India and RCEP Agreement

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Introduction

- The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement between the member states of the Association of Southeast Asian Nations (ASEAN), China, Japan, South Korea, Australia and New Zealand.

- It was signed on November 15th, 2020.

- The mega regional trading arrangement:
  - comprises a diverse mix of developed, developing and least developed economies of the region, and

  - comprehensively covers trade in goods, trade in services, investment, economic and technical cooperation, rules for electronic commerce, intellectual property, government procurement, competition, and small and medium sized enterprises.

- The negotiations were kick-started during the 21st ASEAN Summit in Cambodia in November 2012 and aimed to bring together 16 countries, accounting for a third of the world GDP and almost half the world's population.

- India was part of the negotiating group but ultimately decided to opt out stating

  "*the present form of the agreement does not address satisfactorily India's outstanding issues and concerns*".

- There are arguments in favour of India not joining RCEP as well as on why India should have joined RCEP.

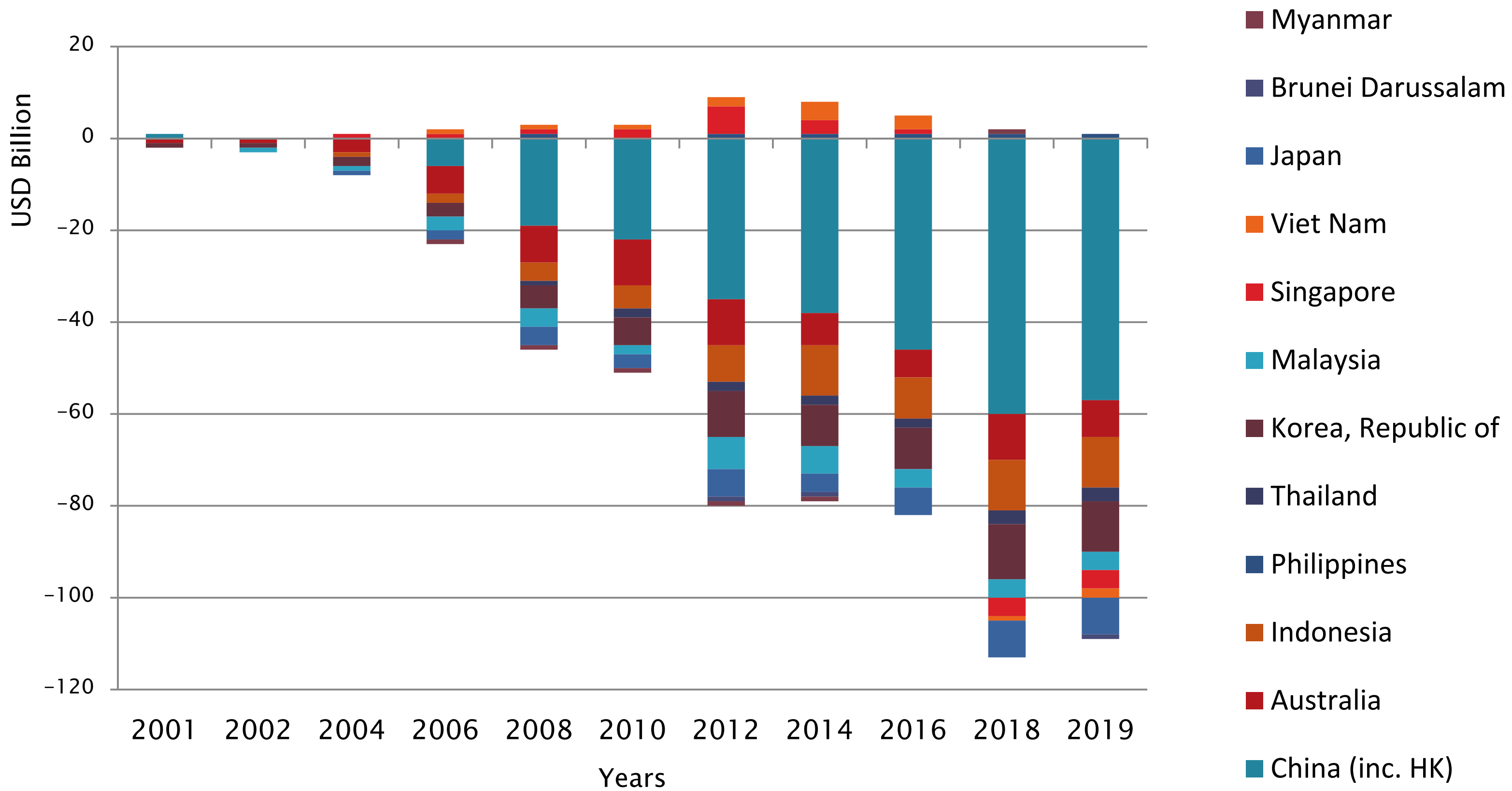
- We present here both arguments including how political economy considerations may have played out in India's decision making process.

Trade Balance Ratio of India and RCEP Countries

Trading Partner	Australia	China	Indonesia	Japan	Malaysia	New Zealand	Philippines	Singapore	Korea, Republic of	Thailand	Vietnam	India
Australia	0	24.3	0	25.4	-24.8	16	41.4	-16.2	27.7	-63.2	0	49.1
China	-42.9	0	15.1	-8.9	-15.3	-38.5	34.5	22.2	-22.1	-1.1	21	61.4
Indonesia	-38.2	-23.3	0	0	6	0	79	-16.4	-6.4	-19.1	11.1	49.6
Japan	-51.7	-11.5	-12.4	0	-12.9	0	0	42.9	22.4	9	-15.4	36.7
Malaysia	8	-11.8	-11.9	0	0	0	30.4	20.1	-5.7	12.4	30.5	20.1
New Zealand	0	10.2	0	0	-49.2	0	0	-52.7	-36.6	-41.6	0	0
Philippines	-53.8	-45.2	-76.9	0	-46.1	-84	0	-28.3	-42.7	-40.1	-41	-42.2
Singapore	28.5	3	27.9	-5.4	-1.2	31.9	6.4	0	6.9	34.8	54.2	28.1
Korea, Republic of	-45.6	11.9	-6.1	-25	0	0	41.6	30.9	0	15.2	39	48.4
Thailand	42.3	-27.5	12.2	-15.5	-12.8	44	39.3	6.1	-29.7	0	39.8	16.4
Vietnam	-12.5	-29.1	-22	2.5	-27.1	0	37.6	-13.8	-40.5	-41.9	0	17.9
India	**-59.1**	**-59.5**	**-54.8**	**-45.6**	**-24**	**0**	**45.6**	**-15.6**	**-53**	**-26.4**	**-15.4**	**0**

Source: ITC Trade Maps, World Bank (2019)

India’s trade balance with RCEP countries has deteriorated heavily over the last two decades.



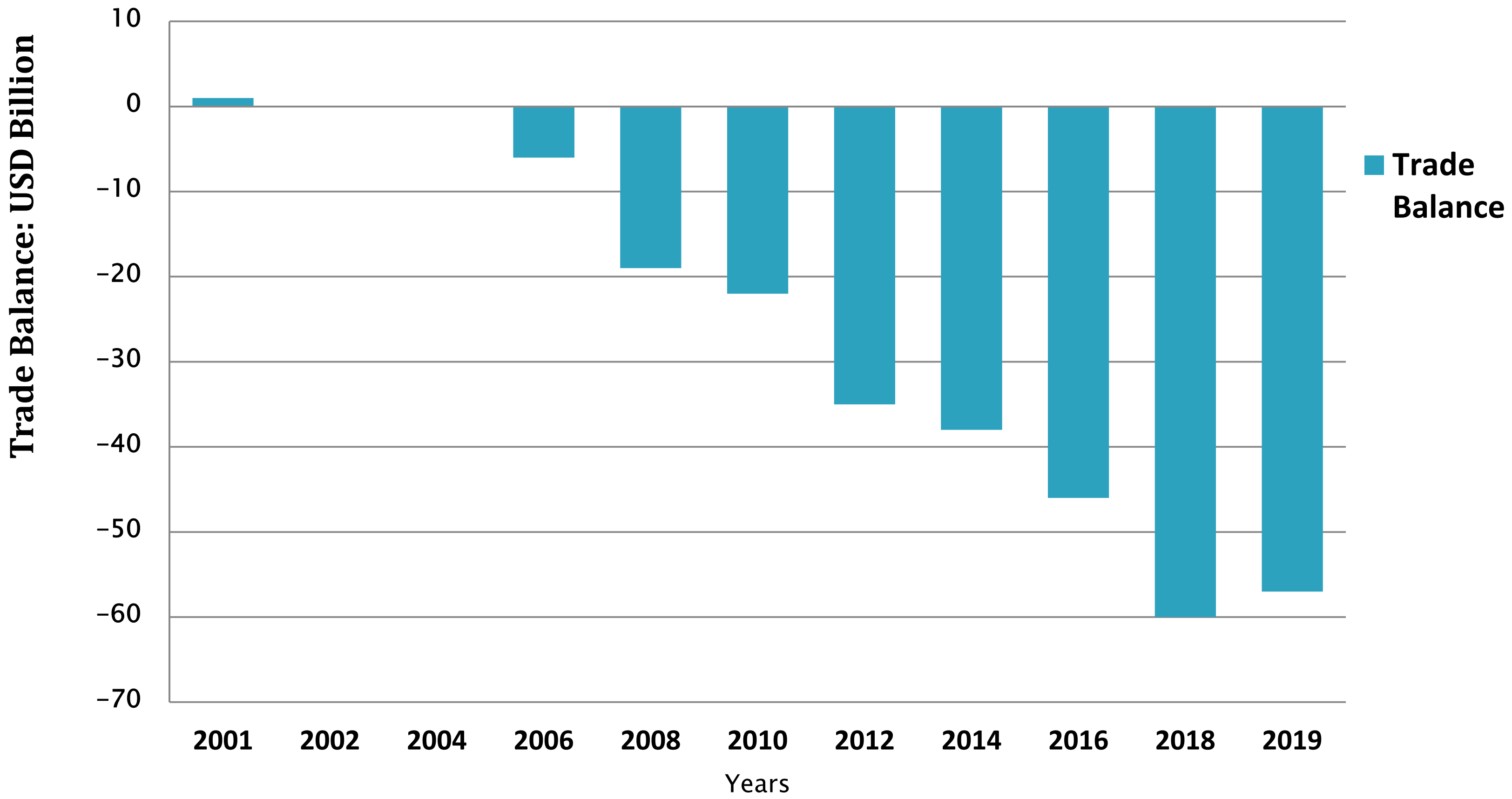
Source: ITC Trade Maps

- India’s overall trade balance is quite large. For e.g. for the year 2019, India's overall trade balance was around USD 156 billion.

- Over the last five years, RCEP members accounted for almost 70% of India’s trade deficit.

- If India were to join the RCEP, this could hamper its domestic industry in the face of a surge in imports.

India's Trade Balance with China



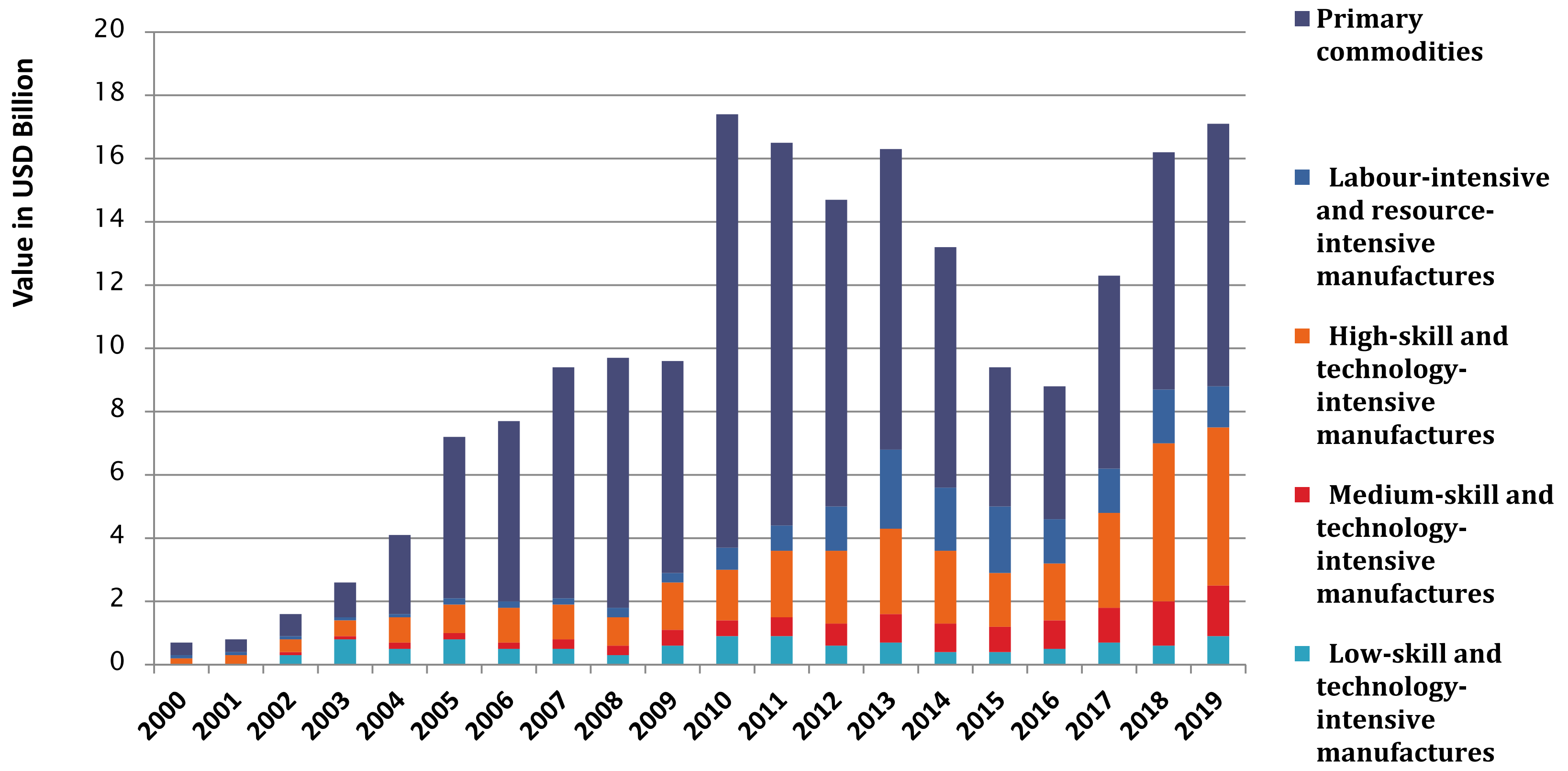
Source: ITC Trade Maps

India’s Top 10 Exports to China in 2019

Product label	India's exports to China USD bn	% Share
Organic chemicals	3.1	18
Ores, slag and ash	2.1	12.4
Mineral fuels, mineral oils and products of their distillation; bituminous substances	2.1	12.1
Fish and crustaceans, molluscs and other aquatic invertebrates	1.4	8
Cotton	1	6
Plastics and articles	1	5.6
Machinery, mechanical appliances, nuclear reactors, boilers; parts	0.8	4.9
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	0.8	4.8
Salt; sulphur; earths and stone; plastering materials, lime and cement	0.6	3.7
Iron and steel	0.6	3.3

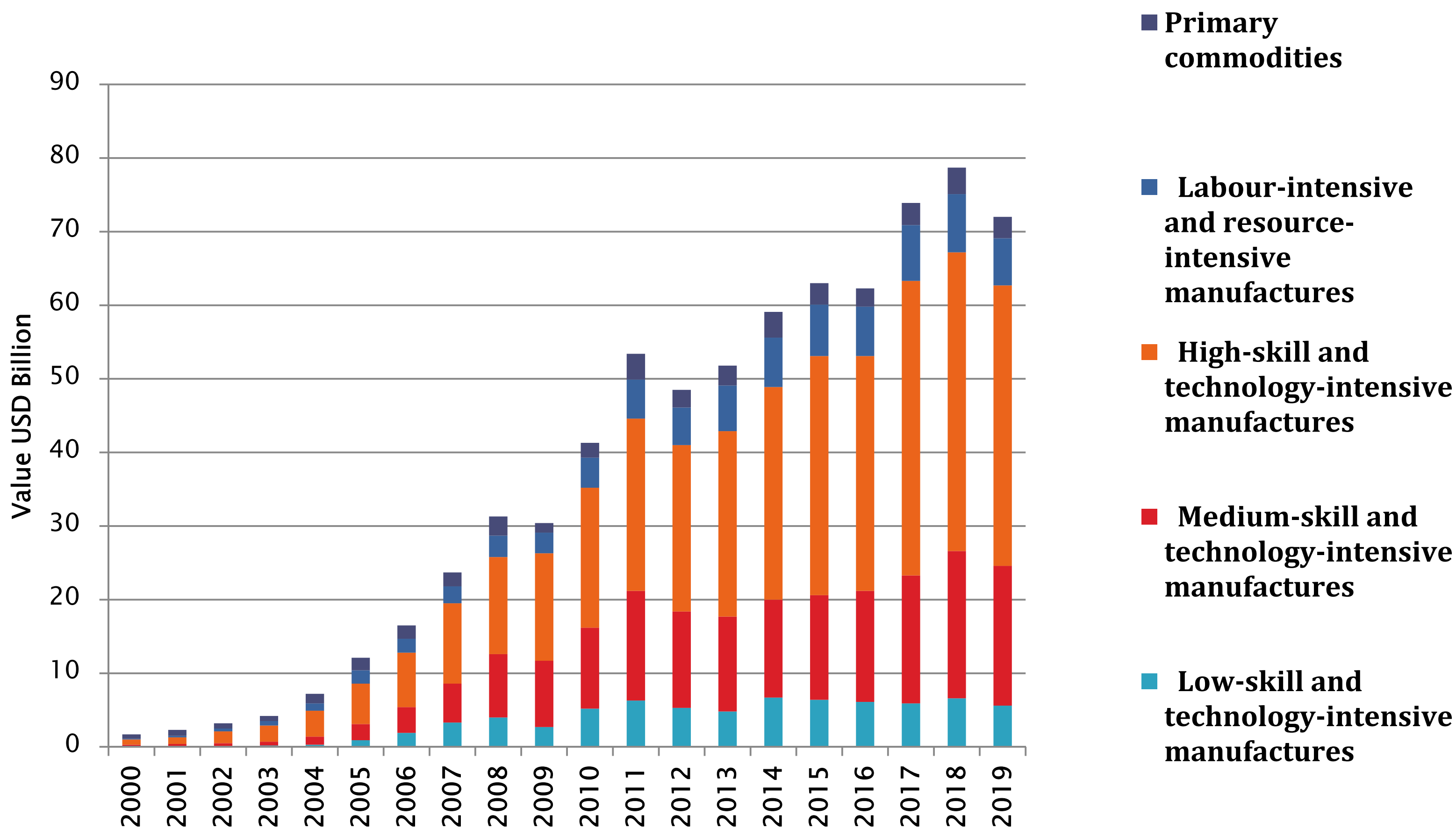
Source: ITC Trade Maps

India's Exports to China



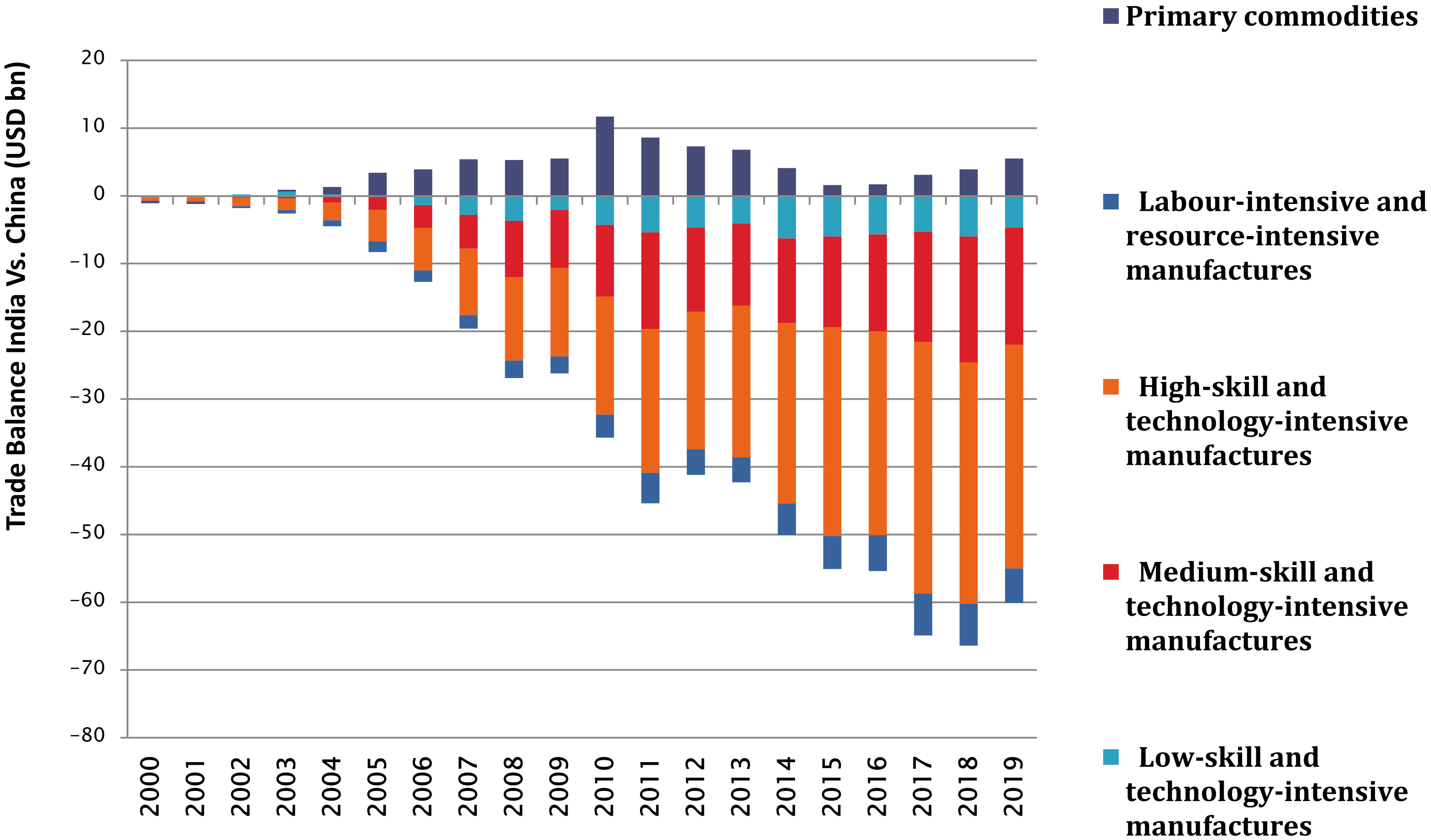
Source: UNCTAD

India's Imports from China



Source: UNCTAD

Shift towards high-skill and technology imports from China



Source: UNCTAD

India's Concerns

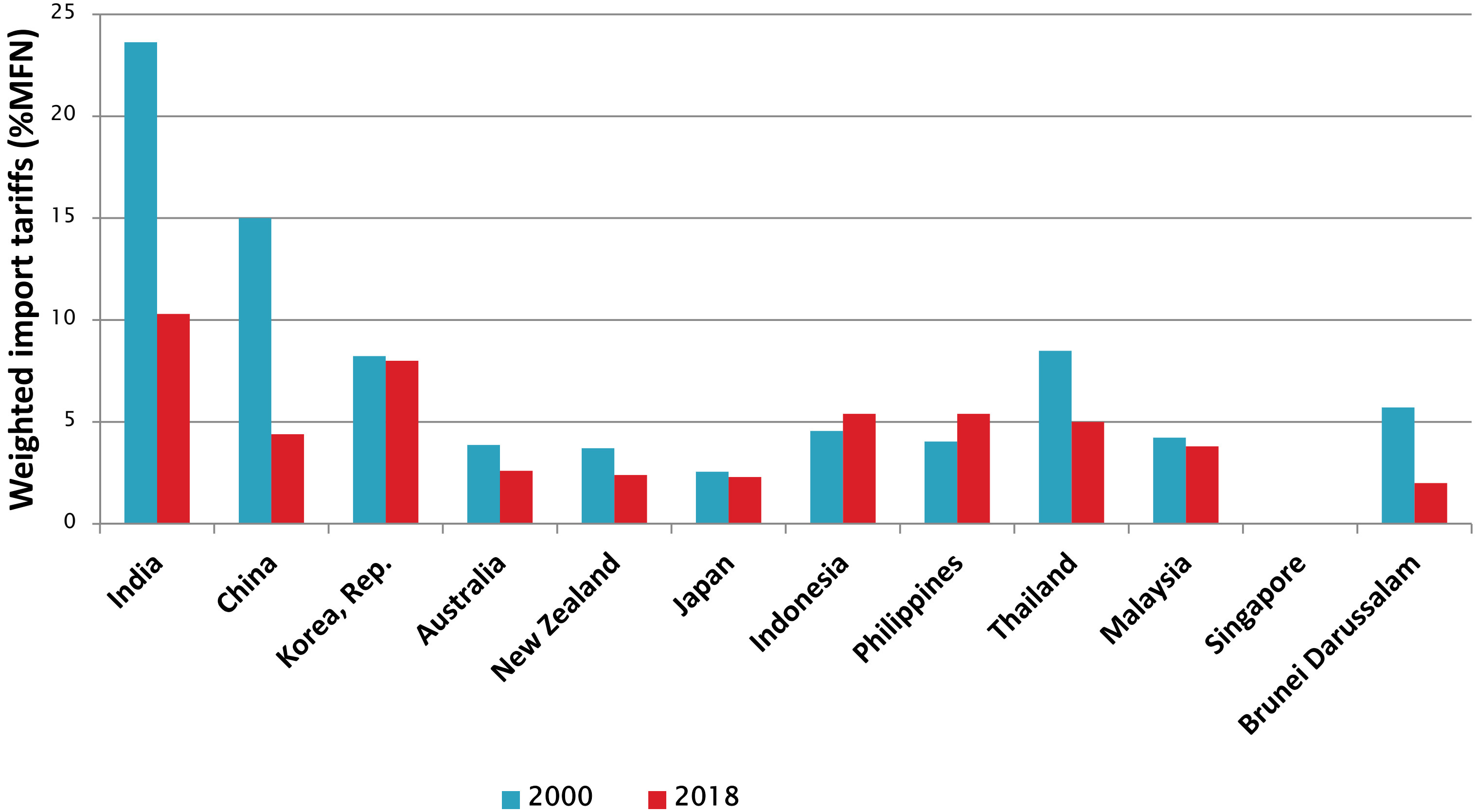
- Joining RCEP would require substantially decreasing its tariffs.

- This would enable other RCEP members to gain easier access to its large market of 1.4 billion consumers.

- However, since RCEP countries already have relatively lower tariffs, a further decline in tariffs may not provide better market access to these countries for India.

- Also the present agreement did not adequately address the issue of Non-tariff measures (NTMs) which continue to be high in RCEP countries.

Fig. 1: India's tariffs have come down, but are still among the highest



Source: WTO Wits

* Data for Vietnam, Laos, Cambodia and Myanmar is not available for the year 2000

Non- Tariff Measures

Countries	Total No. of NTMs	SPS	TBT	% share of SPS and TBT in total NTMs
India	4598	2312	1483	83
China	7256	1642	4054	79
Korea, Republic of	1929	706	723	74
Australia	1715	278	839	65
New Zealand	3090	1569	1382	96
Japan	1275	265	654	72
Indonesia	971	239	432	69
Philippines	1222	364	359	59
Thailand	3276	1258	1099	72
Malaysia	920	324	372	76
Singapore	614	136	301	71
Viet Nam	773	114	318	56
Brunei Darussalam	562	178	245	75
Myanmar	267	80	51	49
Cambodia	367	49	131	49
Laos	520	56	141	38

Source: UNCTAD TRAINS

Other Concerns

Impact on the Agriculture and Dairy sector

- Agriculture sector in India employs 50% of the workforce.
- Majority of farm holdings are small and marginal.
- Question of livelihoods.
- Government was under pressure to protect small farmers.
- Indian farmers have cited the examples of the India-Sri Lanka and India-ASEAN FTAs which have had a negative impact on the Indian plantation sector.
- Most vocal opposition was led by farmers in the diary sector - It is estimated about 80 million Indian rural households are engaged in milk production and Indian farmers earn more money from the sale of milk than from wheat and rice combined.
- The immediate threat was perceived to be from the dairy industry of Australia and New Zealand.

Intellectual Property Rights

- Concern that the Intellectual Property Rights chapter of RCEP would push India for accession to 1991 Act of the International Convention for the Protection of New Varieties of Plants (UPOV 1991).

- The objective of the Convention is the protection of new varieties of plants by an intellectual property right.

- Under UPOV 1991, “seed companies get exclusive rights to control the production, reproduction, sale, export and import of their varieties. Anyone who wants to engage in these activities must obtain a license and pay a royalty”.

- India is not a signatory to UPOV 1991. Instead, the Protection of Plant Varieties and Farmers' Rights Act (PPVFRA) of 2001 allows farmers to continue with their seed practices, except that they cannot sell packaged seeds of protected varieties and is less stringent than UPOV 1991.

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- Thus there was concern that recognizing any aspect of UPOV system would undermine farmer seed systems in India and affect the right of Indian farmers to freely save, use, exchange and sell farm saved seeds/propagating material.

- This would sever beneficial inter-linkages between formal and informal seed systems.

- Also the restrictions on the use, exchange and sale of protected seeds could adversely affect the right to food, as seeds might become either costly or harder to access.

Arguments in Favor of RCEP

- High Level Advisory Group (HLAG) set up by the Department of Commerce argued that India should join the RCEP.

- The report released in October 2019:
  - Recognized that RCEP will provide an opportunity for India to integrate more deeply with the Asian economies.
  - Pointed out that India and China will be the two major gainers from RCEP.
  - India's GDP will go up by 0.88% while China's will increase by 0.34%. India's exports go up by 11.5%, the highest rate amongst the ASEAN countries. India's imports grow by 7.1% .
  - India also benefits from efficiency gains.

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The HLAG report also suggested certain policy actions going forward. Some of these include:

- Implementing a program on technical regulations based on international standards.
- Use of trade remedies and safeguards when there is sufficient economic proof.
- Better ministerial coordination for RTA implementation.
- Strengthening the policy mechanism for implementing RTAs.

India’s Option to join RCEP Later

- Ministers’ Declaration on India’s Participation in the Regional Comprehensive Economic Partnership (RCEP), 15, November 2020:

  - RCEP Agreement is open for accession by India from the date of entry into force of the Agreement as provided in Article 20.9 (Accession) of the RCEP Agreement;

  - The RCEP Signatory States will commence negotiations with India at any time after the signing of the RCEP Agreement once India submits a request in writing of its intention to accede to the RCEP Agreement…..; and

  - Any time prior to its accession to the Agreement, India may participate in RCEP meetings as an observer and in economic cooperation activities undertaken by the RCEP Signatory States under the RCEP Agreement, on terms and conditions to be jointly decided upon by the RCEP Signatory States.

- Japan was instrumental in getting this Ministerial declaration issued.

Participation in GVCs: Key Objective for India, esp. Post-COVID 19

- "Make in India" program initiated with the objective of making India a global manufacturing hub, by encouraging both multinational as well as domestic companies to manufacture their products in the country.
- "Digital India" with focus on areas like broadband highways, universal access to mobile connectivity, and electronic manufacturing.
- Business facilitation measures which have helped India to move up to the 63rd position from the 77th position during 2015 to 2019 in the World Bank's '*ease of doing business*' ranking.
- Implementation of insolvency and bankruptcy code (IBC) which enables banks to recover bad loans.
- Goods and Services tax (GST) introduced to remove the complexity and cascading effects of taxes.
- Labour Reforms.

Contd.

- COVID 19 induced economic distress and revival measures.
- *Atmanirbhar Bharat* (Self- reliant India) program.
- The Production Linked Incentive (PLI) scheme
- Tactically reduced trade openness combined with openness on capital flows to attract shifting supply chains appears to be the fulcrum of the vision.

Challenges

- The key challenges for India's effective participation in GVCs are related to tariffs and non-tariff barriers, trade facilitation, investment facilitation, technology transfer and skill development.

Tariff and non-tariff Barriers

- Tariffs and non-tariff measures can add a significant cost to the price of the finished good that in turn affects the production and investment decisions of firms involved in GVCs.

- In its efforts to boost domestic manufacturing, India will have to ensure that these measures do not disrupt GVCs.

- With regard to forward linkages, also, in GVCs as well as export of final products, the tariff and non-tariff barriers faced by Indian exporters in other economies need to be identified for smooth operation of GVCs.

GVC-linked FDI

- Even though India has improved the enabling environment for FDI considerably, it still lags in areas such as enforcing contracts, registering property and resolving commercial disputes. Indeed, a whole host of domestic regulatory and procedural reforms need to be undertaken from the perspective of attracting GVC-linked FDI.

Border Bottlenecks & Connectivity

- Quality infrastructure that enables efficient movement of goods and services within and across national borders, fast and reliable information transfer, and sufficiently low coordination costs are prerequisites for participation in GVCs.

- The current Covid-19 pandemic has further brought into sharp focus the need for India to build more adaptable and resilient infrastructure as well as coordinated border measures to build supply chains resilient to disruption.

Skill Development

- Companies are beginning to favour locations that can better take advantage of new technologies.

- New emerging trends, including automation and robotics require that workers be equipped with new skills that enhance the ability of firms to adopt and absorb the new technologies.

- Education and training therefore need to be geared towards positioning firms and workers to take advantage of new opportunities.

Leveraging Services

- In the increased complexity of global supply chains there is also increased use of skill-intensive inputs, notably services.

- Can India take advantage of this process of 'servicification' - upstream activities, such as R&D and product design, together with downstream activities, such as branding and advertising.

Thank You