



Contemporary World Affairs

Regional Comprehensive Economic Partnership (RCEP): Global and Regional Implications

NIAS-GP Conversation with Prof Amita Batra

Prof Amita Batra is Professor of Economics at the Centre for South Asian Studies, School of International Studies, Jawaharlal Nehru University. Following is a report of a conversation with her by the NIAS Global Politics team.

Prof D. Suba Chandran: Could you please highlight the strategic importance of RCEP today?

Prof Amita Batra: On both levels, economic and strategic, there is a huge importance of the RCEP today. Firstly, the importance lies in the given region. As far as RCEP is concerned, we know that these are the major economies of the South East Asian region, East Asian region and now, what is called the more strategically important, Indo-Pacific region. The core economies of the Indo-Pacific are members of the RCEP. These countries are also the original sixteen founding members of the East Asia Summit, the ASEAN+3+3, -China, Japan, Korea and (Australia, New Zealand and India). India was supposed to be a part of RCEP but walked out from the negotiations in November 2019, exactly a year ago, when the negotiations were in the final stages. In the strategic sense, one cannot have second thoughts about the significance of RCEP. It is very significant as a trade agreement and as a trade arrangement among these countries that today constitute the core of the Indo-Pacific Region.

Secondly, in economic terms, RCEP is again very important because it is one of the most dynamic regions. During this pandemic, what we have seen is that the recovery in this region has been the fastest. Not only is the economic recovery fast, but even if we look at it from the perspective of the pandemic itself, we have observed the control of the pandemic, both in terms of the technology that has been used in tracing and tracking and the health infrastructure are all attuned to the pandemic in far better ways. They've been able to control it better and they've been able to bounce back better.

Third, to bring into this strategic context combines the economic and the strategic features. As far as the Indo-Pacific is concerned, we cannot deny the ASEAN centrality to it. This has

also been stated formally in the vision document of the ASEAN. RCEP is also an ASEAN-centric trade agreement. RCEP which has ASEAN as its core becomes the fundamental trade agreement for the region. It is the core economic arrangement which does not restrain itself to just trade but it is comprehensive and considers the rules and regulations of investments and services liberalisation. So, the RCEP becomes a comprehensive economic arrangement between countries in a region that is now developing into the most strategically important region globally. Therefore, you can't deny the importance of this centre-piece of organisation as we move forward, both in the economic as well as the strategic sense.

***Sukanya Bali:* How is RCEP spanning out in East Asia, keeping Japan and Australia in mind, including the recent 200 per cent taxes imposed by China on Australian wine imports? What will be the role played by RCEP?**

Prof Amita Batra: RCEP is a larger regional agreement, which caters to a larger regional context on a uniform basis. Bilateralism does not enter the trade arrangement formed under Regional Economic Comprehensive Partnership. RCEP defines its own rule of trade, investment, and service flow, for all its members.

There have been several bilateral issues in recent times concerning China viz-a-viz Australia particularly during the pandemic when questions have been raised over the origins of the coronavirus. Australia adopted a bilateral approach in pointing fingers at China for the origin of the virus and asking for its investigation. Since trade is important China countered by raising trade tariffs on Australian goods. The context has now however changed with RCEP being signed and with the change in the US presidency. Therefore, the earlier aggressive US-China trade war using bilateralism to bring around China, which was also supported by other economies in the region including Australia, is likely to change. Not that the United States approach towards the Chinese economy will change, but this kind of one-to-one war as far as tariffs are concerned or a complete violation of multilateral procedure, is not likely to continue.

In the context of the US and China there is a possibility of a gradual ebbing away current tension and the RCEP taking over. RCEP is not bilateral agreements and is not going to necessarily take bilateral trade relations as a means or as a part of negotiations but this is a larger context and once the RCEP trade arrangement takes over, bilateralism and use of retaliatory tariffs might subside.

***Lokendra Sharma:* Can you provide clarity about the 'rules of origin' in RCEP and how they will benefit ASEAN countries?**

Prof Amita Batra: Rules of origin are basically used in order to prevent trade deflection. Whenever there is a preferential trade agreement, there is a fear of having goods coming through the preferential route from a third country or a non-member country. These 15 RCEP signatory countries have adopted uniform rules of origin, so that the value addition component that would exist across the countries in the region would be the same. The advantage would lie for a large corporation or an investing company in terms of cross border commodity flow. Why is it important? Because trade today is led by a value chain trade, which is largely the movement of intermediate commodities multiple times across borders. When there is movement multiple times across the borders, this question of varying value addition across borders troubles large corporations. This is because at each crossing of the border there is a different proportion of value addition. If it is going to be uniform across the region, it eases out and facilitates the trade and movement of intermediate commodities which constitutes the core of trade not just globally but also in this region. And therefore, it facilitates the value chain getting stronger far more than if rules of origin were different across the region.

Different agreements have different kinds of arrangement and this makes it difficult for businesses to understand and follow the rules of origin. In most cases and in many countries like India businesses do not follow or take advantage of the Free Trade Agreements because they do not follow the rules of origin. They are hard to follow because they are not clear and because of the need to have a certificate of origin from each country. If there is uniformity across the region, it makes easier to follow and understand. And once you have done it, once you have understood it, moving across the region with the same rules is easy. Compliance cost is a one-time cost. It facilitates the movement of intermediates which is critical for the value chains. It is a huge advantage to have common rules of origin across the RCEP.

Lokendra Sharma: On the centrality of ASEAN in RCEP, is a threat of RCEP becoming China-dominated given the country's nodal position in the Asian supply chain and the close relationship it enjoys with some ASEAN countries like Cambodia and Laos?

Prof Amita Batra: A perception exists not just among students but among many scholars and experts who interchangeably say that it is China-led and ASEAN-led; nobody says that it is ASEAN-led despite the fact that it is very clear and has been very clear right from the beginning that the center of this, as far as the nucleus of the entire program is concerned in terms of the trade arrangement, was supposed to be ASEAN. And that was for diplomatic reasons considering that ASEAN would be better placed as the centerpiece to deal with the dynamism of bilateral relations in this formation of 15 countries. The centrality of ASEAN was for facilitating the negotiation process. Undoubtedly, the dominance of China is there. Because China is the largest trading partner, China is the centerpiece today as far as most

value chains are concerned. There is no denying that. But also remember that it is not something new. As far as ASEAN, South Korea, Japan, and Australia are concerned, China has been their major trading partner. They all have got a far more liberal bilateral trade agreement with China already in operation, far more relative to what India ever had.

The COVID-19 pandemic has accelerated the shift of supply chains from China that was already happening before the pandemic. Companies were shifting base from China to Vietnam and certain supply chains to Cambodia also. RCEP gives advantage to ASEAN countries in that context of becoming a home to many large corporations by providing a more facilitative trade environment and easier access to the collective. If there is a large corporation that stations itself or locates itself in any of the ASEAN countries, it has a preferential access to the entire RCEP market. They don't have to be in China, pay the high wages Chinese labour is asking for. And what has become now the most talked about aspect of the Chinese economy today — technology and intellectual property — those spheres for large corporations coming from developed countries may also not exist if they are located elsewhere. So this kind of relocation in terms of nearshoring to ASEAN economies, the RCEP gives ASEAN countries that kind of advantage. Trade is China led but the shifts are also going to be significant and they may be in favour of the other countries in the region as well.

Harini Madhusudan: Considering European Union as a whole. Can the EU free trade model be compared to the RCEP model. And following that, if the EU were to approach the RCEP group for trade, what would be their best option, considering how the preference margins will change in the trade now?

Prof Amita Batra: As far as EU free trade model is concerned, it goes far beyond and to the highest stage of economic integration. The EU goes right up to the last stage of economic integration, which has been the economic union, the common currency and the free movement of labour, a model that the world has seen now for the past many years. In fact, in recent years many have begun questioning that form of economic model, particularly after the global financial crisis, and more recently cracks in the union concerned with the Brexit and how the region is struggling with that have been evident. RCEP is nowhere close to that.

As far as RCEP is concerned, even though RCEP has components of investment, and service flows liberalised, it doesn't come anywhere close to the level of economic integration that exists in the European Union. Because EU integration is far more in terms of a common market for ease of production, you can be in any country get employed anywhere. The common currency is one big element, as far as the European Union is concerned, supranational institutions are another.

So that level of economic integration, RCEP is not even aiming at that or modelling itself on that. RCEP is a comprehensive trade agreement. It is not the Free Trade Agreement, that is the FTA that we see, but it is advanced beyond that, because it does take into account certain investment and services sectors liberalisation, and in that sense, it does facilitate to a much large extent, trade within the region, and that is going to be a huge advantage. Hence, the consolidation of the supply chains, becomes simpler in the case of RCEP. For the EU and RCEP trade engagement, what would it be in terms of preference margins and so on. Preference margins, of course we consider in terms of the tariffs and the tariff reductions, etc, that happens as far as free trade is concerned. Again, we need to realise that as far as ASEAN is concerned, and the, RCEP is concerned, the tariffs, trade liberalisation or tariff line liberalisation is over 90 per cent internal. So you have almost 92 per cent, I think is what is the final proportion of the total tariff lines that are being freed up under the RCEP. So the tariff reduction is huge, in fact, one of the problems that India faced in that context. Whether we wanted to go in for that extent or that large tariff reduction or not. But the number of lines, if you understand tariff lines, that is under the 'harmonised system of commodity trade classification,' we have about 5000 commodities. Among these 5000, commodities, 92 per cent is going to be liberalised under the RCEP; meaning that the tariffs would come down ultimately to zero. It is a huge advantage for trade as far as the group is concerned.

In this period, as one is observing the consequences of the pandemic, on economic situations around the world, this region turns out to be one of the earliest to recover, and it's still the most dynamic as far as the economic aspect is concerned. In which case, every region would want to associate with RCEP. Hence the significance with common trade rules, common investment rules, significant services flow in terms of financial services, that have been now kind of brought in into the RCEP, lies in the fact that trade within this region is going to become far simpler, consolidated, but also trade with this region for the rest of the world becomes simpler. So in that sense, it is going to be the naturally opted for trade partner for many regions and countries, EU included.

Abigail Miriam Fernandez: Is Joe Biden likely to re-join the comprehensive and progressive agreement for Trans-Pacific Partnership? What are the other options for the United States? Or are we going to see the US losing its global leadership on trade to nations within the Asia Pacific region?

Prof Amita Batra: The Biden the transition as it is happening, looks like a tragicomic kind of scenario that's emerging in the United States with Trump making one set of statements and Biden another. Its known fact that Biden is going to be inaugurated as the US president in January 2021, however, he has made no statements on re-joining the CPTPP, furthermore the announcement of who the next US Trade Representative, the much-anticipated news is

yet to made.

That apart, speculating if the US does think of coming back to the CPTPP, which was Obama's tool or instrument to not just kind of translate their pivot to Asia strategy but also in a way was one of the major instruments of his administration in the region. Further, the Obama strategy wanted to use the TTP as a way to bring China around to follow global trade rules, it would have been very significant if TPP had gone forward in its original format with the US as a participant.

In the interim, after Obama and with Trump, there have been many changes that happened as far as both a global context is concerned and the CPTPP itself is concerned, minus the US. As far as the US is concerned, the country has witnessed major changes by questioning the multilateral system. The Trump presidency completely undermined the multilateral system, that is the WTO. Trump also completely flouted the global trade rules, thus even if the Biden administration does think of joining the CPTPP, it is in a slightly different format, that's one part of it.

The other part is that prior to that, the Biden administration needs to consolidate its global leadership, once again. The US under the new president needs to project itself as a willing leader of the world, economics and otherwise. Thus until that is done, even if the Biden led US does come back to the CPTPP, it will take some time for it to regain its earlier importance in the region and globally because much has changed and much may change in the interim given that RCEP will start to get implemented.

Thus, even in the medium term, if there are quick changes happening on the trade front in the US, and then followed by their participation in the CPTPP because there are overlapping members between the RCEP and CPTPP, it is likely that CPTPP, may move far ahead of the RCEP becoming the major trade instrument as well as a trade arrangement in the region.

But much depends on things evolve because a lot has happened in the last four or five years, and there can be no quick assumptions that can be made at this point in time, but several scenarios may be possible. Biden would be very keen to bring back the US in its global leadership role, however, it is yet to be seen how it translates as far as trade is concerned.

Rashmi Ramesh: There are several reasons for India not joining the RCEP. Simplifying a little more, it seems like India's decision is tilted towards the import aspect-containing the inflow of cheaper goods and protecting domestic industries. But, how

will India manage the export side? Are we not losing out on a larger supply chain arrangement?

Prof Amita Batra: This is the precise argument put forward by the government- since there have not been much gains in terms of exports to the region through earlier trade agreements, joining RCEP would not benefit on a large scale. However, it is the most dynamic region economically. It has the maximum global value chain (GVC) trade from the world, and with the world. Trading with this region is an absolute imperative for India's trade policy. If India desires to integrate with global value chains, it must integrate with the East Asian economic region, with the RCEP region, and must participate in the arrangement.

India is also of the opinion that the trade deficit with these countries is on a rise, therefore joining the RCEP would further escalate the deficit woes. But trade deficit is the precise reason for opening up the economy, allowing for competition to drive the market, thereby making domestic industries more competitive. This will ultimately result in increasing the country's exports. Trade implies a two-way flow- imports and exports. If exports are not on a rise, it implies that the production sector is not competitive enough to push further. Therefore, India ought to aim for the enhancement of manufacturing competitiveness. RCEP would have been an instrument in that direction, facilitating competition, opening up the economy for greater foreign investment. India could have been a point of access to this region. Hence, India would have greater leverage, had it joined RCEP.

***Rashmi Ramesh:* There is a difference between pre-1991 and post-1991 India, in terms of how economics is perceived. From being a rather closed economy, it seemed like India would be a part of international economic arrangements. But, with RCEP out of question, has India's outlook changed at all, or is it still cautious in both foreign and economic policies?**

Prof Amita Batra: India has moved a long way from where it was pre-1991. It went through the process of liberalization, and saw its consequences reflecting in the high rates of growth even after the global financial crisis. But, at present, there is a lot more emphasis on domestic production. Not participating in the RCEP and such other trade arrangements, introducing more stringent rules regarding the certification of origin that makes it incumbent completely upon the importer to identify the country of origin are moves that indicate a slight backtrack in terms of liberalization. Increase of tariffs in certain sectors, new schemes with production-linked incentives, so on, are focused upon the greater support to domestic production. The primary argument put forward by India for not joining the RCEP revolves around protecting domestic industries against the large inflow of imports from China and other RCEP economies.

India needs to understand that building complete supply chains single-handedly is not simple. It is not a short-term task. In the nature of global trade at present, it may not be possible and it may not be wise to do so, as there are value chains where specialization in components yields greater benefits than building an entire supply chain. There is certainly a change in orientation towards supporting the domestic producer, towards greater domestic production in the hope of making complete supply chains and specializing on that count. But it is definitely a herculean, time-consuming, long term task, and is also not in alignment with the manner in which the global trade has evolved in the last over a decade.

***Apoorva Sudhakar:* By exiting the RCEP, is there not a significant opportunity cost for India? If yes, how will India make up for it? Further, what will be the impact on the Indian labour force in the long run?**

Prof Amita Batra: There are two or three factors here. Labour force would be a function of industrial productivity and industrial growth. A lot would depend upon the pace of India getting out of the pandemic. Despite being in the middle of a pandemic, India has regained its economic activities to a large extent. Though technically India might still be in a recession, the country is finding cheer in the fact that this is a reduced negative than what was expected. There is an ongoing economic recovery, to a certain extent; but it is going to be a prolonged process before India can come back anywhere close to where it was before the pandemic and take into account the absorption of those who have been rendered unemployed.

India must understand that the nature of the economy would probably be very different at the end of the pandemic, whenever that end is going to be. It may be a very different economy in the interim given the fact that many sectors have found a large number of closures within them, whether it's the services, entertainment, or others. Restaurants, cinema halls, travel industry and the very small and medium enterprises are basically large absorbent units as far as labour is concerned. Many of these have seen closure or will have to see closure. So it's a long road ahead to complete recovery. India may come close to its pre-pandemic economic figures only by the end of next year. Absorption of labour, therefore, would be to a very large extent a function of that and employment numbers would change accordingly.

But if India had joined the RCEP, the integration with the supply chains would have been simpler. The integration of supply chains calls for better support to the MSME sector which forms the major component of integration with the production networks in the region. Therefore, government policy should have been focused on this MSME sector by

framing stimulus, credit policy, monetary policy, and the like. However, that is not the case.

So how can India talk about protecting domestic production? There is greater encouragement and talks of schemes to support the domestic producer which will help. But how far will that take India? Is this the right way of really enhancing industrial productivity? Can India think of completing supply chains on its own? These are difficult issues that will unfold as the country moves forward? India has chosen a more difficult path despite having easier alternatives which may have been more beneficial and would have given more positive results in a relatively shorter period of time.

***Akriti Sharma:* How do you think India's decision of not joining RCEP has affected the Act East Policy?**

Prof Amita Batra: As far as the RCEP is concerned, the economic component and trade with East Asia and ASEAN countries were significant. Today I think the Act East has also moved forward on many other fronts like the connectivity front, linking up economies through infrastructure projects. In terms of strategic front, defense pacts and naval exercises, etc., but according to me, economics is a very significant pillar of any strategy, if you're looking east. The economics of looking east should be equally strong in comparison with the other pillars in integrating this region. A similar focus should also be there on economics, because, there is a greater chance through the East Asia Summit countries of coming closer through the supply chain and production network.

The presence of China is getting stronger in that network, notwithstanding the centrality of ASEAN because it is the largest trade entity, in this group. So, India's entry would have given greater credibility to India's looking east. RCEP would have been one major component of India's looking east. Without the economic component, I think the others become weaker. It's the combination of all components that would make India an equal participant, with the other countries, as far as the regional context is concerned. So, I think RCEP would have been a significant element of India's regional policy, foreign policy towards the region, looking east, and acting east.

***Sourina Bej:* What RCEP means for India's neighbourhood, especially Bangladesh, Nepal, and Sri Lanka?**

Prof Amita Batra: RCEP is a mega-regional agreement that opens up an opportune moment for the individual countries in the region. Countries like Bangladesh and Sri Lanka are likely to be keen to take advantage of joining the RCEP. While Nepal has its own limitations due to its production mode being eclipsed by its geographic landlocked position. Both

Bangladesh and Sri Lanka have been alternating between India and China and received large Chinese investments. These countries would thus be open to joining the RCEP. Bangladesh, which would soon graduate from the LDC status, will look forward to raising its output and productivity levels. The need for Bangladesh to diversify out of its readymade garments sectors and the strategic position of Sri Lanka are factors that will contribute to their wanting to participate in the RCEP. Though the challenge in their ability to join remains, particularly for Bangladesh where there is a gap in terms of its economic range and industrial ability.