

Is exit from RCEP a right decision?

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Abstract:

"Neither the Talisman of Gandhiji nor my own conscience permits me to join RCEP," said Prime Minister Narendra Modi in Bangkok

Liberalization is most striking feature of any Regional Trade Agreement. RCEP is one of the examples of such agreement. Ten member nation of ASEAN and six other, Australia, China, India, Japan, New Zealand, and South Korea, come together to form RCEP in 2012 at Cambodia. At inception, India is willing to be part of this trade pact to get benefits of free flow of goods and services among the member nation, as till date India get benefitted from other Regional Trade Agreement. However, Economic condition and trade deficit in import and export of goods & services become the core reason for India to take exit from this agreement. Further, Trade war between US & China and severe trade deficit with china in past few years threaten the India to become part of RCEP. RCEP members need to open their economies for other members to allow free flow of goods, services, investment etc. By allowing this, there are chances that Indian markets get filled with China goods & services as production efficiency and cost effectiveness of China production is better than Indian industries. India may get back to RCEP in future if proper negotiation and prioritization is done at par considering the individual needs of member nations.

Key Words:

RCEP, Regional Comprehensive Economic Participation, Indian Economy, FTA, Free Trade Agreement, ASEAN, Association of South East Asian Nations

1. INTRODUCTION:

Free Trade Agreements (FTA) are always a debatable issue in the world economy. Every country tries to get benefited from free flows of goods or services or investments under these FTA. But major benefit goes to the ringmaster among the members. Since last decade, the FTA's have been mainly formed on a regional basis like Trans-Pacific Partnership (TPP), Trans-Atlantic Trade and Investment Partnership (TTIP), European Union, where member countries try to push hard for the development of trade in the regional block. Formation of regional trade agreements (RTA) in various parts of the world also inspired the developing and emerging economies to form their regional trade arrangements.

Regional Comprehensive Economic Partnership (RCEP) is one such example which come into existence in 2012 at ASEAN Summit, Cambodia between ten members of ASEAN, Australia, China, India, Japan, New Zealand, and South Korea. The member countries cover 45% of the world population and more than 40% of world trade carrying more than one-third of world GDP. The core agenda under RCEP includes the trade of goods & services, Investment, Technology sharing, dispute redressal mechanism, competition and other issues. This is the only agreement in the world which include Intellectual Property Right in its negotiation. But these negotiations are yet to be finalized in coming years. RCEP is a great initiative as it accelerates the trade of member countries, increase economic cooperation and encourage investment activities. It is planned to provide equal and mutual benefits to all member nation with some priority to least developed members.

Through this paper we try to analyze the decision of Indian Govt to stay out of RCEP. We also try to elaborate on the current position of the trade surplus/deficit of Indian export & import. Further, we try to find the reason why RCEP is opposed in India.

2. LITERATURE REVIEW:

Regional Comprehensive Economic Partnership (RCEP): Impact on the Integration of Textile and Apparel Supply Chain in the Asia-Pacific Region by Sheng Lu provides a quantitative evaluation of how the implementation of the RCEP will affect the integration of T&A supply chain in the Asia-Pacific region. According to this study, RCEP will significantly encourage its members to source more textile and apparel from within the RCEP area and form an ever more integrated regional T&A supply chain.

Another study by Yoshifumi Fukunaga – "ASEAN's leadership in the RCEP", pointed out centrality as key reason for keen interest of ASEAN to gain both politically and economically from RCEP.

Study by Hugo Seymour “RCEP: AN ECONOMIC ARCHITECTURE FOR THE INDO-PACIFIC?” suggest that at the regional level, RCEP’s developing country-focused model will likely become the template for the next phase of trade and investment liberalization.

Research by *Sanchita Basu Das “The Regional Comprehensive Economic Partnership: New Paradigm or Old Wine in a New Bottle”* states that RCEP has the potential to present ASEAN’s central position in a larger regional integration architecture, to consolidate the existing multiple, smaller FTAs and to act as a building block for the multilateral trading system.

Article- *RCEP: challenges and Opportunities for India* published by *Rahul Mishra* clearly narrated that it will be difficult for India to negotiate terms and condition with China. India has to be firm and calculative in terms of taking tough policy decisions, while working tirelessly on capacity building of its domestic industries.

Rohit Sinha & Geetanjali Nataraj also confirmed in their article - *Regional Comprehensive Economic Partnership (RCEP): Issues and Way Forward* that RCEP sound very good in theory but its implementation is a bigger task. They also confirm the finding of *Rahul Mishra* that members will face stiff opposition from various interest groups within the group.

Article- *“RCEP talks speed up amid TPP Failure”* published in *Jakarta Post* in 2016 by *Stefani Ribka & Linda Yulisman* speaks about the China keen interest in RCEP. They narrate that China, known as the factory of the world due to the mega-size of its manufacturing industry, will push for acceleration of the RCEP talks in order to finish soon getting benefits.

Research paper *“Regional Comprehensive Economic Partnership Agreement: Need for a Strategy”* published by *V.S. Sheshadri* in 2017 conclude that it can help India to plug further into the supply chains of east and south east Asia provided India’s trade infrastructure also shows speed and also provides more substance to the ‘Act East’ policy of India.

In article *“Factoring the RCEP and the TPP: China, India and the Politics of Regional Integration”* *Jagannath P.Panda(2014)* said RCEP may open a new window of opportunity for India’s greater integration with the East Asia region but India needs to analyse carefully the efficacy and implications of RCEP to see how far it serve India’s own regional interests.

3. ANALYSIS AND FINDINGS:

India stand at Inception

Since its independence, India believes in mutual cooperation among the neighbors. India’s effort to cultivate and strengthen economic and strategic relations with South East Asian Countries and other neighbors further solidify with the implementation of ‘Look East Policy’.

India’s stand for RCEP at inception was very clear to get the maximum benefit out of this trade agreement. RCEP is expected to provide free market access for export of Indian goods & services and boost foreign investment activities in India. It will also help MSME industries to equip with the latest technologies and encourage greater competition to enhance the efficiency at the bigger platform. At the same time, the trade deficit of India since 1991-92 till 2013-14 rose more than 22 times i.e. \$136 Billion from a mere \$6 Billion in 1991, which was an alarming situation for Indian Economy. But during this period Bilateral & plulateral trade agreements are in favor of India Balance of Trade. This further increases the attention of India towards RCEP. By RCEP pact, India will get new market for export with minimum trade barriers. However, on the other note, India needs to open its doors for the member nations and among them; China is the biggest threat for India.

Trade analysis during 2014-2019

During this period, India continuously faces a trade deficit in import and export of goods and services. It was a complete reverse situation what India was expecting while planning to enter in RCEP. The percentage of export declined year after year compares to import with RCEP countries (i.e. demonstrated in table: 1).

Table-1 TRADE SHARE OF CHINA AND RCEP NATION WITH INDIA FROM 2014 TO 2019

(Fig in \$ Billion)	2014-15	2015-16	2016-17	2017-18	2018-19
A) Export from China	11.93	9.01	10.17	13.33	16.75
B) Import to China	60.41	61.7	61.28	76.38	70.31
Surplus/Deficit (A-B)	-48.48	-52.69	-51.11	-63.05	-53.56
C) Export from Other RCEP Countries	44.98	36.88	42.31	47.85	50.86
D) Import from Other RCEP Countries	79.21	72.25	74.61	89.1	102.62
Surplus/Deficit (C-D)	-34.23	-35.37	-32.3	-41.25	-51.76

Source: Commerce Department, GOI

From the above table, we can draw a picture that since 2014-15 India was in a trade deficit with RCEP Nations, which grew year after year till 2019. In fact, the trade deficit with China only is more than the trade deficit with all other RCEP Nations, which is one of the core concerns of India in RCEP negotiations.

Current Scenario of Indian Economy with RCEP members

With this trend of growing trade deficit, Indian govt. is concerned about the massive trade deficit with China and other RCEP members. India trade deficit grows from \$54 Billion in 2013-14 to \$ 105 Billion 2018-19. At present India export 20% of total export and Import 35% of total import from RCEP member. India proposed a differential market access strategy to cope up with this situation and denied further negotiation on lowering custom duties and non trade barriers. India demands more liberalize services regime, freer mobility of Indian workers and fair regional economic policies.

Indian Economy is going through a tough phase. Rate of decline in GDP is alarming and impact of Demonetization & GST is not completely over. In such a situation trade agreement to allow free flow of goods and services from RCEP nation may expose Indian businesses including agriculture sector to an unequal competition with giant economies like China (read as giant Shark in the sea), where goods and services are produced at a very cheaper rate due to availability of a large number of resources including skilled labour.

In India, where agriculture contributes a large portion of GDP, cannot tolerate the impact of RCEP on the Agriculture sector. Allowing with barrier trade may lead to dumping of cheap spices from South Asian spice majors, Dairy product from Australia or New Zealand, rubber from Indonesia or Vietnam. It may hit hard the Agri-Economy like India.

The below mentioned table clearly states that in 2019, India has a trade deficit of value \$105244 million with RCEP Nations with surplus only with Cambodia, Laos, Myanmar & Philippines only and China as main contributory in the trade deficit.

TABLE-2 TRADE DETAILS OF RCEP NATIONS WITH INDIA FOR 2019

Trade details within RCEP in 2019				(Fig. in \$ Million)	
Country	Export	Import	Total Trade	Balance	
China	16752	70320	87072	-53568	
Japan	4862	12773	17635	-7911	
South Korea	4705	16759	21464	-12054	
Australia	3520	13131	16651	-9611	
New Zealand	380	631	1011	-251	
Brunei	56	591	647	-535	
Cambodia	196	43	239	153	
Indonesia	5276	15850	21126	-10574	
Laos PDR	39	1	40	38	
Malaysia	6436	10819	17255	-4383	
Myanmar	1206	521	1727	685	
Philippines	1744	581	2325	1163	
Singapore	11572	16282	27854	-4710	
Thailand	4441	7442	11883	-3001	
Vietnam	6507	7192	13699	-685	
Total	67692	172936	240628	-105244	

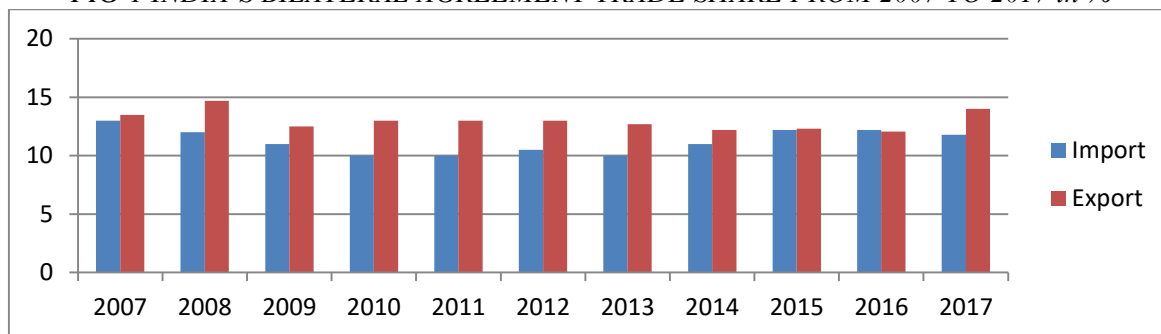
Source: Commerce Department, GOI

Current Scenario of Indian Economy with Non RCEP members

Since the culture of these regional trade relations come into the picture, India signed various trade agreements, Impact of which has been modest on the Indian economy. Since 2000 India has signed approximately 10 bilateral and 04 plurilateral trade agreements.

Analysis of bilateral agreement shows a very positive picture. During the period from 2000 to 2017, overall import fell slightly from 13.3% to 11.8% and export remains stable from 13.7% to 14%. In fact, it can be observed that after 2007 till 2017, there is no or very mere trade deficit in all bilateral agreement that India signed with other countries, which is depicted in the below mentioned Fig-1.

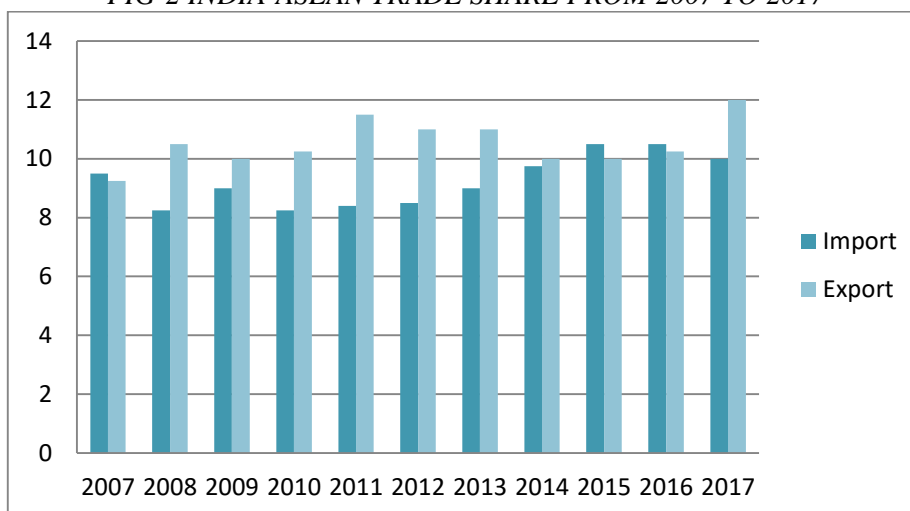
FIG-1 INDIA'S BILATERAL AGREEMENT TRADE SHARE FROM 2007 TO 2017 in %



Source- <https://economictimes.indiatimes.com>

On the same note, India ASEAN trade agreement also says rise in export by 2.5% and import by 0.8% from 2000 to 2017. It can be understood from the Fig-2, trade deficit from ASEAN countries is stable in 2007-2017 decade. In fact, in 2017, India achieves a high favorable trade surplus from ASEAN members.

FIG-2 INDIA-ASEAN TRADE SHARE FROM 2007 TO 2017



Source- <https://economictimes.indiatimes.com/>

Furthermore, these trade agreements also enhance the mutual cooperation among the nations and accelerate the flow of FDI too.

4. CONCLUSION:

Experiences of India in free trade agreements are beneficial for the economy and nation as a whole. RCEP itself is a great opportunity for the Indian economy to get access to a bigger market without trade barriers and also open the gate for the free flow of foreign investment. It definitely gives frictionless advantages to the export houses of India and also makes manufacturing industries efficient and cost effective to compete with the whole world. And India past experience in trade agreements is also excellent.

But under RCEP, the biggest threats to India economy are bigger economies like China. Trade war between US and China further worsen the situation. Now, China desperately needs new market to dump the surplus production and India with a population of more than 1.3 Billion is an ideal location for this. If India accepts RCEP, It opens the door the China. Table 1 & Table 2 depict the true picture of trade shares of India with China and other RCEP members. The rise in trade deficit with China is a major threat to India. NitiAyog also reported that after the formation of ACFTA (ASEAN China Free Trade Agreement-2010), trade surplus of \$53 billion of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam turned into a trade deficit of \$ 54 Billion in mere 06 years.

India is a growing economy where programmes like Make in India are launched to promote the efficiency in manufacturing industries and govt. is motivating people to use Indian goods to control the trade deficit situation. In such a scenario, exposing the economy without any trade barriers to some giant economies like China may be disastrous for the nation.

The decision of Govt. of India to stay out of RCEP is seemed to be correct and fair enough at the present scenario.

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