

3rd RCEP Summit in Thailand- RCEP leaders agree to sign trade pact in 2020. India opted out of RCEP. India said its final decision will depend on “satisfactory resolution” of its outstanding issues. (07-11-2019)

The Regional Comprehensive Economic Partnership is a mega regional free trade agreement being negotiated amongst 16 countries, comprising **10 ASEAN countries** (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) **and six ASEAN FTA partners**, namely Australia, China, India, Japan, Korea and New Zealand.

RCEP will be the **world’s largest economic bloc**, covering nearly half of the global economy. In 2017, prospective RCEP member states accounted for a population of 3.4 billion people (almost half of the world’s population) with a Gross Domestic Product (GDP, PPP) of 49.5 trillion USD, approximately 39% of the world’s GDP, with the combined GDPs of India and China making up more than half that amount.



RCEP Summits

The first RCEP summit was held in November, 2017 in Manila, Philippines

Second RCEP summit held in November 2018 in Singapore

3rd RCEP summit held in November, 2019 in Thailand with 35th ASEAN summit.

RCEP negotiations

RCEP negotiations began in November 2012, in Cambodia during the 21st ASEAN Summit and Related Summits.

The RCEP negotiation includes: trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium enterprises (SMEs) and other issues.

Benefits of RCEP Agreement to India

- It is expected to provide market access for India's goods and services exports and encourage greater investments and technology into India. It would also facilitate India's MSMEs to effectively integrate into the regional value and supply chains.
- On the other hand, India is not a member of the Asia-Pacific Economic Co-operation (APEC) which is a grouping of twenty-one countries in the Asia Pacific region with an aim to deepen and strengthen economic and technological cooperation amongst APEC member countries.

These countries are: **Australia; Brunei; Canada; Chile; China; Hong Kong-China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Chinese Taipei; Thailand; USA; Viet Nam.**

- India's 'Act East Policy' virtually entails that we should become part of the economic grouping in that region by joining RCEP.

Why India opted out of RCEP

1. Farmers and affiliated organisations wanted agricultural produce and the dairy sector to be kept out of the purview of the RCEP. They fear that joining the RCEP would expose them to large-scale agribusinesses competition from Australia and New Zealand. Agriculture is the most sensitive area for India whenever it engages in trade talks, be it at the RCEP or at the broader World Trade Organisation (WTO), as it employs more than 50 per cent of India's workforce.

2. India has a bilateral trade deficit with most of the member countries of RCEP. India's experience with countries with which it has signed free trade agreements till now is not exactly a happy one. Though trade has increased post-FTA but imports have risen faster than exports from India.

3. China is desperate to find newer markets for its products in the backdrop of its trade dispute with the U.S.. India runs a massive bilateral trade deficit of \$53 billion with China and the fact that China has not taken satisfactory efforts to cut down the deficit certainly were major inputs in India's decision.

4. India's request for **country-specific tariff schedules** was rejected early in the negotiations. Its suggestion of an **auto-trigger mechanism** to check a sudden surge in imports from particular partner countries was also rejected. Existing safeguards mechanism does not kick in automatically. There is a due process before it can be invoked involving consultations with the country accused of dumping and a thorough investigation to establish serious injury or threat caused by the increased imports.

5. India also argued for **stricter rules of origin norms**, based on which they get tariff concession, to prevent Chinese goods flooding in India through other RCEP member. But rejected.

6. India also wanted **provision for market access in services** like Movement of professionals, Easy Visa rules etc but failed.

7. Membership of the RCEP would compel India to cut import duties on products being encouraged to be manufactured at home under the "Make in India" banner.

In short, in this ongoing battle of fixing the severe domestic demand slump, India chose not to further hurt competitiveness of its local industries. This should come as a relief, especially for small- and medium-sized enterprises.

Way Forward

Although India may lose market access to Asian economies at preferential rates, its vulnerable domestic industries would be protected from intense competition and more importantly, Chinese dumping.

With a market of 1.3 billion people, there is bound to be more pressure on India to open its gates. India cannot miss out on being a part of global supply chains. The smart way to handle this is to initiate reforms on the export front, bring down costs in the economy and, simultaneously, increase efficiencies.