India-RCEP

What is the issue?

- To be or not to be a part of the Regional Comprehensive Economic Partnership (RCEP) is a question for India.
- This seems to be the best way of describing India's engagement in the negotiations for adopting the RCEP.

What is RCEP?

- The RCEP is a mega-regional free trade agreement (FTA).
- It is being negotiated since 2012 between the 10 ASEAN (Association of South-East Asian Nations) countries.
- It includes **10 ASEAN members** and **6 FTA partners of ASEAN** (India, China, Japan, South Korea, Australia and New Zealand).
- ASEAN member countries - Thailand, Indonesia, Malaysia, Singapore, Philippines, Vietnam, Brunei, Myanmar (Burma), Cambodia, Laos.

What is the Indian government's stance?

- More recently, the government has shown signs of a rethink whether it needs to join the RCEP; it appears that the government would continue to engage in the RCEP negotiations.
- This is a critical phase for the RCEP, as almost all countries are pushing to conclude the negotiations before the end of 2019.
- The government's stance on the RCEP comes even as a large segment of **India's manufacturing and diary sectors has consistently spoken against joining this agreement**, arguing that import competition would adversely affect them.
- It is difficult to objectively assess the claims of Indian enterprises because the RCEP negotiations are held in complete secrecy.

Why is there an import surge?

- The likely outcomes of the RCEP can be assessed in two indirect ways which would rely on information provided by the government:
    1. The first assessment considers India's initial negotiating position on eliminating import tariffs on goods prepared in 2015.
    2. The second one takes a cue from a NITI Aayog note, which pointed to

the disquieting trend of growing trade deficit with the ASEAN after India began implementing the India-ASEAN FTA.

- In fact, India signed Comprehensive Economic Partnership Agreements (CEPAs) with Korea and Japan, and with both these countries, India's trade balance has steadily deteriorated.
- India's initial tariff offers in the RCEP negotiations showed that it was unwilling to offer the same levels of market access to all RPCs.
- India was willing to eliminate tariffs on nearly 80% of its products imported from the ASEAN and Australia (over 10 years), 42.5% of Chinese products.
- This conservative stance with regard to China reflected India's growing trade deficit with it, which was caused by a steep increase in India's imports from about $4 billion in 2003-04 to $60.4 billion in 2014-15.
- Since then, imports from China increased to a record level of $76 billion in 2017-18, before declining to $70 billion in 2018-19.
- Thus, while making initial tariff offers in RCEP negotiations, the Government of India seemed to have expressed its concern about,
    1. The steep increase in imports from China
    2. Protecting domestic firms from further import surges resulting from substantial tariff elimination on Chinese imports.
- However, India's initial offers were not accepted by the RPCs.
- It is now well-known that most RPCs are seeking higher levels of tariff elimination than what India had proposed.
- This implies that India could eventually eliminate a much larger share of import tariffs than it was originally intending to.

What does the trade deficit point out?

- The government has recently expressed its concern about the rising trade deficit with ASEAN (**Four-fold increase**) and is now seeking to review its FTA with the 10-member ASEAN body.
- In the two other agreements, with Korea and Japan, India finds itself in an equally acutely adverse situation.
- The trade deficit with Japan and Korea has **doubled** after the two CEPAs were implemented.
- India's trade deficits with its RCEP partners have grown by such magnitudes and so the consequences of eliminating tariffs further can well be imagined.
- Since 2018, the government has recognised that low levels of tariffs are hurting India's manufacturing in two ways:
    1. Discourages domestic manufacturing and hurts the 'Make in India' initiative.
    2. Major industries, including textiles and clothing, have struggled to face import competition.

- Consequently, tariffs have been increased on a range of manufacturing sectors, resulting in an increase in average tariffs on industrial products.
- Trade liberalisation via the RCEP militates against the government's policies of promoting and protecting manufacturing industries.

Does this mean that India should turn its back from the global markets completely?

- This scenario can be avoided, provided the government takes proactive steps to **make domestic producers globally competitive**.
- The government should improve the competitiveness of the manufacturing sector and the share of the sector in the GDP should be increased from 17% to about 25%
- The government should address the Indian agriculture's burden of mounting inefficiencies.
- India's policymakers never paused to think that growing inefficiencies wouldn't allow agriculture to survive in an open economy, which the RCEP promises to usher in.

What could be done further?

- The government must recognise that unless Indian agriculture and manufacturing sectors emerge strong and efficient, participation in the RCEP process could be regressive for the economy.
- The ASEAN-India FTA, and the CEPAs with Korea and Japan didn't work in India's favour almost entirely because lack of competitiveness of Indian products has held India's exports back.
- Thus, joining the RCEP could result in far worse outcomes if the government doesn't take prompt measures to reverse the existing inefficiencies of Indian producers.
- Finally, the proactive governments that are driving the RCEP process have consistently adopted effective policy instruments to improve the competitiveness of their domestic enterprises.
- India's policymakers need to take a cue from these forward-looking policies and adopt them for preparing the domestic producers to take up the RCEP challenge.

Source: Business Line