International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Regional Comprehensive Economic Partnership Agreement and India - What were the reasons for its exit?

Upasana Detha

Abstract

India's 2019 withdrawal from the Regional Comprehensive Economic Partnership (RCEP) balanced economic vulnerabilities against strategic autonomy. This paper analyses whether the exit was a pragmatic retreat or a missed opportunity, using trade data and regional integration theory. Persistent trade deficits, negotiation challenges, and geopolitical tensions with China drove the decision, yet risks marginalizing India from Indo-Pacific supply chains. Domestic reforms and selective re-engagement are recommended to enhance India's global trade competitiveness.

Introduction

In today's globalized world, India is aiming to become a 5 trillion dollar economy by 2024 -2025, which requires profound economic growth rate with a strong competitive manufacturing industry, good infrastructure facilities, widened export base, enhanced sector-wise contribution through PLI (Production linked Incentive) schemes to India's GDP. These incentives would attract foreign investments into the economy while also lowering the cost of doing business for firms and allowing India to fit into the global value chain by enabling higher exports. This process would have thrust ahead with India joining the RCEP agreement.

RCEP - Regional Comprehensive Economic Partnership Agreement is a mega trade agreement among the 10 ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia) and its 6 free trade agreement partners (Japan, China, South Korea, India, Australia and New Zealand). It is the largest trade deal under WTO involving half of the world's population and one third of the global GDP. It aims to establish the world's largest free trade area which shall have the potential to facilitate business transactions and harmonize rules across the East Asian region, thus serving as a building block to the multilateral trading system (Rupal, 2021).

India's Act East policy, 2014, aims to promote economic, strategic and cultural relations with the Asia-Pacific region at different levels. In this direction, India has expanded bilateral and multilateral engagements across the region (Kesavan, 2020).[1] The regional comprehensive economic partnership agreement would have provided a great leap in integrating India into the East Asian region. It had promising scope for enhancing the competitiveness of the Indian manufacturing industry along with immense potential for the technological sector, business process and outcomes sector and telecom sector (Rupal, 2021). India negotiated with the partner countries of the trade agreement to gain from it despite

[1] Like Ministerial-level meetings, Annual summits, Defence dialogues, Foreign policy and security dialogues on a bilateral level with countries like Japan and South Korea were held. On a multilateral level, India has an active membership of ASEAN Regional Forum, the East Asian Summit and the ASEAN Defence ministers meetings plus.

the differences in interests of India and the conditions of the deal. But the talks failed when India decided to opt out of the agreement in November 2019.

Literature Review

India's "Act East" policy and regional cooperation - K.V. Kesavan

The article gives us the details regarding how India started with the Look East policy in 1992 in the early stages of liberalisation of its economy. India wanted to build ties with the East Asian miracle nations. Narendra Modi government came up with Act East policy in 2014, in a similar spirit but intensified outlook.

India built economic relations with the ASEAN, Japan, and South Korea. Several bilateral mechanisms were set up along with a few trade deals among the nations. These were the initial steps taken to integrate India with the East Asian economy. India forged strategic partnerships with Indonesia, Vietnam, Malaysia, South Korea, Japan, Australia and close relations are maintained with BIMSTEC nations and Indian Ocean Region countries. PM Modi's vision for the region is Security and Growth for All in the Region (SAGAR). The strategic partnerships and economic relations among these nations shall also contribute to the prosperity of the North Eastern states of India via connecting programs which promote regional cooperation and integration.

This article provides the background for the RCEP agreement initiation and explains the importance of the region to India in terms of political, economic, social and cultural aspects.

India in the Regional Comprehensive Economic Partnership (RCEP) - Need for Caution: B.P. Sarath Chadran

Author in this article talks about the mega regional trade agreement of the East Asian region economies with its FTA partner countries majorly focussing on India. It discusses the apprehensions that India has about the agreement and the cautious approach it needs to follow to gain advantages from the deal. Author mentions the previous FTA negotiating experience of India along with the opportunities the nation can tap into while having talks with the RCEP negotiators. The cautious approach shall help in garnering an advantageous upper hand in the deal with the ASEAN economies and other partners.

Throughout the article, the author tries to make his point with the help of numbers. He started with the economic and trade profile of the ASEAN+6 countries, then the data on trade by the ASEAN+6 countries, their import and export share and their top 5 trade partners. The import and export share numbers indicate that the ASEAN countries are greatly interdependent and trade among themselves in huge proportions. All the RCEP partners are well connected except for India which might prove to be a hindrance in Indian integration with the region. India has a trade deficit of 24 billion USD currently with the ASEAN and the imports are increasing while there is a prominent drop in the share of exports. There is an individual trade deficit to India with the ASEAN plus nations too.

These numbers provide the real time simulation India currently perceives it to be in with respect to the other RCEP partners and it is a position of great disadvantage in the aspects of goods trade while author also distinctly mentions that India can gain from trade in services through the deal but does not provide any substantial evidence to support the claim. Author claims via World Integrated Trade Solutions (WITS) tool simulation[2], RCEP to be a trade creating FTA with a substantial increase in India's imports due to tariff reduction and the consequential decrease in prices.

RCEP and India: What Next? V.S. Seshadri

This article clearly laid out the reasons why India opted out of the RCEP and how it stood its ground while negotiating to fulfil its own demands. The article discussed that India tried to make deals to control the trade deficit existing between India and other RCEP partners, tried to sustain some protectionist walls against unfair imports while expanding the markets in the region for Indian goods and services to attain a fair and equitable position with the ASEAN plus 6 nations.

Seshadri explained why RCEP proved to be a tough negotiation for India. India was the only nation not familiar enough with the policies and procedures of ASEAN+6 nations. All the other nations were more export oriented than India. The RCEP nations lacked the will to be accommodative enough to India at least in the earlier stages to ensure fair competition and a little less uneven playing field. He also dealt with the question of whether India was ready to take individual hits for the region. The article mentioned the challenges India has - export stagnation, FTA inexperience and the looming protectionist stand in the world - in financially integrating within the region and how to address them - stable policies and a strong action plan to double exports, enhancing supply chain infrastructure to attract more foreign investments, a better FTA strategy in choosing partners, for better negotiating stand and proper implementation and a improved regulatory mechanism for the imports.

India's FTAs and RCEP Negotiations - Kyle Robert Cote and Purna Chandra Jena

Regional Economic Comprehensive Partnership agreement negotiations are the prominent aspect of this paper. Author has noted the Indian negotiating experience and the concerns that arouse with the previous FTAs. Author has studied the level of benefit or loss India attains with respect to its free trade agreement partner using Finger-Kreinin index[3] and the Relative Export Competitive Pressure Index[4] (RECPI) in the economies of Australia, Japan, South Korea and China.

Author mentioned the implications of earlier failings of India like export stagnation, application of MFN status to all ASEAN nations rather discussing the status bilaterally, losing the bargaining position in the goods trade agreement expecting concessions in the services agreement over the RCEP negotiations.

Article lauds the RCEP as the framework which has the potential to garner equitable economic development in the region on the basis of mutually beneficial economic agreements among nations of varied levels of development and diverse economic needs.

The article also notes that the FTAs with ASEAN or the Comprehensive Economic Partnership Agreements with Japan and South Korea have not really benefitted Indian domestic sectors due to the relatively low bargaining power of India. Author notes that this experience in trade diplomacy must play a crucial role while negotiating RCEP trade deal and other future trade deals. They must stand strong on their demands of tariff reductions, rules of origin requirements, services sector trade negotiations, review mechanism, and dispute settlement mechanism, while being open and flexible to the new opportunities that might arise.

---

[2] WITS tool simulation is used to estimate the partial equilibrium impact of tariff reductions for a single market.

[3] Finger - Kreinin index measures the similarities present between two or more countries or different group of countries in the aspects of trade, more particularly exports.

[4] RECPI is used to analyze the trends in competition with the other RCEP members in the study made in the article. (Kyle Robert Cote, 2015)

India's exit from the RCEP: Why and what's next? - Vidhi Rupal

This paper mainly provides an overview of the RCEP trade deal and it studied India - ASEAN trade relations and also analysed how they would impact India's position in the RCEP grouping after the integration.

The paper includes the reasons why India did not join the RCEP as the trade deficit with its RCEP partners and giving greater access to the Indian markets shall jeopardize the indigenous industries.

Author speaks elaborately on the previous FTAs that India signed with ASEAN, South Korea, Japan, Vietnam and Sri Lanka. Indian markets were exploited by the FTA partners and Indian exporters could not capitalise on the reduced tariffs as imports were increasing substantially while the exports were decreasing. This inability of India to gain through greater market access was stated as another reason why India was on the right to not sign the deal.

Alternative options like the European Union - India comprehensive FTA or the Trans Pacific Partnership were explored. The paper also mentions that India needs to strengthen its manufacturing and agriculture sector for future purposes and it must also learn to tap in the potential of the FTAs with a dedicated set of policies earning long term benefits to both industrialists and consumers.

Free Trade after RCEP: What next for India? - Nandini Sarma

This article gives a detailed account of India's trade relations with Japan, South Korea and Australia. Author observed that Japanese exports to India increased at a greater pace than the Indian exports to Japan after the Comprehensive economic partnership agreement liberalised almost 90 percent of goods traded between the two countries in 2011. India needs to fix domestic supply constraints and innovate to increase sales over a product line and adopt cost reduction measures to tilt the balance sheet to its favour.

The Comprehensive economic partnership agreement signed with South Korea in 2010 also encountered similar experience in terms of imports being greater in number than exports. There is a mention of India not maintaining data on the utilisation rates of FTA channels as the numbers can help in identifying the problems and assure a more targeted action to improve the trade balance sheet.

Australia, a non - FTA partner of India sees a great market potential for its goods in India while the same is not applicable for Indian goods minding the size of Australian Markets. Australia identified sectors in its "An Indian Economy Strategy to 2035" report where both the countries could mutually benefit - education, tourism, natural resources and agri-business. India was apprehensive of the strong dairy sector of Australia while negotiating for the RCEP but the author identified that investments from both economies could bridge the gap in food security.

The article noted that a slower and sustained integration of India into a regional trade agreement would suit the nation while reforming its domestic sector in a meticulous fashion. India should aim at playing a leadership role in the global value chain and trade structure.

India's withdrawal from Regional Economic Comprehensive Partnership - Abraham Hugo Pandu Wicaksono

Author illustrates the state behaviour of India in exiting the negotiations of the RCEP in a Neo-classical realism perspective in line with the structural changes marked by the region. Author stated that the anarchic international system and domestic factors affect the State Behaviour. The US - China competition in the Indo - Pacific region contributes for the international elements while the government's position of

vulnerability in public trust, some social fragmentations like the economic disparities, political disturbances or protests against policies fill in for the domestic elements.
Author looks at these contributing factors from the neo-classical realist lens and elucidates why India chose under - balancing as a response in RCEP. The US - China rivalry shifted the balance of the region while the domestic forces like the opposition and Swadish Jargan Manch apprehensions over the livelihood of agriculture and manufacturing sector workers led India to exit from the RCEP negotiations. The decision was inconsistent with the Indian foreign policy as mentioned in the article.

Why was RCEP important?

The idea of RCEP as a mega regional trade agreement was formulated in 2011 by the ASEAN countries. It was to expand the free trade agreements of ASEAN with its six dialogue partners - India, Australia, Japan, South Korea, China and New Zealand - to deepen and broaden the engagement among these parties to promote economic development in the region (Seshadri, 2019). It emerged as competition to the Trans Pacific partnership agreement involving twelve economies of the Asia Pacific region. The Trans Pacific Partnership agreement was a US led approach to counter the growing Chinese influence in the Asia - Pacific region. Donald Trump's withdrawal has dampened the talks and reduced the vitality of the agreement. This shifted the global focus on the RCEP.
RCEP negotiates trade in goods, services, investment, intellectual property, economic and technical cooperation, dispute settlement, competition, e-commerce and other issues (Chandran, 2018). The Guiding Principles and Objectives for negotiating the Regional Economic Comprehensive Partnership states that the main purpose of the deal is to achieve a comprehensive, high quality, two way beneficial economic partnership agreement among the parties (Hugo Seymour, 2019). The RCEP negotiations are to be in line with the WTO rules and shall also strive to gain significant improvement over the ASEAN+1 FTAs. They shall facilitate the developing countries and least developed countries with a differential treatment, technical assistance and capacity building.

RCEP and India Negotiations

The ASEAN nations in the RCEP agreement were greatly experienced in signing trade deals since they started in the 1970s. India is relatively new to the multilateral negotiating table of the trade agreements. The negotiations during the India - ASEAN FTA proved difficult to India and it could not garner the initial demands it intended to gain from the deal. ASEAN countries attained a shorter negative list of goods to trade than what India was comfortable with and the rules of origin were also more lenient. India expected a trade agreement in services where the stakes were in its favour. But the ASEAN bargaining power was huge in comparison to India and the talks regarding the services trade agreement continued for five more years after the conclusion of the goods trade agreement. These rounds of talks made India aware of the situations that may arise while negotiating the RCEP agreement.
ASEAN countries during the RCEP agreement talks demanded for the reduction of import duties along with eliminating tariff and non-tariff rates on goods trade in the region to facilitate free trade. They wanted to widen the sectors of healthcare, electricity, education, water and waste management through an active participation of the private players. It tried to minimise the role that the government shall play in the service sector while delivering services to the beneficiaries (Rupal, 2021).
Indian demands were designed in such a way to mutually gain from the deal while protecting its domestic sector from the stronger ASEAN manufacturing sectors. It particularly had three demands - firstly, a safe

guarding mechanism like a protectionist measure for the industrial sector, which shall prevent the flooding of domestic markets with foreign goods. India wanted to either halt imports or levy heavy duties for a temporary period over trade in certain goods. Secondly, it was determined to prevent any mishaps in the rules of origin principle that might lead to trade deflection. Lastly, India wanted the agricultural and dairy sectors to be excluded from the purview of the trade agreement. It was sceptical of the livelihood of workers dependent on these sectors due to strong competition from the other parties of the RCEP.

The demands of both the parties were not mutually acceptable and thus led to an impasse. Along with the obvious differences they had, some other personal reasons also contributed to the failure of the Regional Comprehensive Economic Partnership agreement negotiations with India.

The trade balance sheets of India marked a significant deficit with the other ASEAN economies especially with China. India's trade deficit with ASEAN is currently marked at 24 billion USD. The ASEAN - India FTA favours disproportionately to the ASEAN economies. The Indian concerns of gaining greater market access of the ASEAN shall be addressed by the elimination of non tariff barriers in both the regions and a prominent improvement of Indian supply chains integration to the ASEAN supply chains as well as the global supply chain mechanism. This promises an increase in the trade worth from about 80 billion USD to 200 billion USD according to the Indian commerce ministry estimates (Koty, 2021). Currently, India's trade deficit with China stands at 69.38 billion USD according to the data provided by the General Administration of Customs. Though there was a 34.2 percentage increase in Indian exports to China, the 46.2 percentage increase in Chinese imports by India during the pandemic negated the positive implications of the increase in exports.

The tariff elimination demand of ASEAN was not acceptable to India and thus, it came up with the idea of Tariff differential system where it shall have differential tariff rates with varied parties in the RCEP agreement. It wanted to protect its domestic manufacturing industry with relatively higher tariff rates with that of Non-FTA partners like China, New Zealand and Australia. A relatively lower tariff shall be followed with the FTA partners like the ASEAN group of countries, Japan (CEPA) and South Korea. This kind of set up in the early years of implementation of the deal would have provided India with an equal footing in comparison to the other partners in the agreement. But this differential rating mechanism was not acceptable to ASEAN as it tends to destroy the spirit of the agreement (Kyle Robert Cote, 2015).

During FTA negotiations, the base year for tariff reductions would be decided early on in the talks. As the talks of RCEP started in 2012, the year 2014 was decided as the base year. But India requested to change the base year to 2019 as it apparently increased tariffs on several items in the preceding three years (Seshadri, 2019). This was an unprecedented demand as requesting for such a change after agreeing to the base year early on in the negotiations puts India in a weaker bargaining state.

India also wanted a safeguard mechanism to be triggered automatically when there is a surge in imports to a certain predetermined level for some items mentioned in the sensitive list, or it can even be a price trigger, where prices of such items have reached a certain level triggering the safeguarding mechanism to activate to protect the domestic markets from flooding with foreign goods. It included a few industrial goods too along with the agriculture products (plantation sector and marine sectors). Industrial items were included as the ASEAN and other trade partners, especially China, have a robust manufacturing sector relative to India and thus items like steel, non - ferrous metals and other such items where they have a surplus capacity were listed.

The negotiations regarding the services sector proved to be very difficult between the parties. India demanded liberalization of mode 4 services i.e. free movement of professionals in the tourism sector, business and social relations including educational and professional sectors in the whole region facilitating expansion and enhancement of the Indian services sector. Integration of high quality IT services provided by the Indian nationals to the manufacturing and commodity processing would have been beneficial to Indian trade aspects and integration of the economy into the Global value chains (Kyle Robert Cote, 2015). Liberalising in the services sector was difficult as ASEAN as a grouping was not completely liberalised enough from within. There were also some reservations about the Indian educational standards in the ASEAN and other developed East Asian countries like Japan and South Korea.

Agreeing to the terms of a free trade deal is not enough for reaping the benefits in complete sense. The deal must be enforced effectively. India has a history of under utilising the FTAs due to export base stagnation and the imports increasing in large numbers in comparison to the export numbers. Thus, a domestic support mechanism is necessary for future trade deals. RCEP negotiations were met with huge apprehensions towards the impact over the industrial sector and agriculture sector. Vehement denial was shown by the opposition, Indian National Congress party and an agricultural community group, Swadish Jargan Manch (Wicaksono, 2021). These domestic factors were to be addressed before the deal could be signed. It needs policies at the structural level which shall aim at strengthening agricultural and industrial sectors, capable enough to meet the global competition.

Conclusion

Exiting the RCEP, mega regional trade agreement of the Indo - Pacific region is proof that India needs to strengthen its internal factors and provide reassurance to the domestic sectors of the benefits that a trade deal can bring to them. Negotiating style of the Indian diplomats must be improvised more on the technical terms and strategically equipped to attain the bargains that shall benefit the Indian economy. Diplomats must be careful not to play into the bargaining power of the partner countries in the goods trade agreement in the anticipation of leeway while negotiating the services.

The decision of withdrawal was taken in the national interest though it goes contrary to the Indian foreign policy, the spirit of Act East India. The Australian prime minister opined that rushing into a regional trade deal would cause more harm than good when the nation is not quite prepared enough. A slow and sustainable integration of India into a trade deal would be more suited (Sarma, 2020). India can work on expanding the export basket, while moving up the value chain and diversifying the production line in its manufacturing sector. Internal reforms are needed to make the manufacturing and agriculture sectors more competitive and protect them from the external shocks that may arise. Improving the infrastructure and building the supply chain network shall enhance the capacity of the nation on a global platform. India can also try to gain the full potential offered by the existing FTAs by negotiating its way while reviewing the deal (Sarma, 2020). India can look into the alternatives like the bilateral FTA with the EU, Australia and the Trans Pacific Partnership (Rupal, 2021).

References:

1. Chandran, B. S. (2018). India in the RCEP - Need for Caution.
2. Hugo Seymour, J. W. (2019). RCEP: An economic architecture for the Indo-Pacific?
3. Kesavan, K. (2020). India’s ‘Act East’ policy and regional cooperation.
4. Koty, A. C. (2021). The ASEAN-India Trade in Goods Agreement. *ASEAN Briefing* .
5. Kyle Robert Cote, P. C. (2015). India's FTAs and RCEP Negotiations. (E. a. CUTS Centre for International Trade, Ed.)

6. Rupal, V. (2021). India's exit from the RCEP : why and what's next.
7. Sarma, N. (2020). *Free Trade after RCEP: What next for India?*
8. Seshadri, V. (2019). RCEP and India: What Next? *Indian Foreign Affairs* .
9. Wicaksono, A. H. (2021). India's withdrawal from the Regional Economic comprehensive Partnership.
10. Sanchita Chatterjee (2014). RCEP - Implications for India's Rules of Origin