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The Regional Comprehensive Economic Partnership: Hopes Flicker but Hiccups Remain

The skepticism and lethargy characterising the Regional Comprehensive Economic Partnership (RCEP) negotiations appear to be making way for cautious optimism. Frequent ministerial and bilateral consultations reflect a new sense of urgency. Indian Prime Minister Narendra Modi's mention of the need for an early conclusion of the deal during his recent visit to Southeast Asia has also raised hopes of India being more proactive in the RCEP talks. However, much work needs to be done before negotiations can conclude. This paper looks at the problems affecting the RCEP and reasons behind India's reservations with the deal. While the RCEP can conclude only through a political understanding among its members, a formalised RCEP can bring good tidings for global trade.

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Negotiations on the 16-nation Regional Comprehensive Economic Partnership (RCEP) are at an advanced stage. With trade ministers of the member countries scheduled to meet for the second time in quick succession at Tokyo in the first week of July 2018, the momentum picked up by the RCEP is evident. For the first time since talks began five years ago, the possibility of reaching a framework agreement does not appear a far-fetched notion.

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Different and Divided

The RCEP has hardly had a smooth going with differences on various market access issues between members slowing the progress right from the beginning. This was, however, not unexpected. The character of the RCEP underscores its prominent economic heterogeneity. The group includes some of the world's wealthiest economies (for example, Australia, Singapore and New Zealand) along with the largest (for example, China, Japan, India and South Korea) and the least developed countries (LDCs) (for example, Cambodia, Myanmar and Lao PDR). No other free trade agreement (FTA), either concluded, or being negotiated, has such heterogeneity. Given the contrasts among members in degree of economic development, economic structures, financial regulations and quality of economic institutions, their worldviews on trade and market access are bound to vary widely. It is exceedingly difficult to hit common ground among such a widely differing group, even on issues core to all FTAs like tariffs and rules of origin.

Tariffs Dominate the Agenda

Tariffs have dominated the RCEP talks. The preoccupation with tariffs during negotiation, and the difficulty of hammering out a common schedule for their elimination, might end up affecting the RCEP's eventual quality as a comprehensive FTA. While not being as ambitious as its regional counterpart – the recently concluded Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)² – the RCEP includes some 'new generation' trade issues like investment, competition policy, intellectual property (IP) and ecommerce. These make its scope broader than most Association of Southeast Asian Nations (ASEAN) +1 FTAs. However, not much regional liberalisation can be hoped for in these areas, given the preoccupation of negotiators with tariffs. Market access concessions on tariffs have got linked to the commitments that members make in other areas, making the discussions on the latter ad-hoc and inconsistent. A typical example is India's insistence on agreeing to tariff cuts in exchange for greater access for its professionals in the other RCEP member markets. This has led to a situation where the defensive interests in tariffs of one member – India, in

² The TPP (Trans-Pacific Partnership) was christened the CPTPP after the United States' withdrawal from the deal and its conclusion by the remaining 11 Asia-Pacific Economic Cooperation members earlier this year.

this instance – is pitted against the defensive interests of several other members in services that include allowing the movements of professionals and skilled workers.

The heavy focus on tariffs, again, is not unexpected. For the majority of the RCEP members, trade liberalisation essentially implies reducing tariffs. One of the major reasons for this is ASEAN's larger reluctance to discuss trade issues that require reforms in domestic policies. Singapore, Malaysia, Brunei and Vietnam – members of the CPTPP – have committed to investment, competition policy and IP – as part of the deal. So have Australia, New Zealand and Japan, who, along with the former, are members of the CPTPP as well as the RCEP. However, the other ASEAN economies like Indonesia, Philippines and Thailand neither figure in the CPTPP nor in any ambitious new generation FTAs. Their market access ambitions are limited to securing gains from the further reduction in member country tariffs. They, themselves, are hesitant to commit on other trade liberalisation issues such as services and investment as that would involve implementing politically sensitive changes in domestic regulations. This hesitation is marked among the ASEAN LDCs as well.

Indian Reservations

India has been perceived as one of the biggest stumbling blocks to progress on the RCEP. This is largely because of its reluctance to agree to as much tariff cuts as demanded by the rest of the members. The RCEP is expected to remove tariffs from more than 90 per cent of traded tariff lines. For India, this means slashing tariffs on a major chunk of items, which it is not prepared to do.

The India-ASEAN FTA has the lowest tariff coverage among all ASEAN+1 FTAs. With less than 80 per cent of tariff lines agreed for elimination (phased in many cases) under the India-ASEAN FTA, compared with higher coverages for the rest of ASEAN's FTAs (that is, with Australia and New Zealand, China, Japan and Korea), agreeing to 90 per cent-plus tariff cuts means India giving up more market access than the rest. This is, of course, highly unacceptable for a country where FTAs with ASEAN and some other RCEP members (Japan, Korea) are castigated for having increased imports and the country's bilateral and overall trade deficits. The reservations are compounded by fears of deluge of imports if China gets such preferential access in the Indian market through the RCEP.

India's reservations in granting more market access to China through the RCEP points to the problems the deal has been encountering from mistrusts among members. The lack of trust is particularly high among non-ASEAN members without prior bilateral FTAs. The most prominent examples are India and China, as well as China and Japan, which, in spite of being large trade partners of each other, do not have bilateral FTAs and have never negotiated trade agreements among themselves. Apprehensions over granting each other 'extra' market access by agreeing not just to a common programme of tariff cuts, but also other commitments in services and investment, have been major hurdles to progress.

The Political Cost of 'Getting There'

Notwithstanding its problems with the RCEP, the enthusiasm and urgency in talks witnessed in the current year would not have been possible without proactive participation by India. This has generated hopes about positive outcomes and the possibility of formalising the deal. Spirits in the region have also been lifted by India's decision to mark 2018 as the year of its deepening engagement with Southeast Asia and the coming of age of Modi's 'Act East' policy. Modi's mention of India's eagerness for a quick conclusion of the RCEP during his three-nation visit to Southeast Asia at the end of May 2018 has buoyed sentiments.³ There is hope among many quarters that India and the other members are mustering the political will necessary to conclude the deal. Bilateral consultations between negotiators from China and India to iron out their differences could also be pointers to the same.

While prospects might have brightened, the RCEP is still far from being concluded. Considerable ground needs to be covered before India and the other 15 members conclude the framework for the world's largest FTA that will include a third of the world's economy and half of the global population.

India is unlikely to agree to a common schedule promising more tariff cuts unless China assures it greater access for its exports, particularly pharmaceutical products. Recent bilateral consultations, while narrowing gaps, have failed to bring both countries to an agreement on

³ "India Singapore to upgrade comprehensive economic cooperation agreement", *The Economic Times*, 1 June 2018. <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-singapore-to-upgrade-trade-cooperation-pact/articleshow/64411799.cms>. Accessed on 10 June 2018.

tariffs.⁴ India's final tariff offer will also be contingent on the commitments it receives from the other RCEP members on easier visa rules and employment conditions for its professionals. Needless to say, these items are not easily agreed upon under any negotiating contexts and conditions.

It is very likely that there will be quite a few issues that negotiators will fail to agree upon, leaving the trade ministers and the political leadership of member countries to decide them. Country leaderships will have to figure out the extent of 'compromise' they can make without alienating domestic constituencies. The choice is probably the hardest for India. With elections to the Lower House of the Parliament due within less than a year, large tariff concessions in the RCEP – a deal considered by most in India as nothing but a FTA with China – might be tantamount to committing political suicide.

A Good Deal

Overall, the faster pace of negotiations and the quick meetings between ministers holds out hope for a deal that many had given up on, and that would be cause for cheer for the moribund world of international trade. Even a low quality RCEP can energise global and regional trade prospects by reviving faith in mega-trade deals. Furthermore, the RCEP will be a prominently 'inclusive' agreement, as by having low-income economies and the LDCs, it would provide a counterpoint to the widely held notion that the latter cannot engage in any trade forum other than the World Trade Organization. Finally, it would reaffirm ASEAN's pivotal role in forging Asian regional integration.

The forthcoming Tokyo ministerial meeting is likely to accelerate the search for 'political' solutions to conclude the RCEP. Hopefully, the search will be fruitful, and the current optimism will not turn out to be elusive.

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⁴ 'India, China fail to resolve differences on trade tariffs', *bilaterals.org*. 6 June 2018. <https://www.bilaterals.org/?india-china-fail-to-resolve>. Accessed on 10 June 2018.