

The RCEP and India



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RCEP (1/2)



- RCEP (Regional Comprehensive Economic Partnership): an FTA
- A huge trade treaty, likely to create the world's largest trading bloc
- Introduced in 19th ASEAN meeting, in November 2011, its negotiations launched at the ASEAN Summit in Nov, 2012, Cambodia
- With India, it would have accounted for about half of the world population, nearly 40% of the global commerce and 35% of the GDP
- 15 countries involved - 10 ASEAN Member countries and 5 countries having ASEAN FTAs



RCEP (2/2)

- 15 RCEP Participating Countries seek to create an integrated market
- As China battles the U.S. for influence and economic supremacy in the Asia-Pacific region, the RCEP poised to become the world's largest free trade area
- India opted out of RCEP in Nov, 2019
- The agreement was formally announced and signed on 15 Nov, 2020 (without India).

Objectives of RCEP



- To achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners
- In essence, it makes commitments on market access on goods, services and investment.

Why India Chose to Opt out? (1/3)



- India could see RCEP would result in her market getting swamped by imports, putting its domestic industry and agriculture at risk
- Instead of increasing Indian exports to regional markets, it would increase imports into India because:
 - It has inadequate protection against surges in imports
 - India demanded putting in place an auto trigger mechanism to enable it to raise tariffs on products in instances where imports cross a pre-defined threshold level.
 - India seeks more market access and its concerns relating to non tariff barriers (NTBs)



Why India Chose to Opt out? (2/3)

- China produces a large range of cheap products, albeit of low quality.
- ‘Low prices’ of Chinese products too low, outstrips disadvantage of ‘low quality’
- Apprehension of China’s tendency to flood Indian markets : potential to hit Indian domestic industry
- China’s major advantage of its cheap labour : no labour laws and infringement of human rights
- China uses NTBs under disguise of Chinese security, national integration.
- Thereby, China restricts market access to India

Why India Chose to Opt out? (3/3)



- China demonstrated - it does not allow real 'partnership' nor respect 'equality'
- RCEP members' unwillingness to commit on market access for Service professionals including engineers, doctors, journalists and IT workers and also skilled labour.

At RCEP summit in Bangkok, the PM of India said



“India has been proactively, constructively and meaningfully engaged in the RCEP negotiations since inception,” the draft RCEP agreement did “not fully reflect the basic spirit and the agreed guiding principles of RCEP” even as it did “not address satisfactorily India’s outstanding issues and concerns.”

“When I measure the RCEP agreement with respect to interests of all Indians, I do not get a positive answer. Therefore, neither the talisman of Gandhiji nor my own conscience permits me to join RCEP.”

Joint Statement by RCEP Countries



“We will work together to resolve these outstanding issues in a mutually satisfactory manner. India's final decision will depend upon the satisfactory resolution of these issues.”

Disadvantages of India's Strategy (1/8)



- Not joining RCEP could potentially complicate country's future engagements
- If its economic engagements with the region were insufficient, partly due to domestic political considerations, our strategic and military engagements also fall short
- China's military reach, is way ahead of India.
- China is a major defence supplier to several countries of the regions including Bangladesh, Myanmar, Sri Lanka, Indonesia, Malaysia, the Philippines, and Thailand,
-Dwarfing India's minimal sales, defence dialogues and occasional joint military exercises

Disadvantages of India's Strategy (2/8)



China's Push

- At a time of escalating Sino-U.S. trade tensions, China particularly keen to see a successful conclusion of the RCEP
- This caused a problem for India
- China factor and its trust deficit, key to India's assessment of costs and benefits.
- Implicitly India declared that **no cost is high enough** when it comes to sovereignty of the nation.

Disadvantages of India's Strategy (3/8)



Large trade deficits

- While India runs large trade deficits with at least 11 of 15 RCEP members, China alone accounts for US\$53 billion of India's US\$105 billion trade deficit
- Given China's needs for greater access to Indian market to sustain its manufacturing industries, India keen to protect its industry and farmers from a surge in Chinese imports
- India's experience with FTAs underwhelming, with NITI Aayog suggesting FTA utilisation, which is in the 5%-25% range, was meagre

Disadvantages of India's Strategy (4/8)



- Domestically, RCEP generated considerable opposition with major stakeholders coming out against it, be it farmers, dairy industry or the corporate sector
- Difficulties in Indian economic landscape further compounded the problems when the main opposition Party in India too opposed the pact
- If global negotiations are a “two level” game, both the levels were facing severe challenges, making this rejection a **veritable** necessity
- Without India, the RCEP does not look as attractive a trade pact as it had seemed during negotiations.
- Hence, the divisions within the ASEAN on moving ahead without India

Disadvantages of India's Strategy (5/8)



- ASEAN keen on a diversified portfolio of partners so that its member states can leverage their centrality in their dealings with major powers and maintain their strategic autonomy
- While China's clout growing in the region, ASEAN member states have tried to keep the U.S. engaged
- But with the US administration giving mixed signals about Washington's commitment towards the region, ASEAN has been looking at India with a renewed sense of anticipation
- India's proactive outreach to the region in the form of its 'Act East' policy has been well received

Disadvantages of India's Strategy (6/8)

- Anxious about China's increasingly *overweening* economic and security presence, ASEAN member states have been keen on a substantive Indian involvement
- India's decision to keep away from the RCEP will certainly cause concerns about its larger game plan *vis-a-vis* the region



Disadvantages of India's Strategy(7/8)



Beijing's dominance

- For China, this looks like a win at a time when the US pushing Asia into making a choice in its favour by resisting temptation of walking into Chinese 'honey trap' on infrastructure and technology
- Both geopolitically and geo-economically, China looks set to dominate the Indo-Pacific,
 - not a good news for the region and India
- This is the reason why Japan was suggesting that it would work towards a deal which includes India

Disadvantages of India's Strategy (8/8)



- Even as China pushing for an early conclusion of RCEP amongst the remaining 15 members, Japanese Trade Minister Hiroshi Kajiyama made it clear that Tokyo *“wants to play a leading role towards reaching an early agreement between all 16 countries, including India, with the aim of signing it in 2020.”*
- ASEAN sojourn, 2019 will be remembered for India, finally rejecting the RCEP mega trade deal.
- In the process, India signalled that despite the costs, China's rise has to be tackled both politically and economically.
- The response of East and Southeast Asia to India's move will determine the future balance of power in the Indo-Pacific.

Before we move to **'Quiz'**



**Any
Comment/Suggestion/Queries**



Quiz (1/3)



Quiz Question-1

Why did India choose to opt out of RCEP?

- a) Inadequate protection against surges in imports to India
- b) India seeks more market access and its concerns relating to non tariff barriers (NTBs)
- c) Both (a) & (b) above
- d) None of Above

Quiz (2/3)



Quiz Question-2

How many countries are involved in RCEP?

- a) 16
- b) 12
- c) 15
- d) 18

Quiz (3/3)



Quiz Question-3

When was the RCEP introduced?

- a) October 2011, 17th ASEAN meeting
- b) November 2011, 17th ASEAN meeting
- c) November 2011, 19th ASEAN meeting
- d) October 2011, 19th ASEAN meeting

References



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Thank you