THE AGE OF ASIA

TALKING ASIA POLITICS

# China India Dialogue

RCEP and its Consequences for Asia


## Abstract

Trade cannot be an end in itself and is to be seen in the larger context of development. India's withdrawal from Regional Comprehensive Economic Partnership (RCEP) reflects this contestation for development space when trade and finance led globalization takes place. Economic development depends on how we bring people at the centre, how we bring livelihood security at the centre, and how we do not end up with globalization, which is bereft of human sensitivities. Further, Association of Southeast Asian Nations (ASEAN) centrality is important when we talk about RCEP and India's agreements are there with almost all the member countries. With China in the RCEP, our concern was very much about trade deflation that would have happened particularly in the context of rules of origin. Goods from China coming in from third countries undermine the rules of origin. India wants China to pay due attention on this trade diversion. This paper explores several of this and other associated issues.



Keywords: RCEP – ASEAN – China – India – International Trade – Value Chain.



## Author

**Sachin Chaturvedi**

Prof. Sachin Chaturvedi is Director General at the Research and Information System for Developing Countries (RIS), a New Delhi-based Thinktank. He was Global Justice Fellow at the MacMillan Center for International Affairs at Yale University. He is an expert on development economics, involving development finance, Sustainable Development Goals (SDGs) and Development Cooperation. He is one of the foremost commentators on India's external sector economic engagements and partnerships. He has pioneered the concepts of Development Compact and Access, Equity and Inclusion for STI.

# RCEP and its consequences for Asia

|| Sachin Chaturvedi

India and China and their bilateral relationship would have huge impact on economic growth, trade and stability in Asia, in the context of wider global economic system. China and India are not only expected to contribute to larger global gain and collective progress but also contribute towards global governance.

## Context of RCEP

While focussing on Regional Comprehensive Economic Partnership (RCEP) there is need to observe how the trade linkages coming in and how the trade is seen as an important instrument for development and not as an end in itself. From that point of view, India's withdrawal from RCEP has several stories. At the outset it has to be emphasised that each nation requires the national development space. Economic development depends on how the people are brought at the centre, how the livelihood security is put at the centre, and we do not end up with globalization, which is bereft of human sensitivities and job securities.

## Centrality of ASEAN

Regarding RCEP, at the outset, it needs to be mentioned that ASEAN centrality is important. When talking about RCEP, it should be pointed out that India's agreements are there with not only almost all the member countries, but also with Japan and South Korea; and with Australia and New Zealand, they are in progress ([1] Chaturvedi, 2019). With as well as within ASEAN, India has bilateral free trade agreements with Singapore and Thailand and the early harvest scheme was done with Malaysia. So, there are these arrangements with ASEAN that are important. China continues to be a major concern within RCEP (Seshadri, 2018).

Looking at the Bangkok Agreement, which later on became the Asia Pacific Trade Agreement (APTA) in 2005, it is found that the scope was limited (Suneja 2018). India and China do have an agreement under the aegis of the Bangkok Agreement. These linkages are there which provide the gravitas and the possibility. So, India's engagement with ASEAN is continuing. Its imports are as big as $57 billion while exports amount to $34.2 billion. It is important to note that import grew annually at the pace of 7.5 per cent. During the whole period of 2008 to 2019, the Compound Annual Growth Rate (CAGR) is at 13.4 per cent for Indian imports from ASEAN and 14 per cent for Indian exports. This shows consistency in India's engagement with ASEAN and in that sense, RCEP or no RCEP, India's trade with ASEAN is multiplying and so is the case with Japan and South Korea, where trade has expanded to a great extent.

| Table 1: India’s Trade with ASEAN | | |
|---|---|---|
| | 2019 | CAGR (%) (2008-19) |
| Imports | $57 billion | 13.4 |
| Exports | $ 34.2 billion | 14 |

Source: Authors’ compilation based on RIS Database.

In this regard, it is even more important to appreciate that India's trade in intermediate products, the parts and components has sizeably expanded. In case of ASEAN, India is importing almost 50 per cent of intermediate products, which are going to be part of the value chains. Similarly, 40 per cent of India's exports to ASEAN are in the category of intermediate products (RIS Database). There is a scope for strengthening the value chain connect between India and ASEAN. This is going to be extremely crucial in the way forward (Mohanty, 2014).

During the RCEP negotiations, some of the Indian companies like the dairy cooperative Amul, etc. highlighted that the Indian dairy sector came under threat. India is the world's second largest milk producer (PTI 2019). These issues are required to be seen in the context that is required.
With China in the RCEP, India’s concern was very much about trade deflation that would have happened particularly in the context of rules of origin: Goods from China coming in from third countries, undermine the rules of origin . *India wants China to pay due attention on this trade diversion.* It is an extremely important consideration and China appreciates that. In spite of the current ongoing security border debate between India and China, both sides cannot ignore the fact that constructive engagement with each other is very important.

Looking at the challenges, there are certain issues which require detailed analysis. For instance, there are commodities and goods that are of high importance for India, like pharmaceuticals, where non-tariff barriers imposed by China emerge as a major issue. The average tariff of China is 9.5 per cent. The 20 year transition that the China-South Korea Free Trade Agreeent (FTA) gave to China, that is something what India was also asking for from the non-FTA partner countries. It was proposed that 6 per cent plus or minus tariffs should be allowed in the RCEP with countries where FTAs are not there. China and India do not have an FTA. If all other ASEAN countries and other members of RCEP are getting 80 per cent tariffs, China should be at 86 per cent, which could have been negotiated later. This is something that India has asked for and it is extremely important for the local actors (RIS, 2020).[1]

## Localisation of Development

Given the fact that though India has talked about self-reliant India vision, it is to be reemphasised that it is not about inward-looking economy but encompasses international competitiveness and globalization. [2] India stresses upon

[1] https://www.livemint.com/news/india/as-it-sits-out-of-rcep-new-delhi-gets-time-to-kick-start-reforms-11572977018817.html

[2] https://www.indiatoday.in/magazine/cover-story/story/20200824-reimagining-independence-1711049-2020-08-15

interdependence, a globally competitive Indian industry. For instance, China has 'Made in China 2025'. It is important that China appreciates the industrialisation and local competition in other countries as well inlcuding in India.

The institute Research and Information System for Developing Countries (RIS) did a study on India's huge trade deficit with China, which is almost $60 billion (Mohanty, 2020). The statistics show that there are around 3,326 products out of 4,044 that India is importing from China. Out of them, 327 products are those where India's import is almost 66 per cent of the total $90 billion that India imports from China.

**India's Imports from China, 2018**

| | Products | Value of Import | Trade Deficit |
|---|---|---|---|
| Overall | 4044 | $ 90 billion | $ 60 billion |
| Sensitive | 327 | $ 66 billion | $ 54 billion (Reduced to 90%) |
| More senstive | 27 | | $ 42 billion (Reduced to 70%) |

Source: RIS database based on RIS (2020).

The RIS study has come out with some of these numbers where, if India has to factor in these 327 products from China, it would be able to address almost 66.6 per cent of trade deficit. This makes it clear that very few products contribute to this huge trade deficit and that is where corrective measures by China may help in enhancing trade and not just unbriddled imports from China. The trade expansion has to include exports from India. The China compulsory certification (CCC) is one important instrument, which has emerged as a non-tariff barrier to block imports from India to China (Seshadri, 2018; RIS 2020). If market access were allowed, then both India and China would probably be able to emerge as countries which have mutual trust and confidence when it comes to strengthen trade and investment partnership.

As discussed above, India has a trade deficit of $60 billion with China. Ninety per cent of this trade deficit is only because of 327 products and if we take out only 27 products, then it comes to 70 per cent. These 27 products can also be imported from sources other than China. China has invested in trade facilitation. Therefore, logistic costs have come down. But India can import from Latin America and Europe, which are now re-emerging as manufacturing hubs (Kher, 2018). While China has the advantage of being the world's factory, this also incurs costs other countries are paying because of loss of livelihood security.

With more sensitivity and more concern about the local livelihoods security and development of all with the idea of collective economic development and collective participation, India and China would have to address trade issues neither in the way the typical North-South issues are addressed nor in the way several developed countries have addressed. These have to be addressed in the true spirit of South-South Cooperation (SSC).

**India-China Partnership and the Wider Context**

India-China partnership has several facets which provide an extremely important context that is crucial for local governance. As discussed earlier, they cover the contours of SSC, digital connectivity and collective efforts for the Agenda 2030 by the United Nations.

China being from the South, there is need for greater cooperation and participation to move forward collectively. From the perspective of strengthening SSC, it seems India-China emerge as great partners, and they can do together several important things, which can contribute significantly in this regard. For instance, both countries may contribute in setting of norms in the realm of trade, investment, finance and technology. With the setting up of the New Development Bank (NDB) both the countries have worked together on the platform of BRICS and have also worked together at AIIB. India-China partnership at WTO have been of great significance. The growing cooperation in governance of technology particularly for traditional medicine is worth mentioning here (Chaturvedi,2014).

An "Asian century" would have to face challenges that are emanating out of lack of infrastructure, particularly for digital connectivity, and collective efforts for energy security, a new paradigm that is the need of the hour.

With only a decade in hand to achieve the Agenda 2030, it is absolutely important for India and China to work together for enabling not only the Asian countries, but their partners in Africa, to achieve Sustainable Development Goals (SDGs). There is a need for collective responsibility to do the necessary hand-holding in terms of enabling digitalization, digital connectivity, energy and dependence on solar and wind power and reducing carbon footprint as we go forward by bringing in the resilient disaster infrastructure.

India and China are also members of certain groupings like Shanghai Cooperation Organisation (SCO), Group of 20 (G20) and Brazil, Russia, India, China, and South Africa (BRICS), which are playing a crucial role at the regional and global level. As members of BRICS, they have to take forward further the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) for ensuring access to finance and cost effective resources. This is a major responsibility of these two nations. This will also include financial inclusion that is required for enabling developing countries that are bereft of the development finance, which include countries across Africa.

There is also need for collective responsibility to take forward the reformed multilateralism. As mentioned, both India and China are members of G20. The Italian G20 presidency has placed upfront the global pandemic and the crisis that the whole world is grappling with in terms of the global governance. In this context, post-pandemic rebuilding measures would also require working together in various sectors.

Regarding the idea of relevance of India coming back to the table regarding RCEP, there is need to ensure that the Asian integration takes place with seamless flow of trade across South-East Asia, South Asia to Central Asia and further with Europe. The Eurasia Connect is also based on the center of culture but Europe leans towards Asia for commercial and economic market access. There is need to see how cultural and economic integration converge for ensuring localisation of development. The inequalities that the world has ended up with can be addressed only by effective partnership. Therefore, allowing partnerships to grow in an organic evolutionary manner would be extremely important.

There is need to ensure growth in all parts of the world. This calls for pools of growth in all parts of the world in which everybody contributes for global integration or Asian integration. Therefore, it is important to go forward with a balanced approach that is needed in trade, not just with one country dominating the trade flows on the basis of huge infrastructure that facilitates large quantities of consignments and containers through dedicated ceilings and shipping vessels. But still there are a lot of dimensions that we can learn from China, for instance, how to better govern oceans to tackling unduly assertive approaches and dominance. At the same time, it is also to be realize that rest of the South cannot anymore neglect investing in trade facilitating infrastructure like modern efficient ports, containerisation of trade and developing dedicated financial instruments for insurance and reinsurance of trade consignments.

## Sequencing and Liberalisation

There is a huge debate in economic literature about sequencing of economic reforms (Navyar, 2004). India embarked on the journey of liberalisation in 1991. At that point, this liberalisation and opening-up was a thrust upon India under the Washington Consensus of the World Bank and International Monetary Fund (IMF). The country was forced to open up the sectors without adequate preparedness that was needed in terms of having a say on the nature of industrial policy. India was not the only country that embraced the structural adjustment programme. We have seen the fate of the Latin American economies, the democracies of the world, which accepted the Washington Consensus as suggested by the global institutions of the World Bank and IMF. They too ended up with huge number of troubles.

The 1991 reforms in India took place at a point when domestic industry was not prepared. In the last seven years, India has created a new space that is required for industrial and economic growth for development and for creating the private entrepreneurship with programmes such as, 'Start-up India', 'Digital India', and several others which were not there in the past (Mint, 2021).

This huge commitment for development is not at the cost of compromising space for individual citizens. It is being endeavored to provide to each individual citizen the space that is required for inclusive development. Even if India is moving slowly, it is moving consistently by providing the bandwidth that is needed for development. The amount of financial inclusion at the domestic level India has achieved is marvelous. The amount of vaccine and the amount of development finance that India was able to scale up during the pandemic, when the world was completely standing still and completely derailed from productive engagements. The country has not only been able to support the industry and economic growth, but also engage constructively with its neighbours and partners in Africa. However, the recent second wave has again affected demand and supply equilibrium through numerous local lockdowns. The incoming assistance from the partner countries enabled India in grappling with the crisis.

### The Way Forward

It is important to see that India is not aiming to grow alone, but grow with others. We are not safe alone, but we are safe with others. That is where India looks at its competence and ability to provide vaccines that are doing what they are doing. Trade and economic development go hand in hand. Democracy may have slow but steady pace and this has become very clear in the last few years in India. The new programmes that have been launched for self-reliant India are not only for self-reliance but for moving towards an internationally competitive India.

RIS has been consistently articulating India’s position in terms of new narrative that India requires for international competitiveness. India's agreement with Mauritius and India's growing interest in the African Free Trade Agreement are cases in point. Soon, India and Bangladesh would announce their trade partnership. These are new phases that India entering in when it comes to partnership. With the democratic setup things are going up steadily in the right direction.

The Intellectual Property Rights (IPRs) proposal that India and South Africa have proposed (Chaturvedi, 2021) is being discussed across the South and huge support is coming in from the other Southern economies. It is important for countries to have access to medicines. India and China have less differences and more common understanding of trade and economic issues. They have partnered together on several proposals in the past on intellectual property rights and even in other areas of international trade governance. So, it is important to ensure that they keep moving collectively and address various global issues effectively as the world prepares for the next World Trade Organisation (WTO) ministerial.

**REFERENCES**

Agarwal, Manmohan; Brahmo, Amrita and Whalley, John (2018). Technology Development Policies in Brazil, China, India, Russia and South Africa, RIS Discussion Paper # 227, April, New Delhi.

Chaturvedi, Sachin (2021). ‘Economic relations of India and China with a focus on the RCEP and its geo-economic implications for India’, presentation made at the online series on “China and India in Focus of World Affairs”, organised by Hanns Seidel Foundation (HSF) on 28 January 2021.

Chaturvedi, Sachin (2021). India-China Trade Deficit and Wider Trade

Narrative presentaiton made at the RBI Board Meeting, 19 March 2021.

Chaturvedi, Sachin (2021). India needs a new narrative on international trade, Moneycontrol, 7 January 2021.

Chaturvedi, Sachin. 2021. Paradigm shift in times of pandemics: Decision of Biden administration can accelerate global supply of vaccines, Financial Express, May 6.

Chaturvedi, Sachin (forthcoming). Made a presentation on Evolving Indian Strategy on SDGs and Scope for Regional Cooperation at the Research-Policy Meeting on "Interpreting SDGs for South Asia: In search of a Regional Framework", organised jointly by Centre for Policy Dialogure (CPD), Dhaka, UNESCAP and Friedrich Ebert Stiftung (FES), Bangladesh on 20-21 November 2018, Dhaka (Forthcoming)

Chaturvedi, Sachin. (2014). The living tree: Traditional medicine and public health in China and India, Academic Foundation, New Delhi

Chaturvedi, Sachin (2019). RCEP and Imperatives of Regional Integration Agreements. Lecture delivered at the P R Brahamananda Memorial Lecture organized on the occasion of 102nd Annual conference of Indian Economic Association at Surat on 28 December 2019.

Das, R. U. and Dubey, Jay Dev (2014). Mechanics of intra-industry Trade and FTA implications for India in RCEP. RIS Discussion Paper # 190, New Delhi.

Kher, Rajeev (2018). The Why and How of the RCEP. RIS Policy Brief # 84, October, New Delhi.

Mohanty, S. K. (2014). India-China Bilateral Trade Relationship, RIS, New Delhi.

Mint (2021). 'India's startups, digital economy show promise' LIveMint, 1 March.

Mohanty, S. K. and Chaturvedi, Sachin (2005). Emergence of China and India in the New Millennium: Will it Facilitate Market Access for LDCs and Developing Countries?, RIS Discussion Paper # 101, November, New Delhi.

Nayyar, D. (2004), "Economic reforms in India: Understanding the process and learning from experience", International Journal of Development Issues, Vol. 3 No. 2, pp. 31-55. https://doi.org/10.1108/eb045843

PTI (2019). Govt will protect milk sector's interests under RCEP, says Amul MD, Press Trust of India, November 1, Vadodara, India. https://www.business-standard.com/article/pti-stories/centre-to-protect-milk-sector-interests-under-rcep-amul-md-119110101090_1.html

RIS Database. Research and Information System, New Delhi, India.

RIS (2020). India-China Report. RIS, New Delhi. Presentation made at an internal Meeting at RIS.

Seshadri, V. S. (2018). Emerging Dynamics on RCEP. RIS Policy Brief # 85, November, New Delhi.

Suneja, Kirtika (2018). India can seek duty cuts from China on 200 items, The Economic Times, October 30.