Concerns with RCEP agreement

What is the issue?

India must exercise caution before signing RCEP which goes far beyond trade liberalisation to impose a common set of rules on investment and IPRs.

What is the background?

- Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between the ten member states of the ASEAN and the six Asia-Pacific states with which ASEAN has existing FTAs. (Australia, China, India, Japan, South Korea and New Zealand).
- The long-term benefits for India of joining the bloc far outweigh the short-run costs.
- There have been compelling arguments that RCEP will facilitate MSMEs to effectively integrate into the regional value and supply chains.
- Also, 'Make in India' will become a global success, if India participates positively to become a part of the Asian Value and Supply chain.
- However, India's trade deficits with nations have always widened after signing FTAs with them, as in the case of ASEAN, Japan, Korea, and Singapore, most of which are RCEP nations.
- Also, sector-wise, India's vulnerable agriculture and dairy sectors, which are not in positions to compete with Australia and New Zealand, will be exposed to vagaries of global trade.

What are the concerns?

- '**Make in India' perspective** – It has been argued that 'Make in India' scheme will be a success with India's entry in RCEP.
- However, Indian manufacturing is not competitive enough to face the vagaries of a free trade regime.
- Despite the implementation of GST with the idea of creating more efficient supply-chains, rationalisation of multiple GST rates is still a work-in-progress.
- Further, the compliance with the existing complex norms of GST adds to the

transaction costs.
- Along with that, labour productivity in manufacturing is still one of the lowest in the world with spatially fragmented labour laws escalating the costs of doing business.
- Also, 'Make in India' aims to create enabling conditions for both domestic and foreign industries and not only targeted at the former.
- Given this, Indian industry is hardly in a position to compete in the level-playing ground in a free-trade region.
- **Complementarity in trade** - Complementarity in trade is the most critical element to examine before getting into any trade agreement.
- The complementarity index measures the degree to which the export pattern of one country matches the import pattern of another.
- A high degree of complementarity is assumed to indicate more favourable prospects for a successful trade arrangement.
- India's higher trade deficit with its FTA partners is attributed to imports of final products that are cheaper than the domestically produced ones.
- On the other hand, once cheaper intermediate goods are imported, it will make Indian exports competitive.
- However, there is no assessment of these patterns of trade placed in public forum in the context of RCEP, which creates difficulties to bargain a better trade deal.

- **Issues with services** - The issue of trade liberalisation with services is still a matter of contention among RCEP nations.
- In the previous FTAs with East and South-East Asian economies, India has been insisting on capitalising on its pool of skilled labour from improved access to employment opportunities in these economies.
- This has been expected to come about by increasing the ease of movement of professionals through the liberalisation in services trade. (Mode 4)
- India has been willing to trade up its remaining tariff policy manoeuvrability in the manufacturing industry to get these concessions for services sector in RCEP.
- Under RCEP, India has sought binding commitments to simplify services trade.
- However, given the conditions of the manufacturing and agriculture sectors, it is definitely not a good idea to sacrifice their causes for services sector.
- This is prone to promote a skewed nature of sectoral growth.

- **Raising relative trade barriers with non-members** - A preferential trade agreement is a trading bloc that gives preferential access to certain products from the participating countries.
- This is done by reducing tariffs but not by abolishing them completely.

- However, PTAs are not favourable for small economies (ones that are price-takers than price makers in the global economy).
- India, despite its huge population and increasing income levels, is a price-taker in global trade, especially in commodities.
- India neither wield forces to affect global commodity prices, nor does it have global price discovery platforms.
- Hence, a preferential reduction of trade barriers with partners in a PTA will result in raising the relative trade barrier against non-member countries of RCEP.
- **Reduction in long-run trade policy manoeuvrability** - RCEP in the long run goes far beyond trade liberalisation.
- In its attempt to harmonise foreign investment rules and intellectual property rights (IPR) laws, it takes away an economy's ability to customise trade policies according to the needs of specific time periods.
- This will be another long-term cost that the Indian economy has to bear.
- Therefore, there are several costs that may arise in the short and long run, and they need to be accounted for before India launches for RCEP.

Source: Business Line