# ISAS Brief

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# India & RCEP: Will Flexibility on Tariffs Get Access in Services?

*India has shown flexibility in tariff concession offers at the latest round of talks at the sixteen-member Regional Comprehensive Economic Partnership (RCEP). While this would hasten the RCEP talks, the agreement is unlikely to commit to aggressive liberalisation on trade in services due to a lack of shared interest among the members. India's gains from services can be more through new free trade agreements with Australia and New Zealand, and the upgrading of existing FTAs with Singapore, Japan, Korea and Malaysia – in all, with select RCEP members.*

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At the RCEP negotiations at Laos earlier this month, India indicated its willingness for giving up its demand on a three-tiered tariff concession schedule.[2] This is likely to inject momentum to the RCEP talks by finalising tariff liberalisation commitments. However, it is not yet clear whether India's decision is contingent upon the other RCEP

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[2] 'India's new stance at RCEP may benefit China', *livemint*, 9 August 2016; http://www.livemint.com/Politics/qGEPZqVoHO4U4YYvfBgCNP/Indias-new-stance-at-RCEP-may-benefit-China.html Accessed on 11 August 2016

members agreeing to liberalise trade in services – one of India's major expectations from the agreement.

## The Three Tier Formula

India had proposed a three-tier schedule of tariff liberalisation based on the FTAs it already has with several RCEP members. For example, for the ten members of the Association of Southeast Asian Nations with whom India already has the ASEAN FTA, it offered to eliminate 80 percent of tariff lines. The similar offer for Japan and Korea – two other RCEP members with whom India has bilateral FTAs – was for tariff elimination on 65 percent of traded goods. For the remaining RCEP members – Australia, China and New Zealand – with whom India does not have FTAs, the offer was to take off tariffs on 42.5 percent of traded products.

The three-tier approach was largely guided by the objective of denying China significant preferential access to the Indian market. Like in most countries across the world, Indian industry is heavily apprehensive of Chinese products swamping the domestic market if they get tariff-free access. The concerns are particularly large for Indian producers of steel, aluminium and chemicals – industries where surplus capacities are leading to the flooding of global markets by cheap Chinese exports.

In a regional trade forum like the RCEP, it is not strategically possible to single out a particular member for defensive action, since regional trade agreements aim to provide similar preferences to all members. India, therefore, hit upon the three-tier formula where along with China, Australia and New Zealand – with both of whom India is negotiating bilateral FTAs – were clubbed in the lowest bracket for tariff concession.

The Indian proposal was not welcomed by most of the RCEP members, given the group's preference for single-tier tariff schedules by individual members. Apart from complicating the negotiations, the proposal strengthened India's image as a difficult and obstructionist trade partner. The decision to deviate from the three-tier structure is a much welcome relief. India, of course, has indicated that while moving away from the three-tier approach, it would have a tariff schedule with 'limited deviations' depending on tariff offers made by other members.

## Gains from Services Unlikely

India’s expectations from the RCEP in services are unlikely to materialise. By not adopting forward-looking liberalisation agendas for services and investment, RCEP would degenerate into a shallow agreement with only limited gains in tariffs.

The difficulty in adopting liberal agendas on services and investment is due to the discomfort of several ASEAN countries. While ASEAN economies like Singapore and Malaysia have well-developed services sectors with distinct comparative advantages in many services (e.g. transport, tourism, finance and urban infrastructure), most other ASEAN economies are structurally different. Their comparative advantages are mostly in agriculture, natural resources and industrial parts & components exports, not in services. While they are keen on getting greater access for these exports in other RCEP member-markets, they have limited interest in liberalising domestic services. Much as Indonesia, Vietnam and the Philippines are trying to liberalise foreign investment rules in domestic services, they have a long way to go before matching India in the liberal foreign investment policies it now has. China too, while slowly liberalising domestic services, is grappling with complex regulations on foreign ownership and management and is not significantly open to committing to aggressive services liberalisation at RCEP. Furthermore, the current anti-immigration sentiments prevent possibilities of most RCEP members agreeing to easier movement of professional service providers – another of India’s major demands.

The fact that services regulations within the ASEAN are not homogenous is a major deterrent to adoption of common rules for trade in services in the RCEP. This is frustrating for India and RCEP members like Australia, Japan and New Zealand, who have considerable export interest in services. The latter three are members of the Trans-Pacific Partnership (TPP), which has much liberal rules for trade in services, and are also members of several bilateral FTAs that accommodate services. Apart from greater access of their exports in the Indian market, Australia’s and New Zealand’s interests in the RCEP also stem from the robust services trades they can have with India. The interests are mutual, given that tourism, education, skill development and finance have already taken off as major trade interests in services between India and Australia as well as New Zealand. Japan, Korea, Singapore and Malaysia also have similar interests and rising services trade with India. They would expect the RCEP to improve on their bilateral agreements with India that do not accommodate as much policy liberalisations they would like to, given that India's services regulations have reformed significantly in the last couple of years.

While the tariff talks at RCEP should hasten, from a services trade perspective, India is better-off pursuing bilateral FTAs with Australia and New Zealand, and upgrading existing FTAs with Singapore, Malaysia, Japan and Korea, as RCEP is unlikely to yield much on services and investment.

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