

# ISAS Brief

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## The RCEP Negotiations and India

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India's current trade negotiations have three agreements as top priorities. Two of these – the India-ASEAN services agreement and the bilateral trade and investment agreement with the European Union (EU) – are at advanced stages. The India-ASEAN services agreement is a 'done' deal and should be signed soon unless unexpected difficulties emerge. Discussions on the EU-India agreement that were stalled last year should also commence soon. Despite being discussed for more than five years, both sides are yet to reach consensus on greater market access in services, liberalisation of government procurement markets, management of intellectual property and tariffs on automobiles. The new Indian government, hopefully, will resume negotiations with the objective of concluding them early. Finally, the third agreement, where India needs to participate constructively in the ongoing negotiations, is the Regional Comprehensive Economic Partnership (RCEP).

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## **RCEP Negotiations**

The RCEP is being negotiated by the ten economies of the ASEAN and six major economies of the Asia-Pacific – Australia, China, India, Japan, New Zealand and Korea. This is the largest trade deal that India has so far undertaken to negotiate. The RCEP economies account for around a third of the world GDP and 27.4 per cent and 23.0 per cent of world's goods- and services-trades respectively.<sup>2</sup> The RCEP countries have a combined population of more than 3 billion, largely due to the presence of China and India, the two most populous economies.

The fifth round of the RCEP negotiations is taking place in Singapore from 22 to 27 June 2014. The talks have made good progress during the last couple of rounds. The current round will have the working groups on various issues – trade facilitation, services, competition policy, and investment – discussing the ways forward. Much of the progress in the RCEP will depend upon the success of the groups in thrashing out common work programmes.

## **RCEP and India: Opportunities**

For India, the RCEP negotiations offer both opportunities and challenges.<sup>3</sup> The opportunities are in terms of its getting preferential access to a huge chunk of the Asia-Pacific market. The likely agreement provides India with the scope for getting firmly integrated in the regional production networks by creating spaces for its producers in the regional value chains. Indian industries were denied the opportunity of doing so during the Asia-Pacific's robust growth phase in the second half of the previous century. A foreign policy characterised by the lack of urge to connect deeper to the Asia-Pacific, till the announcement of the Look East Policy (LEP) in the early-1990s, was responsible for India's low trade and economic integration with Northeast and Southeast Asian economies. The scenario has changed particularly during the last decade, with India's trade and investment links expanding rapidly with several

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<sup>2</sup> The RCEP's share in world GDP is 29.7 per cent in nominal terms and 32.8 per cent in PPP terms. See Palit, Amitendu (2014), 'Mega Trading Blocs and New Regional Trade Architectures: Implications for Small States and LDCs', *Trade Hot Topics*, No. 107, Commonwealth Secretariat. <http://assets.thecommonwealth.org/assetbank-commonwealth/action/viewAsset?id=22511> (Accessed on 19 June, 2014.)

<sup>3</sup> The Commerce Secretary alluded to the RCEP as a significant agreement for India capable of being a 'game changer' and called it a challenge for the domestic industry in equipping itself to exploit the opportunities. 'RCEP Important Agreement for India: Commerce Secretary', *Business Standard*, 4 April 2014. [http://www.business-standard.com/article/pti-stories/rcep-important-agreement-for-india-commerce-secy-114040401254\\_1.html](http://www.business-standard.com/article/pti-stories/rcep-important-agreement-for-india-commerce-secy-114040401254_1.html) (Accessed on 22 June 2014.)

countries in the region. But even then, India has only limited presence in the dense intra-industry trade of the Asia-Pacific.

Over the years, several ASEAN economies such as Thailand, Malaysia, Philippines, Vietnam and Singapore, along with the Northeast Asian economies like China, Hong Kong, Japan, Korea and Taiwan, have become intricately involved in intra-industry trade, where raw materials and inputs are traded by these economies for adding value at different locations in the various stages of upstream and downstream production. These discrete location-specific functions, cumulatively described as value chains for making products from scratch to finish, determine the pattern of trade in the Asia-Pacific. India is yet to become a key player in this regional trade matrix. The RCEP can be the right framework for enabling Indian industries to do so.

## **RCEP and India: Challenges**

Along with the opportunities, the negotiations present challenges for India. The first challenge is in agreeing to a *common base or template*, from where negotiations on grant of additional market access can be discussed by the members.

All the six non-ASEAN members of the RCEP – Australia, New Zealand, China, India, Japan and Korea – have bilateral trade agreements with the ASEAN. Among these, the India-ASEAN goods FTA has one of the lowest bases due to a large negative list specifying several ‘sensitive’ products subject to long phase-outs in tariff cuts along with heavily calibrated rates of such cuts. The text of the India-ASEAN services agreement is not yet in the public domain. But it is not expected to have as much coverage as some of the other FTAs of the ASEAN with RCEP members like Australia, New Zealand or Korea. One of the six ASEAN+1 FTAs is likely to be chosen as the base for the RCEP, quite like the US-Korea FTA serving as the base for the Trans-Pacific Partnership (TPP) negotiations. India is likely to be pressurised by other members to agree to a higher common base. This would imply it’s accepting *lesser number of items eligible for exemption from tariff cuts* as well as agreeing to other higher standards of market access that are already part of other ASEAN+1 FTAs. While the RCEP might include several country-specific exemptions in market access, its overall effort would be to achieve greater liberalisation than what is already available in the ASEAN+1 FTAs. In this respect, India needs to be prepared to agree to relatively

greater liberalisation than the other non-ASEAN members, as the latter have already committed to more market access in their FTAs with ASEAN.

The second challenge for India is to anticipate the TPP effect on the RCEP and adopt *constructive postures on negotiating 'WTO plus' issues* like investment, competition policy and intellectual property. Several RCEP members – Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam – are also negotiating the TPP. Korea's entry in the TPP will enlarge the common membership. China's views on the TPP have become emphatically objective over time and it is examining the possibilities of joining the TPP in future by introducing domestic reforms that would meet the high standards of the TPP. This leaves India as the only non-ASEAN economy in the RCEP that, till now, is yet to come out with an official view on the TPP. While opinions in India, and outside, consider it to be distant from the TPP mainly because of its not being a member of the Asia-Pacific Economic Cooperation (APEC) forum, India can hardly be oblivious to the growth of the TPP – the first 'gold standard 21<sup>st</sup> century' regional trade agreement coming up in the Asia-Pacific. Indeed, it would experience the 'influence' of the TPP at the RCEP talks through the common members.

The TPP is more ambitious and exhaustive than the RCEP in its coverage and standards. Its particular emphasis is on securing market access gains in areas where the WTO has had limited or no success. These include the 'WTO plus' issues like investment, intellectual property, competition policy, government procurement, state-owned enterprises, investor-state arbitration, labour and environment. Some of these are being discussed by the RCEP also. The RCEP members that have already made specific commitments on these issues at the TPP might consider lower commitments on same issues at the RCEP an economically suboptimal exercise and could urge the RCEP to get closer to the TPP. This would entail challenges for India as it has traditionally avoided discussing issues like intellectual property and government procurement in its trade talks. The India-EU FTA talks, as mentioned earlier, have run into rough weather on some of these issues. Even the bilateral FTAs that India has with RCEP members like Japan, Korea, Malaysia and Singapore have scant coverage of these issues or none at all.

Another of India's major challenges at the RCEP negotiations would be to shake off its impression of being *obstructive in trade negotiations*. India has come to be known as a country with unusually strong defensive interests and reluctance to grant market access. The impression, particularly in the Asia-Pacific, has gained ground significantly because of the long delays that it has had in concluding trade agreements. The impression can be countered by tabling offers that are 'offensive' reflecting India's interests in obtaining access in the RCEP economy markets. These interests have to move beyond the narrow agenda

of securing greater mobility for the Indian professionals. While working on the latter, India's stand at the RCEP must also reflect its interests in entering the regional value chains, long-term investments in the RCEP markets and agreeing to play by modern rules of trade, particularly in customs procedures and rules of origin (ROOs).

## **Conclusion**

India's domestic political economy might still hold it back from committing to as much liberalisation at the RCEP as it should. The rest of the world, including the Asia-Pacific, has great hopes from the Modi government in overcoming the resistance of domestic lobbies opposed to grant of market access. With trade one of the five 'T's identified by Mr Modi for building 'Brand India' (the others being talent, tourism, tradition and technology),<sup>4</sup> India's trade negotiations should reflect a new approach. This should be particularly visible at the RCEP given India's imperative for integrating deeper with the Asia-Pacific economies.

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<sup>4</sup> 'President Outlines Modi Government's Agenda, focus on 5 Ts, 3 Ds, 3 Ss', *IBN Live*, 14 June 2014. <http://ibnlive.in.com/news/president-outlines-modi-governments-agenda-focus-on-5-ts-3-ds-3-ss/477750-37-64.html> Accessed on 22 June 2014.