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## **RCEP15 Without India: Why Still Big Step Forward**

*By Pradumna B. Rana and Xianbai Ji*

### **SYNOPSIS**

*Last week's RCEP agreement allows room for India to join when it is ready. But even if this does not happen, the East Asian region will benefit significantly from the 15-nation RCEP (RCEP15).*

### **COMMENTARY**

AT THE Third Regional Comprehensive Economic Partnership (RCEP) Summit held in Bangkok on 4 November 2019, leaders announced that 15 of the 16 participating countries had concluded the “text-based negotiations” for “a modern, comprehensive, high-quality, and mutually beneficial” RCEP agreement. Lawyers and linguists will now step in to “scrub” the text and put it up for formal signature, possibly in February 2020.

Although it had negotiated hard, India was still not ready to join the group. Prime Minister Narendra Modi said in Bangkok that from the perspective of India the present form of RCEP agreement did not fully reflect the basic spirit and the guiding principles of RCEP. It also did not address satisfactorily India's outstanding issues and concerns. “In such a situation, it is not possible for India to join RCEP Agreement,” he added. There were also domestic political pressures by various opposition parties against the deal. The critics claimed that RCEP would open India to a flood of Chinese consumer products and farm produce from Australia and New Zealand.

### **World's Largest FTA**

The joint statement of the RCEP leaders, however, notes that the participating countries will work together to resolve the outstanding issues that India has and allows room for India to join the grouping when it is ready.

RCEP represents a rare opportunity for India to benefit from the economic dynamism of East Asia in a way that is conducive to the attainment of India's own manufacturing and export ambition. Hence, it would be good if India re-considered and joined RCEP. There are some signs that it might. But even without India, a 15 country RCEP or RCEP15 will be an important step forward for East Asia for a number of reasons.

First, by encompassing about 30 per cent of global gross domestic product (GDP) and a similar percentage of its population, like the original RCEP, RCEP15 would still be the largest FTA in the world and its impacts would extend beyond the region currently party to it.

Since the end of the Cold War, a slew of major regional trade agreements such as ASEAN Free Trade Area (AFTA), European Single Market, North American Free Trade Agreement (NAFTA, now known as the United States–Mexico–Canada Agreement, USMCA), MERCOSUR, ASEAN+1 agreements, and most recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have gone into effect.

But these agreements all dwarf in one way or another when compared to RCEP15. For instance, compared to the USMCA, the world's second largest trade bloc, RCEP15 covers slightly more GDP (US\$24.8 trillion versus US\$23.4 trillion) and benefits more people (2.3 billion versus 494 million).

### **RCEP15 still a High Quality FTA**

Second, we do not yet know the full details of the negotiations in Bangkok, but it is most likely that RCEP15 will still be a "high-quality" trade deal that is relevant to 21st century international commerce, although less so than the CPTPP.

The RCEP15 will likely incorporate a balanced mix of WTO-plus commitments and WTO-extra provisions. The former will further lower at-the-border trade barriers while the latter will address the technical behind-the-border issues such as regulations, standards, and testing and certification requirements.

RCEP had dedicated chapters on Small and Medium Enterprises, Electronic Commerce and Dispute Settlement while setting out broad procedures for inter-state Economic and Technical Cooperation for common prosperity.

Going forward, more significantly, RCEP15 has the potential to serve as a regional trade standard-setter as the rules it decides will probably become benchmarks and legal precedents for future trade deals in Asia and beyond. This is especially the case when RCEP15 opens up to new members from across the region. Hong Kong, which has recently implemented a trade pact with ASEAN, could be admitted to RCEP in not too distant future.

### **RCEP15's Benefits**

Third, RCEP15 will harmonise existing ASEAN FTAs with Australia, China, Japan, South Korea, and New Zealand. It will bring about economic and logistical benefits. Although not as high as that of RCEP because of the absence of a country which is

the fifth largest economy in the world and has over 1.3 billion people, the economic benefits of RCEP15 will still be sizeable.

Our empirical analysis, an economic model assuming complete tariff removal, suggests that RCEP15 would generate a real GDP increase of approximately \$137 billion in the longer run for the bloc. This is about 80 percent of what would have occurred under RCEP with India (\$171 billion).

At the national level, all RCEP15 countries will benefit with Cambodia, Laos, Vietnam, and Korea benefiting the most. India, which is outside the bloc would lose due to trade diversion as participating countries buy from each other rather than from India.

Finally, RCEP15 will have geopolitical benefits as a new trade bloc will be formed in East Asia. In a global environment where many countries are adopting nationalistic and occasionally unilateral policies, this new bloc will give a timely boost to multilateralism and the rules-based trading system.

### **Potential Convergence of RCEP15 and CPTPP?**

When operational, RCEP15 and CPTPP, another mega-free trade agreement (mega-FTA) which became effective in 2018, will drive “deep” integration associated with global supply chains as opposed to “shallow” integration due to tariff reductions in Asia. Considering that seven countries (Japan, Australia, New Zealand, Brunei, Malaysia, Singapore and Vietnam) will be party to both RCEP15 and CPTPP, in the future there is a strong case for an orderly convergence between the two.

This merger will strengthen “ASEAN Centrality” while also laying the foundation for the establishment of a truly inclusive Free Trade Area of the Asia-Pacific (FTAAP), a long-term vision of Asian economic regionalism.

Summing up, against all odds, East Asia has pulled off yet another “high quality” mega-FTA in two years that will deepen integration and promote economic growth in the region. RCEP15 and CPTPP will also provide some cushion from slowing global trade largely due to nationalistic sentiments in various parts of the world.

India is presently out of both of these trade blocs. When it is ready, India should join the RCEP as it would lead to a win-win situation for all participating countries.

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