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# RSIS COMMENTARIES

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## **RCEP: Challenges and Opportunities for India**

By Rahul Mishra

### **Synopsis**

*The Regional Comprehensive Economic Partnership envisions a giant free trade area encompassing the major Asian economies. India stands to benefit, but must move forward positively in both its domestic organisation and external negotiations to optimise its gains.*

### **Commentary**

ASEAN HAS been encouraged by the progress of its bilateral FTAs with the 'Plus Six' members, to take steps to make the Regional Comprehensive Economic Partnership (RCEP) a reality by 2015. First mooted during the 2011 ASEAN Summit in Indonesia, the RCEP negotiation process was formally launched during the 2012 ASEAN Summit in Cambodia.

The success of the first round of negotiations in early May 2013 in Brunei has brightened the prospects for the second round, to be held in September 2013 in Australia. India stands to benefit, but must take a more proactive approach to the negotiations.

### **India's approach to RCEP**

The RCEP attempts to achieve a comprehensive economic partnership by 2015 among the ASEAN member states and its 'Plus Six' partners: Australia, China, India, Japan, New Zealand and South Korea. The agreement will encompass trade in goods and services, economic and technical issues, intellectual property and investments, and dispute settlement mechanisms. As expected, ASEAN will be in the 'driver's seat' of this multilateral trade arrangement (though the idea was initially given by Japan), and has been repeatedly endorsed by India. The joint statement issued at the end of the first round of negotiations also reiterated 'ASEAN Centrality' in the emerging regional economic architecture.

The RCEP is an ambitious project which for the first time intends to bring in Asia's three biggest economies: China, India and Japan, into a regional trade arrangement. Concomitantly, the proposed trade area will be the largest in terms of population, with a combined GDP of around US\$ 19 trillion. When fully established, it will become the largest trade bloc in the world.

Several members of the proposed RCEP already have bilateral Free Trade Agreements (FTAs) with one another. However, numerous terms of agreement for FTAs and different Rules of Origin have created a

'spaghetti-bowl' situation, thereby impeding the harmonisation and effective use of the FTAs. With the RCEP, it is hoped that simpler and streamlined rules, cutting across the region, will facilitate smoother trade ties. Trade costs are also likely to go down.

For India the RCEP is a means to achieve its goal of integrating with the East Asian economies and obtain access to a vast regional market from Japan to Australia. It is particularly important because India is not a member of two other major regional economic groupings: Asia-Pacific Economic Cooperation (APEC) and the Trans-Pacific Partnership (TPP). The RCEP will beef up India's trade volume with countries of the region, including China and Japan. India's services sector – information technology, telecom, business process outsourcing (BPOs) and knowledge process outsourcing (KPOs) and other skilled services such as banking – are particularly likely to accrue benefits.

India already has an FTA with ASEAN and negotiations for FTAs with Australia and New Zealand are in progress. The India-Japan Comprehensive Economic Partnership Agreement (CEPA) came into effect in 2011, while the India-South Korea CEPA, signed in 2009, awaits implementation. A regional trade agreement (RTA) between India and China, to which end a Joint Study Group constituted in 2003 submitted its final report in 2005, is still to be negotiated. While during his India visit, Chinese Premier Li Keqiang expressed interest in launching talks for FTA with India, much remains to be done.

### **The road ahead**

Finalising the RCEP by 2015 will not be a cakewalk for India and other countries involved in the negotiations as there are a range of issues that could act as spoilers. Huge economic disparities among the negotiating countries are likely to pose a challenge. Since the RCEP is expected to work on a step-by-step consensus-based mechanism, regional trade consideration is not likely to prevail over individual countries' compulsions. The RCEP's Special and Differential Treatment to CLMV countries is certainly reassuring in that regard, and may prove RCEP to be a 'developing country's FTA'.

An inevitable source of trust deficit between China and the rest which has the potential to constrain regional economic cooperation is China's aggressive postures on territorial disputes with Japan and India and with ASEAN member countries on the South China Sea disputes. It will certainly flare up domestic debates and embolden sceptics who could argue that as regional trade and economic dependence intensifies, China will be better placed to use greater economic integration as a tool to arm-twist others. The banana trade incident between China and the Philippines is a case in point here.

Sharp divisions within India's establishment regarding relations with China have only intensified in the wake of the Depsang incident along the Sino-Indian border and the mounting trade deficit with China. Apparently, China also had reservations about India's entry into the RCEP arrangement. However, with ASEAN's support, India's entry into the grouping was ensured. Interestingly, this was not the first time that China opposed India's entry into an ASEAN-led grouping. Earlier, in 2005, China had objected to India's membership in the East Asia Summit.

Clearly, concerns regarding China have to be assuaged to realise the RCEP on time, and China has to do its bit on that count. Finding ways and means to arrive at a bilateral trade agreement with China is not going to be an easy task for India.

### **New Delhi's challenges**

For New Delhi, four challenges lie ahead. First, tariff barriers, which have been a matter of discontent in bilateral FTAs, particularly in the case of the ASEAN-India FTA, will be central to the negotiations in the upcoming rounds of RCEP negotiations. Sadly, India has not done enough to minimise tariff barriers; it needs to do more. Second, non-trade issues such as environment and labour are likely to be prickly as well and need greater attention.

Third, India must take steps to strengthen its Medium, Small and Micro Enterprises (MSME) sector, equipping it not only to survive the free flow of trade, but also to become a set of more competitive players. Higher investments in R&D and achieving international standards in terms of delivery are needed.

Finally a major difficulty for India will be negotiating terms 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.

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