

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

Context:

Leaders of the 10-member Association of South East Asian Nations have resoundingly committed to concluding negotiations for the Regional Comprehensive Economic Partnership free trade agreement by the end of 2019.

What is RCEP?

- RCEP is an ASEAN-centred proposal for a regional free trade area, which would initially include the ten ASEAN member states and those countries which have existing FTAs with ASEAN – Australia, China, India, Japan, Republic of Korea and New Zealand.
- The objective of launching RCEP negotiations is to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, electronic commerce, dispute settlement and other issues.

What RCEP Means for Businesses?

RCEP has the potential to deliver significant opportunities for businesses in the East Asia region, given the fact that the 16 RCEP participating countries account for almost half of the world's population; contribute about 30 per cent of global GDP and over a quarter of world exports. RCEP will provide a framework aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region.

Importance of RCEP for India

- The RCEP will provide a boost to India's Act East policy and will also influence the economic stature of India among the other South Asian countries.
- India's trade with the RCEP group of countries as a percentage of its total trade has increased over the past decade.
- The greater economic integration with the countries of SouthEast Asia and East Asia achieved through RCEP, India will have access to vast regional markets of these countries thereby helping its economy.
- India can leverage advantage in areas such as ICT, IT-enabled services, healthcare, and education services. RCEP would help in expanding into these markets along attracting greater FDI into these areas.
- It would also facilitate India's MSMEs to effectively integrate into the regional value and supply chains

India's Concerns and RCEP

India has been keen to join. But six years into negotiations, its concerns remain: ensuring that RCEP countries open their markets for Indian manpower (services).

- Opening its markets for cheaper goods from countries like China and South Korea: India has a trade deficit with as many as 11 of the RCEP countries and it is the only one among them that isn't negotiating a bilateral or multilateral free trade agreement with China at present.
- Country of Origin: India has also made tagging the "Country of Origin" on all products a sticking point in RCEP negotiations. India wants strict rules of origin to prevent Chinese goods from flooding the country through member countries that may have lower or no duty levels. Chinese garments are making their way into India through the duty-free route under the South Asia Free Trade Pact and the Duty-Free Quota-Free window from Bangladesh. Ensuring that RCEP countries open their markets for Indian manpower (services).
- India has expressed its reservations over inclusion of e-commerce in the RCEP talks.

- The RCEP draft is opposed to data localisation, while India fears the monopoly power of digital giants which includes the likes of Tencent and Alibaba.
- India has been insisting that any adoption of an agreement on trade in goods cannot be adopted without simultaneously adopting agreements on services and investments and any agreement on trade in goods without simultaneous agreement on services trade and investment will only harm India's interests.
- India has said the highest value addition with the help of indigenous inputs must be done in the country from which a product is exported. Globally, the average threshold for domestic content to get originating status for a product is 40-60%.

Progress Made

- The ASEAN countries are keen to have India as part of the partnership and have made India a concessional offer of opening up only about 83% of its market, as compared to the original 92% that the RCEP agreement stipulated, ". And regarding India's concerns about further opening its market to China and skewing the trade deficit between them further, the RCEP allows for bilateral agreements also to be made so India can perhaps open up to China gradually and not in one go."
- India has achieved some success regarding some of its other concerns, such as getting the other RCEP countries to liberalise their services markets and allow for a more free movement of service sector professionals.
- At least 13 countries including Australia, Japan and New Zealand have opposed India's proposal for strict criteria to determine the source country of a product (Country of origin), based on which they get tariff concessions or duties.

Way Forward

Giving up the chance to join RCEP would mean India would not just miss out on regional trade, but also lose the ability to frame the rules as well as investment standards for the grouping. Above all, at a time of global uncertainties and challenges to multilateralism and the international economic order, a negative message on RCEP would undermine India's plans for economic growth. India should proceed very carefully in future negotiations so that we are able to maximize our benefit from the group with a minimum threat to our domestic economy.