

## SHOULD INDIA STAY WITH REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP MOOTED BY ASEAN

### Context:

- ✚ The Association of South East Asian Nations (ASEAN), which announced the idea of a Regional Comprehensive Economic Partnership (RCEP) in 2012, is pushing stakeholders to conclude talks by the end of 2019 and take it forward.
- ✚ At the ASEAN summit which ended in Bangkok last Sunday, the Malaysian Prime Minister, Mahathir Mohamad, said he is willing to push through the trade agreement without India “for the time being.”

### What is RCEP and why does it matter for the world?

- ✚ Billed as the world's biggest trade agreement, the RCEP of 10 ASEAN countries with its six free trade agreement (FTA) partners India, China, Australia, New Zealand, Japan and South Korea could well change the face of global trade as we know it.
- ✚ Let's take a look at what the RCEP includes:
- ✚ The RCEP includes countries that make up 45% of the world's population with 33% of its GDP, and at least 28% of all trade in the world today.
- ✚ If the RCEP is concluded, as ASEAN countries that are driving it hope it will be, by the end of this year, it will bring stability to an otherwise unpredictable world market.
- ✚ The worry is that it could also make world trade less flexible, putting members into a quasi-bloc with China at the helm.
- ✚ Most RCEP members also conduct substantial trade with the United States, and the ongoing U.S.-China trade war may force many of them to take sides, causing a geopolitical rift within the group even before it is fully formed.
- ✚ As a result, the next four months leading up to the next RCEP summit will be watched closely by the entire world.
- ✚ Anticipation levels are high, and the ASEAN grouping even has a countdown to the summit, to be held on November 19th, 2019 in Bangkok, on its website.

### Why has it taken so long to Negotiate?

- ✚ This week marks the 26th round of negotiations for the RCEP, which are being held amidst high secrecy in Melbourne, Australia (June 22-July 3, 2019).

- ✚ Seven of the 18 final RCEP agreement chapters have been concluded, say officials, and ASEAN chair Thailand has committed to wrapping up all the rest in time for the November summit.
- ✚ It is important to note that the concept of the RCEP was promoted by ASEAN countries in 2011, but an RCEP declaration came at the ASEAN summit in Phnom Penh in 2012, and negotiators met for the first time in 2013.

### Looking at the main stumbling blocks for the RCEP:

- ✚ The main stumbling blocks for the RCEP are the India-China trade relationship, as well as some concerns from Australia and New Zealand on labour and environmental protections.
- ✚ While much has been agreed on, and all countries remain committed to concluding the RCEP agreement, the last-mile will only be crossed when all those concerns are met.
- ✚ In May 2019, China proposed a plan to conclude the negotiations without the naysayers, i.e. take the ASEAN+3 (China, Japan and South Korea) into the agreement, while leaving space for India, Australia and New Zealand to join later.
- ✚ The Malaysian Prime Minister, Mahathir Mohamad, echoed the idea after the ASEAN summit recently, but the move was opposed by most in the grouping.
- ✚ As one ASEAN diplomat put it, given the size of India's market there is "no point without India in RCEP".

### Reasons for India to stay in the RCEP:

- ✚ For India, there are many reasons to stay in the deal.
- ✚ Apart from giving up the first mover's advantage, India would give up the chance to frame the grouping's rules and investment standards if it fails to join the RCEP at this stage.
- ✚ Staying out would also run counter to the Narendra Modi government's plans to ramp up its engagement with ASEAN countries through the "Act East" policy, as well as its hopes for maritime cooperation in the India-Pacific.

### Why is India holding up the deal?

#### Taking a look at India's Concerns:

- ✚ India's chief concern with the RCEP is the fact that it needs to protect its economy from the flooding of cheap imports from China.
- ✚ Of all the countries in the RCEP, India is the only one not involved in any bilateral or multilateral negotiations for an FTA with China, and the worry for the government and industry is that an FTA within the RCEP will just become a cover for duty free trade into India for Chinese goods.
- ✚ What have the RCEP negotiators agreed to?

- ✚ RCEP negotiators have thus far agreed to allowing India a differential tariff ladder, for its FTA partners and its non-FTA partners (China, Australia and New Zealand) within the grouping.
- ✚ China wants zero tariffs for over 90 per cent tariff lines however, which could see low-cost “Made in China” goods kill locally manufactured goods.

### Voices of concern and opposition:

- ✚ It is important to note that several industry groups have already petitioned the government not to go ahead with the RCEP, including manufacturers of steel and aluminium, copper, pharmaceuticals and textile, which will be the worst hit in such a scenario.
- ✚ Adding to the pressure on the Modi government is its own protectionist underpinnings within the Bharatiya Janata Party (BJP) and its parent body, the Rashtriya Swayamsevak Sangh (RSS).
- ✚ Ahead of the last round of negotiations in February 2019, the RSS’s trade body, the Swadeshi Jagran Manch, had called for a clear declaration that the government would quit RCEP negotiations entirely, citing the impact the agreement would have on agriculture and dairy sectors.
- ✚ The SJM also pointed out, like many other industry bodies, that India’s trade deficits have only grown with each country it has an FTA with, and already has deficits with 11 of the 15 other RCEP countries.
- ✚ As a result, the government has been cautious about moving ahead.
- ✚ India has asked for strict “Rules of Origin” markings on all goods, so they don’t come in through a third country.
- ✚ In addition, India wants to ensure the free flow of services (manpower) to RCEP countries as well, but has faced an uphill task as most countries tighten their immigration laws.
- ✚ During the current round of talks in Melbourne, trade negotiators are focusing on market access for goods, services, and investment as well as negotiations on Rules of Origin, Intellectual Property and e-commerce, and the outcome of this round will be most keenly watched.

### The Road Ahead:

- ✚ Once the Melbourne round ends, a three-member delegation consisting of ASEAN Secretary General Lim Jock Hoi and representatives from Thailand and Indonesia will be coming to New Delhi to put the negotiations on a fast track.
- ✚ For its part, China says it is willing to reassure India on its concerns, and sent a delegation led by Vice-Minister for Commerce Wang Shouwen for talks with India’s Commerce Secretary Anup Wadhawan earlier in the month of June, 2019.

- ✚ Furthermore, in the past year, China has improved market access to several Indian agricultural and pharmaceutical products, and says it is working on ways to balance the nearly \$60 billion-plus trade deficit that India suffers at present.
- ✚ Officials privy to the discussions on the RCEP, however, said the talks were inconclusive.
- ✚ Last year, Mr. Modi and others at the RCEP summit had convinced the group to wait a year, given that elections in India, Indonesia, Thailand and Australia were due.

### Conclusion:

- ✚ With fresh mandates, each of the leaders of those countries, including Mr. Modi, is expected to have a greater ability to take tough decisions this year.
- ✚ The worry, say many diplomats, is that 2019 is a make or break year for the RCEP, and if it doesn't conclude now, the deal itself could be “dead in the water”.

