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An Analysis of India's Participation in the RCEP Negotiations

The Regional Comprehensive Economic Partnership (RCEP) negotiations are aimed at crafting a trade deal to facilitate greater Asian economic integration by the end of the year. This paper analyses India's engagement with the other RCEP participating countries, reflecting on recent trends in India's trade and tariff structure with the other RCEP participating countries, and offers suggestions to enhance India's economic engagement with the rest of the Asia-Pacific.

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Introduction

The proposed Regional Comprehensive Economic Partnership (RCEP) is an Association of Southeast Asian Nations (ASEAN)-centred trade pact between its 10 member countries and its six free trade agreement partners, estimated to cover over one-third of the world's gross domestic product (GDP) with a collective market consisting of 48 per cent of the world's population.² It is aimed at ensuring that each of these participating countries provides a similar

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² Das, S B (2013). *Moving ASEAN+1 FTAs towards an effective RCEP*. Institute of Southeast Asian Studies.

level of market access for all for greater economic gains at the national and regional levels. There are eight specific areas of negotiation, including trade in goods, trade in services, economic and technical cooperation, intellectual property, competition and dispute settlement.³ The RCEP seeks to remove the ‘noodle bowl’ problem⁴ caused by the existing dissimilarities in the standards of free trade agreements (FTAs) in areas such as patterns of tariff elimination and definitions of rules of origin, since such non-standardisation can hinder the level of market integration among the various countries significantly.⁵ Therefore, contrary to the Trans-Pacific Partnership (TPP) that placed greater priority on ambitious levels of liberalisation of such contentious issues as intellectual property, the RCEP appears to begin with a more conservative focus on achieving tariff elimination. This is despite the fact that non-tariff issues like intellectual property are also being negotiated.⁶

The basis for India being in the RCEP negotiations stems from the ASEAN-India Free Trade Agreement (AIFTA) that came into effect on 1 January 2010. Within the AIFTA, India commits itself to a relatively liberal tariff elimination on 78.8 per cent of tariff lines in trade in goods while the various ASEAN countries offer a diverse range in tariff concessions.⁷ Another key reason for the inclusion of India is its status as an emerging major economy which is also the third-largest in Asia in nominal GDP terms, after China and Japan.

India’s Stance on Tariff Elimination in the RCEP

The trade in goods negotiations towards the RCEP have seemingly faced challenges in the last few negotiating rounds, even as the more-complicated areas of negotiation such as those relating to intellectual property and dispute resolution registered progress.

³ Ibid.

⁴ The ‘Noodle bowl’ problem refers to the complication that arises due to differences in technical standards and in the scope among various countries or among various free trade agreements on trade-related issues.

⁵ Wilson, J D (2015). Mega-regional trade deals in the Asia-Pacific: Choosing between the TPP and RCEP?. *Journal of Contemporary Asia*, 45(2), 345-353.

⁶ Basu Das, S (2015). The Regional Comprehensive Economic Partnership: new paradigm or old wine in a new bottle?. *Asian-Pacific Economic Literature*, 29(2), pp 68-84.

⁷ Under the AIFTA, Singapore commits 100 per cent in tariff elimination while others like Indonesia pledged only 48.7 per cent. The average tariff elimination percentage for tariff lines across all countries in the AIFTA, including India, is 79.6 per cent (See Baldwin et al, 2014: 254).

In the latest Third Inter-sessional RCEP Ministerial Meeting in Hanoi, Vietnam (May 2017), India pegged its offer of tariff reductions to a maximum of 80 per cent elimination, with a six-per cent deviation, towards all other RCEP participating countries, while the implementation period would differ among the countries.⁸ Although India has proposed an average of a 15-year implementation period for most countries, it has proposed a 20-year implementation schedule for countries like China.⁹ This is contrary to a single tariff schedule which many RCEP participating countries, including those that are in the now-uncertain TPP, like Japan, Australia and New Zealand, want to move towards.¹⁰ The aim has been to move towards zero tariff on 92 per cent of traded goods; India did attempt to commit itself to that target, during the Fourth RCEP Ministerial Meeting in August 2016.¹¹

While this offer by India in the latest Hanoi round is unprecedented for tariff elimination, this resembles a differentiated-tier tariff schedule known as the Basic Concept for Initial Offers (BCIO) which India had previously proposed during the 2015 Third RCEP Ministerial Meeting. In that schedule, the ASEAN countries were set to receive elimination on 80 per cent of tariff lines over a 10-year period, similar to what India has offered in the AIFTA.¹² India's offer in this Hanoi round does not suggest a significant liberalisation of trade in goods, given the fact that the highest tariff reduction India used to offer and will be offering has been hovering around 80 per cent. Indeed, this commitment in tariff elimination is less liberal than India's commitment to its bilateral FTA partners. India's offer for most countries in the AIFTA is higher; as is the offer in the India-South Korea Comprehensive Economic Partnership Agreement (CEPA) and the India-Japan CEPA at 85 per cent.¹³ This is coupled with the fact

8 Trade calculations: India offers to parley on RCEP tariff terms. (2017), *The Economic Times*.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/trade-calculations-india-offers-to-parley-on-rcep-tariff-terms/articleshow/58814035.cms>. Accessed on 4 July 2017.

9 Sen, A (2017). RCEP Hanoi talks: India not willing to go beyond 80% tariff elimination in goods. *The Hindu Business Line*. <http://www.thehindubusinessline.com/economy/rcep-hanoi-talks-india-not-willing-to-go-beyond-80-tariff-elimination-in-goods/article9710892.ece>. Accessed on 5 July 2017.

10 Chakraborty, S (2017). RCEP: Members want India to reciprocate their tariff reduction offer. *Business Standard*. http://www.business-standard.com/article/economy-policy/rcep-members-want-india-to-reciprocate-their-tariff-reduction-offer-117030800985_1.html. Accessed on 5 July 2017.

11 Mishra, A. (2016). India's new stance at RCEP may benefit China. *Live Mint*. <http://www.livemint.com/Politics/qGEPZqVoHO4U4YYvfBgCNP/Indias-new-stance-at-RCEP-may-benefit-China.html>. Accessed on 4 July 2017.

12 Inputs on initial offer of goods under Regional Comprehensive Economic Partnership (RCEP). Government of India, Ministry of Commerce and Industry, Department of Commerce. http://commerce.gov.in/writereaddata/uploadedfile/MOC_635975229496960521_Inputs_trade_goods_under_Regional_Comprehensive_Economic_Partnership.pdf. Accessed on 5 July 2017.

13 Ahmed, S (2011). India-Korea CEPA: An Assessment. *Korea and the World Economy*, 12(1), 45-98.; Das, R U (2014). India-Japan Comprehensive Economic Partnership Agreement (CEPA): Some Implications for East Asian Economic Regionalism and RCEP, p 15.

that India's latest offer of a tariff schedule entails a longer implementation period for China; the previous BCIO tariff scheme offered by India also listed China as the last tier in its schedule.

Concerns have, therefore, been raised by some international trade experts on the unequal level of trade liberalisation offers in the RCEP negotiations. First, numerous FTA experts have highlighted the need for a zero tariff area, or at least a standardised elimination in tariff line and implementation period for similar products across the participating countries in order for the RCEP to become a large integrated market.¹⁴ Second, India's unequal time-lagging tariff schedules, alongside the fewer tariff lines it offers to reduce than what it receives, may make the flow of intermediate and capital products costlier among the RCEP participating countries in the long term.¹⁵ This is due to a multiplier effect on the tariffs, in that the higher the number of value-chain stages which a product passes through, the higher the cost of tariffs incurred. For instance, a 10 per cent tariff imposed on a good being processed in a mere five-stage chain is estimated to result in a tariff equivalent of 34 per cent.¹⁶ In order to better understand India's position in the RCEP parleys, one needs to look at the trade and tariff profile of India with reference to the other RCEP negotiators in greater detail.

India's Trade Engagement with the Other RCEP Participating Countries

Apart from AIFTA, India has bilateral FTAs with Japan and South Korea amongst the RCEP participating countries, while New Delhi is still engaged in a FTA negotiation with Australia. On the other hand, it does not have a FTA with China and New Zealand. Nevertheless, the effectively applied tariff rates,¹⁷ for both agricultural and industrial products, which India faces while exporting to the other RCEP participating countries are already lower than what the other RCEP participating countries face while exporting to India, given the latest available data

¹⁴ Kumar, G (2017). India must be wary of harsh terms under Regional Comprehensive Economic Partnership. The Hans India. <http://www.thehansindia.com/posts/index/News-Analysis/2017-06-17/India-must-be-wary-of-harsh-terms-under-Regional-Comprehensive-Economic-Partnership/306996>. Accessed on 5 July 2017.

¹⁵ Elms, D (2015). Cutting Tariffs in RCEP. Asian Trade Centre. <http://www.asiantradecentre.org/talkingtrade/2015/9/3/cutting-tariffs-in-rcep>. Accessed on 5 July 2017.

¹⁶ Elms, D (2014). Asia-Pacific Megaregional Free Trade Agreements: Fostering Global Supply Chains?. <https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/543df240e4b06e8e3b2173c3/1413345856043/ElmsGVCsAPEC.pdf>. Accessed on 5 July 2017.

¹⁷ The Effectively Applied Tariffs are used as a measure here instead of the Most Favoured Nation (MFN) Tariffs, as it applies the lowest available tariff for a country to indicate a commensurate MFN tariff, or preferential tariff rate if an MFN rate is not available.

(Table 1). Given such a variance in tariff exchanges, India theoretically enjoys a higher market access to the other RCEP participating countries than the other way on the basis of tariffs (not including non-tariff barriers).

Table 1: Effectively Applied Tariff Exchanges among India and the other RCEP Participating Countries

Effectively Applied Tariff Rates offered to India (latest Year available)		
Countries/ Group	Agricultural Goods	Industrial Goods
ASEAN	5.79% **	3.79% **
Japan (2015)	4.40%	0.35%
Korea (2015)	45.89%	0.28%
China (2015)	13.32%	8.27%
Australia (2015)	1.35%	3.25%
New Zealand (2015)	1.61%	2.84%
<i>Weighted Average</i>	12.06%	3.13%
Effectively Applied Tariff Rates offered by India (latest Year available)		
Countries/ Group	Agricultural Goods	Industrial Goods
ASEAN	26.29% **	8.26% **
Japan (2013)	40.86%	8.74%
Korea (2013)	37.01%	8.55%
China (2013)	31.83%	8.68%
Australia (2013)	34.42%	8.33%
New Zealand (2013)	30.51%	8.44%
<i>Weighted Average</i>	33.49%	8.50%

Source: Data compiled from World Integrated Trade Solution database.

** Weighted average of ten ASEAN countries. Note: For effectively applied tariff rates offered to India by ASEAN countries, the latest year available spans from 2013 to 2015 with insignificant changes in tariff rates offered. For rates offered by India to ASEAN countries, it is at 2013 as in the latest year available.

Yet in bilateral trade, India's balance of trade with most of its fellow RCEP partners has experienced an increasing year-on-year deficit for the past six years.¹⁸ More seriously, approximately half of India's global trade deficit is with China.¹⁹ In addition, India's share in the other RCEP participating countries' trade basket stands at approximately two per cent of their collective global trade share as of 2016 (See Table 2).

¹⁸ 2010-2016 data from UN COMTRADE database.

¹⁹ Data from International Trade Centre, Trade Map.

Table 2: India's Share in the other RCEP Participating Countries' Global Trade

	2000	2016
East Asia	0.45%	1.68%
ASEAN	1.43%	2.81%
Oceania	0.98%	2.78%
All RCEP Participating Countries (Excluding India)	0.79%	2.04%

Source: Calculated from the data of the International Trade Centre, Trade Map, and data from the World Integrated Trade Solution, World Bank

On the other hand, the other RCEP participating countries' trade share in India's trade basket has risen to approximately one-third of its total global trade in 2016 from an approximate one-fifth in 2000 (See Table 3).²⁰ The growth in the share of East Asia in India's trade basket has been the highest due to China. In fact, a closer look suggests that the share of the ASEAN countries in India's trade basket has decreased marginally despite the AIFTA.

Table 3: Share of the other RCEP Participating Countries in India's Global Trade

	2000	2016
East Asia	7.89%	15.99%
ASEAN	12.26%	10.47%
Oceania	1.67%	2.03%
All RCEP Participating Countries (Excluding India)	21.82%	28.49%

Source: Calculated from the data of the International Trade Centre, Trade Map, and data from the World Integrated Trade Solution, World Bank

China's development in its manufacturing sector may have contributed to India's current stance on tariff eliminations within the RCEP framework. China's gross exports to India of machineries and equipment ²¹ made up nearly three quarters (2011) of China's total manufactures export to India, growing at an average of 52 per cent year-on-year from 2000 to 2011, given the latest available data.²² India's own manufacturing share (value added) in its GDP has fallen to 29.5 per cent in 2015, compared to 34.6 per cent in 2007. There has also been growing reliance on Chinese raw material imports by India, given an average eight per

²⁰ Data from International Trade Centre, Trade Map.

²¹ This classification comprise of value sets from Computer, Electronic and optical equipment (C30T33X), Electronic and optical equipment (C30T33), Machinery and equipment (C29) and Electrical machinery and apparatus (C31) from OECD database.

²² Data from OECD Trade in Value Added Database.

cent annual growth in Indian imports of iron, steel and aluminium from China from 2014 to 2016.²³

However, there appears to be at least some positive trends recently in the India-China manufacturing trade exchanges. The latest statistics show a slow but steady growth in India's exports of electrical machinery and equipment, clocks and watches, and optical, photographic, cinematographic, measuring, checking, precision, surgical instruments and apparatus to China from 2014 to 2016.²⁴ In addition, there has been an increase in India's export of explosives, arms, ammunition, their parts and accessories to China after 2014.

Growing Indian Engagement under the RCEP Umbrella

India's cautious approach towards liberalising tariff commitments appears to stem from its growing trade deficits. However, its exports of products in a few sectors have actually a spurt, especially to a country like China which offers stiff competition. The spurt in India's global trade in these products may have been higher, if global demand had not stagnated in recent times. The analysis in this paper has shown that India enjoys a greater market access at a broad level under the RCEP umbrella. It can, therefore, be argued that an improvement in its ability to produce quality products at competitive prices could help India's trade interests.

On the domestic front, India is also seen to have made several commitments amidst its increasing reliance on the other RCEP participating countries for trade. Under India's Prime Minister Narendra Modi's government, a 2015 Foreign Trade Policy aims to double India's global exports and increase its share in the global trade from 2.1 per cent to 3.5 per cent by 2020.²⁵ In recent times, India also initiated the 'Act East' policy with a stronger attempt to engage the ASEAN and East Asia on the economic front.²⁶ Under the 'Make in India' initiative, the Indian government has made commitments to grow its manufacturing sector, including

23 Data from International Trade Centre, Trade Map. http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|699|156|TOTAL||2|1|1|2|1|1|1|1. Accessed on 5 July 2017.

24 Data from International Trade Centre, Trade Map. http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|699|156|TOTAL||2|1|1|2|2|1|1|1|1. Accessed on 5 July 2017.

25 Puri, H (2017). India's Trade Policy Dilemma and the Role of Domestic Reform. http://carnegieendowment.org/files/CP_298_Puri_Trade_A5_Web.pdf. Accessed on 5 July 2017.

26 Parameswaran, P (2014). Modi Unveils India's 'Act East Policy' to ASEAN in Myanmar. The Diplomat. <http://thediplomat.com/2014/11/modi-unveils-indias-act-east-policy-to-asean-in-myanmar/>. Accessed on 5 July 2017.

automobiles, primary resources and processing that attempt to combine technology and raw materials to produce higher-level manufacturing goods. Together with its ‘Make in India’ initiative, which is aimed at boosting manufacturing growth to 10 per cent per year, India’s efforts to ensure a higher level of trade in goods with these two regions are expected to gain an even greater traction.²⁷

India’s participation in the RCEP is, therefore, widely believed to converge with India’s goals of attaining greater access to these markets and, at the same time, strengthening its participation in a regional production network to develop better production capabilities.²⁸ Although India appears to be defending its current trade position in order to protect its domestic manufacturing sector, particularly against China, recent trends suggest a growth in India’s exports to China in a number of sectors. India can further facilitate trade in goods through improving domestic attributes such as infrastructure, connectivity, and skills, among others, to make its manufacturing industries more competitive. Recent reforms and initiatives towards improving port infrastructure, reducing the time taken to give government approvals, integrating India into a single market through a goods and services tax are expected to improve its potential of becoming a hub for global manufacturing. A more nuanced approach towards tariff liberalisations to facilitate value-chain-based manufacturing may further improve India’s economic prospects with the other RCEP participating countries with which its trade has grown significantly over the last decade.

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²⁷ Sahoo, P, Goswami, N, & Mazumdar, R (2017). Trade Facilitation: Must for India’s Trade Competitiveness. *Journal of World Trade*, 51(2), pp 285-307.

²⁸ RCEP (Regional Comprehensive Economic Partnership) - Best and Top IAS Coaching Institute in Kochi, Thiruvananthapuram, Kerala. Neoias. <http://neoias.com/index.php/neoias-current-affairs/619-rcep-regional-comprehensive-economic-partnership>. Accessed on 5 July 2017.