials pushed for the inclusion of India, Australia and New Zealand in RCEP, even when the East Asian nations feared this would dilute the quality of the agreement. It is important to note that nothing in the origins of RCEP points to the likelihood of RCEP being dictated or driven by China. Instead, from the earliest days, RCEP has been an extension of ASEAN+1 FTAs.

China's push for EAFTA, or an ASEAN+3 FTA, was, after all, not met with success.

As noted earlier, ASEAN had concluded five ASEAN+1 FTAs with Australia/New Zealand, China, India, Japan and South Korea by 2009. ASEAN was geographically placed at the centre of the CEPEA countries, but as the largest entity with existing agreements with all parties, could set the agenda for determining which provisions could be included in any regional agreement. While every potential member of the deal had links to ASEAN, not all had connections to one another. China and India, for example, had no existing trade agreement. ASEAN was, therefore, a strategic negotiating partner between ASEAN, the "Plus 3" countries, and the "Plus 6" countries.

In November 2012, leaders of ASEAN+6 nations agreed to launch RCEP, as a consolidation and advancement of trade integration objectives pursued under FTAAP, CEPEA and as a grand consolidation of ASEAN+1 FTAs.

1.7 India and RCEP

The Regional Comprehensive Economic Partnership (RCEP) is a comprehensive free trade agreement being negotiated between the 10 ASEAN Member States and ASEAN's free trade agreement (FTA) partners viz. Australia, China, India, Japan, Korea and New Zealand. RCEP reflects the emerging trade and economic architecture globally. It should not be seen in isolation but in the context of other comprehensive FTAs that are emerging i.e. the Trans Pacific Partnership (TPP), and the newly launched Trans-Atlantic

Trade and Investment Partnership (TTIP) involving the United States and the European Union. In the context of comprehensive regional trading arrangements across the globe, TPP would cover the western flank with TTIP as the central flank and RCEP as the eastern flank. Therefore RCEP is of strategic importance for India both in the context of its look East policy and the comprehensive nature of the engagement.

In total, the grouping of 16 nations includes more than 3 billion people, has a combined GDP of about $17 trillion, and accounts for about 40 percent of world trade.

The RCEP seeks to achieve a modern and comprehensive trade agreement among members. The core of the negotiating agenda would cover trade in goods and services, investment, economic and technical cooperation and dispute settlement. The partnership would be a powerful vehicle to support the spread of global production networks and reduce the inefficiencies of multiple Asian trade agreements that exist presently.

The Regional Comprehensive Economic Partnership (RCEP) held its 27th round of negotiations. Much has changed on the international trade scene since this 16-member grouping led by the ASEAN and China started bargaining to get past their differences.

The negotiations on crucial issues at the WTO have been slow and unable to keep up with the ebbs and flows of international trade and investment — shifting the focus to mega-trade deals.

Trade protectionism has been are on the rise. The US and China are currently engaged in a bitter trade war. And, the UK voted for Brexit Trade conflicts are also mounting between India and the US, US and European Union. But while the CPTPP (the renamed TPP) has risen from the ashes and is ready for take-off, the RCEP is far from realizing its aim with only five out of 18 chapters having being concluded so far.

The RCEP initiative linking ASEAN and the group's FTA partners is the largest FTA negotiation in Asia, and the biggest FTA negotiation that India has ever participated in. If negotiated successfully, it would create the world's largest trading bloc.

The grouping accounts for 45 per cent of world population, over a quarter of world exports, and has a combined GDP of $17 trillion. The RCEP aims at lowering trade barriers and securing improved market access for businesses in the region through recognition to ASEAN+6 in the emerging regional economic architecture.

It recognizes the importance of being inclusive, especially to enable SMEs leverage on the agreement and cope with challenges arising from globalization and trade liberalization. SMEs (including micro-enterprises) make up more than 90 per cent of business establishments across all RCEP participating countries and are important to every member's endogenous development of their respective economy. The negotiations, so far, have achieved steady progress in the market entry permits of goods and service trade and rule-making.

1.8 Evolution of RCEP

With the common goal of increased regional integration in the minds of its member states, RCEP was first mooted in the 2011 ASEAN Summit in Indonesia. In the next year, the RCEP project was officially launched in the 2012 ASEAN Summit in Cambodia alongside the release of guiding principles in eight areas: goods, services, investment, economic and technical cooperation, intellectual property, competition and dispute settlement. The first round of negotiations began in May 2013 in Brunei and have been ongoing since.

Negotiations have proceeded with ASEAN+1 FTAs and WTO agreements serving as the foundation. Given the variation in quality among the existing ASEAN agreements and the lack of an updated WTO rulebook, it has been difficult to even agree on the appropriate starting point for talks in the early rounds of RCEP negotiations. The Leader's Statement said that the existing ASEAN+1 agreement should serve as building blocks. Even this proved controversial as some members suggested this meant taking the most ambitious agreement of the lot, ASEAN 'Australia-New Zealand, as the starting point and building up from this baseline. However, other members in RCEP took a look at the commitments contained in ASEAN Australia-New Zealand FTA and decided that this agreement was entirely too bold. ASEAN Australia-New Zealand FTA, as an example, includes tariff cuts for some members approaching all tariff lines and these cuts go all the way to become duty-free in relatively short order. Many RCEP rounds were therefore devoted to the vexing issue of "modalities" for market access for goods—or how much needed to be cut, from which member states, and under what timelines.

Over time, the negotiating agenda in the talks has also expanded. Getting something done with 16 diverse parties on a growing list of issue areas has meant RCEP officials have missed several announced "deadlines" for conclusion; most notably the 50th-anniversary meeting of ASEAN in the Philippines in November 2017. While the talks have been ongoing, negotiating texts have not been released, or even leaked

The very early rounds were largely about determining the scope and pace of the negotiations and setting common expectations for outcomes. It was not until the first half a dozen rounds or so had been completed that officials were able to start focusing on details. Even with the original Leader's

Table 1.1 / RCEP negotiation rounds and meetings from 2013 to 2019

Negotiation round	Host country	Time
RCEP 3rd Summit	Thailand	October-November 2019
RCEP ministerial meeting	Beijing, China	August 2019

RCEP round 27	Zhengzhou, China	July 2019
RCEP round 26	Melbourne	July 2019
RCEP round 25	Bangkok	May 2019
RCEP ministerial meeting	Combodia	March 2019
RCEP Leaders Summit	Singapore	November 2018
RCEP round 24	Aukland	October 2018
RCEP ministerial meeting	Singapore and Aukland	August-October 2018
RCEP round 23	Bangkok, Thailand	July 2018
RCEP round 22	Singapore	April-May 2018
RCEP round 21	Yogyakarta	February 2018
RCEP ministerial meeting	Manila	November 2017
RCEP round 20	Incheon	October 2017
RCEP round 19	Hyderabad	July 2017
RCEP ministerial meeting	HaNoi	May 2017
RCEP round 18	Manila	May 2017
RCEP round 17	Kobe	February–March 2017
RCEP round 16	Jakarta	December 2016
RCEP ministerial meeting	Cebu	November 2016
RCEP round 15	Tianjin	October 2016
RCEP round 14	Ho Chi Minh City	August 2016
RCEP round 13	Auckland	June 2016
RCEP round 12	Perth	April 2016
RCEP round 11	Brunei	February 2016
RCEP round 10	Busan	October 2015
RCEP ministerial meeting	Kuala Lumpur	August 2015
RCEP round 9	Nay Pyi Taw	August 2015
Intersessional RCEP ministerial meeting	Kuala Lumpur	July 2015
RCEP round 8	Kyoto	June 2015
RCEP round 7	Bangkok	February 2015
RCEP round 6	New Delhi	December 2014
RCEP round 5	Singapore	June 2014
RCEP round 4	Nanning	April 2014
RCEP round 3	Kuala Lumpur	January 2014
RCEP round 2	Brisbane	September 2013
RCEP round 1	Brunei	May 2013

Source: Ministry of Foreign Affairs and Trade of New Zealand.

Statement directing progress in a wide range of topics, it was not easy to bridge gaps in goods, services and investment, nor to bring in additional topics like intellectual property and sanitary or phytosanitary standards.

1.9 Recent Developments:

On 4 November 2019, India decided to opt out of the Regional Comprehensive Economic Partnership (RCEP) pact. All the 15 countries decided to conclude the RCEP trade agreement and have kept the door still open for India to work on a bilateral basis on the pending issues. The RCEP is a proposed free trade agreement (FTA) between the 10 member states of the Association of Southeast Asian Nations (ASEAN—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and its five FTA partners (China, Japan, South Korea, Australia and New Zealand). The RCEP is aimed at lowering tariffs and barriers to the trading of goods and services among these 15 countries. The negotiations on the RCEP began in November 2012 at the ASEAN Summit in Cambodia and all the 15 countries plus India worked through all the chapters for seven years. The 15 nations aim to sign the RCEP trade pact in early 2020.

With the country facing an economic slowdown coupled with high unemployment rates, declining private consumption and rural distress, it would have been risky for India to open up the markets to cheaper goods from China and with low priced agricultural commodities from the ASEAN countries.

The RCEP is an extremely large market comprising 20% of the global gross domestic product (GDP) and accounts for three billion people. Staying out of the RCEP means that India’s exports to such markets would be subject to high tariffs, whereas the member countries have an advantage of exporting their products freely amongst themselves. New potential trade opportunities on goods and services through South East Asia, which has huge growth, are lost for the Indian economy without the RCEP. Due to the interlinkages among the various trade segments of the RCEP nations, economic complementarities get generated, which can be tapped by joining the trade agreement. It would be in India's interest to integrate with the successful regional value chains (RVCs) of the RCEP region as these interlink ages play an important role in the growth of the economy besides providing enormous gains in exports. India is the world's third largest consumer market behind the United States and China, which is why the RCEP nations would like India to be on board.

The economies of East Asia, such as Japan, Korea, China, Taiwan, and Singapore have witnessed tremendous growth in recent years, which is an important factor as to why India consciously upgraded its "Look East Policy" to the "Act East Policy." The focus of the "Look East Policy" was to shift India's trading focus from the Western countries and neighbours to the booming South East Asian countries, while the focus of the "Act East Policy" is to increase economic and security integration with the countries of South East Asia and East Asia. India's "Act East Policy" would be incomplete without it joining the RCEP, which is a mega-regional FTA.

Within India, the sentiments with the RCEP are quite divided. The first point of objection with the RCEP is that India's trade deficits have always widened with nations after signing free-trade-agreements (FTAs) with them. The same is true for India's FTAs with the ASEAN, Japan, Korea, and Singapore, most of which are RCEP nations. On the other hand, there are trade economists and free trade proponents who believe that the RCEP is beneficial for the Indian economy.

The RCEP is an extremely large market comprising 20% of the global gross domestic product (GDP) and accounts for three billion people. Staying out of the RCEP means that India's exports to such markets would be subject to high tariffs, whereas the member countries have an advantage of exporting their products freely amongst themselves. New potential trade opportunities on goods and services through South East Asia, which has huge growth, are lost for the Indian economy without the RCEP. Due to the interlinkages among the various trade segments of the RCEP nations, economic complementarities get generated, which can be tapped by joining the trade agreement.

CHAPTER - 2

LITERATURE REVIEW

ASEAN (2019, Nov 04). ASEAN Leaders of the Southeast Asian countries met for a second day on November 3 within the framework of the 35th ASEAN Summit and related summits in Thailand, hoping for a breakthrough in the negotiations of the Regional Comprehensive Economic Partnership (RCEP).

The ASEAN Summit began on November 2 with one of its focuses being reaching consensus on the creation of the world's largest trade deal, which will cover half of the global population and about 40 percent of the world's commerce.

Armstrong, S. (2013). The opening up of economies in East Asia and their economic development to date has been underpinned by a robust, open and non-discriminatory global trading system. That is no less important today in providing confidence to countries to continue to deepen economic integration, and keeping them from sliding into protectionism. It also provides the opportunity for new players to join regional and global production networks and supply chains. Yet that global trading system has been weakened with the stalling of the Doha Round in the WTO, the inability of the WTO to stay relevant to current cross-border commerce and the proliferation of preferential or “free trade” agreements that undermine the core principle of non-discrimination in the General Agreement on Tariffs and Trade (GATT) system.

Suneja, K. (2019, Nov 28). Keen to have India back in the Regional Comprehensive Economic Partnership (RCEP), Japan has reached out to New Delhi to help address its concerns including those on trade deficit.

Tokyo's eagerness to include India stems from the fact that it fears China setting the terms of the pact and also the benefits it expects from easier origin rules that would allow it to sell goods coming in from China to other RCEP countries at low duties, officials said.

The development comes in the wake of India opting out of the RCEP early this month after negotiating the pact with 15 other Asia-Pacific countries for seven years.

Chandra, B. S. (2018). Regional Comprehensive Economic Partnership (RCEP) is a large trade negotiation among 16 countries of Asia Pacific which aims to cover goods, services, investments, economic and technical cooperation, competition and intellectual property rights among these nations. The 16 RCEP countries include China, India, Japan, South Korea, Australia, New Zealand, and the 10-member ASEAN which represent more than 3.5 billion people and about 40 percent of global GDP. India already implemented a free trade agreement with ASEAN, Japan and South Korea and negotiating similar pacts with Australia and New Zealand. There are apprehensions that RCEP agreement will lead to large-scale import of manufactured goods from developed members of RCEP particularly China which enjoys a trade surplus of more than 50 billion US$ with India. Also, large coverage of items in the tariff reduction programme will lead to an influx of cheaper commodities into India affecting the manufacturing sector. Easy access to burgeoning Indian consumer market may affect a large number of informal players affecting their livelihoods. India's gain primarily comes from the services sector which needs greater access to the members' markets. Also, the previous experiences of India's RTAs did not yield desirable results as India's import increased rapidly compared to exports. In this context, the paper argues for India’s caution and push for a comprehensive agreement by including services sector where India’s advantage lies.

Chaudhury, D. (2019, Nov 04). The deal for India to join proposed Regional Comprehensive Economic Partnership (RCEP) has split the 16-member grouping at the Bangkok meet between those who want to toe the Chinese line to close the deal regardless of what India does and those who want India in to balance Chinese dominance.

Sandip Somany (2019, Nov 25). India's emphatic 'No' to the RCEP is no surprise. The country is now playing on the front foot, strongly focussed on the need to address India's concerns over trade deficits and demanding from other countries a better access to their markets for goods and services.

Chakraborty, D., Chaisse, J., & Xu, Q. (2019). Since the inception of the WTO in 1995, India enthusiastically explored export-promotion strategies through multilateral trade reforms. However, the country has moved towards the regional trade route since 2004, primarily owing to the slow progress of the Doha Round negotiations. As a result, the whole architecture of international trade law and governance is being redesigned in the Asia Pacific region. This paper focuses on the pivotal role played by India in this rebalancing. Given the stress on services exports and investment requirements, India focused on entering into comprehensive agreements encompassing merchandise and services trade as well as investment provisions. Presently, India is involved in the ongoing Regional Comprehensive Economic Partnership [RCEP] negotiations, where ASEAN remains at the core. The current analysis evaluates the Indo-ASEAN trade patterns and evolving dynamics over the last decade through select trade indices, and comments on the future of the RCEP.

Das, R. U., Rishi, M., & Dubey, J. D. (2016). Recent trends suggest that countries have turned away from the multilateral process in favor of free trade agreements (FTAs). However, whether FTAs increase trade among their members or result in efficiencies through trade diversion to more inefficient trading partners has remained a debatable issue. This paper sheds fresh light on FTAs by incorporating new trade theories that explain Intra-Industry Trade (IIT) flows that have hitherto not received adequate attention in the current literature on FTAs. Further, regional trade integration among ASEAN+6 nations in goods through IIT has special significance in the context of regional production chains. A lack of emphasis on these issues has perpetuated ambiguities in the policy-making and negotiating processes. The paper analyzes the relationship between Revealed Comparative Advantage (RCA) and IIT, which is further divided into Horizontal IIT and Vertical IIT. Under Vertical IIT, trade can be explained through the traditional trade models of absolute or comparative advantage, as the creation of high quality products can be factor-specific. Considering that RCA can represent and capture the traditional theories of trade, RCA should be positively correlated with IIT, especially vertical IIT. On the other hand, horizontal IIT includes goods that are close to each other in terms of quality and price and can be explained by Krugman's model. This brings up our hypothesis - Does India, as a source of IIT, impel higher trade among the ASEAN+6 region through an FTA? We investigate this by means of an augmented gravity model, tested through panel Tobit methodology.The findings suggest that an ASEAN+6 FTA in goods IIT can be sustained via the impact of such an FTA on trade-FDI nexus, efficiency-seeking economic restructuring, horizontal and vertical integration, economies of scale, competition, technological improvements, and product differentiation, all of which facilitate regional value chains. The paper also demonstrates-both theoretically and empirically-that combining an FTA in goods among

ASEAN+6 countries under the Regional Comprehensive Economic Partnership (RCEP) with greater trade integration, especially with India's active role in the RCEP, both propels Intra-Industry type trade flows in the region as well as helps to sustain trade flows. These findings have important policy implications for India's participation in RCEP negotiations with adept handling of Modalities of Tariff Reduction under RCEP; IIT-enhancing Trade in Services and Investment Negotiations; and Cooperation in Appropriate Technology.

Ahmed, F., & Singh, V. K. (2016). This study investigates the financial integration among the Regional Comprehensive Economic Partnership (RCEP) countries which comprises ASEAN member countries and 6 non ASEAN countries (India, China, Republic of Korea, Japan, Australia and New Zealand). It examines the co-movements of stock market and foreign exchange market at three levels: among ASEAN members; among non-ASEAN RCEP economies, viz., India, China, Republic of Korea, Japan, Australia and New Zealand; and among all RCEP (i.e., ASEAN + 6) economies as a congregation. The strength of the study is that it employs advanced econometric techniques such as Gregory-Hansen co integration test and multivariate DCC GARCH model. In case of stock indices, it is found that there is no co integration both among ASEAN economies as well as among non-ASEAN RCEP economies. However, when they are combined to form RCEP, exhibited a co integration equation. In terms of exchange rate, there is evident co integration among ASEAN economies as well as among non-ASEAN RCEP economies, but there exists no co integration within RCEP.

India, post-RCEP (2019, Nov 06). India's decision to officially 'exit' from the Regional Comprehensive Economic Partnership (RCEP), at least for the time being, seems to have been the best course of action under the circumstances. The Prime Minister was right in observing that "opening the vast Indian market must be matched by openings in some areas where our businesses can also benefit."

Chaisse, J., & Pomfret, R. (2019). This article provides a detailed economic and legal analysis of the Regional Comprehensive Economic Partnership (RCEP) with regard to foreign investment with the objective to give an assessment of the impact of this new treaty on investment policies and flows in the Asia-Pacific region. Part One analyzes recent foreign direct investment flows in the ASEAN+ 6 countries, focusing on sectors of rapid growth and participation in global value chains and offers an overview of the RCEP rules on investment from an economic and legal perspective. Part Two analyzes the impacts of deep integration agreements on investment, as in the ASEAN Comprehensive Investment Agreement and RCEP's rules on investment, with particular emphasis on the actual and potential role of small and medium-sized enterprises. The final section looks forward, with best case and plausible-scenario analysis of future impacts on FDI within RCEP, if deep integration progresses among the 16 countries.

India, Free Trade, and Tariffs: Examining India's Decision to Leave the RCEP:

The RCEP is an extremely large market comprising 20% of the global gross domestic product (GDP) and accounts for three billion people. Staying out of the RCEP means that India's exports to such markets would be subject to high tariffs, whereas the member countries have an advantage of exporting their products freely amongst themselves. New potential trade opportunities on goods and services through South East Asia, which has huge growth, are lost for the Indian economy without the RCEP. Due to the interlinkages among the various trade segments of the RCEP nations, economic complementarities get generated, which can be tapped by joining the trade agreement.

Chatterjee, S. (2014). India is a party to the Regional Comprehensive Economic Partnership negotiations with 10 countries of the Association of Southeast Asian Nations. This could have implications for India's stance on rules of origin and also could lead to harmonisation of rules in the RCEP countries and a simpler regime in this region. Else, this would increase complexity in this area. In any case, it appears India may have to change its approach on rules of origin on account of being a party to this agreement, when it comes into force.

Roy, D. (2019, Dec 07). India's decision not to join the Regional Comprehensive Economic Partnership (RCEP) in its present form has brought a sense of relief in the dairy industry. Fear of the country being flooded with imports of dairy products from New Zealand and Australia triggered jitters in the dairy sector, which is dominated by small-farmer oriented cooperative sector.

Kim, J. B. (2018). A mega-RTA such as the planned Trans-Pacific Partnership (TPP) or the Regional Comprehensive Economic Partnership (RCEP) may overlap another RTA, with the result that some of the parties to the mega-RTA's overlapping RTA may become common parties, while others may remain as single-agreement parties. If the mega-RTA provides rules of origin based on the change in tariff classification (CTC)-with-exception criterion such as yarn-forward rules, the rules of origin will become more restrictive with respect to the imports of the excluded intermediate goods from the single-agreement parties after the formation of the mega-RTA than before, thus failing to meet the requirement under GATT Article XXIV:5. The exclusionary rules of origin of the mega-RTA draw the trade away from the single-agreement parties, causing 'fracture' in the mega-RTA's overlapping RTA. As a legal remedy to the problem, the mega-RTA should eliminate the restriction from the CTC-with-exception criterion by adopting the rules of origin based on the non-exclusionary criteria such as the value-added or the

CTC criterion that does not presumptively exclude the use of certain non-originating intermediate inputs.

Mukherjee, Deeparghya (2019). The Regional Comprehensive Economic Partnership (RCEP) aims to achieve greater integration between the ASEAN region and its six free trade agreement (FTA) partners (India, China, Japan, Australia, New Zealand and Korea). The RCEP is the only agreement to include three economies which are among the seven biggest economies of the world-China, Japan and India. The book opens with an introduction to the current status of economic integration and factors that would affect it and looks at key issues like non-tariff barriers, evolving investment regulations in China (in the context of FTAs), connectivity initiatives to integrate the region, rules of origin in the context of value chain integration in selected sectors as well as region-specific aspects of South Asia and South East Asia which would shape the regional economic architecture going forward. With an attempt to cover key imperatives, the book concludes by noting primary impediments to easier trade and investment flows in the region, highlighting possible policy recommendations to improve economic integration.

Park, I. (2020). Proliferating regional trade agreements (RTAs) in East Asia since the region's financial crisis in 1997 have been hotly debated. To date, however, no research has comprehensively examined the desirability of East Asian RTAs based on such factors as membership and evolutionary paths.

Selvarajan, S. K., & Ab-Rahim, R. (2017). Economic liberalization has been the emphasis of adjustment policies in developing countries; ASEAN countries jumped on the bandwagon and espoused economic reforms by liberalizing its international trade and financial policies. Through the development of free trade agreement policies such as AEC and RCEP, regional economic integration is accelerating in South East Asia; not leaving behind the less developed member countries such as Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). Hence, the objectives of this paper are to examine the dynamic impact of economic liberalization (financial and trade liberalization) on ASEAN's economic growth and to assess the possibility of the existence of convergence club between ASEAN and its RCEP counterparts. Using the annual data covering the period of 1994 to 2014, the analysis is based on the Pooled Mean Group (PMG) estimations for liberalization analysis while the Phillips and Sul (2007) methodology is used to assess the economic convergence clubs. The empirical evidence suggests that both trade and financial liberalization play a significant role in ASEAN's economic growth. For convergence in RCEP, full sample find an absence of homogenous convergence; as a result, four club convergences are formed. The result highlights the importance of trade and financial liberalization in enhancing economic growth of ASEAN and implies that strong commitments in continuation of liberalization and integration policies are recommended to promote a sustained economic growth.

Shantanu, N. S. (2019, Nov 10). Is India's last-minute decision to not join the RCEP (Regional Comprehensive Economic Partnership) trade bloc a tactical retreat? A bluff on the high stakes table of transnational trade to eke out greater concessions from other nations, as former Niti Aayog vice-chairman Arvind Panagariya argued in this newspaper last week? Or are we truly done with RCEP, after 28 rounds of painstaking negotiations over six years, starting in Brunei in 2013, apart from summits, one-on-ones and other mechanisms, to look West and abandon the vaunted Act East policy?

2.1 Objectives:

1. To examine in detail India’s regional trading agreements and their significance in promoting India’s external trade and global integration initiatives.

2. To analyse in detail the implications of RCEP on India and Way forward.
3. To specifically focus on India's Trade with RCEP Countries and problems of trade deficit with major RCEP partners.
4. To highlight the key role that connectivity plays in integrating the ASEAN region with India focusing on Digital connectivity, Aviation connectivity, BCIM Corridor, Thailand Myanmar India Trilateral Corridor, OBOR etc.
5. To analyze in detail India's relations with ASEAN countries and the priorities of ASEAN with respect to RCEP and India.
6. To highlight in detail the key issues concerning India with regard to RCEP and analyse the reasons why India opted to stay out of RCEP.
7. To recommend and chart out a road map and the measures that India needs to undertake to become a part of RCEP in the near future.

2.2 Statement of the Problem

India's degree of openness to trade is very high as compared to its major trading partners. However, India's share in global trade remains less than 2 percent. In this context, it is important to analyse why regional trading agreements have not helped India to increase its share in world exports and increase its exports to its partner countries. India has been trying to become a part of RCEP for nearly three years now. The study attempts to analyse India's integration into RCEP (a mega FTA) and the reasons why India chose to remain away from RCEP and its possible repercussions on India's trade with the ASEAN region. The study also looks at whether it would be feasible for India to join the RCEP in the near future and whether the RCEP deal would take into consideration India's concerns with respect to market access for both its goods and services.

2.3 Hypothesis

- Is RCEP deal favourable to India or not?
- Can India afford to stay out of such a major mega deal which would hurt its trade with the ASEAN region.
- Would India's competitiveness and trade prospects get compromised by chosing to opt out and isolating itself from all mega deals in the region including RCEP.
- Has India lost the opportunity of becoming a major super power and continues to be a marginal player as compared to China and other countries in the region.

Research Methods and Data Sources

(a) **Research Strategy**. The research strategy is largely qualitative in approach. It is a desk based study based on descriptive sources of information.

(b) **Research Design**. The research design is descriptive and exploratory in nature. It will be largely research based on secondary sources of information (Both national and international).

Data Sources

Secondary data will be compiled from various sources including the websites of the Ministry, Ministry of Commerce and Industry, Centre for Regional Trade , Centre for WTO studies, studies conducted by Indian Institute of Foreign Trade(IIFT), Websites of WTO, and various other governments including ASEAN Secretariat and other Chambers of Commerce including ASEAN Federation of Trade and Commerce, FICCI, CII etc. The study would also draw information from reputed journals in the area of RTAs, mega regional agreements and consultancy reports prepared by E &Y, PWC etc.

Limitation of the study

The study has tried to conduct a comprehensive analysis of the RCEP deal and its implications on India. However, one of the limitation of the study is that it is largely descriptive in nature and has not carried out any empirical analysis (econometric tools) of the impact of RCEP on India and India's trade with its RCEP partner countries. The study also mainly focuses on RCEP and has not looked at other RTAs which are equally important to India such India-ASEAN FTA, India Japan CEPA and India Korea CEPA.

Overview of Chapters

Chapter One: Introduction to the topic, India and RTAs and RCEP.

Chapter Two: Review of Literature, objectives and statement of the problem.

Chapter Three: Highlights India's trade with RCEP Countries and problems of trade deficit with major trading partners in RCEP.

Chapter Four: Focuses on increasing connectivity both road, marine and aviation connectivity with BCIM countries and also Thailand and Myanmar to gain better access to RCEP countries.

Chapter Five: Analyses ASEAN region's trade with India along with priorities of ASEAN with respect to RCEP.

Chapter Six: Key Issues concerning India which led to India not signing the RCEP deal

Chapter Seven: Conclusion and way forward for India with respect to RCEP.

CHAPTER 3

India's trade with RCEP countries and Problems of Trade Deficit

3.1 Introduction

Current Account is one of the key components of the Balance of Payment (BoP). Further, the Current Account comprises of Balance of Trade, Net Income from Abroad, and Net Current Transfers. The Balance of Trade relates to the difference between the exports and imports of goods and services. When the imports outpace the exports, it results in *Trade Deficit.* Governments across the globe try to minimise trade deficit due its widely believed adverse impact on the domestic industry and the GDP and its growth.

Trade deficit of India with its major trading partners is an issue . However, in recent months, the **Current Account to GDP ratio has improved and does not pose a macroeconomic threat..** As per the latest economic survey, the BoP position improved to USD 433.7 billion by September, 2019 from USD 412.9 billion of forex reserves in March, 2019. This is on the back of Current Account Deficit (CAD) narrowing further to 1.5 per cent of GDP in the first half of 2019-20 from 2.1 per cent in 2018-19.

Still, if the Trade Deficit is to be addressed, ***the best way is to increase exports.*** The Trade Policy should focus on:

- Increasing supply side competitiveness through Regional Value Chains
- Signing as many FTAs as possible to get market access

India deficit is a reflection of GDP growth. Imports have decreased because the GDP growth has slowed down. The merchandise Imports-to-GDP ratio has deteriorated, entailing a net positive impact on the BoP position. This is on account of the large presence of crude oil in the import basket. Share of gold imports remained stable in spite of rise in gold prices. Crude petroleum, gold, petroleum products, coal, coke & Briquettes constitute top import items.

The merchandise Exports-to-GDP ratio too declined to 11.3 per cent, due to weakened global demand and heightened trade tensions over 2018-19 to H1 of 2019-20. Petroleum, Oil and Lubricants- (POL), precious stones, drug formulations & biologicals, gold and other precious metals continue to be the top exported commodities.[1]

In order to curtail unfair trade practices by any country, we have the Anti-Dumping and Countervailing Measures. However, *these measures are not directly related with curbing trade deficit, these can be used even when there is a trade surplus and the partner country is practising unfair trade.*

3.2 Enhancing Exports to Curtail Trade Deficit

As mentioned above, exports can be increased by employing demand side approach (Signing as many FTAs as possible to get market access) and supply side strategies (Increasing competitiveness through participation in Regional Value Chains).

The recent debate about India not signing the Regional Comprehensive Economic Partnership (RCEP) agreement has raised questions about the overall effectiveness of

[1] Press Information Bureau https://pib.gov.in/newsite/PrintRelease.aspx?relid=197786

Free Trade Agreements (FTAs). A common misconception is that most of India's FTAs signed in the past have not been in "India's favour". The argument put forward is that the agreements have led to worsening of India's trade deficit with its partner countries with which the agreements have been signed. This line of thought is the Mercantilist way of estimating the gains from trade. Basic Trade Theory explains that gains from free trade arise because of a more efficient allocation of a country's resources. In fact, Trade Agreements with partner countries can lead to mutual benefits including not only increase in exports due to increased market access but increased domestic activity, employment etc.

According to the recent Economic Survey, Manufactured products from India have benefitted from eight out of its fourteen trade agreements, namely: MERCOSUR, ASEAN, Nepal, Singapore, Chile, Bhutan, Afghanistan and Japan.

When the impact of India's trade agreements on overall trade balance is evaluated (accounting for all confounding factors), *India's exports have increased by 13.4 per cent for manufactured products and 10.9 per cent for total merchandise while imports increased by 12.7 per cent for manufactured products and 8.6 per cent for total merchandise.* Thus, *India has clearly gained 0.7 per cent increase in trade surplus per year for manufactured products and 2.3 per cent per year for total merchandise.*

Focusing on supply side, a low level of costs related to transportation, communication, warehousing etc are a precondition for countries to participate in Global Value Chains (GVCs). Supply disruptions due to shipping delays, power failure, political disturbances, labour disputes could disrupt the entire production chain. Measures to enhance GVCs should focus on lowering tariffs on inputs, Factor market reforms, and providing an enabling environment for the entry of firms into the country.

Moreover, India can reap benefits by strengthening its involvement in the export market for **Network Products (NP).** Given India's manpower with relatively low skill, India's strength lies primarily in assembling of NP. While the short to medium term objective should be large-scale expansion of assembly activities by making use of imported parts & components, giving a boost to domestic production of parts & components should be the long-term objective. Assembly, which is highly labour intensive, can provide jobs for the masses, while domestic production of parts & components can create high skill jobs.

Another concern is whether participation in GVCs would lead to low wage countries being perpetually stuck at the lower end of the production processes. As the case studies of India's automobile sector illustrate, such apprehensions are unwarranted.[2]

3.3 Trade Deficit with RCEP Countries

Focusing on RCEP as a grouping, India recorded a trade deficit with 11 member countries that are negotiating a mega trade pact. India had the largest deficit with China (USD 53 billion), followed two of its existing FTA partners, ASEAN (USD 21 billion) and South Korea (USD 12 billion). On the other hand, India had a trade surplus with Philippines (USD 1.16 billion), Myanmar (USD 0.68 billion), Cambodia (USD 0.15 billion) and Lao PDR (USD 0.04 billion) *(Table 1)*

[2] Economic Survey 2019-20, https://www.indiabudget.gov.in/economicsurvey/doc/vol1chapter/echap05_vol1.pdf

Table 1: India's Trade with RCEP & World in 2018 (values in USD billion)

Country	India's Imports	India's Exports	Trade Balance
Brunei	0.59	0.06	**-0.53**
Cambodia	0.04	0.20	**0.15**
Indonesia	15.85	5.28	**-10.57**
Lao PDR	0.00	0.04	**0.04**
Malaysia	10.82	6.44	**-4.38**
Myanmar	0.52	1.21	**0.68**
Philippines	0.58	1.74	**1.16**
Singapore	16.28	11.57	**-4.71**
Thailand	7.44	4.44	**-3.00**
Vietnam	7.19	6.51	**-0.68**
ASEAN	59.32	37.47	**-21.85**
Japan	12.77	4.86	**-7.91**
South Korea	16.76	4.71	**-12.05**
China	70.32	16.75	**-53.57**
Australia	13.13	3.52	**-9.61**
New Zealand	0.63	0.38	**-0.25**
RCEP	**172.93**	**67.69**	**-105.24**
World	**514.08**	**330.08**	**-184.00**

Source: DGCI& S

While India currently sends 20 per cent of all its exports to the above countries, 35 per cent of all imports are from this bloc of countries. Strikingly, China, which is in the forefront pushing RCEP after breaking ties with the US, is the largest exporter into India.

Of the country's $105 billion trade deficit, $53 billion is only with China. Electrical machinery, equipment, appliances, plastic articles, iron and steel, aluminium, ceramic products, man-made fibres and furniture are a few of the many goods that China dumps into India every year.

Thus, manufacturers of the above products fear increased dumping from China post the RCEP deal.

It is dreaded that India’s commitment under the RCEP will be higher than what it is under the existing FTAs with ASEAN, Japan, South Korea and others[3].

3.4 Past experience

Post 2006, India started aggressively signing bilateral trade agreements, including the first bilateral FTA with Sri Lanka (ISFTA). This came into effect in March 2000.

After that, India had signed bilateral trade agreements with Malaysia, Singapore and South Korea. It had also become a partner in many RTAs like the ASEAN CECA.

However, India has always been at the receiving end of the FTAs. According to the data, the imports from FTA partners have been more than India’s exports to them after the signing of FTAs. In fact, in a report published by the NITI Aayog two years ago, India’s exports to FTA countries have not outperformed the overall export growth or exports to rest of the world. Further, the utilisation rate of RTAs by exporters in India is very low - between 5 and 25 per cent.

Among the domestic manufacturing industries, the metal industry has been hit the most by FTAs.

A 10 per cent reduction in FTA tariffs for metals has increased imports by 1.4 per cent, says the report. In the agricultural commodities basket, it is dairy products, pepper, and cardamom, which will face the heat of higher dumping post the proposed RCEP, according to market observers. At present, cheap imports of cardamom and black pepper from Sri Lanka and ASEAN countries have been hurting farmers in Kerela. The same has been the case with rubber farmers as rubber at cheaper rates from Vietnam and Indonesia are getting dumped into the country. Coconut farmers too are distressed with coconut oil cakes coming-in from the Philippines and Indonesia. This situation may only worsen with the new trade pact, according to farmer groups. If dairy products from Australia and New Zealand also flood the market, the domestic dairy sector will be also be affected.

3.5 Other Measures to Minimise Trade Deficit

1. Increasing Customs Duties

Reducing imports of products considered to be non-essential is one of the ways in which the governments try to reign in the Current Account Deficit as well as control the adverse impact on currency. These products largely include gems and jewellery, gold and silver, manufactured consumer goods, such as foot wear, toys, rubber/plastic items etc.

The Budget 2020, proposed increase in Customs Duty on a range of articles including household goods, electrical appliances, auto parts, footwear, furniture and some mobiles phone parts.

Duty on tableware and kitchenware of porcelain or china, ceramics, clay, iron, steel, copper and aluminum, glassware, padlocks, brooms, hand-sieves, combs and vacuum flasks, and electrical appliances such as fans, food grinders/ mixers, water heaters, hair/ hand drying apparatus, ovens, cookers, toasters, coffee/ tea makers, insect repellents, heaters and irons have also gone up from 10% to 20%.

Also, for footwear the duty has increased from 25% to 35%, from 15% to 20% for parts of footwear; from 20% to 25% for furniture such as seats, bedding and mattresses, and lamps and lights and for stationery items from 10% to 20%.

Printed circuit board assembly (PCBA), a major component of mobile phones will attract a Customs Duty of 20% from the earlier 10% while ringers of mobile phones, display panel and touch assembly will attract 10% duty.

For toys and recreational models, the duty has been increased to 65 per cent, keeping in mind that USD 635 million were imported in 2018-19 that too mostly from China.[3]

Colour TV picture tube, headphones and solar cells, which were zero per cent duty items, will now attract import duties of 10 per cent, 15 per cent and 20 per cent respectively.

Further, a recent addition in the Customs Act, 1962, allows the government to prohibit imports of ‘any other goods’ and not just gold and silver.

Another amendment in the Customs Tariff Act, 1975, allows for enhanced application of safeguard duties and tariff rate quota on imports on the pretext of a threat of injury to domestic industry. Section 8B of the Act is being substituted with a new section to empower the Central government to apply safeguard measures, in case any *article is*

[3] https://www.thehindu.com/business/budget/steep-hike-in-customs-duty-to-keep-china-toys-out-of-reach/article30715464.ece

imported into India in such increased quantities and under such conditions so as to cause or threatening to cause serious injury to domestic industry.[4]

2. Imposing Tariff Quotas or restriction on Imports

India implemented tariff rate quotas (TRQs) between 2010 and 2014 on skimmed milk powder and whole milk powder, granules or other solid forms, maize, sunflower-seed or safflower seed oil and fractions thereof, crude oil, and rape, colza or mustard oil and fractions thereof.[5]

The quotas are allocated by the DGFT and the eligible importers are state-trading companies including the National Dairy Development Board (NDDB), the National Agricultural Cooperative Marketing Federation of India (NAFED), State-Trading Corporation (STC), Minerals and Metals Trading Corporation (MMTC), the Projects and Equipment Corporation of India (PEC), Spices Trading Corporation Limited (STCL) and State Cooperative Marketing Federations, depending on the product.

India also maintains bilateral TRQs under its bilateral and regional trade agreements, for example TRQs for imports of clothing, tea, desiccated coconut, pepper and Vanaspati are maintained under India-Sri Lanka Free Trade Agreement.

More recently, India imposed restrictions on the import of pulses allocating import quotas due to surplus production in the country.[6]

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[4] https://economictimes.indiatimes.com/news/economy/foreign-trade/view-protectionist-measures-announced-in-international-trade-by-fm-are-indeed-worrisome/articleshow/73880080.cms

[5] India's Schedule of Tariff Concessions—Schedule XII (WTO document WT/LET/440, 4 April 2003)

[6] https://economictimes.indiatimes.com/news/economy/foreign-trade/indias-2020-21-pulses-import-may-fall-by-50-if-government-doesnt-extend-import-quotas-says-ipga/articleshow/74132554.cms

3. Schemes to boost Domestic Industry and Exporters and develop of trade-related infrastructure

The Foreign Trade Policy (FTP) for 2015-20 underlines the measures taken to boost India exports.

The idea of the FTP is to make India a significant participant in world trade by the year 2020 and to enable the country to assume a position of leadership in the international trade discourse. Government aims to increase India's exports of merchandise and services and to raise India's share in world exports from 2 percent to 3.5 percent.

The FTP for 2015-2020 provides a stable and sustainable policy environment for foreign trade in merchandise and services; link rules, procedures and incentives for exports and imports with other initiatives such as Make in India, Digital India and Skills India to create an 'Export Promotion Mission'; promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness; create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the Make in India initiative; and to provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.[7] A range of schemes have been introduced by the Indian Government to boost exports.

[7] Foreign Trade Policy, 2015-20, DGFT

CHAPTER 4

Connectivity: The key to South Asia's integration with the Asian region

4.1 Introduction

Trade and investment linkages form the heart of economic relations across regions of the world. Communications and transport infrastructure can be found to be the backbone of any such relationship historically. In today's world, connectivity through sea, railways, roads and aviation combined with communications and digital connectivity stands out as key infrastructure facilitating trade apart from traditional port logistics.

Through history, we find enough evidence of improved connectivity improving trade and economic relations. As shipping routes developed connecting Europe to the rest of the world, they quickly transformed into trade routes. The opening up of the Suez Canal in 1869 multiplied trade between Europe and Asia manifold and reduced the costs of trade. The canal had achieved a reduction in distance travelled by about 43 percent for ships previously approaching Asia from Europe through the Cape of Good Hope. Prior to the shipping connectivity, trade routes by land connecting vast stretches of empires from the Middle East to India or the silk route of China are well known. In modern times, connectivity on fronts such as road, rail, air, water as well as digital connectivity has become extremely important in furthering business to business (B2B) or Business to consumers (B2C) trade.

Sea transport remains the cheapest way to transport goods in mass. Ac-cording to statistics, around 14 percent of country pairs in the world are connected directly, 11 percent through one trans-shipment, 36 percent through two trans-shipments and 28 percent through three trans-shipments, which accounts for 90 percent of country pairs across the world (Fugazza, 2015). Approximately 80 percent of goods transported around the world is through sea or maritime transport (UNCTAD, 2008). Fugazza (2015) finds that the absence of a direct sea connection results in a drop in exports by about 42 percent.

Among various regions of the world the Asian region comprising primarily East and Southeast Asia have come to be major players in world trade over the last few decades. South Asia's involvement in trade is on the rise mainly because of India, which comprises 80 percent of the South Asian Connectivity 37 economy. As trade among these regions have been growing and South Asia stands out as a region of greater business opportunity analysing possible trade linkages and promoting and inhibiting factors become interesting. Connectivity is one of the key enabling factors to grow trade among the regions apart from complementary comparative advantage of these regions. The Regional Comprehensive Economic Partnership (RCEP) which is un-der negotiation involving the ten-member Association of Southeast Asian Nations (ASEAN) and its six free trade agreement (FTA) partners which include countries of East Asia and India in South Asia is aimed to facilitate commercial relations. Needless to say, connectivity would play a crucial role in facilitating business relations reaching their potential. In the context of trade in Asia and South Asia's prospective trade with rest of Asia, connectivity thus has paramount importance and this chapter reviews the connectivity situation, the initiatives that are underway analysing trends and ends with possible implications.

South Asia has traditionally been an economically least integrated region. Connectivity within south Asia as well as between South Asia and other parts of Asia have been reasonably low (Kumar, 2015). Southeast Asia has had some success as an economically integrated region with closer trade links and has been working, towards a master connectivity plan for 2025. The plan is built on three pillars, including physical, institutional and people-to-people connectivity. As of 2016, about 18 projects on physical connectivity, 15 on intuitional connectivity and 6 on people-to-people connectivity have been completed. The plan is working systematically to achieve sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility. The aim is to bridge the economic disparities within the region and evolve as a truly integrated region capitalising on prevalent advantages and adoption of best practices. East Asia has been the most connected region with the greatest extant economic links. There is increased focus in East Asia of further building long-term sustainable connectivity projects with ASEAN. Some East Asian region itself may be rebuilding old ports, highways and railroads (Hong, 2017). In the following section we study some key metrics of connectivity and look at the progress for each of the subregions (East, Southeast and South) of Asia.

4.2 Key indicators of connectivity

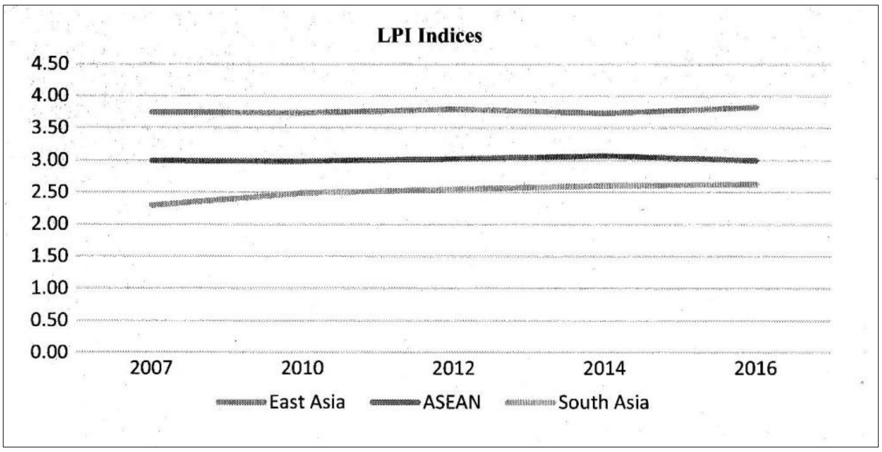
We now analyse some key indicators of connectivity across the three sub regions of Asia. As maritime connectivity is most conventional and relevant for trade, we look at the Logistics performance index (LPI) which reflects efficiency in ports followed by liner shipping connectivity at a bilateral level between countries of south, east and Southeast Asia. This is followed by a look at the number of containers handled in the ports of each country and how it has grown over the years.

4.3 LPI

From Figure 3.1 above, countries in East Asia stand out distinctly in terms of their logistics performance through the last decade followed by ASEAN. Logistics performance is least for South Asian countries, but we observe a significant improvement in logistics performance from 2007 till 2016 where LPI increased from an average of about 2.25 for South Asia to about 2.6. The improvement for ASEAN and East Asian countries has been lower than this. South Asia may thus be working towards improving port logistics and port clearance processes significantly. For a country level understanding we look at Table 3.1 below.

In East Asia, Japan and Hong Kong have comparable statistics on LPI closely followed by China, Korea and Taiwan (Table 3.1). Singapore stands out in Southeast Asia with Thailand and Malaysia being the next best in logistics. In South Asia, the level of LPI scores are lower than those of east and Southeast Asia, but improvement is observed over time. While most countries have improved, India has the best LPI scores in South Asia. While port logistics are important for trade, bilateral shipping links are important and we analyse the shipping connectivity patterns next.

Figure: 3.



Source: World Development Indicator 2019

Figure 3.1 Logistics performance index (LPI) for East Southeast and South Asia. Source: Compiled by the author using World Bank LPI statistics from World Development Indicators (WDI).

Table 3.1 Logistics performance index (LPI) indices by country

Regional Country	2007	2010	2012	2014	2016
East Asia					
China	3.3	3.5	3.5	3.5	3.7
Japan	4.0	4.0	3.9	3.9	4.0
Hong Kong, China	4.0	3.9	4.1	3.8	4.1
Korea, Rep.		3.6	3.7	3.7	3.7
Taiwan, China	3.6	3.7	3.7	3.7	3.7

Regional Country	2007	2010	2012	2014	2016
Southeast Asia					
Cambodia	2.5	2.4	2.6	2.7	2.8
Indonesia	3.0	2.8	2.9	3.1	3.0
Lao PDR		2.5	2.5	2.4	2.1
Malaysia	3.5	3.4	3.5	3.6	3.4
Myanmar	1.9	2.3	2.4	2.2	2.5
Philippines	2.7	3.1	3.0	3.0	2.9
Singapore	4.2	4.1	4.1	4.0	4.1

Thailand	3.3	3.3	3.2	3.4	3.3
Vietnam	2.9	3.0	3.0	3.2	3.0
South Asia					
Afghanistan	1.2	2.2	2.3	2.1	2.1
Bangladesh	2.5	2.7		2.6	2.7
Bhutan	2.2	2.4	2.5	2.3	2.3
India	3.1	3.1	3.1	3.1	3.4
Maldives		2.4	2.5	2.7	2.5
Nepal	2.1	2.2	2.0	2.6	2.4
Pakistan	2.6	2.5	2.8	2.8	2.9
Sri Lanka	2.4	2.3	2.8	2.7	

Source: Compiled by the author using World Bank LPI statistics from World Development Indicators.

Bilateral liner shipping connections

In Figure 3.2 we plot the intra-regional bilateral connectivity of each regional block in Asia and then the inter-regional country-to-country connectivity across regions. The average bilateral connectivity is calculated as the average of the bilateral connectivity of countries within or across the regions. It appears that bilateral connectivity is highest for countries in the East Asian region, that is, China, Japan, Korea, Hong Kong and Taiwan. The intra-regional bilateral connectivity in Southeast Asia and South Asia are comparable and have also grown on almost similar terms between 2006 and 2016. Inter-regional connectivity is highest between east and Southeast Asia although this is much less than East Asian intra-regional connectivity. East Asia-South Asia connectivity is a close second and is observed to have grown significantly over the 2006-2016 decade. Southeast Asia and South Asia connectivity has been low but almost at the level of their intra-regional connectivity. There seems to be little difference between East Asia's connectivity with Southeast and South Asia. South Asia's connectivity with both East and Southeast Asia has shown impressive growth between 2010 and 2016. Hence maritime connectivity shows some improvement in connectivity for South Asia.

Containerisation of shipments has eased global trade in a big way. Mostly 20-foot containers are used for shipment and then they are transported to the hinterland if required through railways. The number of 20-foot containers handled in each country port gives an indication of how busy the port has been as well as the participation in trade. A growth in these numbers could arise from increased value chain participation, greater participation in world trade in general and also through better logistics services. We study this for the Asian countries in RCEP below:

From Table 3.2, we find that between 2010 and 2016, the countries that have grown their handling of port containers the most are China and Korea in East Asia, and Malaysia, Indonesia and Viet Nam in Southeast Asia. While India has also grown in its handling of port containers, the magnitude of increase is not as much as the other countries mentioned above. Countries like Singapore which were already handling a large number of containers have also shown growth but lower than others. Hong Kong has actually handled a lower container volume in

2016 compared to 2010. Countries with very low container handling include Maldives, Myanmar and Brunei apart from the landlocked countries.

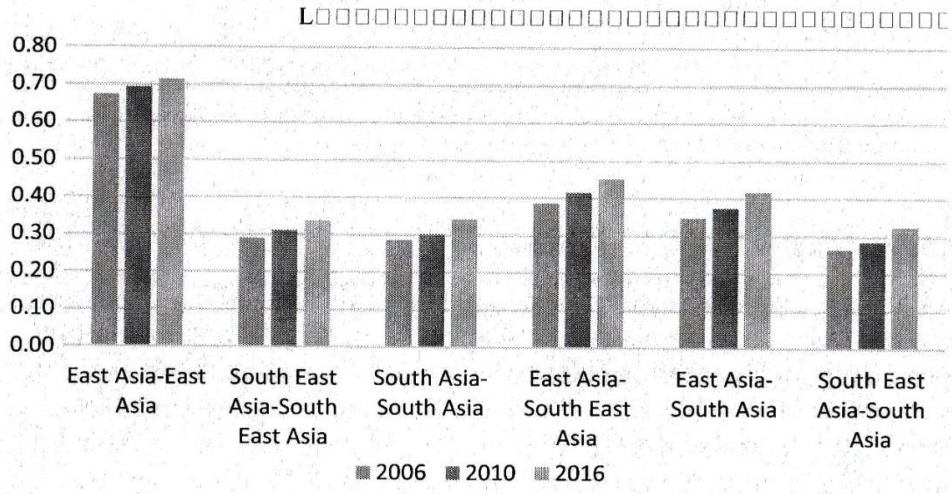


Figure 3.2 Average bilateral shipping connectivity across regions.
Source: Compiled by the author using bilateral liner shipping connectivity index (UNCTAD statistics).

Table 3.2 Number of 20-foot containers handled in ports per year (in thousands)

Year	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
East Asia							
China	139,358	152,476	163,372	175,805	186,853	194,756	199,566
China, Hong Kong *Special Administrative Region* (SAR)	23,600	24,404	23,100	22,290	22,300	20,114	19,580
China, Taiwan Province of	12,937	14,518	13,878	14,047	15,050	14,492	14,865
Japan	18,115	16,624	17,075	19,108	20,675	20,076	20,257
Korea, Republic of	18,517	20,591	21,535	22,523	24,814	25,477	26,373

Connectivity 41

Year	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Southeast Asia							
Brunei Darussalam	93	105	109	122	128	128	125
Cambodia	224	238	255	286	424	474	482
Indonesia	8,089	9,674	10,428	10,811	11,637	12,032	12,432
Lao People's Dem. Rep.	NA	NA	NA	NA	NA	NA	NA
Malaysia	18,204	20,011	20,588	20,910	22,368	24,013	24,570
Myanmar	335	381	474	567	717	827	1,026
Philippines	5,087	5,315	5,642	5,826	6,176	7,210	7,421
Singapore	29,179	29,938	31,649	32,579	34,688	31,710	31,688
Thailand	6,521	7,036	7,324	7,547	8,119	8,359	8,239
Viet Nam	5,886	6,924	7,372	8,254	8,150	8,842	8,496
South Asia							
Afghanistan	NA	NA	NA	NA	NA	NA	NA
Bangladesh	1,469	1,343	1,469	1,626	1,643	2,045	2,367
Bhutan	NA	NA	NA	NA	NA	NA	NA
India	9,112	9,557	9,577	9,685	11,319	11,883	12,083
Maldives	50	53	55	80	84	84	82
Nepal	NA	NA	NA	NA	NA	NA	NA
Pakistan	2,149	2,132	2,244	2,445	2,535	2,756	2,645
Sri Lanka	4,080	4,263	4,187	4,306	4,908	5,185	5,550

Source: Compiled by the author using Container port throughput statistics from UNCTAD statistics.
(Figures in thousands.)

We note from the above analyses that there is scope to build on connectivity infrastructure across countries and the current levels of connection are disparate. While sea linkages and port logistics capture one part of the connectivity initiatives, sine the region in question is connected by land, road and railway networks play a crucial role. We take a look at the various initiatives and projects underway to improve connectivity across countries in the region.

4.4 Connectivity initiatives

We find a number of projects currently underway in connecting South Asia with Southeast Asia. As South Asia is a land of 'potential with lower cost production opportunities and most products are being produced through regional value chains in Asia, better connectivity is expected to benefit trade and economic relations between Asia. We look at the connectivity initiatives sequentially.

Kaladan multimodal transit transport project

The Kaladan Multimodal project has been one of the most important connectivity initiatives between India and the rest of Asia. It has multiple components: namely, a 539-km shipping route from Kolkata, India, to Sittwe seaport in Myanmar; a 158-km boat route from Sittwe seaport to internal water terminal at Paletwa Jetty through the Kaladan river; a 109-km road route from the Paletwa to Zorinpui which is at the Indo-Myanmar border; and finally a 100-km route from the Indo Myanmar border to Aizawl.

The project was initially due to be completed in 2016 but has met with multiple bottlenecks. The idea of the project has been to improve India's connectivity to the Northeast as well as improve connections with Southeast Asia through the Sittwe port and its connection to the trilateral highway. While the waterway link has existed for a long time and the sea route is an established channel of transportation. The roadways construction has been held up.

It is only around the middle of 2017 that the construction of the connection from Paletwa port to Zorinpui in the Indo-Myanmar border started. It is expected that this will be completed by 2019. However, at this stage it seems doubtful whether the 2019 deadline can be met. There have been multiple bottlenecks in obtaining approvals from either government for getting equipment across to Myanmar for construction, in addition to delay due to weather which has not been conducive to quick progress.

On the Indian side there has been progress in extending the Aizwal-Saiha national highway till the border at Zorinpui (around 90 km) has been on.

India-Myanmar and Thailand trilateral highway

While the trilateral highway was conceptualised in 2012 in a Joint Task Force meeting, the approximately 1700-km trilateral highway between India and Thailand through Myanmar is far from completion. An initial deadline of 2016 for its completion has been periodically extended and it is estimated that this might be completed by the end of 2019 or early 2020.

The highway has been planned from Moreh in Manipur to Mae Soet in Thailand through Mandalay in Myanmar. Along with the conceived Motor Vehicles agreement (MVA) between India, Myanmar and Thailand, this highway would improve connectivity between India and Southeast Asia phenomenally improving trade, tourism and cultural exchanges. The MVA has however been put on hold primarily due to reported concerns of Myanmar about connectivity. There are plans to complement the highway with a railroad connection running parallel to the highway.

4.6 Bangladesh China India Myanmar (BCIM) economic corridor

The BCIM project is one particular initiative which can work towards improving linkages between India and both East and Southeast Asia. In order to improve India's competitiveness in trade with the East and Southeast Asian region, the BCIM corridor connecting India, Myanmar, China and Bangladesh is crucial. The transnational corridor was conceptualised in 1998 as part of a track 2 dialogue to promote freer flow of goods and also as a means to attract foreign investment in the region. The economic corridor will be linking the cities of Kolkata (India), Dhaka (Bangladesh), Mandalay (Myanmar) and Kunming (China) thereby building a road approximately 2,800 km in length. The Kolkata to Kunming (K2K) highway plan was unveiled at the tenth BCIM forum meeting in Kolkata in 2012. The route as unveiled flows through Kolkata, Dhaka, Imphal, Mandalay, Lashio, Muse and Kunming. There are two obvious benefits that the region shall gain after the construction of the corridor. First, trade costs between the nations may be reduced significantly. Second, this would add crucial infrastructure to the north eastern region of India which would get better connectivity with the world and act as a road to faster economic development of the region. While some parts of the route already have a road infrastructure, building all-weather roads is underway and the Kolkata-Kunming car rally in February 2013 brought renewed focus on usage of the roadways for transport. However, after this there has been slow progress towards completion of the BCIM economic corridor.

4.7 Bangladesh, Bhutan, India Nepal (BBIN) initiatives

The BBIN is a subgroup of the South Asian Association of Regional Cooperation (SAARC) countries aimed at improving regional cooperation. The initiative has a close focus on connectivity and while each of the countries has a myriad of problems with respect to cross-border movement of goods, customs clearance etc. each one realises the need to improve connectivity and ease of goods movement across the borders for quicker trade-led growth. A

Motor Vehicle Act (MVA) has been signed in Thimphu (Bhutan) in June 2015 by the four South Asian countries to regulate passenger, cargo and vehicular traffic. Bhutan's parliament is yet to ratify the agreement. The other three members have shown the success of the MVA through trial runs by truck movement between Kolkata-Dhaka-Agartala and Dhaka-Kolkata-Delhi already. However, to make connectivity in BBIN a true success a significant improvement is required in the road infrastructure (roads and bridges). This is particularly true of Bangladesh. About 30 connectivity projects have been identified by the MVA requiring an investment of about US$8 billion. The condition of the roads connecting the countries needs immediate attention and local sub-regional or state level support for this is a prerequisite for progress on this front. In addition to road connectivity, there has been an agreement to discuss the potential for a BBIN rail agreement.

Belt and Road Initiative (BRI)

The belt and road initiative which was earlier known as the one belt one road (OBOR) initiative has been the Chinese government's proposal for a transport infrastructure development strategy between China and its neighbouring regions as well as to key strategic trade destinations. There are a few distinct components to the BRI initiative. First, China would want to connect its inner regions with Europe via land connectivity. Hailing from the historic Silk route, this is the Silk Road Economic Belt. Second, China would want to link the fast-growing south-east Asian region with its southern provinces by sea and this route would be further extended touching the major ports of the Asian region in South Asia, Sri Lanka (Hambantota: which the Chinese have financed already), Africa and Europe through the Suez Canal. There are other relatively smaller segments which are part of the initiative like the China-Pakistan Economic Corridor (CPEC) and the BCIM project. Added to this, there are major railway network building projects within China and elsewhere (Cai, 2017). This would primarily link Asia, Africa and Europe connecting about 80 countries promoting flow of trade and investment, people and ideas. This is the largest connectivity initiative requiring massive investments building ports, roadways, railway lines. The total investment is scheduled to reach US$4 trillion. China has already set up bodies to fund the investment in phases.

The BRI if successful would open up a host of opportunities, especially for the landlocked countries along the Silk Road who would be able to participate in world trade more easily. However, these are mostly the central Asian countries and most of South and Southeast Asia would have incremental benefits (if any) only in reaching landlocked countries. Most of the rest of the countries in the Asian region are connected through the sea and the maritime segment of the BRI would be most relevant for them.

There are a number of developing and emerging economies which also figure in the BRI radar which would have easier access to ports. Many developing and emerging countries find it difficult to fund road infrastructure which is crucial in bringing down trade costs. China currently has an advantage in building physical connectivity infrastructure. It is also ready to fund the building of such infrastructure for developing economies at a concessional rate. This naturally is a lucrative offer for many countries. However, the ability to pay back the debt for different countries is not the same. The experience of Egypt with the building of the Suez Canal could become a reality for a few countries. Sri Lanka has struggled and finally leased out the Hambantota Port and 15,000 acres of land to China for 99 years in order to pay off its debts. The situation could turn out to be quite the same for other countries if they are facing fiscal pressures.

While most countries around the world have welcomed the Chinese initiative, India which accounts for most of South Asia's geography has expressed its reservations about the BRI initiative. While efforts have been on to convince India about joining the project, India's position is firmly placed as it remains in opposition to the CPEC which runs through the disputed territory of Pakistan Occupied Kashmir.

Aviation connectivity

The role of air connectivity in facilitating trade is relatively lower than maritime and road or rail connectivity. This is primarily because the costs of air transportation are far higher and only selected goods which are fragile and or perishable in nature often get traded through air connectivity. However, air connectivity has a tremendous role in forming business relationships, improving the potential of tourism, business travel for investment and entrepreneurial ventures etc. Hence, although trade through air connectivity may not be high in terms of volume of trade, the value of trade could be significant. The need for greater air connectivity has been stressed at various levels including by the Singapore prime minister in his last visit to India.

ASEAN and India have signed the agreements on investment and services and this further necessitates better air connectivity to harness the potential benefits of the agreements. In addition to this, reaping the benefits of a fully implemented RCEP also calls for greater air connectivity to foster business and commerce between the regions. India's national civil aviation policy (2016) emphasizes the need to improve the quality of air cargo services.

While it is recognised that greater air connectivity between India and ASEAN is necessary, currently only five ASEAN members, that is, Malaysia, Singapore, Vietnam, Myanmar and Thailand have direct flights to India. Each of the East Asian countries have better connection. We also note that among the ASEAN members which have direct connectivity, there is a mix 4 of development levels with no flights from the least developed ASEAN members. Indonesia and Philippines are two ASEAN members with which India has substantial business relations but there are no direct flights from these countries to India. India has signed bilateral air services agreement (BASA) with all ASEAN countries as of 2015. Most of the ASEAN country airlines fly to major Indian cities with flights to tier 2 cities seeing slow growth. Flights from and to Malaysia, Singapore and Thailand seem to be very useful and run on full bookings but flights from other ASEAN coun-tries, especially the (Cambodia , Laos, Myanmar and Vietnam) CLMV, are underutilised (AIC, 2016).

Among the countries involved in RCEP negotiations, China and Vietnam have been found to have high-volume trade by air connectivity. But the figures for the rest are not in the high-growth zone. There is significant scope for growing air connectivity between South Asian countries like India, Bangladesh and Sri Lanka for purposes of improving trade and business relations especially the parts and components trade which would help link the whole Asian region in the most productive manner.

Digital connectivity

Digital connectivity is revolutionising the way business is conducted across the world. The pioneering advances made in communications and digital technology have transformed lives across the globe. The prospect of conducting most transactions through the digital mode using either the mobile network or internet connectivity was not so prevalent even at the turn of the century for most countries. However, over the last two decades, a significant number of financial transactions have started taking the digital route. This trend is found to have picked up fast for developing as well as emerging economies. Some estimates suggest that widespread use of digital finance could boost annual GDP of all emerging economies by US$3.7 trillion by 2025.

If we look at the growth of the number of mobile subscribers per hundred people in the Asian countries between 2000 and 2016 (Table 3.3), we observe that mobile usage has grown the most in Southeast Asian countries. In East Asian countries where the level of mobile subscription was already significant in 2000, most countries have more than one mobile subscription per person and in the case of Hong Kong we observe more than two subscriptions per person. In the case of South Asia, countries like Nepal, Maldives and Sri Lanka have shown maximum growth.

Table 3.3 Mobile subscribers per 100 people

Country	*2000*	*2005*	*2010*	*2015*	*2016*
East Asia					
China	7	30	63	92	97
Hong Kong	82	125	196	231	241
Japan	52	75	96	125	131
Korea, Rep.	57	79	102	116	121
Southeast Asia					
Brunei Darussalam	29	64	112	111	124
Cambodia	1	8	57	134	126
Indonesia	2	21	87	131	148
Lao PDR	0	11	64	56	59
Malaysia	22	76	120	144	141
Myanmar	0	0	1	78	96
Philippines	8	40	89	116	109
Singapore	70	98	146	149	150
Thailand	5	47	107	150	174
Vietnam	1	11	126	129	128
South Asia					
Afghanistan	0	5	35	58	62
Bangladesh	0	6	45	81	83
Bhutan	0	5	54	86	88
India	0	8	61	76	85
Maldives	3	64	136	177	190
Nepal	0	1	34	96	111
Pakistan	0	8	58	66	71
Sri Lanka	2	17	86	115	124

Source: Compiled by the author using World Bank World Development Indicators statistics.

Mobile usage for financial transactions has also gone up remarkably after smart phones are being used for e-payments through portals like Paytm and the growth of e-commerce for selling products in each of the countries across the regions of Asia. Hence mobile usage combined with the use of internet has become more useful in facilitating trade and commerce. We look at the level of internet usage across countries below:

Most of East Asia barring China has grown in the number of internet servers per one million people significantly, with the highest growth re-corded for Korea (Table 3.4). In Southeast Asia, Singapore, Malaysia and Brunei stand out by the number of internet servers per million people and in South Asia Maldives emerges as the country that has grown the most in internet penetration. Given the difference in digital infrastructure as can be seen from the above tables, one could expect a difference in the role of digital commerce. However, trends in growth of digital commerce tend to suggest that there is a somewhat uniform growth across countries in using digital channels for conducting business as well as payments.

Table 3.4 **Secure internet servers (per one million people)**

Country	*2005*	*2010*	*2015*	*2016*
East Asia				
China	0	2	10	21
Japan	258	647	970	1071
Korea, Rep.	20	1125	2301	2201
Hong Kong	162	456	906	963
Southeast Asia				
Brunei Darussalam	14	67	206	234
Cambodia	0	2	5	7
Indonesia	0	2	8	10
Lao PDR	0	1	3	3
Malaysia	15	42	102	106
Myanmar	0	0	1	2
Philippines	2	7	14	15
Singapore	275	530	932	890
Thailand	5	14	30	33
Vietnam	0	3	14	19
South Asia				
Afghanistan	0	1	1	1
Bangladesh	0	0	1	2
Bhutan		4	17	24
India	1	2	7	8
Maldives	6	47	100	103
Nepal	0	2	4	4
Pakistan	0	1	2	3
Sri Lanka	2	5	14	17

Source: Compiled by the author using World Bank World Development Indicators statistics.

Southeast Asia's e-commerce revenues are set to surpass US$25 billion by 2020. While Malaysia and Thailand have been the largest markets for B2C e-commerce, Vietnam and Indonesia may soon surpass these markets. South Asia has also been in the news for digital networks improving opportunities. In India, the National Agricultural Market (eNAM) was launched in 2016 allowing farmers and traders to view agricultural prices, commodity arrivals and other agricultural market-related information. This helps famers in turn to bid for the best prices across markets. Indian fishermen use their mobiles with apps to get information about the weather conditions in the sea as well as identify areas where the catch may be better on a particular day. This saves their fuel consumption. The app also helps them identify the prevailing rates at different markets and hence they are in a position to choose which port they would approach for selling their catch. The Indian e-commerce market is scheduled to grow to US$200 billion by 2026 from US$38.5 billion in 2017. There has been a commitment to build digital connectivity through the use of Gigabit-capable passive optical network (GPON) technology between India and ASEAN.

Digital connectivity and data flows help improve business possibilities as digitisation of logistic services and border controls ease the process of trading by reducing transaction time. Measures like customs automation, electronic documents and single window clearances are possible using digital technology. It helps increase transparency, reducing costs of risk management while lowering opportunities for corruption. It also helps prospective customers to connect to prospective sellers far more easily as soon as they have access to the digital platform.

This also adds to some challenges of customs officials. With direct interaction between buyers and sellers the number of small consignment as opposed to big ones by wholesale operators increases. This challenges the ability of authorities to monitor enforcement standards, trade in counterfeit products etc. (Jouanjean, 2017).

For B2B trade, digitisation facilitates coordination of production networks. The electronic cargo tracking system enables this in a big way. The role of regional value chains in improving regional trade in Southeast and East Asia is reasonably well known. Countries like India may integrate into certain industries like automobiles and electronics where the usage of digital technology already benefits B2B trade. This could be further improved and South Asia may see greater integration in Asian value chains in the near future. However, digital connectivity alone may not be able to improve trade potential as, end of the day, trade can only happen through physical goods crossing the borders. Hence, digital connectivity supplements the ability to trade only when physical infrastructure like road or waterway connectivity is built in a competitive fashion. (OECD, 2017).

4.9 Discussion and conclusion

Issues of connectivity furthering economic relations between countries has been well recognised in the world. Our analysis in this chapter centred around the regions of South, Southeast and East Asia furthering trade and economic relations and its prospects in the backdrop of the RCEP mega Regional Trade Agreement (RTA) that is currently under negotiation.

East and Southeast Asian regions have had significant advances in connectivity through both maritime and other routes and these regions are appreciably ahead of the South Asian region in terms of economic linkages and business through value chains integrated across borders. South Asia as a land of opportunity through lower costs of production and resources can benefit immensely through business linkages with either or both of the neighbouring Asian regions. As 80 percent of the South Asian GDP is ac-counted for by India alone and it is the only South Asian country that is currently a part of the RCEP negotiations, we look at regional connectivity mainly between India and the rest of Asian region.

On the basis of connectivity statistics presented we concluded that East Asia bas the best performance in port logistics management as a region. While countries like Singapore fare very high in logistics performance, most other countries in Southeast Asia fare much lower than East Asia on LPI. South Asia is seen to have improved more in comparison to

East and South-east Asia and this should help countries like India, Sri Lanka or Bangladesh reap the benefits if they are able to get into the value chains of products which require frequent passages through multiple ports in their different stages of production.

In terms of bilateral shipping connectivity, East Asia and Southeast Asia are well connected internally but the inter-region connectivity has shown slow progress and East Asia's connectivity with Southeast is a shade better than its connectivity with South Asia. This would imply that the maritime connectivity between the three regions do not vary significantly although there are vast differences in intra-regional connectivity. Hence, if businesses were to trade in parts and components between the three regions, challenges on the shipping front may be lesser than port clearances or port logistics.

A significant amount of investments have been made on building surface transport infrastructure. While we reviewed most of the initiatives, differences on various fronts have stalled the progress of multiple such projects from being finished in time. This is especially true for the South Asia- Southeast Asia connectivity. While the RCEP once negotiated would open the doors to easier trading, the lack of quality road and rail infrastructure coupled with hassles in border controls could be stumbling blocks for obtaining gains from trade. The BRI while lucrative may need to be watched closely and countries which would finance port and road infrastructure through soft loans from China may find it difficult to pay back later if trade potential is low.

Aviation connectivity becomes important for forming business links and for trade of sensitive, fragile or quickly perishable commodities. There is a lot of scope for improvement in South Asia's connectivity with East and Southeast Asia on this front.

While aviation links are on the rise as business links increase this may be expected to increase complementarily.

Finally, digital connectivity has tremendous potential to improve business links especially between smaller businesses. All the Asian regions have shown increases in the usage of digital technology although East Asia is far ahead of its neighbours. Lowering costs of connecting digitally has immense potential to improve business links across regions. The incremental economic benefit would be high for South Asia on this front but increasing digital connectivity should be complemented with physical connectivity infrastructures like roads, railways and waterways.

In sum, the prospect of increasing trade and economic linkages across regions of Asia is tremendous but this can only be realised in a post-RCEP world if connectivity infrastructure is improved significantly. While efforts on improving port logistics would be most important in South Asia, road infrastructure connecting East, Southeast and South Asia would be required. Effective implementation of MVAs) with good highway and port infrastructure, and easier digital connectivity hold the key to reaping the true fruits of business opportunities facing the entire Asian region once a successful RCEP is implemented.

CHAPTER 5

ASEAN and its RCEP priorities

Challenges and the way forward

5.1 Introduction

The Association of Southeast Asian Nations, or simply known as ASEAN, has been leading the negotiation of the Regional Comprehensive Economic Partnership (RCEP) since 2012. It is bringing together ten of its own members and another six big economies of the Asia-Pacific region. The latter group includes Australia, China, India, Japan, New Zealand and South Korea. If negotiated successfully, RCEP is estimated to cover 30 percent of world's Gross Domestic Product (GDP), 50 percent of the world population and 30 percent of global trade. Given its sheer size, RCEP is often termed as mega-regional. From the beginning, ASEAN made it distinctly clear what it expects to achieve with RCEP. In the framework document, that was signed in 2011 to provide a guideline for subsequent negotiation, ASEAN promised to deliver on 'a comprehensive and mutually beneficial agreement that would cover 'broader and deeper engagement with significant improvements over existing ASEAN FTAs/CEP with Dialogue Partners'. It further stated that the agreement will also address new issues that may emerge in the future. Besides outlining features like high transparency upon signing of the agreement, availability of economic and technical cooperation for implementation and focus on trade facilitation, the framework document provided flexibilities in terms of negotiation process, that is, sequential manner or single undertaking and future accession , both for the ASEAN free trade agreement (FTA) partners who may decide not to participate at the outset or new members and special and differential treatment for less developed ASEAN members (ASEAN Secretariat 2011). Looking at these, one may quickly extrapolate that while ASEAN wanted an institutionalized trade regime that would improve upon its existing trade agreement s, thereby strengthening trade and investment in the region, it was mindful about the complexity of negotiation and the development status of some of its participating members. This made many wonder whether RCEP can truly manage to introduce a new paradigm in ASEAN's international trade regime.

The Guiding Principles for negotiating RCEP was issued in August 2012. In addition to reiterating the fact that RCEP is meant to achieve a 'modern, comprehensive, high-quality and mutually beneficial deal, the guiding principles stated the coverage as trade in goods, trade in services, investment, intellectual property, competition, dispute settlement and any other issue that will be mutually agreed upon during the course of negotiation (ASEAN Secretariat 2012). The issues later were extended to e-commerce and government procurement.

Sixteen countries commenced the negotiation in 2013 and have completed 20 rounds of negotiation at the time of the writing of the chapter in December 2017. With immense challenges still unresolved, there is yet no concrete sign of conclusion anytime soon. In the past five years, new economic and geo-strategic issues have evolved and some have even changed their course of action. One such key issue is another mega-regional, the Trans-Pacific Partnership (TPP), once led by the United States and publicized as its key strategy to 'pivot to Asia'. The TPP was launched in 2011 and marketed as a 21st-century trade agreement that will address issues much beyond what is currently discussed under the World Trade Organization (WTO). Although the 12 participating members concluded negotiations and signed the deal in early 2016, the agreement fell through the cracks of the US election. In early 2017, as the new US administration, led by President Donald Trump, assumed office, it pulled the US out of the trade pact, leaving policymakers of the other 11 countries to come up with an accommodating arrangement of Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) in November 2017.

Given the background, this chapter looks at ASEAN's rationale for joining RCEP negotiations. It pays attention to both economic and strategic interests of the ASEAN countries that they expect to be served by participating in the mega-regional. As negotiation is a multiparty game, it is bound to face challenges and hiccups. RCEP is not immune from that. The chapter discusses some of the contentious issues during RCEP negotiation. Finally, the key points of the chapter are put together to provide a conclusion. The chapter provides an RCEP account from a perspective of ASEAN-5 countries, that is, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, as these are the countries that are more profoundly commercially linked to the bigger RCEP economies, like China, Japan, South Korea and India. As Vietnam is fast catching up with other advanced ASEAN countries, the chapter takes Vietnam under consideration where felt necessary.

5.2 RCEP serves economic priorities

The section explains various economic rationales for the ASEAN countries to undertake the RCEP negotiation. These include, the importance of trade and Foreign Direct Investment (FDI) in their economies, participation in East Asia production network, improve trade facilitation environment and multilateralising the existing ASEAN+l FTAs.

5.3 Trade and investment are crucial for ASEAN economies

ASEAN countries' trade, particularly the merchandise one, has increased from US$1,237 billion in 2005 to US$2,172 billion in 2016, reflecting an average annual growth rate of 5.3 percent. As against this, merchandise trade of several of the non-ASEAN RCEP countries, such as, Japan, China and South Korea rose at a rate of 1.1 percent, 9 percent and 4.7 percent, respectively over the same period (Table 1). Merchandise trade been an important component of ASEAN countries GDP for long (Table 2). In fact, for most of the ASEAN-6 countries, merchandise trade share as percent of GDP is more than 100 percent, and much higher when compared to non-ASEAN RCEP participants. For most of the ASEAN-6

Table 1 Merchandise trade performance, 2005-2016

	2005	2010	2016	Average annual growth (2005-2016)
Indonesia	163	293	280	5.1
Malaysia	256	363	358	3.1
Philippines	91	110	143	4.2
Singapore	430	663	630	3.5
Thailand	229	376	410	5.4
Vietnam	69	157	351	15.9
ASEAN-6	1,237	1963	2172	5.2
Australia	231	414	387	4.8
China	1422	2974	3686	9.0
India	242	577	624	9.0
Japan	1111	1464	1253	1.1
South Korea	546	892	902	4.7
New Zealand	48	62	70	3.5

Source: WTO Trade Statistics, author's calculation.

Table 2 Merchandise trade (% Share GDP)

	1980	1985	1990	1995	2000	2005	2010	2015	2016
Indonesia	32.9	27	34.4	35.2	60.7	52.3	38.8	34	30

Malaysia	89.8	82.1	126	158.9	178.9	172.7	142.4	126.6	120.7
Philippines	38.8	29.7	43	55.8	92.7	88	55.1	44.1	46.8
Singapore	359.3	264.6	292	276.3	284.1	337.2	280.3	216.8	206.3
Thailand	47	40.8	63.4	75.1	103.6	121	110.3	104.5	100.7
Vietnam	6.1	17.3	80.3	65.4	96.5	120	139.3	171.6	174.3
Australia	27.2	27.8	25.2	30.1	33.9	31.5	33.2	32.2	30.7
China	12.4	22.3	28.9	38.1	39	61.6	19	35.2	32.9
India	12.4	10.6	12.7	17.8	19.7	29.1	33.7	31.6	27.6
Japan	24.7	22	16.6	14.3	17.6	23.4	25.7	29	25.3
New Zealand	48.4	52	41.3	44.4	50.2	42.3	42.7	40.9	38.4
South Korea	61	61.2	48.3	46.8	59.2	60.8	81.5	69.7	63.9

Source:

countries merchandise trade as percent of GDP has gone up. Besides Singapore, which is a free port since its independence in 1965, countries like Malaysia, the Philippines, Thailand and Vietnam, have a sizable proportion of merchandise trade. The ASEAN countries, as a whole, has increased their share in global exports over this time. While in the early 1980s, Japan dominated the trade share in the broader Asian region at 6.6 percent, it changed drastically by the early 1990s. By 2015/2016, the ASEAN countries accounted for 6.7 percent of total global trade compared to 3.9 percent of Japan

Hence, for the ASEAN policymakers RCEP is an important initiative that will support the importance of trade in these economies further.

Similar to trade, FDI has long played a crucial role in the development strategy of the ASEAN countries. The Japanese FDI, in particular, has been active in catalysing the growth of ASEAN manufacturing exports, explained by the 'flying geese' model of shifting comparative advantage (Sally and Sen 2005). However, with the advent of the 1997-1998 financial crisis and Japan's prolonged period of economic recession, the

ASEAN countries experienced a significant slowdown in FDI inflows. At the same time economic surge of China and, to a certain extent, of India, as competing destinations for FDI, also saw ASEAN countries suffer from a slowdown in FDI inflows (Table 4). In 1990, while the ASEAN countries attracted most of the FDI flows among the developing economies, the share went down in 1995 and 2000. China gained prominence as a key FDI destination by the late 1990s. It was only in the 2000s when the ASEAN countries paid attention to economic integration to provide economies of scale and streamlined cross border flows, that the share of FDI flows again picked up some momentum. By 2014, the share of ASEAN is at par with the Chinese share of investment flows in the country. Hence, economic integration in a bigger geography via RCEP is viewed positively for FDI flows among the ASEAN policymakers.

Table 3 Merchandise trade (% share of world trade)

	1980	1985	1990	1995	2000	2005	2010	2015	2016
Indonesia	0.8	0.7	0.7	0.8	0.8	0.8	1.0	0.9	0.9
Malaysia	0.6	0.7	0.8	1.5	1.4	1.2	1.2	1.1	1.1
Philippines	0.3	0.3	0.3	0.4	0.6	0.4	0.4	0.4	0.4
Singapore	1.1	1.2	1.6	2.3	2.1	2.0	2.2	1.9	1.9
Thailand	0.4	0.4	0.8	1.2	1.0	1.1	1.2	1.3	1.3
Vietnam	0.0	0.1	0.1	0.1	0.2	0.3	0.5	1.0	1.1
ASEAN	**3.2**	**3.4**	**4.3**	**6.4**	**6.1**	**5.8**	**6.4**	**6.6**	**6.7**
Australia	1.1	1.2	1.2	1.1	1.0	1.1	1.3	1.2	1.2
China	**0.9**	**1.8**	**1.6**	**2.7**	**3.6**	**6.7**	**9.7**	**11.9**	**11.5**
India	0.6	0.6	0.6	0.6	0.7	1.1	1.9	2.0	1.9
Japan	**6.6**	**7.8**	**7.4**	**7.5**	**6.5**	**5.2**	**4.8**	**3.8**	**3.9**
New Zealand	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
South Korea	1.0	1.5	1.9	2.5	2.5	2.6	2.9	2.9	2.8

Table 4 FDI Inflows in ASEAN, China and India (US$ billion)

Year	ASEAN	China	India	Developing economies
1990	12.8 (37%)	3.5 (10.1%)	0.2 (0.7%)	34.6
1995	28.6 (24.3%)	37.5 (31.9%)	2.2 (1.8%)	117.8

2000	22.5 (9.7%)	40.7 (17.5%)	3.6 (1.5%)	232.2
2005	43.2 (13.1%)	72.4 (21.9%)	7.6 (2.3%)	330.2
2010	105.1 (18.1%)	114.7 (19.8%)	27.4 (4.7%)	579.9
2014	132.8 (19.5%)	128.5 (18.9%)	34.4 (5.1%)	681.4
2015	126.6 (16.8%)	135.6 (18.0%)	44.1 (5.8%)	752.3
2016	101.1 (15.6%)	133.7 (20.7%)	44.5 (6.9%)	646.0

Source: UNCTAD (various issues), suthor's calculation
Note: Figures in parentheses denotes share of FDI flows to total flows to developing countries.

RCEP strengthens ASEAN countries participation in East Asia production network

Strengthening participation in the regional production network, thereby increasing trade volume, is also an important consideration for ASEAN countries to become part of the RCEP deal. The ASEAN countries are part of a larger East Asian regional production network process since the beginning of the 1990s. There are three key characteristics of this East Asia's engagement in production networks (mentioned as network trade), as described by Athukorala (2013). First, development of production network in the Asian region can be traced back to 1968, when the US MNCs set up their operations in Singapore and later relocated their product ion facilities to Malaysia, Thailand and the Philippines, to take advantage of lower cost. However, the phenomena non picked up steam when China emerged as a 'global factory' in the early 1990s. China's performance as a destination of final assembly, based on imported parts and components (P&C) from neighboring countries, assumes importance in this respect. More recently, the production networks saw gradual expansion to Vietnam. Over time, the development of production network led to a new form of division of labour among countries in East Asia, especially on the basis of their skill differences, relative wages and communication and transport infrastructure.

Second, the share of East Asia in world network trade increased from 32 percent in the early 1990s to more than 40 percent more recently, implying that the region is an active participant in this new form of production. Within East Asia, China has been a major driving force in network trade. The shares of advanced ASEA N countries also went up during this period, except for Singapore. The decline in Singapore's share reflects on its changing role in production network: from assembly and testing activities to managerial functions, product design and technology-intensive augment of production (Athukorala 2008).

Third, the P&C account for a much larger share in network trade across all countries in the region. Except for China and Thailand, P&C account for more than 50 percent of total network export. The P&C share is particularly high for ASEAN countries. Moreover, the share of P&C is higher in imports vis-a-vis exports, implying that although the East Asian countries depend on their neighbours as markets for P&C, they rely on the rest of the world as a market for the final products.

Table 5 Intra-and extra-ASEAN Trade (% of total trade)

	Indon	Mal	Php	Sing	Thai	Viet	**A-5**	Aus	China	India	Japan	N.Z.	S.K.
Indon	-	5.5	1.6	11	4.6	2	**24.2**	2.9	15.2	4.9	10.7	0.4	5.5
Mal	4.1	-	1.3	13	5.9	2.5	**26.8**	3.1	15.8	3.2	8.7	0.5	3.8
Php	2.9	3.5	-	6.6	5.2	1.6	**19.8**	1	13.9	1.3	14.9	0.3	5.5
Sing	6.6	11	1.7	-	3.3	2.4	**25**	2.3	14	2.5	5.3	0.4	5.1
Thai	3.4	5.3	2	3.8	-	3.1	**17.6**	3.3	15.6	1.9	12.3	0.5	2.7
Viet	1.7	2.4	0.9	2.8	3.5	-	**11.3**	1.5	20.1	1.6	8.6	0.2	11

Source: The ASEAN Secretariat Statistical Publication and author' calculation.

All these reflect that a key reason for ASEAN countries to negotiate RCEP derives from its intention to participate effectively in the regional production networks. This implies that for the ASEAN countries, economic integration is important not only among each other but also with broader Asian region (Table 5). For example, Indonesia’s intra-ASEAN-5 trade share is 24 percent, while that with Japan, China and South Korea put together is 31.5 percent. Similarly, Thailand's trade within the ASEAN-5 countries is 18 percent, vis-a-vis 30 percent with the Northeast Asian countries.

5.4 RCEP- a tool to lower non-tariff barriers (NTBs) in the region

Other than tariffs, NTBs both at the border and beyond the border impede trade flows. Literature suggests the importance of strong institutions in lowering trade costs through higher transparency, simplification of trade procedures and greater predict ability (Helble, Shepherd, and Wilson 2009). Therefore, in addition to lowering border tariffs, it is crucial to eliminate or streamline the NTBs that are discriminating in nature and cover issues like diverse product standards, lack of transparency in trade procedures, weak enforcement of government regulations and the logistics gaps among the economies. Although removal of NTBs is promised in several of the ASEAN initiatives, there seems to be lack of political will to implement such commitments. Hence, NTBs are mentioned as the most difficult impediments for cross-border movement of goods (Intal et al. 2014; World Bank and ASEAN Secretariat 2013).

Table 8.6 Enabling trade index rankings, 2016

Ranking out of 136 countries	Enabling trade index 2016 ranking	Market access sub-index		Norder administration sub-index	Transport infrastructure sub-index	Operating environment sub-index
		Domestic market access	Foreign market access			
Indonesia	70	30	92	79	64	64

Malaysia	37	43	107	47	17	26
Philippines	82	22	39	93	116	104
Singapore	1	2	84	1	3	2
Thailand	63	88	96	44	35	83
Vietnam	73	77	79	86	66	77
Australia	26	15	127	32	20	21
China	61	101	124	52	12	42
India	102	135	117	75	28	76
Japan	16	47	133	11	5	14
New Zealand	18	6	111	23	41	8
South Korea	27	85	105	28	11	47

Source: Worlds Economic Forum (2016).

The prevalence of NTBs can also be observed in the latest data provided by the World Economic Forum (2016) Enabling Trade Report. The data compares the quality of institutions, policies and services that facilitate the cross-border flow across 136 countries. It can be observed that among the ASEA N-6 countries, Singapore has the most liberalized trading environment, with transparency in cross-border procedures. International trade is also well-supported by a strong infrastructure and business-operating environment in the city-state. Malaysia is also fairly perceived in terms of its institutional quality for facilitating trade with an overall ranking of 37. Among the four sub-indices, it is found that Vietnam and Thai- land perform poorly with respect to allowing domestic market access. In terms of efficiency and transparency of border administration, most of the ASEAN-6 members, with an exception of Singapore, perform poorly. The same could be said for infrastructure and business-operating environment in the region.

Among the non-ASEAN RCEP countries, apart from China and India, most of the countries rank decently in the overall enabling trade index. China and India, the two largest markets as RCEP members, particularly perform poorly in terms of domestic market access. In relative terms, India ranks the lowest for border administration and general operating environment for international commerce.

The ASEAN countries expect RCEP to address the issue of NTBs that exist both at the border and beyond the border among the participating members.

5.5 RCEP helps to multilateralise the existing ASEAN FTAs

Since the early 1990s, the ASEAN countries have been working on many bilateral and regional FTAs. The countries started on their idea of ASEAN FTA in 1993, which they subsequently widened to include services sector liberalization through ASEAN Framework Agreement on Services (AFAS) in 1995 and investment liberalization through ASEAN Investment Area (AIA) in 1998. AFTA, AFAS and AIA later got subsumed under ASEAN's overarching vision of an ASEAN Economic Community (AEC).

Since 2000, the ten ASEAN countries have been together pursuing FTAs

With Australia-New Zealand, China, India, Japan and South Korea. They have also been signing bilateral FTAs individually with distant partners like the US, India, the Middle East and the Australia-New Zealand markets. Among the ASEAN member countries, Singapore has the largest number of FTAs that are in effect currently. This is followed by Malaysia and Thailand, who have enacted 12 FTAs each.

Despite starting the process 20 years back, the economic integration in ASEAN is said to be limited. The final users felt that ASEAN integration is yet to provide an arrangement of seamless movement of goods and services. While tariffs have been reduced, NTBs are prevalent in the region. Services sector liberalization has been restricted by challenges in market access and movement of people. Further issues evolved from uneven implementation of AEC commitments.

As for the ASEAN+ l FTAs, they differ from each other, depending on a

Country's interest. Japan may look for trade and investment liberalization and facilitation as such measures would provide free, transparent and stable business environment for Japanese firms that participate in production net- works of Asia. While Singapore, Japan and Korea may push for intellectual property rights, developing countries of ASEAN, China and India may have less interest in the protection system. India could be keener on liberalizing services trade, for example, IT software, legal, financial and medical services, compared to opening up its goods sector. This leads to significant differences between the ASEAN+ l FTAs. The ASEAN+l FTAs are signed and negotiated over different points of time. Each ASEAN+l FTA differs in terms of way of negotiation and economic coverage.

Following the issues with ASEAN integration and ASEAN+l FTAs, it was found that the utilization rate of such initiatives by the private sector remained low. In a survey of 841 export-oriented firms by the Asia n Development Bank Institute (ADBI), it was found that while Chinese firms have relatively higher usage rate at 45 percent, Japanese and Korean firms are at 29 percent and 21 percent, respectively. Among the ASEAN countries, fewer firms make use of the FTAs - Thailand (25 percent), the Philippines (20 percent) and Singapore (17 percent). Companies reported that the reasons for not 11sing FTAs were lack of information, low margin of preference, prevalence of NTBs, exclusion list, multiple Rules of origin (RoOs) derived from numerous FTAs in the region and administrative costs (Kawai and Wignaraja 2011).

RCEP is expected to address the issue of multiple FTAs in the region as also their multiple RoOs. By multilateralising the trade agreement, RCEP is said to minimize the business cost on the region.

5.6 RCEP serves strategic priorities

Besides economics, RCEP serves several strategic imperatives for the ASEAN countries. This section elaborates on three such strategic ration- ales of RCEP.

RCEP combines ASEAN +3 and ASEAN+6 configurations

Since 2001, the East Asian countries have been thinking of a region wide FTA. A high-level policy group, called the East Asia Vision Group (EAVG), suggested an association of ASEAN+3 countries (also known as East Asia FTA (EAFTA), comprising of the ten A SEAN members and China, Japan and South Korea. In 2004, a feasibility study was undertaken under Beijing's leadership, which later concluded that economic benefits from East Asian FTA (EAFTA) would exceed AFTA, any ASEAN+ l FTA or other bilateral and sub-regional arrangements. The report recommended that an EAFTA should be comprehensive in nature and should be of high standard. It should be negotiated and implemented as a single undertaking. The report further recommended that an EAFTA, once formed among the ASEAN+3 countries, can be extended to other countries in the region. Although the EAVG urged East Asian leaders to start the process of forming an EAFTA soon, there was not much subsequent discussion after that.

In 2009, as the world economy felt the 2008 global economic crisis and the regional economies witnessed limited benefits from proliferation of FTAs, South Korea took a lead to conduct the second phase of EAFTA study. The study recommended that EAFTA would help enhance the resilience of the East Asian regional economy against external shocks and sustain regional economic growth. It could also help overcome the problems caused by the proliferation of FTAs with differing RoOs and overlapping agreements that have resulted in increasing transaction costs for intra-regional trade and raising production costs for product ion networks in East Asia. It further recommended that EAFTA should follow a gradual and realistic strategy and must begin with the consolidation of the existing three ASEAN+ l FTAs. The report attached importance on the concrete trade and investment facilitation measures which could help all participating economies to fully realize the benefits of an EAFTA.

In the meantime, in 2006, Japan proposed an alternative approach, the Comprehensive Economic Partnership of East Asia (CEPEA), based on the ASEAN+6 framework with India, Australia and New Zealand as additional members. A study group was set up in 2007 to prepare a report of recommendations for the ASEAN+ 6 Economic Ministers. The report, presented in 2008, argued that a wider regional economic partnership that included India, Australia and New Zealand would create larger gains than any other regional FTA.4 The study sets out CEPEA's objectives as deepening economic integration, narrowing development gaps, and achieving sustainable development through the three pillars of economic cooperation, facilitation of trade and investment, and liberalization of trade and investment as well as institutional developments.

Following these studies, during the Fourth East Asia Summit in October 2009, officials were tasked to consider the recommendations of both EAFTA and CEPEA studies. In August 2011, East Asia Summit Economic Ministers welcomed a Chinese and Japanese joint 'Initiative on Speeding up the Establishment of EAFTA and CEPEA'. To end the discussion around different ASEAN+3 and ASEAN+6 regional architecture, in November 2011, ASEAN proposed its own model for an ASEAN-centric regional FTA, called the RCEP.

RCEP was created in reaction to TPP

Besides the debate over EAFTA and CEPEA, ASEAN also felt external pressure through another Asia-Pacific trade arrangement, namely TPP. In 2011, the agreement was led by the US and was announced as a 'gold standard' FTA. The grand promotion of the agreement on its potential benefits and real opportunity costs of trade liberalization seemed to have cornered ASEAN states. It seemed to have swept away the ASEAN-centred pattern of 'plus' diplomacy that had underpinned Asian regionalism for long (ASEAN+ l, ASEAN+3 or ASEAN+6 and later +8). Moreover, it was felt that the US was not interested in promoting regional trade integration with ASEAN countries as a group. While China, India, Australia-New Zealand, Japan and Korea have enacted FTAs with ASEAN and the EU has been proposing an FTA with ASEAN as well, the US has not discussed the possibility of a US-ASEA N FTA. Instead, the US went for bilateral FTAs with Singapore and other selected ASEAN countries under the framework of TPP. This reflects US' interests over high-level FTAs with comprehensive coverage and its view on the lack of prepared ness of some ASEAN countries to participate in such FTAs. Even the older forum of APEC that was supported by the US and connected the US to

Asia includes only seven ASEAN members - Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

RCEP strengthens ASEAN's unity and centrality

RCEP showcases ASEAN’s principle of 'all for one and one for all', as a key component of its foreign economic relations. The flexibility principle in the RCEP, such as 'the agreement can be accomplished in a sequential manner or single undertaking or through any other agreed modality' and 'the agreement shall provide for special and differential treatment to the ASEAN Member States'7 provides a more generous consideration of each state's development needs. The political leaders believe that ASEAN needs to forge closer ties, forming common positions on numerous issues, in order to negotiate with bigger economic partners or other regional groupings. Hence, through RCEP, ASEAN is. Able to further entrench its centrality, which is an idea that the regional architecture is led by ASEAN and the region's relations with the wider world are conducted keeping in mind the interest of the ASEAN community. This aspect was severely challenged amid the rapid pace of regional economic cooperation arrangements evolving in the region. The RCEP, once concluded, is expected to demonstrate ASEAN’s capability to bring together its own ten members and external partners for economic growth, development and harmonization.

Contentious issues in RCEP negotiation

The RCEP negotiation has been going on for the past five years and this itself portrays the underlying challenges in the trade deal. From the beginning it was clear that RCEP is the first of its kind and has no other precedent to emulate. It primarily engages developing countries and involves three different dynamics among its participating members. These are - the ten ASEAN members, ASEAN and its FTA partners and the six PTA partners. While the ten ASEAN members have been working together on economic integration since the 1990s, ASEAN, as a region and as individual countries, has been working with the FTA partners since 2000. It is the six FTA partners that may not have existing trade agreements with one another and this has become a critical problem for negotiation between China and India. The following points below provides some of the challenges in RCEP negotiation.

Coverage under Trade in Goods - In most FTA negotiations, issues related to coverage, that is, the proportion of products that will be included in the agreement, pose a substantive challenge. While all participating members agree with the benefits of market access liberalization measures, they also face domestic pressure to limit competition in their home markets (Chandra 2008; Milner 1997). While the RCEP comprises a country like Singapore, which is least concerned with liberalization, it also includes countries like Indonesia and India, which are likely to make market access negotiations difficult. Hence, although RCEP negotiations are happening under immense confidentiality, there are murmurings that for trade in goods anything between 80 percent and 92 percent seems plausible.

ASEAN is proposing for 92 percent, but there is resistance from participating countries that have growing trade deficits with China. There are also industries like sugar, steel and textile that some countries desire to protect from competition.

Mismatch in economic interest -It has been well-documented for long that trade brings benefit by permitting countries to export goods that they have as their comparative advantage. Trade may suffer if the countries have competing interest. RCEP negotiation suffers from such mismatch of interests. While for a large proportion of ASEAN countries comparative advantage lies in manufacturing activities, India's strength is in services. For India, trade in goods is limited as manufacturing and agriculture sectors are less competitive and the domestic market is considered as enough to generate income. Most regularly, it was felt that liberalizing merchandise trade results in a larger jump in imports versus exports, leading to trade deficit at least in the short-run. Alternatively, India has a comparative advantage in information technology, telecom services, financial and tourism services. In 2015, it ran a services trade surplus of US$33 billion with the world, compared to US$2.2 billion surplus of ASEAN countries. This mismatch in priorities leads to difficulties in trade deals between ASEAN and India. It took six long years to negotiate ASEAN-India Trade in Goods Agreement and services and investment negotiations were concluded much later. Till now, most of the ASEAN 's trade agreements focused on goods and paid limited attention to services. Trade in services, in particular, is vulnerable to international competition and involves many regulatory barriers.

Issue of Development Gap - RCEP participating members show a significant degree of development gap. These gaps are not only observed in terms of differences in GDP per capita, but also in terms of human development indicators such as life expectancy, literacy, public expenditure on health and education and poverty. In terms of per capita income, the difference is particularly pronounced between the less developed ASEAN member countries and mature economies like Korea, Australia, Singapore, New Zealand and Japan. Vo (2005) has raised concerns that any kind of deeper economic integration could lead to huge social costs incurred by the less developed economies of ASEAN. This could be due to structural adjustments and the risks of falling into a low-cost labour trap. Hence, there is pressure from the less developed ASEAN countries to give due consideration to their development stages. Appropriate resources should also be allocated to these economies to build soft and hard infrastructure. Although RCEP mentions a flexibility clause from the beginning to take into account such differences, the clause itself cannot be an excuse for a low-quality trade agreement. The act of having to balance a high-quality agreement with some degree of flexibility for less developed members prolongs the negotiation.

Other Issues - The investment chapter remains controversial over the issue of investor-state dispute settlement (ISDS), where the private sector gets to file lawsuits against the state. It has been reported that there are currently 50 Law suits worth US$31 billion at international arbitration tribunals against

the governments participating in RCEP negotiation. Countries like India, Indonesia and Australia would like to reconsider the ISDS mechanism before RCEP strengthens the rights of investors.

The Intellectual Property Rights (IPR) chapter is contentious as it is said to be demanding for data exclusivity, which is likely to delay regulator y approval for medicines that go off patent. A provision like this goes beyond the WTO agreement on Trade- Related Aspects of IPR. This is problematic for less developed countries which are highly dependent on accessibility of affordable medicines. This also adversely affects countries that are producers of generic medicines.

RCEP negotiations have also been criticized over import of TPP text into the agreement. This is possible as seven of the RCEP members are also art of the TPP deal. A leaked draft of RCEP text has shown an extensive similarity between TPP and RCEP over ISDS, telecommunication chapter, e-commerce and IPR.12 It is feared that as all RCEP members are developing economies, it is difficult for them to comply with rules similar to TPP. In addition, it is unfair to make RCEP an incubator for WTO-plus commitments.

5.8 Conclusion

ASEAN has been negotiating RCEP since 2013. The main idea was to advance the five different ASEAN FTAs with Australia-New Zealand, China, India, South Korea and Japan under a single framework. The objective was to craft a multilateral trade deal that is both high quality and comprehensive in nature. However, like other ASEAN FTAs, RCEP started with the resolution of giving due consideration to the development stage of participating members. This includes flexibility principle and capacity building clause for less developed ASEAN members.

For ASEAN countries, trade agreement like RCEP, is of immense importance. In fact, for most of the ASEAN-6 countries, merchandise trade share as percent of GDP is more than 100 percent, and much higher when com- pared to non-ASEAN RCEP participants. FDI is crucial for the economic development of these countries. Related to trade and investment, ASEAN's interest in RCEP derives from the countries' participation in the production network that is spread across the broader Asia-Pacific region. For these countries', economic integration among themselves is as important as their integration in the broader region.

RCEP is also important to address the NTBs that exist both at the border and beyond the border among the participating members. These NTBs are discriminating in nature and are the most difficult impediments for cross-border trade and investment. Although removal of NTBs is mentioned in several ASEAN FTAs, there is lack of political will to comply with such commitments. Finally, RCEP is expected to address the issue of multiple FTAs in the region that is discouraging the private sector from using them. The private sector not only has to spend resources to understand the characteristics of the FTAs, but also has to comply with their different rules and regulations. This raises the business cost, thereby going against the primary function of trade agreements.

In addition to the economic rationale, RCEP serves several strategic imperatives of the ASEAN countries. The mega-deal combines the discussion of trade architecture around ASEAN+3 and ASEAN+6 and strengthens ASEAN's unity and centrality. It also positions an Asia-centric deal, show- casing the economic weight of the region in the global economy. This seemed to be under threat when TPP was introduced as a high-quality agreement connecting the US to Asia.

Despite its importance to ASEAN economies, there are several challenges to be addressed before the final negotiation outcome. These can be observed across several issues - trade in goods and services, investment, intellectual property rights and many others. The issues emerge because of the development gap among RCEP participating members and lack of bilateral trade agreements among the non-ASEAN RCEP members.

There is immense pressure on countries to conclude RCEP negotiation in 2018. This is more so as RCEP is meant to symbolize that Asia is keen on trade and is open for business. It also indicates that despite the discussion of creeping protectionism in the

West, the RCEP participating countries continue to see trade as a tool to increase competition, transfer technology and upgrade skills for their higher productivity.

In the end, time will only tell how and when RCEP will be eventually formulated. While the countries need to understand the long-term importance of the trade pact in their domestic economies and accordingly make compromises during negotiation, they should also be clear in their mind that it is the implementation integrity eventually that will materialize the potential benefits of RCEP.

CHAPTER 6

Key Issues concerning India which made India not signing the deal

India decided to walk out of the biggest regional trade partnership the world could have seen. The Regional Comprehensive Economic Partnership could have given — possibly it still can — almost unrestricted access of each other’s markets to the members.
The data shows India has been protecting its domestic interests for long. The average tariff on imports into India, according to the World Trade Organization, went up between 2010 and 2015. Most of it was due to farm products.

The (weighted) average tariff applicable to most favoured nations to sell their goods in India is highest among the 10 Asian peers, at 7.6 per cent. This is not strictly comparable with WTO data. Moreover, India only has about 3 per cent of tariff lines at zero duty, lowest among its peers, and lower compared to Vietnam’s 32 per cent.

The data also shows trade growth has largely been independent of trade deals: India's share of trade with NAFTA countries has grown as fast as its share with North-East Asian countries, and ASEAN, as well. While India does not trade preferentially with any of the NAFTA members, it does, with two members of NEA and with ASEAN.

In terms of acting against dumping of cheap and excess goods, India has become more proactive in recent times. More dumping cases now reach their conclusion. But, on the flip side, members of the probable RCEP lead in dumping goods into India.

Unlike unilateral trade liberalisation that results only in trade creation, an FTA leads to both trade creation and trade diversion, the latter being diversion of imports from more efficient FTA non-members to its members that now face lower tariffs within this group. This latter element is the protectionist part of an FTA, while the former is the free trade component.

Overall, an FTA will lead to freer trade if trade creation is greater than trade diversion. When initial tariffs are low, with the exception of a small number of industries, trade diversion should be relatively small.

RCEP, Biceps, Triceps

India already has bilateral trade agreements with Japan, Malaysia, Singapore, Thailand and South Korea, as well as an FTA with Asean. Thus, Malaysia, Singapore and Thailand have trade agreements with India individually as well as through Asean. Clearly, then nothing would have changed between India and 12 of the RCEP member countries after India's inclusion in RCEP.

As a result, for India, trade barriers would have been lower with only three countries: China, Australia and New Zealand. There was a fear that there would be a surge in imports of manufactures, primarily labour-intensive ones, from China.

Such a surge, it was feared, could wipe out India's manufactures. There is a problem with this argument. Any standard FTA has a safety valve, in the form of an escape clause, built into it. This means that any import surge that causes injury in the form of losses in output, profits and employment, immediately allows the triggering of temporary protection.

Clearly, China, a major exporter of manufactures, has an advantage in such negotiations, as tariff reductions, especially all the way to zero, are easy to figure out. However, what the barriers are to trade in services, in which India has the comparative advantage, is much more difficult to determine.

Block the Barricade

Reductions in barriers to services trade involve export promotion, granting of licences and permits, as well as allowing freer movement of professionals, in these tradable service industries across member countries.

6.1 Major schemes for export promotion

Merchandise Exports from India Scheme (MEIS)

Introduced w.e.f. 01.04.2015, the objective of MEIS is to offset infrastructural inefficiencies and associated costs involved in exporting goods/ products which are produced/ manufactured in India. The scheme incentivizes exporters in terms of Duty Credit Scrips at the rate 2, 3, 4, 5, 7 per cent of Free on Board (FOB) value of exports realized. These scrips are transferable and can be used to pay certain Central Duties/ taxes including customs duties. The scheme covers exports of more than 8000 tariff lines. The process from application till final issuance of the MEIS scrip is digitized end to end, without any manual interface for more than 99 per cent of HS Codes on which MEIS is eligible.

Services Exports from India Scheme (SEIS)

Under this scheme, rewards on Net foreign exchange earnings, to service providers of notified services who are providing service from India to the rest of the World, in the form of Duty Credit scrips are available. The scrips, just like MEIS are transferable and can be used to pay certain Central Duties/ taxes including customs duties. The service exporters are eligible for SEIS at the rate of 5 per cent and 7 per cent of the Net Foreign Exchange Earnings (NFEE) for exports made in a Financial Year.

Export Promotion Capital Goods (EPCG) Scheme

This Scheme allows exporters to import capital goods (except certain specified items under the Scheme) for pre-production, production and post-production at zero customs duty. In return, the exporters are required to fulfil the export obligation to the tune of six times the import duties, taxes and cess saved amount on capital goods, to be fulfilled in six years from date of issue of the Authorization. Capital goods imported under EPCG authorizations for physical exports are also exempt from Integrated Goods and Services Tax (IGST) and Compensation Cess, at present up to 31.03.2020.

Advance Authorization Scheme

Advance Authorization (AA) is issued to allow duty free import of inputs, which are physically incorporated in export products (making normal allowance for wastage). In addition, fuel, oil, catalyst which are consumed/ utilized in the process of production of export products are also be allowed.

Duty Free Import Authorization (DFIA)

Duty Free Import Authorization (DFIA) is issued on post export basis for products for which Standard Input Output Norms (SION) have been notified. One of the objectives of the scheme is to facilitate transfer of the authorization or the inputs imported as per SION, once export is completed. Provisions of DFIA Scheme are similar to Advance Authorization Scheme.

Interest Equalization Scheme (IES)

The scheme came into effect from 01.04.2015 for a period of 5 years. This scheme is being implemented by the DGFT through Reserve Bank of India (RBI) for pre and post Shipment Rupee Export Credit. Under the Scheme, interest equalization @ 3 per cent per annum has been made available to eligible exporters. W.e.f. 02.11.2018, the interest equalization rate has been increased from 3 per cent to 5 per cent for exports made by MSME sector under the ongoing Interest Equalization Scheme (IES) on Pre and post Shipment Rupee Export Credit. The merchant exporters have also been included at the interest equalization rate of 3 per cent under this scheme w.e.f. 02.01.2019.

Export Oriented Units (EOU)/Electronic Hardware Technology Park(EHTP)/Software Technology Parks (STP)/Bio-Technology Parks (BTP) Scheme

The objectives of these four schemes, i.e.; Export Oriented Units (EOU), Electronic Hardware Technology Park (EHTP), Software Technology Parks (STP) and Bio-Technology Parks (BTP) Scheme; are to promote exports, enhance foreign exchange earnings, attract investment for export production and employment generation. The units undertaking to export their entire production of goods and services (except permissible sales in DTA) may be set up under the schemes. Trading units are not covered under these schemes. Under this scheme, the EOUs etc. are permitted to import and/ or procure from DTA or bonded warehouse in DTA or from international exhibition held in India till 31.03.2020 (as provided by GST Council and notifications issued there under) without payment of customs duty as provided under First Schedule to the Customs Tariff Act, 1975 and additional duty, if any, of Customs leviable under Section 3(1), 3(3) and 3(5) and without payment of Integrated Tax and GST Compensation Cess leviable under section 3(7) and 3(9) of the said Act as per notification issued by the Department of Revenue from time to time.

Deemed Exports Scheme

Deemed Exports refers to those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange. Under the scheme of deemed exports, exemption/ refund of duties on the goods manufactured and supplied to specified categories of deemed exports as given under the Foreign Trade Policy (FTP) is provided to ensure a level playing field to domestic manufacturers. The benefits under the Scheme are duty exemption, refund of terminal excise duty, refund of duties suffered by the inputs utilized in manufacture and supply of the goods to the specified categories of deemed exports. Under the GST regime, the Duty Drawback is limited to exemption/ refund of basic custom duties.

Transport and Marketing Assistance (TMA) for Specified Agriculture Products Scheme

To mitigate disadvantage of higher cost of transportation of export of specified agriculture products due to trans-shipment and to promote brand recognition for Indian agricultural products in specified overseas markets, the “Transport and Marketing Assistance” (TMA) scheme for specified agriculture products was launched in February, 2019 and is available for exports occurring from 01.03.2019 to 31.03.2020.

Trade Infrastructure for Export Scheme (TIES): The Government of India has launched a scheme namely, Trade Infrastructure for Export Scheme (TIES), from FY 2017-18 with the objective to assist Central and State Government Agencies for creation of appropriate infrastructure for growth of exports from the States. The Scheme provides financial assistance in the form of grant-in-aid to Central/State Government owned agencies for setting up or for up-gradation of export infrastructure as per the guidelines of the Scheme. Establishment of facility for the identification of origin and authenticity at

Export Inspection Agency, Mumbai and Construction of office-cum-lab complex of EIA Chennai SO Visakhapatnam are two projects, approved under TIES.

6.2 Why India did not join RCEP?

RCEP is a mega grouping which accounts for around 30 per cent in terms of global GDP and also in terms of trade. Though being at the helm of driving the global economy in the future, after nearly 28 rounds of negotiations which began in November 2012, India opted out of the agreement in its present form, stating the non-resolution of key issues significant for India.

One cannot ascribe a single reason responsible for India opting out of the mega agreement, however, there are a few issues that when listed and understood, bring out clearly why India decided to opt out of RCEP.

Key Issues

1. **Threat from China**

   India does not consider China as a market economy. China is not considered as fair trader, as its domestic prices are distorted by the different subsidies of credit, land and logistics that are provided by the State to its domestic producers to encourage production and further exports. India cannot therefore, provide China the same level of concessions as it would offer the other countries in RCEP[8].

2. **Threat to domestic industry and farmers**

[8] Arun, T. K. (2019, November 06). *View: India's focus should shift to negotiating a better deal to gain entry into RCEP*. Retrieved from The Economic times.

India's domestic manufacturing sector is witnessing a low ebb in terms of its output with October 2019, witnessing the slowest manufacturing in the last two years. Even in the context of services sector, as per the NPMI-ECI survey, there has been a back-to-back monthly slowdown since July-September 2017 in India. The ASEAN and Chinese economies have robust service sectors and in the event of free entry of their services to India would lead to negatively impacting the Indian services sector.

In case of agriculture, there has been a significant threat perception in dairy from both Australia and New Zealand. India has not offered access in the dairy sector under any of its existing trade agreements, however, if the dairy sector is liberalised it could have significant ramifications for the domestic dairy industry. Apart from dairy, there is also significant competition that Indian spices chiefly pepper, cardamom, rubber, and coconut would face from the South Asian spice producing countries[9].

3. Base Rate

The tariffs of year 2014 were agreed as the base rate. India increased tariffs on a range of products and if it agrees to bring down tariffs, the starting point has to be actual tariffs now, not what existed before[10].

[9] Dutta, P. K. (2019, November 5). *5 reasons why PM Modi pulled out of RCEP in Bangkok*. Retrieved from India Today.
Vora, R. (2019, November 5). *Dairy players heave a sigh of relief*. Retrieved from Hindu Business Line.
[10] Kumar, M. (2019, November 10). Rejecting RCEP was the easy part. Retrieved from Hindustan Times.

Thus, in the context of Base rate, India asked its partner countries, to revisit and possibly shift the base rate to 2019, so that India's domestic industry is neither adversely affected nor is there a surge of unhindered imports[11].

4. Tariff Differential & Rules of Origin

"Under the liberal rules of origin conditions under RCEP, India apprehends that items on which duty cuts have not been given to Beijing, may end up from China via other RCEP member countries. India wants a tariff differential mechanism to prevent this.[12]"

In the context of Rules of Origin (ROO), as the conditions determining trade changes with the entry of FTAs, there is a subsequent change and shift that is witnessed in investments or undertaking a shift in the location of the operations. All this occurs to benefit either from the opportunities that arise due to regular trade-related business decisions or through the circumventing of the FTA principles of ROO.

Circumvention of trade policy disciplines and rules is a long-expressed concern, and countries like US and EU have undertaken practical policy steps to curb such circumvention[13].

5. Auto Trigger Safeguard Mechanism (ATSM)

[11] Shah, A. (2019, November 13). *View: By saying no to RCEP, PM Narendra Modi has kept India first*. Retrieved from The Economic Times.

[12] Mishra, A. R. (2019, October 26). *RCEP deal hangs in balance even as India, other members resolve some issues.* Retrieved from Live Mint: https://www.livemint.com/news/world/rcep-deal-hangs-in-balance-even-as-india-other-members-resolve-some-issues-11572065771510.html

[13] Kher, R., & Singh, H. V. (2019, November 9). *India's RCEP dilemma: To be in, or not to be in*. Retrieved from The Financial Express.

With respect to China, in 2018-19 India's trade deficit was USD 53.56 billion which was nearly 3.2 times India's merchandise exports to China. There is a possibility that with tariff concessions being offered to China, this trade deficit may further balloon, and lead to an import surge in the domestic economy. Thus, ATSM would have provided a special safeguard, over and above the existing trade remedial measures available[14].

6. Askew Tariff commitments

India's previous FTAs have always been termed as more in favour of the partner country, than India. In the case of RCEP too, the possibility of such skewed tariff commitments is higher, as the average tariffs of majority RCEP countries is lower than that of India. However, in contrast the level of non-tariff measures applied by the RCEP countries is far higher than that of India. This implies, that though these countries may provide India with tariff concessions, but they would use their non-tariff measures to curb exports from India, and try and balance the benefits from the agreement in their favour. As India does not impose many non-tariff measures, reduction in tariffs would immediately provide a boost to the RCEP countries exports to India. Thereby, shifting the scales of trade in favour of India's trade partners than India[15].

India's efforts towards the RCEP negotiations were driven by promoting Indian exports, providing the domestic industry a chance to explore opportunities within the other countries, but at the same time provide ample time of transition to the domestic industry

[14] Kher, R., & Singh, H. V. (2019, November 9). *India's RCEP dilemma: To be in, or not to be in*. Retrieved from The Financial Express.
[15] Editorial. (2019, November 6). *Lost Opportunity*. Retrieved from The Indian Express.

to adapt itself to the changes that RCEP would bring in whether in terms of quality, quantity, variety of product or the sheer scale of production. India’s efforts were thus, always within the scope of protecting and promoting its domestic economy.

However, in the course of this protection and promotion of the economy, few issues were realised that could impede both these objectives, and the need to address these was essential, so that India too gains from RCEP. But, as these key issues remain unresolved in its present form, India opted out of RCEP.

This opt-out of India, is no terms means, that India has closed its door on RCEP. It just implies that India has taken time to work closely with the other RCEP countries to work around these issues bilaterally, and try to arrive at mutually agreeable solutions[16].

[16] *Joint Leaders' Statement on The Regional Comprehensive Economic Partnership (RCEP).* (2019, November 4). Retrieved from ASEAN: https://asean.org/storage/2019/11/FINAL-RCEP-Joint-Leaders-Statement-for-3rd-RCEP-Summit.pdf

CHAPTER 7

Conclusion and Way Forward

Apart from making the Indian economy competitive in the long run, the RCEP is a perfect opportunity for India to also push for greater investment in India from the ASEAN region. There can be a substantial increase in investments from countries like Japan, South Korea etc. India has seen a cumulative FDI inflow of around $18.9 from Japan[17] and $1.67 billion from South Korea[18].This could be further enhanced and also India could see investments from China also rising. Becoming a part of the regional production networks in ASEAN would help India realize its true potential and give a huge boost to its make in India programme and the manufacturing sector. Further, India's Look East Policy could be made successful through RCEP and promote larger economic integration with East and South East Asia. However, India's concern of rising trade deficits with its major trading partners in RCEP cannot be overlooked. . The fact that most RCEP members are not ready to open up their services market, as proposed by India, makes the proposed deal more disadvantageous for India says India's Chief Economic Advisor. He said "if other nations are not going to open up services and if it's all about opening up manufacturing, then it's a different dynamics."The options for India are limited. Going ahead, India needs to increase investment in R&D and education in order to compete with other RCEP countries. India would need to negotiate more on service sector trade especially highly skilled professionals in order to decrease the trade deficits with countries. It can liberalise industries like entertainment, legal services etc to

[17] http://www.iflr.com/Article/3673584/The-Japanese-Overseas-Investment-Report-2017-India.html
[2] http://dipp.nic.in/sites/default/files/fdi_synopsis_korea.pdf

increase competition as well as productivity in these sectors. India should also focus more on uplifting its small and medium enterprises in order to secure free flow of goods and services and also act as a major player in competition Further, India has a $50 billion trade deficit with China and nurtures a well-founded anxiety about China's rise as a regional and a potential global power given its geopolitical reality, its misgivings over Sino-Pakistan ties and a contentious border dispute- adding to the mega-FTA's geo-political undertones.

7.1 Steps Required to join RCEP

India has already communicated to the RCEP member countries its concerns.

- And RCEP member countries are fully aware of India's concerns and need to formally discuss these concerns if they are keen on India joining the RCEP. Japan has been supportive of India and is trying to push India to negotiate harder to join the grouping. These negotiations can be held either with each of the RCEP countries bilaterally or with the grouping as a whole. The ASEAN secretariat is also expected to play a proactive role in bringing all the countries together and provide all the support logistical and otherwise for the negotiations to go on smoothly. It may be worthwhile for Government of India to look at the cost and benefit of RCEP for the Indian economy and take necessary steps both domestically as well as in RCEP either bilaterally or collectively as per the national priority and interest of India. An in-depth research on the pros and cons of joining RCEP would also help the government to take a final decision on joining the grouping.

- It would be easier for India to join the RCEP than other mega regional groupings such as the CPTPP because the RCEP is relatively inclusive in nature. Also, as compared to the CPTPP whose membership is more diversified with countries ranging from Asia Pacific to North America and Latin America, the RCEP countries have a natural trading relationship. The bar is considerably higher for CPTPP, given the environmental and labour standards. It was even higher in TPP and more intrusive, with the United States trying to change the domestic regulatory frameworks of member countries. While RCEP is basically working at dismantling tariff barriers- an idea all RCEP countries, barring India, have been more comfortable with. Member nations that do not have FTAs with each other have recently been engaging in bilateral talks to phase out tariffs in a bid to accelerate the conclusion of talks. The RCEP, therefore, finds more resonance in the region, and New Delhi needs to shed its image of being a naysayer and participate positively in the conclusion of negotiations or risk being excluded from the potential benefits of economic integration in the region.

- RCEP offers huge trade and economic opportunities not only for India, but also to the other RCEP member countries. However, in its present form, India is unable to proceed with RCEP due to several genuine and serious concerns already documented and analysed, with respect to the RCEP structure in its present form.

While RCEP provides for both opportunities on one hand and poses serious challenges on the other, this kind of situation will be true with respect to any Trade Agreement with any country/ region at any point of time in the future. It is important therefore, to find a structured mechanism to identify areas of India’s economic and trade related interests as well as identify contours of safeguard mechanism to protect the domestic industry which would enhance India’s preparedness to engage with its trading partners in different parts of the world.

If we do not adopt a structured approach in a time-bound manner and do not take an objective view on similar issues, there is an impending risk of India getting outcompeted by other countries and firms in various markets and may possibly become isolated from the rest of the global economy.

7.2 Summary and Conclusion

The RCEP seeks to achieve a modern and comprehensive trade agreement among members. The core of the negotiating agenda covers trade in goods and services, investment, economic and technical cooperation and dispute settlement. The partnership would support the spread of global production networks, and reduce the inefficiencies of the multiple Asian trade agreements that currently exist. India is a major player in the RCEP negotiations, and is under pressure to reduce its tariffs sharply. In fact, industry leaders in India see a steep tariff reduction for goods from East Asia as the biggest threat, fearing a rush of cheap goods from across the border. In addition, countries such as Singapore, which has near zero tariffs on most goods, and Malaysia, where 90 percent of trade carries a negligible customs duty, are pressurizing India to lower barriers. According to an internal estimate from the Indian Ministry of Commerce, the signing of the 16 country RCEP trade agreement will result in a revenue loss of as much as 1.6% of GDP. This has forced the negotiators to tread carefully.[19] The serious adverse effects of joining the agreement have made India more aggressive in the ongoing negotiations. While India is seeking greater

[19] https://www.livemint.com/Politics/37pnX4pjCINPeglF6d53HL/RCEP-negotiations-India-likely-to-take-a-more-aggressive-st.html

market access in services to be able to justify the closing of the deal at home, the industry chambers in India remain skeptical and view the deal as equivalent to signing a free trade agreement with China

India has been skeptical about regional trade agreements since it first started negotiating them, and RCEP, thus, is no exception. Like in all such agreements, one of the objectives of RCEP is to eliminate nearly 95 percent of tariffs. This might be easy for most ASEAN member states, whose tariffs are less than 5 percent. But for a country like India with average tariffs at around 15 per cent, drastically reducing them to zero or 2-3 per cent is difficult. This would also entail giving up much greater market access than what it would get in return.

Given the importance of the deal, India has offered several concessions to its member countries in the RCEP – especially since CPTPP has already been signed, and is likely to hurt Indian exports. After doing away with its earlier proposed three-tier tariff structure, India has now made a more liberal offer of tariff liberalization on 86 per cent of traded goods to ASEAN, South Korea and Japan under the respective FTAs it has signed with them, as well as up to 74 per cent of traded goods with China, New Zealand and Australia. But the expectations from India are high and the members are demanding much more. This means that going ahead with RCEP and other pending free-trade agreements is a politically difficult prospect for India.

India's interests lie mostly in services, the removal of technical barriers to trade such as those taken under sanitary and phyto-sanitary measures, and trade in goods such as pharmaceuticals and textiles. India has been negotiating hard to liberalise the free movement of professionals aspect of the services agreement (mode 4), in order to offset the revenue loss from goods liberalisation. India thinks its best bet is in exporting services, through which it can supply its burgeoning skilled professionals to other countries, thus partially meeting the demand for jobs from a million people joining the labour market every month. But at the same time there are serious limitations to this. Many complain that India's service trade with ASEAN is insignificant, and moreover India faces stiff competition on services from countries like the Philippines.

It is high time India decides whether it wants to go ahead with RCEP and conclude it. Procrastinating and delaying the process – for which India has earned the ire of many member countries – is not good for India. India needs to have a clear vision and strategy with respect to its free-trade agreements and move forward quickly. This would benefit India's external sector, as India's exports have been falling for more than two years now. The export slump is a matter of serious concern to the Indian economy. It is time for serious action. The government needs to be tough, and realise that RCEP's future as a major trade bloc will remain uncertain until there is enough political will to go through the arduous negotiation rounds and conclude them quickly. Most importantly, India needs to hold more moderate and flexible positions. It must reverse its image as a tough negotiator obstructing talks, and show that it is serious about making progress, or it risks isolation in global trade negotiations, considering the stalemate at the WTO, and countries increasingly looking towards regional trade agreements for greater synthesis of demands among like-minded countries. The other significant mega-FTA CPTPP has already entered into force on 30^{th} December, 2018, with Australia becoming the sixth participating member to ratify the agreement.

The RCEP will also lay the foundation for India and other members of ASEAN to join CPTPP, because of the overlapping membership between the CPTPP and RCEP. The RCEP will no doubt face stiff opposition from various interest groups within the participating countries. But now that India has decided to join, it must balance economic and strategic calculations, and prepare to lead in the “Indo-Pacific century”. Furthermore, given that the United States continues to have trade spats with all of its trading partners, including India, the global trading system needs at least one positive news on the multilateral trade front in the form of RCEP to boost international trade, after a lot of setbacks in the last two years. To make RCEP a success, what is most required is de-emphasizing the political element to make it more about economic integration and less of a political document. The RCEP is also a perfect opportunity for both India and China to take their cooperation in all mutual areas of interest to another level and show a united front to the world.

After walking out of RCEP negotiation, India appears to be particularly eager to move ahead with trade negotiations with the U.S., European Union and Australia, while also looking to upgrade its existing FTAs with ASEAN and South Korea. Post Brexit, India is also pushing a trade deal with the UK and seeking greater market access for textile and some farm goods in European markets.

In addition to continuing negotiations with developed countries, given that its doors are still open, India must join RCEP. Joining RCEP will be important for India to integrate with global supply chains, improve competitiveness and enhance exports, including deflect trade diversion which could happen due to India not being a member of RCEP. Furthermore, through a whole of government approach involving different ministries and states, India needs to undertake sustainable structural reforms. Without such reforms, it will be difficult to achieve the target of becoming a

US$5 trillion economy by 2025. RCEP is the government's trump card to not only achieving this target but will also help India to come out of its current slowdown and get back on a high growth trajectory. RCEP will undoubtedly act as a catalyst to solving India's current economic scenario.

In a bilateral US-China trade war, while both the US and China stand to lose in terms of GDP, exports and imports, India stands to gain if it does not face higher tariffs as a result of the trade war. India's losses increase further when India responds by increasing its tariffs on imports from the US and China. A hypothetical RCEP-like free trade area, when the US and China are not fighting a bilateral tariff war, turns out to be beneficial for all member countries, particularly for India. Further, India gains even more from joining the RCEP-like free trade area when the US and China are indulging in bilateral trade war. In sum, RCEP in the long run would prove to be beneficial for India and provide a platform for it to become a major trading super power in the region.

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