Regional Comprehensive Economic Partnership

The Regional Comprehensive Economic Partnership (RCEP) is a mega-regional economic agreement being negotiated since 2012, between **ASEAN and Free Trade Agreement (FTA) member partners.**

Membership

ASEAN Members	FTA Partners
Indonesia	Australia
Malaysia	China
Philippines	Japan
Singapore	New Zealand
Thailand	South Korea
Brunei	
Vietnam	
Laos	
Myanmar	
Cambodia	

- **Goals:** Boost economic growth and equitable economic development, advance economic cooperation and broaden and deepen integration in the region through the RCEP.
- It aims to cover the trade in **goods and services, investment, economic** and **technical cooperation, intellectual property** and **dispute resolution.**

  In 2017, the 16 prospective signatories (including India) accounted for a population of 3.4 billion people with a combined gross domestic product (GDP) of US$ 21.4 trillion, about half of the world population and 39 percent of the world's GDP.

History

- Countries in **East Asia region** have thriving trade and economic relations with each other through free trade agreements.
- The **Association of Southeast Asian Nations (ASEAN)** **(ASEAN+1 FTAs)** has free trade agreements with six partners namely,
  - **The People's Republic of China (ACFTA)**
  - **Republic of Korea (AKFTA)**
  - **Japan (AJCEP)**
  - **India (AIFTA)**
  - **Australia and New Zealand (AANZFTA)**
- To broaden and deepen the engagement among parties and to enhance parties' participation in the economic development of the region, the leaders of the 16 participating countries established the RCEP.
- The RCEP was built upon the existing **ASEAN+1 FTAs** with the spirit to **strengthen economic linkages** and **to enhance trade and investment-related activities** as well as to contribute to minimising development gap among the parties.
- The RCEP negotiations were launched between the **Ten ASEAN member states and six ASEAN FTA partners** during the **21st ASEAN Summit** and related summits in **Phnom Penh, Cambodia in November 2012.**

Objective

To achieve a **modern, comprehensive, high-quality,** and **mutually beneficial economic partnership agreement** among the ASEAN Member States and ASEAN's FTA partners.

Major FTAs India Signed

- South Asia Free Trade Agreement (SAFTA)
- India-ASEAN Comprehensive Economic Cooperation Agreement (CECA)
- India-Korea Comprehensive Economic Partnership Agreement (CEPA)

- India-Japan CEPA

India and RCEP

- India has dropped out of the RCEP in November 2019 in ASEAN+3 summit, because of the following reasons:
  - **Widening Trade Deficit:** India's trade deficit with the ASEAN, Korea and Japan has widened post-FTAs.
  - **Tariff elimination due to RCEP** could worsen the trade deficit, at $105.2 billion in 2018-19.
    - The RCEP proposes that 92% of India's goods would be tariff-free over the next 15 years. India have to slash existing tariffs on up to 90% of all goods.
    - Since import duties are also a source of revenue for India, it could experience a disproportionate loss of customs revenue.
    - India's **trade deficit with China is at $53 billion,** further reduction or removal of customs tariffs will lead to an influx of cheaper products from China.
  - **Sensitive List:** Most of the RCEP countries have very high tariffs on certain products sensitive to them, such as rice, footwear, dairy products and honey, which they can continue to shield through the sensitive lists.

- **The objections raised by India:**
  - **Base Year for Tariffs:** The RCEP will result in reduction of tariffs in all member countries. Since negotiations began in 2013, the pact has proposed that the base year for reducing tariffs will be 2013. However, India wanted to change the base year applied to reduce tariffs to 2019.
    - India has raised customs duties on many products since 2014.
    - India has increased tariffs on sectors such as textiles, auto components and electronic items on average from 13% to 17%.
  - **Auto-Trigger Mechanism:** The auto-trigger mechanism is used when there is a sudden surge in imports.
    - It will allow to decide which products it does not want to offer the same concessions to.
  - **Ratchet Obligations:** India wants exemptions on ratchet obligations.
    - A ratchet mechanism means that if a country signs a trade agreement with another country and removes or reduces tariffs and quotas. It cannot go back on them and bring in more restrictive measures.
  - **Data Localisation:** As part of the RCEP, India wants all countries to have the rights to protect data.
    - The countries may prevent the transfer of information across borders.
  - **Services Sector:** India has demanded that the ASEAN countries should open up their services sector so that Indian professionals and workers can have easier entry into their market.
    - However, ASEAN countries are very sensitive about protecting this sector and have not offered much liberalisation even within the bloc to each-other.
  - **Rules of Origin:** India wants **strict rules of origin** to prevent Chinese goods from flooding the country through member countries that may have lower or no duty levels.
    - Chinese garments are making their way into India through the duty-free route under the **South Asia Free Trade Pact** and the **Duty-Free Quota-Free** window from Bangladesh.

- The sectors that have shown resistance to the agreement are:
    - **Dairy:** Dairy is vital to India, given the place milk and other derivatives hold in Indian households.
        - New Zealand is an exporter of dairy products and will be eyeing India primarily to sell milk powder and fat products. India, one of the largest consumers of milk and milk products, has so far been self-sustainable and has sometimes produced a surplus. The entry of New Zealand could change the scenario.
        - Nearly, 93.4% of New Zealand's milk powder, 94.5% of its butter, and 83.6% of its cheese production got exported in 2018. India's export of milk products does not match up.
        - It could lead to 50 million rural people losing their jobs, which will push up the need for importing.
    - **Automobile:** RCEP could allow a **"back-door entry route"** for automobile parts from China.
    - **Textile:** The free import of polyester fabrics from China, Vietnam, Bangladesh and other countries, which could lead to cheaper textiles, affecting an already-hit sector.

        India's trade deficit with China in the textiles and clothing sector is likely to be widened that could be detrimental for its domestic textile manufacturers.
    - **Steel:** The steel industry also has concerns regarding China, that excessive imports could harm the domestic market.

        It will damage India's export competitiveness since the trade balance in the country is already skewed to a greater extent.
    - **Agriculture:** An apex body of **planters of tea, coffee, rubber, cardamom and pepper** said that RCEP would make things worse for the sector, which is already experiencing a downturn.

        The products will be under intense competition and imports into the country will likely increase over time.

Way Forward

- **Strengthen Existing Agreements:** The trade and investment agreements with **ASEAN, Japan and Korea,** as well as its bilateral arrangements with **Malaysia and Singapore** must be strengthened.
- **Marketing Products:** The marketing of Indian products to existing favourable markets, as well as other countries where India has a low export presence.

    The Indian industry, which has a business in these markets, can benefit from targeted promotional strategies given that Indian products are competitive and favoured there.

- **Export Diversification:** Increasing the exports in Africa, a rapidly growing continent which enjoys almost 9% of the export share, as well as Latin America, currently at a low 3%.
    - West Asia has also been an expanding market where India enjoys synergies.
    - The export strategy for India requires a two-pronged approach, focussing on both **enhancing domestic competitiveness** and **undertaking targeted promotional activities.**
- **Deeper Economic Reforms:** Must be initiated particularly in **factor markets of land, labour and capital.**
    - It will provide the much-needed impetus to overall manufacturing investments.
    - For domestic manufacturing, **lowering costs of doing business, building the right infrastructure, ensuring faster** and more **efficient trade facilitation** at the borders, etc.
- **Targeted Export Promotion:** Provide information on markets to their manufacturers and exporters, especially small enterprises, and assisting them with marketing efforts.

    Create dedicated agencies and **establish offices overseas** equipped with professional marketing expertise that will undertake **export promotion** and to link buyers with Indian exporters in major markets across the world.
- **External Integration Strategy:** The country needs to keep its interests on the table.
    - The road to further expansion of its exports to RCEP member nations is very much still open, given that India already has trade and investment agreements with 12 of them.
    - Utilising existing agreements better while proactively exploring new opportunities in other geographies will diversify both our markets as well as our export basket.