

Occasional News Wrap on RCEP – #5/, December 2020-January 2021



Interpreting India's Decision and Identifying Alternatives

The landmark Regional Comprehensive Economic Partnership (RCEP) proposed in 2012 and signed in November 2020 includes ten member countries from the Association of Southeast Asian Nations (ASEAN) and five of the bloc's dialogue partners – Australia, China, Japan, Korea, and New Zealand. India, a huge consumer-driven market that participated for almost eight years, opted-out in November 2019, as it perceived that eliminating tariffs would open its markets to massive imports that could harm local producers.

India has been trying to decouple the supply chain for its domestic market from China. As the domestic market's competitive and comparative advantage seems to lose to Chinese state-subsidised manufacturing from high technology to even labour-intensive sectors, the nation also loses out to smaller economies such as Bangladesh and Vietnam. While India worries about competitiveness, trade experts apprehend that supply chains will increasingly run through Asia leaving India outside.

There is a need for India to restructure the regional supply chain, concurrently addressing security relations by actively participating at QUAD in the Indo-Pacific. Furthermore, a nascent Resilient Supply Chain Initiative (RSCI) proposed by India, Japan, and Australia in September could also serve as an advantage against China's growing regional influence and might not be incompatible with the RCEP.

India's decision to stay out of the RCEP shall remain under scrutiny for quite some time. Therefore, India could kick-start the India-EU trade negotiations that have not seen the light of the day due to pending issues regarding data security, alcoholic beverages, automobiles, pharmaceuticals, and services trade.

The incoming Biden administration is also expected to bring in more policy stability, and the US may not close its doors to a limited trade deal with India (before a full-fledged trade deal) as it plans to build a unified front of democracies against China.

India's current strategy is to develop the domestic sector to join future Regional Trade Agreements (RTAs) by enhancing productivity in the short term. This approach is expected to work well in 2020-21 but has its limitations when the global economy rebounds. If China's share of the RCEP market deepens, India's market access would further reduce, as ASEAN, Japan, and South Korea are already among its active RTA partners. India should interpret this reality while deciding on its recent discussions to enter into new Free Trade Agreements (FTAs) with the European Union and the US.

Therefore, in continuation of the previous volumes of CUTS Occasional News Wraps (ONWs), this volume covers views of authors on India's stand on RCEP. It further highlights alternative opportunities to integrate with the global economy and discusses trade initiatives taken by RCEP nations.

This ONW is categorised into two sections, which are as follows:

1. Interpreting India's Decision
2. New Initiatives among RCEP Nations

1. Interpreting India's Decision

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| 1.1 | <p>India's Withdrawal From RCEP: Is It Better Off?</p> <p><i>By Smita Singh</i></p> <p>Entrepreneur India</p> <p>December 03, 2020</p> | <p>Undoubtedly India being a part of RCEP would have given a boost to industries, such as textile and dairy since it is a huge market with a sizeable share of gross domestic product (GDP). Further, the move could potentially leave India with less scope to tap the mammoth market that RCEP presents. It is very important to note that RCEP did not do much for the benefit of sectors, such as agriculture, dairy, manufacturing where the Indian government is inclined to more investments due to the probable import of such commodities from superior producing nations such as Australia and China.</p> |
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| 1.2 | <p>India needs not simply free trade, but strategic globalisation</p> <p><i>By Surbhi Jain</i></p> <p>Bridge India</p> <p>December 10, 2020</p> | <p>India needs to restructure the regional supply chain simultaneously by addressing security relations through active participation at QUAD in the Indo-Pacific. Australia observes China as its largest export market, but their relationship has been tipping after Australia pushed for a commissioned inquiry on the COVID outbreak. Japan earmarked US\$2.2bn to incentivise its companies to move their manufacturing out of China, in May 2020. With a more engaged Biden administration and a strong-headed Japanese mindset; India can initiate an alternate dialogue on the RSCI.</p> |
| 1.3 | <p>Lack of reforms hurting India, democracy making reforms difficult: BJP's Gopal Krishna Agarwal</p> <p>The Hindu</p> <p>December 10, 2020</p> | <p>“Reforms always have a time lag of benefits, but stakeholders’ benefits are always hurt. Whenever you take a reform, the beneficial stakeholders start strong movements and agitations, so it hinders the reforms process,” he said at a webinar hosted by CUTS on the pros and cons of India joining or not joining the RCEP.</p> |
| 1.4 | <p>Global trade disrupted by Covid, US-China trade war: Pradeep Mehta, Secretary General, CUTS</p> <p>The Economic Times</p> <p>December 10, 2020</p> | <p>Whether it is liked or not, the global trading order has been disrupted by the COVID-19 pandemic and the US-China trade war. New supply chains are being explored; new connections are being made; trading infrastructure that will last for decades is being built. These views were expressed by Pradeep S Mehta, Secretary General, CUTS International who was moderating a webinar organised by CUTS, ‘Why India Should Join, or Not, the RCEP; its pros and cons’.</p> |
| 1.5 | <p>There's no hurry for India to sign the RCEP, given its unresolved issues with FTAs</p> <p><i>By Najib Shah</i></p> <p>The Economic Times</p> <p>December 10, 2020</p> | <p>China, with whom India has a trade deficit of above US\$55bn, has access at preferential rates for more than 2,000 product lines. Negotiations with Australia and New Zealand for finalising an FTA are going on. Thus, not joining RCEP has not shut out FTAs. India can continue to take advantage of the FTA route and, more importantly, renegotiate to iron out issues.</p> |
| 1.6 | <p>India’s tryst with RCEP</p> <p><i>By Debashis</i></p> | <p>The loss of India from RCEP may not lead to its greater participation in the ongoing WTO negotiating forums.</p> |

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| | <p><i>Chakraborty</i></p> <p>East Asia Forum</p> <p>December 14, 2020</p> | <p>India did not show much enthusiasm to US Trade Representative Robert Lighthizer’s call for a ‘tariff reset’. It is also treading cautiously on the current multilateral negotiations on fisheries subsidies and e-commerce. Its domestic policy initiatives on agriculture and industry have also recently been challenged in the WTO Dispute Settlement Forum.</p> |
| 1.7 | <p>India’s Out of RCEP: What’s Next for the Country and Free Trade?</p> <p><i>By Prachi Priya and Aniruddha Ghosh</i></p> <p>The Diplomat</p> <p>December 15, 2020</p> | <p>Make no mistake, India had no option but to exit the pact. RCEP in its present form would have not served any purpose for the country. A NITI Aayog paper entitled ‘India’s FTAs and Its Costs”, highlighted India’s experience with its previous FTAs and its reasons for not joining RCEP. The post-pandemic world trade landscape and its associated challenges; China’s unfair trade practices and its constant endeavour to side-line issues critical for Indian industry in RCEP; and, most importantly, rising border disputes with China reiterate that India did the right thing by staying out of RCEP.</p> |
| 1.8 | <p>Pulling out of RCEP a mistake, India should join the bloc as soon as possible: Montek Singh Ahluwalia</p> <p>Financial Express</p> <p>December 17, 2020</p> | <p>Terming India’s decision to pull out of the RCEP as a ‘mistake’, former Deputy Chairman of the now-defunct Planning Commission Montek Singh Ahluwalia said the country should join the trading bloc ‘as soon as possible’. Addressing a virtual event organised by the Centre for Social and Economic Progress, Ahluwalia further said India is not going to be part of the global supply chain if the country keeps increasing tariffs.</p> |
| 1.9 | <p>Door for India to join RCEP remains firmly open: Australian Minister</p> <p>The Hindu</p> <p>December 18, 2020</p> | <p>“India decided not to join the RCEP. From Australia’s perspective, that door remains firmly open. Whatever India ultimately decides, we respect its decision and continue to support India’s engagement across the Indo Pacific region,” said Birmingham who lost his trade portfolio in an Australian cabinet re-shuffle and is now left with the finance portfolio recently given to him.</p> |
| 1.10 | <p>Is the RCEP China’s Gain and India’s Loss?</p> <p><i>By Rajaram Panda</i></p> <p>The Jamestown</p> | <p>With India and the US notably excluded from the deal, China could leverage its position as the largest economy within the RCEP to further exert its influence in the region. Critics of the RCEP see it as a China-driven coup</p> |

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| | <p>Foundation December 23, 2020</p> | <p>enabling Beijing to extend its influence across the Indo-Pacific. China has faced little regional competition from the US since the Donald Trump administration pulled out of the Trans-Pacific Partnership (TPP) in 2017, arguing then that the world's then-largest trade pact would take away US jobs.</p> |
| 1.11 | <p>India Not Ready For RCEP – Analysis By Observer Research Foundation <i>By Nilanjan Ghosh</i> Eurasia Review December 28, 2020</p> | <p>The 'self-reliance' is an extension of the 'Make in India' idea and should be interpreted as a means of creating a robust domestic economy through investment and consumption demand.</p> <p>This is neither import substitution, nor does it preclude foreign investment. But without a congenial business environment, achieving a robust domestic economy is not possible. Hence, Modi emphasised the need to address land, labour, liquidity and laws to create the necessary institutional incentives for kick-starting the languishing economy.</p> |
| 1.12 | <p>As India becomes more competitive, it must not shy from joining the RCEP, says Kiran Nanda <i>By Kiran Nanda</i> The Free Press Journal January 01, 2020</p> | <p>The RCEP is different from the ASEAN FTA, as it will be dominated by China. Remaining within the RCEP, India could benefit by getting involved in writing the rules of the game for RCEP members, keeping its interests at the forefront. By being an integral part of the RCEP, India will be better able to understand China, and thereby, could adopt a policy of cooperative competitiveness <i>vis-a-vis</i> China.</p> |
| 1.13 | <p>Protectionism and Atmanirbharta slogan <i>By Satya Mohanty</i> The Tribune January 07, 2021</p> | <p>The government failed to join trade blocs like the European Union, Asia-Pacific Economic Cooperation (APEC) and the RCEP to have tariff advantage as a trading partner. Though the RCEP option is not closed yet and the questions raised by India are relevant, they have come at the last minute. If India stays clear of it, India will be a loser as the member countries will shift to other member countries for sourcing. Most countries are trading partners here and loss of trade will be substantial. It will be like hurting the nose to spite the face.</p> |
| 1.14 | <p>Pro-US strategy may push India into the</p> | <p>India took a series of proactive actions to move closer to the US in 2019. That year, India's Ministry of External</p> |

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| | abyss <i>By Liu Zongyi</i> Global Times January 07, 2021 | Affairs set up a new Indo-Pacific division . India upgraded its engagement with QUAD to a ministerial level. It ultimately decided to opt-out of the RCEP agreement too. And after its withdrawal from RCEP, India announced it would soon revive talks on the possible FTA with the EU and the US. Judging from these moves, India's RCEP pullout has geopolitical intentions. |
| 1.15 | India-EAEU FTA Appears in Sight, Moscow Signals Support India Briefing January 08, 2021 | An India-Eurasian Economic Union (EAEU) FTA is increasingly possible as India recently pulled out of the RCEP FTA with China, Australia, New Zealand, Japan, South Korea, and the ASEAN nations – mainly due to domestic market protectionist issues with Indian corporate concerned about Chinese competition in the Indian market. An EAEU deal offers new access to foreign markets but is far less likely to see corporate Indian companies lose domestic market share. |
| 1.16 | View: India must policy-push itself away from a protectionist mindset and compete globally <i>By Hema Ramakrishnan</i> The Economic Times January 09, 2021 | Can India afford to stay out of trading blocs, when most of the world is part of them? No. Joining the RCEP , the world's largest trading bloc will help the country reap gains from global value chains. India can negotiate the rules to protect its interests and stand up to China, besides seeking access to services. A review of its position to stay out of RCEP is in order. |
| 1.17 | Geopolitics India's greatest opportunity <i>By Kishore Mahbubani</i> India Today January 09, 2021 | RCEP succeeded because ASEAN led it. Indeed, RCEP happened only because ASEAN had already signed several FTAs with all five other RCEP partners (and India too). Under this great protective ASEAN umbrella, a miracle was pulled off: China, Japan and South Korea effectively ended up signing an FTA among the three of them. If these largest economies of East Asia had tried to negotiate a trilateral FTA among them, they would have failed. There would have been a lack of trust. But all three trusted ASEAN. |
| 1.18 | India's fast economic recovery will surprise everyone in 2021-22: NITI Aayog's Rajiv | Rajiv Kumar said: "We need to look at our competitiveness and take steps to reduce the cost of logistics, energy, make the labour market more flexible , and achieve global production scales. If we achieve that |

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| | <p>Kumar <i>By Sanya Dhingra</i> The Print January 12, 2021</p> | <p>then the problem of becoming a part of regional production and trade chains would not be a real issue.”</p> |
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| <h2 style="text-align: center;">2. New Initiatives among RCEP Nations</h2> | | |
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| <p>2.1</p> | <p>Far From a Change, RCEP Agreement is More Capitalism as Usual <i>By Pete Dolack</i> Counter Punch November 27, 2020</p> | <p>The RCEP is indeed less draconian than recent trade deals, and less one-sided in advancing corporate profiteering above all other human concerns than the TPP was when the US was involved and pushing for the harshest rules. “It’s not as bad as the worst agreements out there” really should not be a cause for celebration.</p> |
| <p>2.2</p> | <p>RCEP fails to promote a people-centred ASEAN <i>By Benny Teh</i> The ASEAN Post December 05, 2020</p> | <p>The extensive coverage of the RCEP will complement the regional production networks of multinational corporations particularly in terms of the rules of origin and supply chains, and further, boost the region’s attractiveness to foreign trade and investment. The latter point is key to speed up economic recovery due to the COVID-19 pandemic.</p> <p>However, the mega trade deal is weak on human rights, environmental and social safeguards, and inputs from civil society organisations that were largely kept out of the negotiation process due in part to confidentiality.</p> |
| <p>2.3</p> | <p>Asia’s historic trade pact to open oil-supply route to China Bloomberg Quint December 08, 2020</p> | <p>Chinese import tariffs on oil and chemical products from South Korea and Japan, which currently range from 0.8 to 8 percent, will be gradually reduced to zero over the next 20 years under RCEP, according to documents posted on the website of China’s Ministry of Commerce. The Northeast Asian nations are already the biggest suppliers to China in many of the product categories, but RCEP may make them even more dominant.</p> |

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| <p>2.4</p> | <p>RCEP: an unjust deal and added burden in the time of a pandemic</p> <p>Socialist Project</p> <p>December 08, 2020</p> | <p>A new report finds that most ASEAN nations will see rising imports and declining exports in the wake of RCEP. For the Philippines, the cost of imports rises by as much as US\$908mn, with sharp increases in imports from South Korea, China, and Vietnam. On the other hand, the value of exports to RCEP countries is only expected to increase by around US\$4.4mn. Trade balance with RCEP countries will worsen by US\$904mn per year.</p> |
| <p>2.5</p> | <p>RCEP: Boosting Value Chains and Facilitating Trade Flows</p> <p>Lexology</p> <p>December 21, 2020</p> | <p>The biggest benefit of the RCEP is that it brings under a single trade agreement 15 of the most active trading economies in the Asia-Pacific region. It provides an opportunity for greater harmonisation of customs procedures and the elimination of some of the not-so-transparent practices. In the customs and trade arena, practitioners know that the path to greater transparency, cooperation, conformity, and less documentation is a long and arduous one.</p> |
| <p>2.6</p> | <p>Will RCEP Change the Game in Asia?</p> <p><i>By Dr. Alon Levkowitz</i></p> <p>The Begin-Sadat Center for Strategic Studies</p> <p>December 27, 2020</p> | <p>The RCEP challenges the US's economic position in the region. The incoming Biden administration will find it harder to gain the support of the Asian members of RCEP to support sanctions or other forms of pressure on China. The US administration will have to convince its Asian allies that the alliance between the US and Japan, South Korea, Australia, and other regional states is solid and that the US's commitment to the region remains unchanged.</p> |
| <p>2.7</p> | <p>Signing of the RCEP and the Future Asian Order</p> <p><i>By Oba Mie</i></p> <p>The Diplomat</p> <p>December 30, 2020</p> | <p>RCEP should be seen only as a part of ASEAN architecture, and it was not a Chinese-led negotiation. Unquestionably, however, China's presence will increase through this framework. China confined COVID-19 relatively quickly and is already enjoying an economic recovery. And while the economies of East Asia have been rocked by COVID-19, trade between China and ASEAN countries has increased, as has China's investments in ASEAN.</p> |