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The Regional Comprehensive Economic Partnership: India should join the Asian Trade Block

India's planned participation in the Regional Comprehensive Economic Partnership (RCEP) has seemingly caused concerns within the Indian industry of the possible flooding of cheap Chinese imports into the Indian market. Similarly, its international trade position, and commitments with China and the Association of Southeast Asian Nations have brought to the forefront the benefits and challenges India will experience by joining the RCEP. This paper analyses the opportunities that the RCEP provides to India to achieve its long-term domestic economic goals and to further India-ASEAN economic cooperation even if the trade pact focusses just on trade in goods and does not include services.

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The Regional Comprehensive Economic Partnership (RCEP) is an Association of Southeast Asian Nations (ASEAN)-centred pan-Asian trade pact comprising its 10-member countries and its six free trade agreement (FTA) partners, including India. It is estimated to cover over one-third of the world's gross domestic product with a collective market consisting of 48 per cent of the world's population. Nonetheless, from the reactions that one has seen so far, industries in India do not appear to be enthusiastic about India signing the RCEP trade pact.

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India has been in ASEAN's eyes a slow reformer, and even liberalisation of the Indian economy in 1991 took place only under the risks of India's sovereign default.

There may be a few reasons for the apprehensions in India. Firstly, Indian industries recently emerged from two domestic economic shocks, namely, the currency demonetisation and the implementation of the Goods and Services Tax (GST). Arguably, both of them adversely impacted domestic firms in terms of lower demand and taxation. Secondly, with upcoming general elections in 2019, Indian government may not be keen on politically upsetting the domestic business lobby by making yet another major change arising from the RCEP within an election year. Thirdly, the Indian industry is worried by the China factor, viewing the RCEP as a gateway for Chinese goods to flood into India. It would significantly diminish the effectiveness of the 'Make in India' initiative set to boost domestic manufacturing.

It has been argued that the RCEP also fails to address India's concerns on services, especially in terms of allowing India's world class professional workers to undertake short-term work in member countries. While India has done well in services in Europe, the United States (US), the United Kingdom (UK) and Australia, the Asia-Pacific market has accounted for only about 8 to 12 per cent of the total business of Indian information technology (IT) companies. The bulk of this business is in IT, business process outsourcing (BPO) and consulting services.

Services are inherently more difficult to execute and are not profitable in ASEAN to the extent they are in the US and the UK. There are language challenges which are very relevant in the services context and most ASEAN-member countries have different languages and often different scripts. Providing services in such diverse countries – many of which are also relatively small – is a difficult challenge. Indian IT services, in the wider sense, including BPOs, have not generally succeeded in non-English speaking countries. The Indian government would consequently be well advised to review its stand on the inclusion of services within the RCEP, without holding up the trade in goods agreement.

From an Indian perspective, the RCEP negotiations are not likely to be concluded by the end of this year which could risk India being left out. It seems India may be more prepared to conclude the RCEP after its elections in 2019. This is also factoring in the expectation that the Indian economy is likely to pick up by 2019 with an estimated eight per cent growth.

This, in turn, will permit the Indian government much more leeway while domestic demand improves and the GST initiative starts yielding results.

Pessimism of the RCEP's adverse impact on the Indian economy is not grounded in facts or compatible with India's long-term economic interest of further opening up trade to make the domestic industry more competitive. Firstly, to ensure that India's domestic manufacturing policy such as the 'Make in India' becomes more global, India requires a strong positioning in the Asian value and supply chains which usually begin or end in China.

Secondly, the long-term benefits from the RCEP are likely to outweigh the costs that India may have to bear in the short term. India needs to stay interconnected with its regional trading partners through formalised and coordinated regional trade pacts if it does not want to be left out of the substantial growth that Asia is likely to witness in the coming decades. For instance, despite the US pulling out of the Trans-Pacific Partnership (TPP), the other 11 countries have agreed to proceed with it. A modified TPP is a high-quality trade pact that implies substantial short-term costs for some of its participants. Despite that, it has been aggressively pursued by its Asian participants. Even American President Donald Trump alluded recently at the World Economic Forum in Davos to reconsider the US re-joining the TPP with a few modifications.

Third, ASEAN, as one of India's largest and important economic partners within the RCEP, is keen on India's long-lasting commitments to the agreement. This is because the ASEAN-India FTA is too restrictive and almost ineffective – India-ASEAN trade has contributed to just approximately two per cent of their total trade which arguably might have taken place even without the FTA. Being India's largest trading partner within ASEAN, Singapore, as ASEAN Chair this year, is encouraging India to join the RCEP. The close bilateral relationship, in terms of trade, economics and security between Singapore and India, makes it easy for Indian companies to locate here. This could act as a beachhead for growth of Indian business in ASEAN.

While Southeast Asian and Chinese companies wish to enter the Indian market, they realise that it would not be easy – the Indian domestic market is quite competitive and very often with thin margins. Indian domestic automobile companies, for example, are competing with well-known foreign players. The same is the case for Indian IT, pharmaceutical and media companies. Japanese and Korean companies are already in India – so why the big worry with Chinese companies coming in as well?

At the same time, there could be ways to address India's concerns of Chinese imports flooding the Indian market through the RCEP route. In the current RCEP negotiations, it is possible for India to require selected Chinese industrial goods to enter the Indian market duty free only at a later date, say five or ten years, to allow Indian industries to adjust. As Chinese costs are also rising fast, it would be fair to permit Chinese goods after a lapse of five or ten years. Such a move may also serve to attract small-medium Chinese enterprises to establish their commercial presence in India – these enterprises are currently relocating their operations to Southeast Asian countries such as Vietnam and Thailand due to rising cost in China. From a trade perspective, this foreign direct investment from Chinese companies may also reduce India's perennial trade deficit with China as an alternative to focusing on increasing exports to China. Currently, Indian exports to China are largely commodities as its manufacturing sector is still domestically focused.

In conclusion, India would benefit from joining the RCEP. It would globalise its manufacturing base and expand its international trade outreach with important partners like ASEAN. The insistence on the inclusion of services in the agreement could be futile and it may result in India being left out of a major Asian economic grouping. It would require a strong political vision on the part of the Indian government and deft handling of negotiations to keep India within the RCEP.

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