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India and the RCEP: Separated for Good?

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Summary

The negotiations on the Regional Comprehensive Economic Partnership were concluded at the Association of Southeast Asian Nations Summit in Bangkok on 4 November 2019. India stayed out of the deal due to significant outstanding concerns. This paper reflects on the implications of India's decisions and argues India still might return to the deal if it able to work with other members in resolving its issues. Much of this though will depend on India's strategic appeal to the rest of the group.

The Association of Southeast Asian Nations (ASEAN) Summit in Bangkok, Thailand, concluded negotiations on the 16-member Regional Comprehensive Economic Partnership (RCEP) on 4 November 2019. Commenced in 2013, the RCEP includes the ASEAN-member states and the six economies with which it has free trade agreements (FTAs) – Australia, China, India, Japan, Korea and New Zealand.

India – the only South Asian country in the negotiations – decided not to join the RCEP. It has had reservations with various market access issues in the RCEP right from the beginning. Since the re-election of Prime Minister Narendra Modi in May 2019, there were indications of India making efforts to iron out differences with the other members. However, in spite of intense negotiations over the last few months, India decided to hold back at the very end. The ostensible reasons for India doing so are not getting a balanced and comprehensive deal addressing its concerns, particularly safeguarding the economic interests of farmers, domestic industry and small businesses.

With India out, the RCEP, while still being substantial in market size, reduces in scope. China and India are the two largest economies in the RCEP, whether measured by gross domestic product in purchasing power parity terms or population. Without India, the RCEP might no longer be the world's largest FTA. Furthermore, the South Asian region remains outside the economic and trade architecture of greater Asia-Pacific comprising Southeast Asia, East Asia and Oceania. Though India's FTA with ASEAN remains operational, existing ASEAN FTAs with the RCEP partners might eventually be superseded by the RCEP, leading to their redundancies.

Other RCEP members would be both relieved and disappointed by India's pullout. The relief would be on account of eventual conclusion of the long and arduous negotiations. The disappointment would be due to India's absence from the deal. As the second largest market in the group, and one of the largest global economies with a robust growth record, India would have been vital in the flourishing of the RCEP through new trade and investment creation. By staying out, India constrains the RCEP from expanding to its full potential.

India, too, would experience relief and disappointment at the same time. The relief, obviously, is greater. India's engagement at the RCEP has, on various occasions, highlighted the astonishing trade pessimism in the country. Indian industry's resistance to engaging in FTAs was compounded by the RCEP's visualisation as a FTA with China. The spectre of more Chinese imports flooding the Indian market has haunted Indian industry, businesses, ministries and government agencies. The paranoia was instrumental in India raising difficult demands and eventually quitting the RCEP. For protecting domestic industry from Chinese imports, India demanded the base year – for which tariffs were to be noted for phased cuts – to be fixed at 2019, instead of the previously agreed 2014. Since 2014, Indian tariffs have increased on several products such as smartphones to incentivise the 'Make in India' initiative. The 2019 tariffs are much higher and a reduction schedule kicking in from 2019 would mean allowing domestic industry more protection during the phase-out. The urge to protect domestic industries also drove India to demand an automatic safeguard mechanism, enabling built-in remedial action against surges in imports, particularly from China, beyond a threshold. These demands were not met to India's satisfaction prompting its withdrawal. Indian industry is surely much relieved, as are political parties, including both the Bharatiya Janata Party and the Congress, which no longer have to fear alienating their core constituencies for the RCEP.

However, there is disappointment also, particularly among those, who view the RCEP as a significant economic opportunity for India, chiefly with respect to attracting export-oriented foreign direct investment from other member countries. There is also marked disappointment among geo-strategic and foreign policy experts. The credibility of India's foreign policy, including celebrated outreaches like the 'Act East' policy, has taken a major hit. It is now clear that, on trade, India is a very difficult partner and unwilling to go along with the rest of the region on a common agenda. Its trade policy is hardly complementing of its foreign policy.

India's RCEP journey though might not be over yet. The final deal will not be ready for signing by members before early 2020 at least. The Joint Statement issued by the negotiating countries notes India's 'significant outstanding concerns, which remain unresolved. Other members are to work with India on these issues. Satisfactory resolution of the latter might bring India back to the RCEP.

By backing away from the deal, Modi has sent a strong signal to his constituencies about India's firmness in not compromising on core demands. If later, India returns to the bloc with its demands met, it will be seen as a major political achievement. Otherwise, if it stays out, the government does not lose politically as the RCEP hardly has backers in India.

Whether other RCEP members would agree to India's demands is the key issue. This will depend on their keenness in getting India back. That, in turn, will depend on India's economic and geostrategic 'pull' to the rest of the bloc. India's tryst with the RCEP might not be a closed chapter yet.

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