



Delhi Policy Group

Advancing India's Rise as a Leading Power



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Prime Minister Narendra Modi at the 16th India-ASEAN Summit in Bangkok, November 3, 2019 where he conveyed India's decision not to join the RCEP trade agreement. Source: Flickr/ MEA Photo gallery

Prime Minister Narendra Modi launching the Atmanirbhar Bharat Abhiyan during an address to the nation on May 12, 2020. Source: DNA India

Leaders and trade ministers pose for a virtual group photo during the virtual signing ceremony of the RCEP Agreement on November 15, 2020. Source: ASEAN

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Is there a case for India joining RCEP now?

by
V.S.Seshadri*

The negotiations for concluding the Regional Comprehensive Economic Partnership agreement (RCEP), which spanned over seven years from 2013 to 2019, were difficult for India, more difficult perhaps than for any of the other 15 participants. RCEP after all was also not just one more FTA, but a regional mega FTA involving cumulation. That is, the minimum value addition defined in the agreement's rules of origin need not take place in just the final exporting country in RCEP, but cumulatively from all the RCEP countries that may have contributed to the manufacture of a product. This was the main takeaway that the more developed countries in RCEP, like Japan, South Korea and China, were in particular looking for.



Leaders and trade ministers pose for a virtual group photo during the virtual signing ceremony of the RCEP Agreement on November 15, 2020. Source: ASEAN

India has trade deficits with most RCEP countries. One could argue that RCEP may also have been challenging for Cambodia, Laos and Myanmar, the least developed countries. But it was always expected they would get differential and softer treatment in terms of commitments, something borne out by the results.

All the other twelve participants, including China, were longtime members of the Asia Pacific Economic Cooperation (APEC) grouping and they had the

* This is an expanded version of the remarks made by the author at a roundtable on RCEP held online by the Synergia Foundation on January 30, 2021.

familiarity of working closely with each other for over two decades on trade issues. More importantly, they worked together in implementing APEC Trade Facilitation Action Plans 1 and 2 between 2002-2006 and 2007-2010 respectively, that brought down transaction costs by 5% each. And they were already linked through FTAs with each other, China included, barring very few exceptions.

If India wanted to be part of RCEP, it needed to have a national strategy right from 2013 onwards when the negotiations began, or soon thereafter. Such a strategy should have aimed at becoming competitive, including in some value added products, and to have an offensive plan in terms of making market access demands on other RCEP countries that would bring gains for India's exports including in areas of emerging strength. Such demands were required not just on the tariff front but also on non-tariff issues, such as standards or obtaining a higher level of assured market access to our generics. Furthermore, we needed to strengthen our defenses in those areas which were sensitive or vulnerable, so that inroads by others could be effectively dealt with. As for agriculture, we needed to persuade our farm sector to find ways of using RCEP to bring about reforms, while recognising also that in certain areas we may have to offer some market access, including perhaps some limited tariff rate quotas in a few sensitive areas. Finally, we also needed to identify potential losers from RCEP and find some ways of restructuring or offering trade adjustment support. In other words, RCEP preparation not only needed a negotiation strategy but also a domestic readiness strategy that would have necessitated a political marketing strategy as well.

But the reality is that big ticket reforms tend to get deferred in India since they need strong political will to push them through. Even when they are eventually taken up, as in the present case of the farm laws, success is far from assured. Boosting exports, in particular, has yet to attract concerted political attention. There is inadequate national appreciation of the fact that faster GDP growth of 8 per cent plus simply cannot be achieved in a sustained manner without strong and enduring export performance. The 2019 general elections saw no political party even mentioning RCEP in their manifestos. It can be recalled here how TPP became a intensely domestic political issue in several countries, not just in the US, and how getting ready for it was acted upon in those economies.



Prime Minister Narendra Modi at the 16th India-ASEAN Summit in Bangkok, November 3, 2019 where he conveyed India's decision not to join the RCEP trade agreement. Source: Flickr/ MEA Photo gallery

Not much attention has also been paid on ensuring that India's existing FTAs were adequately followed up and implemented, even in terms of expediting the prompt issue of origin certifications. A feeling that existing FTAs did not bring gains gradually strengthened among our business and industry circles. It must also be clearly recognised that South Korea, Japan and China are difficult markets, FTA or no FTA. And the fact that RCEP countries were not willing to open up too much on services during the negotiations only made things more difficult. Even in some of our existing FTAs, India's partners have not fully lived up to their commitments on services.

The point being made here is that if India had strategised from day one of the negotiations on these lines, RCEP entry could perhaps have been easier. But having not done so, atleast perceptibly, the alternative was, as the end of the negotiations neared, to seek a certain flexibility or room for five years or so, till 2025 perhaps upto when our commitments would be somewhat minimal and rise thereafter in a graded fashion. And considering China's dominant presence in India's market even without an FTA, a special dispensation was necessary vis-a-vis China.

This author was assigned by the Confederation of Indian Industry (CII) to come up with a report on RCEP in 2017, particularly on how to deal with China's

already dominant presence in the Indian market. This required engaging in consultations with a wide range of segments in the Indian industry and there were significant concerns about RCEP. A handful of sectors like textiles showed keen interest, but otherwise the level of enthusiasm was low. The recommendations in the CII report submitted in 2018 sought a delayed commitment on both market access and cumulation and identified several products in which China had a dominant or even monopoly status already in the Indian market which needed to be shielded from concessions. The report also carried several recommendations towards getting ready for RCEP.

From all accounts, the Indian negotiators did make strong demands for delayed commitments on market access, cumulation and certain safeguards which were perhaps not acceptable to the others. Two or three considerations appear to have prevailed. With RCEP already seen as TPP-lite, particularly on non-market access issues, the other members wanted to ensure a high degree of access, in terms of tariff elimination, on merchandise trade. Second, there appeared to be an expectation that since India was newly entering the club of dynamic east and south east Asian countries, it should not object to some sectors taking a hit in the bargain. India could not have a special dispensation only for itself. Third, it did not appear that any other RCEP country leaned on China to agree to provide more flexibility to India, and they left it to the two countries to sort this out bilaterally, despite claims of "ASEAN centrality" in pushing the agreement. So India may have had no choice but to step aside. That is a pity, since but for market access this was otherwise a moderate agreement that India could have lived with.

It is against this background that fresh calls which are being made by some analysts and experts for India to rejoin RCEP need to be evaluated. While RCEP countries have resolved that the door for India remains open, the ground realities still remain and there is no assurance if these member countries would relax the conditions. In India, we have meanwhile embarked on the Aatmanirbhar Bharat programme and also launched production linked investment schemes in a number of sectors, which hopefully will significantly increase our export capacities. The recent budget announcement regarding setting up of seven mega textile parks in three years is also welcome. But all this will take time. Efforts also need to be made to move our trade related infrastructure significantly forward. If we are serious and pursue time bound strategies, we can still get to the stage of RCEP readiness by 2025 or so and then make an effort to gain entry, depending also on then prevailing geopolitical

circumstances¹. To try and gain entry now on the assumption that RCEP-induced supply chains and the resultant inward investments will themselves take care of India's export needs may, however, be much too optimistic.



Prime Minister Narendra Modi launching the Atmanirbhar Bharat Abhiyan during an address to the nation on May 12, 2020. Source: DNA India

In all this, yet another unfortunate present day reality cannot be ignored. There is no manufactured finished product from India, as against a primary or intermediate product, which has a domestic producer in China, which can find easy entry into that country. And if and when India may seek to enter RCEP, altering that reality would have to be an essential part.

Being out of RCEP does not, however, mean India will not be affected by it. This trade deal is going to make the RCEP region even more competitive and India is a major market they could well target. Trade figures for recent years already suggest that China is diverting a good portion of its exports to India through Hong Kong, Singapore and Vietnam, even while appearing to show that the bilateral deficit with India is declining or not going up². Soon, it may also try and use India's neighbours as launch pads in whose import profiles China's shares are steadily rising. There is no alternative to deal with all this but to

¹ It needs to be stated here that the reasoning in this brief is essentially on trade policy considerations, derived from the author's earlier experience as a trade negotiator. There is no doubt that geopolitical concerns will form a key element in any future decision.

² This aspect has been dealt with in some detail in the brief on "Trade policy challenges for 2021" by the author which can be seen in pages 21-25 of the DPG Policy Report Vol.VI, Issue 2 accessible at https://www.delhipolicygroup.org/uploads_dpg/publication_file/foreign-security-and-trade-policy-challenges-of-2021-2167.pdf

ensure that imports into India through all channels strictly follow rules, including of origin, and tighter domestic standards.

Further, this also does not mean that India remains passive on the FTA front even as internationally the FTA numbers continue to rise. India should try and conclude FTAs with Australia and the UK as a matter of priority. That is, if India can get Australia to reduce its expectations on agriculture and focus more on services and other areas. If FTAs can be progressed with these countries, they can perhaps help in drawing up suitable templates for India on services for use in future FTA negotiations. If that works well, pushing the long pending bilateral trade and investment agreement with EU could be a next step. The more FTAs there are in a country's trade kitty, the more it will find flexibility forthcoming in further FTA negotiations. Securing the long talked about mini-trade deal with the United States and getting the GSP concession restored should be another important priority. Meanwhile, we need to also do far better in domestic utilisation of existing FTAs. Much has been written on each of these aspects, which will not be further dealt with here.

To conclude, the short answer to the question raised in the title of this brief is no; there is no strong case at present for India attempting to join RCEP.



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