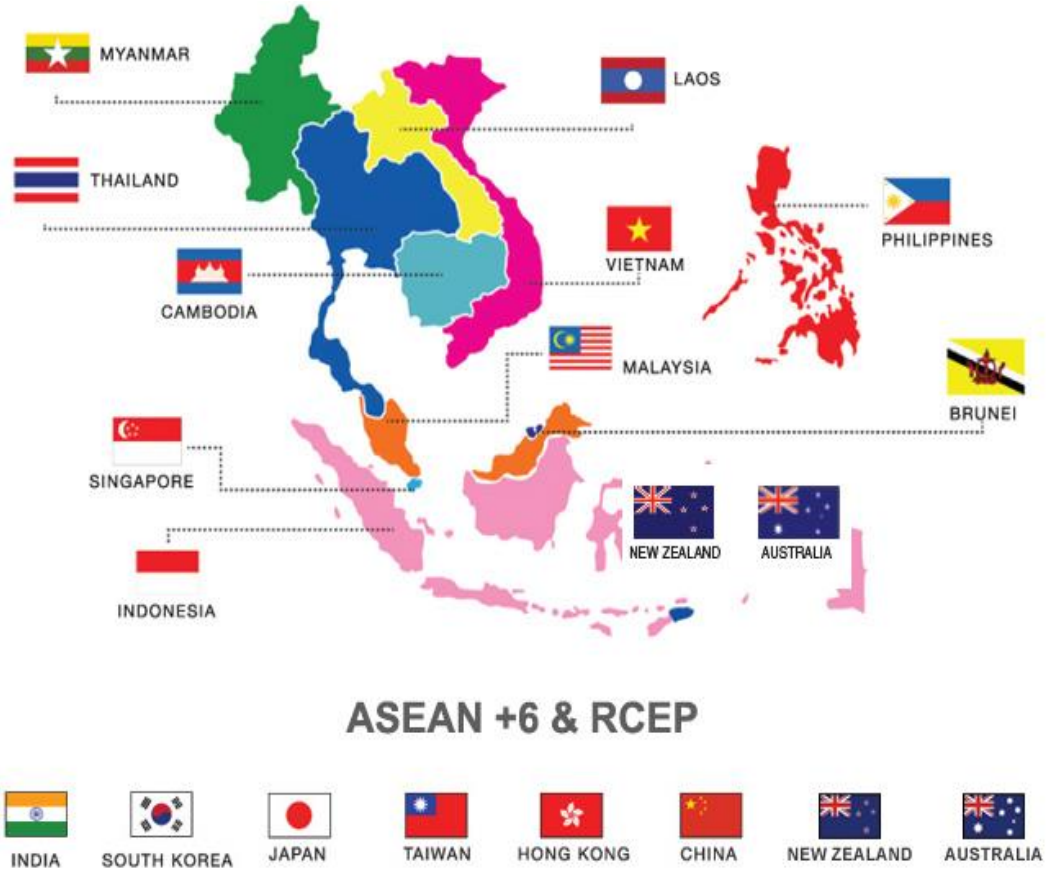
RCEP: Implications for Indian Trade & Economy



Contemporary Concerns Study Report | PGP 2016-18

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Introduction

Since the last decade, regional trade agreements (RTAs) have been on the rise. Be it Trans-Pacific Partnership (TPP) or Trans-Atlantic Trade and Investment Partnership (TTIP), member countries have been pushing hard to develop regional trading blocs. Seeing the accelerated rise in RTAs, developing and emerging economies too have started building and investing in their own regional trade networks. Regional Comprehensive Economic Partnership (RCEP) is a prime example of the same, where 16 countries situated closely in a geographic sense are planning to come together and build a new trade regime.

The US in the past had been party to such multi-lateral trade agreements, but in the last decade, it proposed a major trading bloc (Trans Pacific Partnership) covering many of the states in the pacific region. This trading bloc, however, ignored two major economies, i.e. China and India, the economies which contribute to ~15% of the global trade.[1]

To counter this, China endorsed RCEP which plans to cover all the major Asian economies. RCEP is a proposed trading bloc to link ten ASEAN member states and their free trade agreement partners, i.e. Australia, China, India, Japan, South Korea and New Zealand. In all, the proposed trading bloc would include more than 3 billion people, a combined GDP of $17 trillion and about 40% of world trade.[2] The negotiation started way back in 2013, but the final agreement is yet to be achieved. The core of the negotiating agenda includes trade in goods and services, investments, economic and technical cooperation and dispute settlement. The materialisation of this FTA would be a powerful vehicle to support the spread of global production networks and reduce the inefficiencies of multiple Asian trade agreements that exist presently.

The most important part of RCEP has been its flexibility clause which states that "RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States".[3] The rigidity when it comes to laws and policies had been in the past a major reason for the failure of trading blocs. The RCEP clause tends to take care of that giving a level playing field to all its participating members.

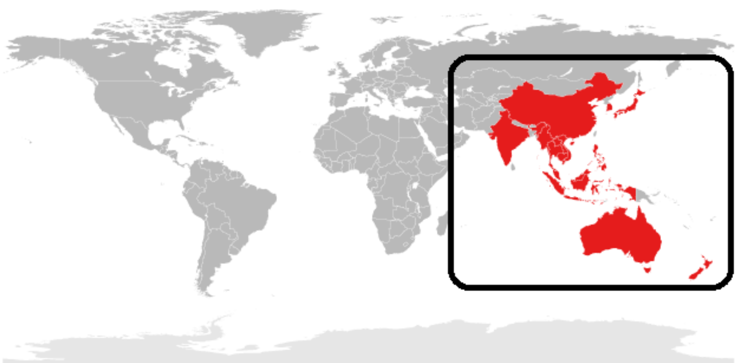


Figure 1: RCEP Region

[1] http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=CN
[2] http://economictimes.indiatimes.com/news/economy/foreign-trade/indias-trade-deficit-with-china-jumps-to-53-billion-in-2015-16/articleshow/53492853.cms
[3] https://dfat.gov.au/trade/agreements/rcep/Documents/guiding-principles-rcep.pdf

India in RCEP: Cause of Concern or Potential Opportunity?

In the current context, India has already given its consent to be a part of the RCEP trading bloc but it needs to be cautious and better prepared at the same time to maximise the benefits out of this FTA. Trade with ASEAN countries is not a new phenomenon. Despite having FTA with ASEAN countries, it has been found that exports to these countries have been stagnating over the past two years whereas imports from the ASEAN countries have witnessed a 33% growth in CAGR.

Exporters	Exports ($ Billion)	Trade Balance ($ Billion)	Share in India's Exports (%)	Annual Growth % (2012-16)	Annual Growth % (2015-16)
ASEAN	26.38	-11.84	10.1		
Singapore	7.35	0.64	2.8	-17	-6
Viet Nam	5.96	2.85	2.3	9	11
Thailand	4.19	-4.46	1.6	1	-14
Malaysia	3.13	-9.06	1.2	-18	9
Indonesia	2.96	-2.35	1.1	-6	-5
Philippines	1.47	1.00	0.6	4	13
Myanmar	1.14	0.06	0.4	18	33
Cambodia	0.11	0.07	0	0	-25
Brunei	0.04	-0.42	0	-1	23
Laos	0.02	-0.15	0	-4	-53

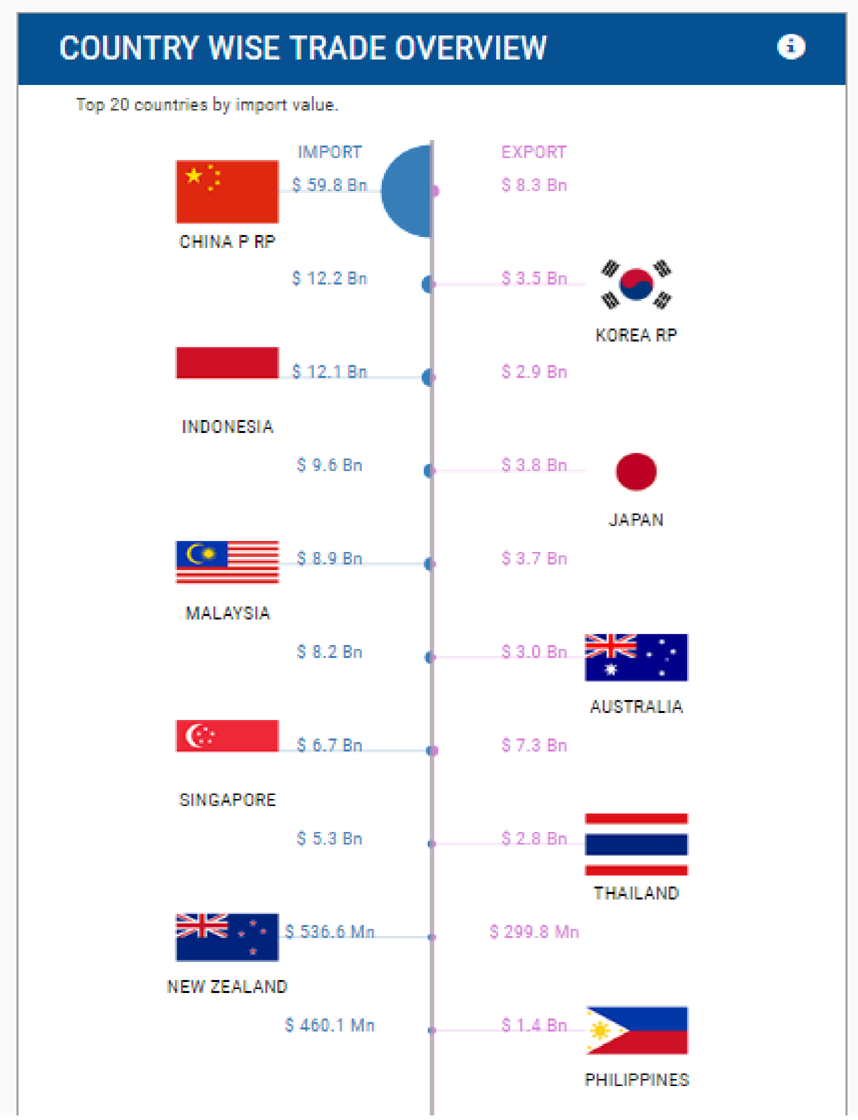
*All trade values are for 2016. Source: Market Analysis and Research, International Trade Centre (ITC)

Table 1: India-ASEAN Trade Regime

Also, being party to the trading block would need India to reduce its cross-border tariffs. In such a case one of the major beneficiaries would be China with which India already holds large trade deficit of $52.68 billion (2015-16)[4]. Indian exporters would gain little from this as cross border tariffs are already low in China. The new trade regime can also dent the broad supply side framework and initiatives like Make in India by giving manufactured goods from other member countries a larger access to the Indian markets.

Other economies including Japan, Indonesia, South Korea also greatly add to the already negative trade balance due to China. Out of 10 major economies participating in RCEP, India (as of 2016) had a positive trade balance with only 2 of them, namely Singapore and Philippines.

[4] http://commerce.gov.in/analytics/

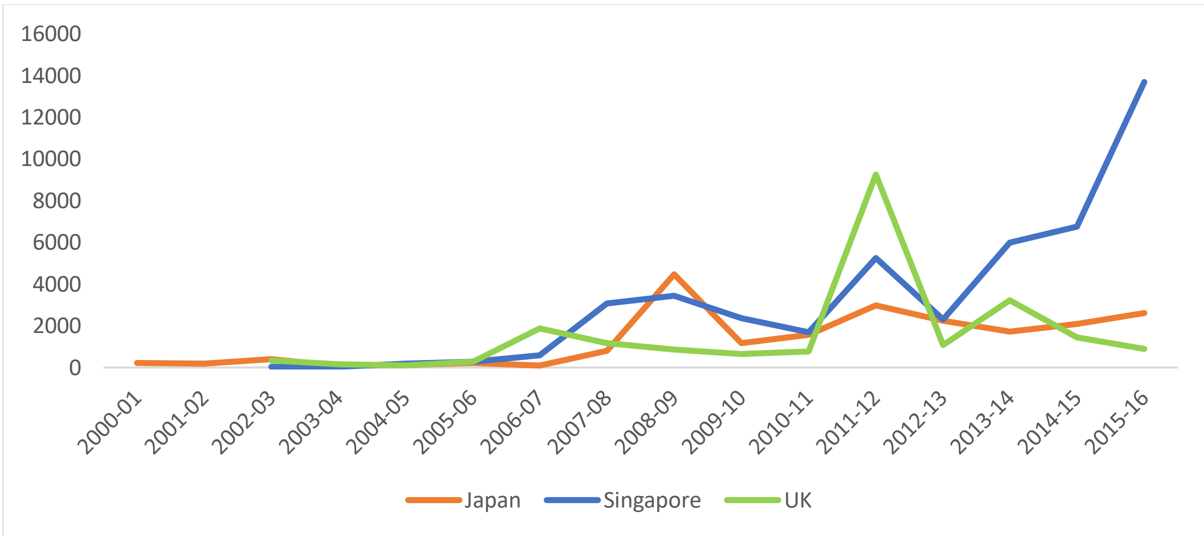


Source: Ministry of Commerce, Government of India

Figure 2: Balance of Trade Statistics for select countries (Oct 2015-Sep 2016)

Over the last 15 years, India has witnessed a cumulative inflow of $18.9 billion as Foreign Direct Investment (FDI) from Japan, making it the fourth largest contributor (7% of the GDP) of the country.[5] For South Korea, the same stood at $1.67 billion with an overall rank of 14.[6] Specific to these members of RCEP, India can look forward to attracting more investments into the country. In ASEAN too, it can work on to capitalise on the existing bilateral trade treaties with Malaysia and Singapore. However, it shall face a stiff competition from Indonesia, Philippines and Thailand in terms of exports of services across the trading bloc.

[5] http://www.iflr.com/Article/3673584/The-Japanese-Overseas-Investment-Report-2017-India.html
[6] http://dipp.nic.in/sites/default/files/fdi_synopsis_korea.pdf



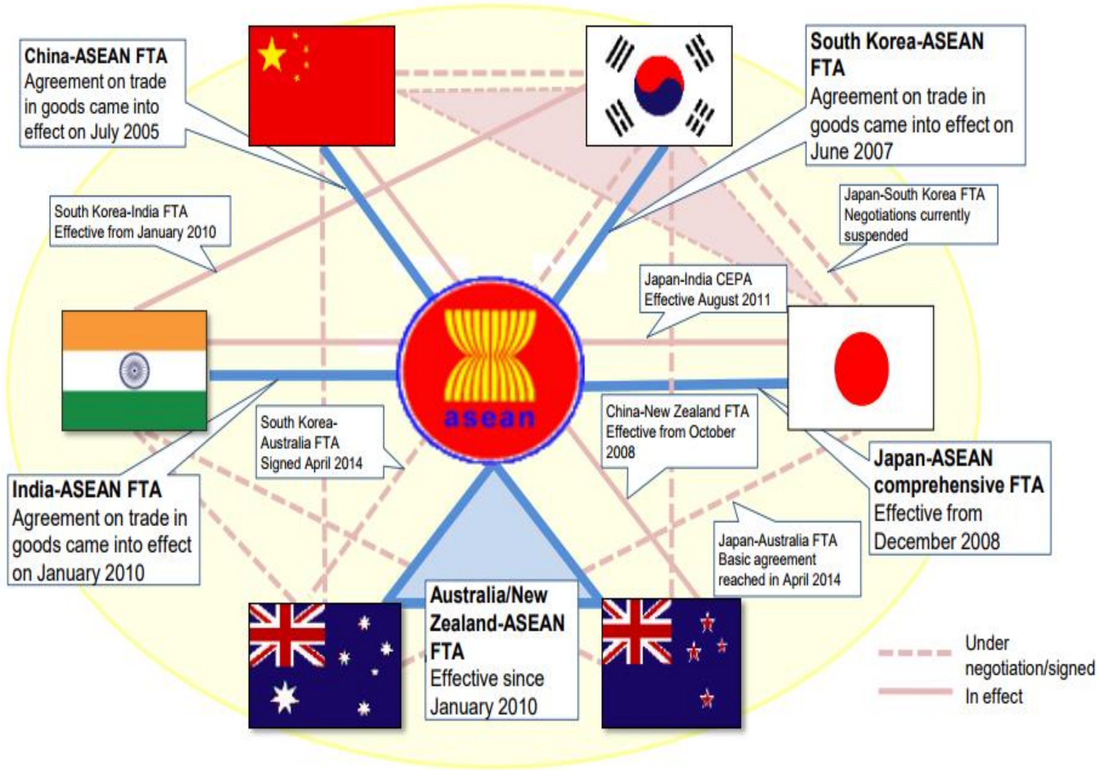
**Data for Mauritius has not been included. Source: Department of Industrial Policy & Promotion*

Figure 3: FDI inflows in India YoY (US$ Millions)

In a nutshell, RCEP needs to be explored and critically analysed keeping in mind India's interests in exporting goods and services and attracting foreign investments. Also, it would be equally important to study the potential opportunities and competition that shall be offered by the members of the ASEAN, particularly Indonesia, Philippines and Thailand, and China. The required analysis has been reported in the forthcoming headers.

India and its Past Free Trade Agreements

As of 2017, India has entered into FTAs with 17 countries/associations[7] and is in the process of negotiating another 11 agreements[8] in various forms viz. Joint Group, CECA, CEPA etc. However, benefits of the past FTAs still elude Indian trade regime.



Source: Colloquium: Japan, Portugal and EU Cooperation (2014) by Prof. Yorizumi Watanabe[9]

Figure 4: Timeline of FTAs between RCEP Countries

In 2013, India's trade with these countries constituted only about 35% of its total trade value. Out of it, imports accounted for 37% and exports 33%.[10] The same can be inferred from the table below vis-a-vis trade with some of the select FTA countries. The figures in 2013, when compared to status in 2007, do not show much rise. In fact, exports to some these countries have declined with imports on the rise.

Partner	2007		2010		2013		2007-2013	
	Export	Import	Export	Import	Export	Import	Δ Exports	Δ Imports
Australia	0.80%	3.70%	0.80%	3.00%	0.90%	2.30%	0.10%	-1.40%
China	6.00%	10.90%	6.20%	11.60%	4.20%	13.20%	-1.80%	2.30%
Indonesia*	1.50%	2.40%	2.10%	2.90%	1.40%	3.40%	-0.10%	1.00%
Japan	2.00%	2.50%	2.10%	2.40%	1.90%	2.30%	-0.10%	-0.20%
Malaysia*	1.60%	2.30%	1.40%	1.90%	1.60%	2.30%	0.00%	0.00%

7 http://commerce.nic.in/trade/international_ta.asp?id=2&trade=i
8 http://commerce.nic.in/trade/international_ta_current.asp
9 https://idi.mne.pt/images/docs/conferencias/Colloquium_Japan/intervencoes/009.pdf
10 Kyle Robert Cote, Purna Chandra Jena, "India's FTAs and RCEP Negotiations", CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), 2015

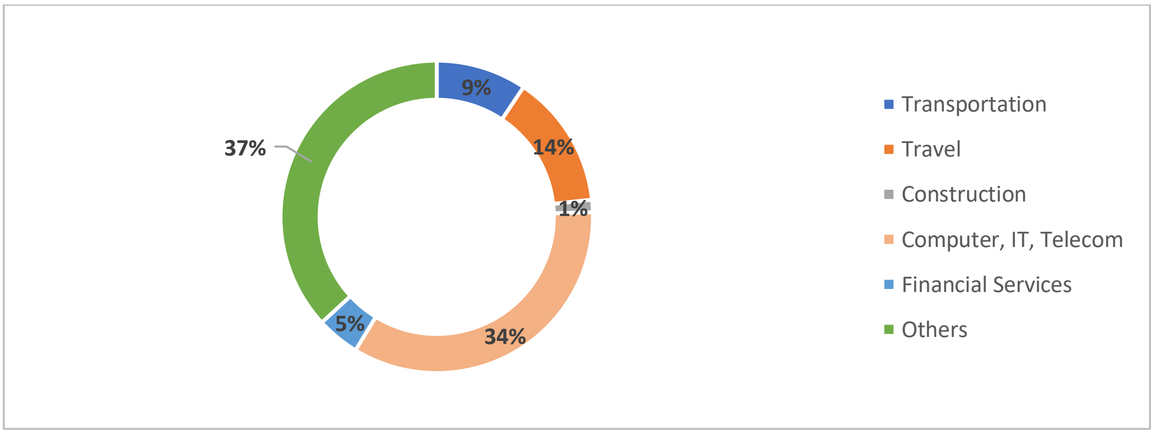
New Zealand	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.00%	0.00%
Philippines*	0.40%	0.10%	0.40%	0.10%	0.50%	0.10%	0.10%	0.00%
Rep. of Korea	2.00%	2.70%	1.50%	2.80%	1.40%	3.00%	-0.60%	0.30%
Singapore*	4.40%	2.70%	4.70%	1.80%	3.40%	1.60%	-1.00%	-1.10%
Thailand*	1.10%	1.00%	1.00%	1.10%	1.20%	1.30%	0.10%	0.30%

*Part of ASEAN. Source: Ministry of Commerce, Government of India

Table 2: India's Trade Share with its Major Existing and Potential Trade Partners

One of the major reasons behind India's inability to leverage the benefits out of FTAs is the weak negotiations in terms of tariff reductions. The negotiations are known to be very gradual with a low coverage on number of items (refer Exhibit 1). For instance, both CEPAs negotiated with Japan and South Korea liberalised tariffs in manufacturing and agriculture products to as low as 0%.[11] This results in significant imports from the treaty countries while India loses out of on exports.

Services have proved to be a prominent source of income for Indian economy contributing a fair share of ~60% in the last fiscal year. India, in the last decade, has witnessed significant growth in sectors including trade, hotels and transport, communication and services related to broadcasting and financial, insurance, real estate and professional services. Some of these sectors, namely financial services and shipping, have shown double digit growth rates as well. As of 2015, India has been ranked as the 8th largest exporter of commercial services across the world.[12]



Source: UN Commodity Trade Database

Figure 5: Exports of Services (% share in 2016) by EBOPS category

In this context, India's interests lie in negotiating the easy movement of skilled and semi-skilled professionals in sectors such as tourism, tertiary education, computer-related services and IT/ITes. However, FTAs executed in the past have not contributed much to the growth in these services areas. The reasons again manifest themselves as low coverage and weak negotiations.

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[11] http://commerce.nic.in/trade/FAQ_on_FTA_9April2014.pdf?id=9&trade=i

[12] http://economictimes.indiatimes.com/news/economy/foreign-trade/indias-rank-unchanged-at-19th-among-top-30-exporters/articleshow/51745091.cms

Indian Standing in RCEP Negotiations

Started in May 2013, RCEP has formally held 18 rounds of negotiations (refer Exhibit 2) over the course of 4 years. The negotiations in the initial stage were running smooth and were expected to be finalised by late 2017. However, round 13 negotiations in New Zealand (June 2016) saw a bit of an impasse when China and subsequently, some members of ASEAN pushed for the dismantling of the three-tier system followed in the initial round of offers for goods liberalisation.

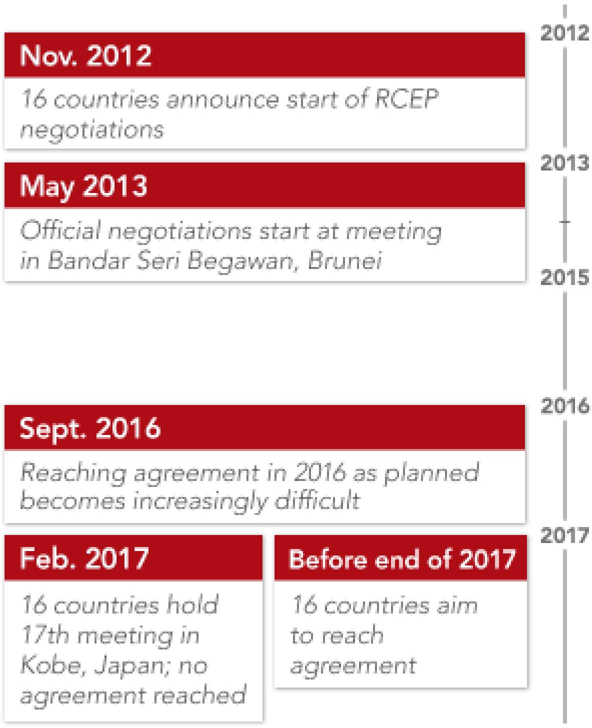


Figure 6: Brief Timeline of RCEP Negotiations

Negotiations on Goods

The traditional instrument of import tariff reduction holds an important place in Indian trade regime. The reason being that agriculture and some other industrial products produced in India are still protected by the Government of India in terms of either subsidies or import duties on foreign goods. With RCEP negotiations on the table, India faces a demand to reduce theses tariffs to a considerably low level. Specifically, it shall be eliminating duties on 92% of its products and keeping very low duties on another 7%, covering a total of 99% of all its agricultural and industrial products; something that shall be detrimental in every sense to the bourgeoisie Indian ecosystem.

India is very sceptical on leaving space in tariff reduction. Past experiences in this domain have not been very pleasant for India either. Relatively modest RCEP nations have flooded the Indian markets with organic oils, fruits, and spices exploiting the provisions in India-ASEAN FTA. As a result, the trade deficit in palm oil stands at over INR 40 thousand crores and in rubber at INR 4.8 thousand crores. Some partners like Japan, Australia etc. who do not enjoy such privileges as of now, would also become eligible once trade barriers are relaxed.[13]

[13] https://thewire.in/162115/rcep-talks-questions-loom-large-over-india/

In order to protect its interest, India had proposed a three-tier tariff reduction mechanism under which the RCEP countries were categorised into three tiers based on the level of trade imbalance and existence of free trade agreement with the member country. The first tier proposed 80% trade liberalisation for ASEAN countries of which 65% would be implemented immediately and remaining 15% would come into effect in the course of 10 years. The second tier proposed 65% trade liberalisation for South Korea and Japan with which India already has free trade agreements (FTAs). In return, the two countries agreed to offer 80% trade elimination for Indian Goods. In the third tier, India has agreed to 42.5% trade tariff reduction to China, Australia and New Zealand. In return, these countries will offer India 42.5%, 80% and 65% tariff line reductions respectively.

This three-tier approach was aimed to protect the interest of domestic manufacturers as single tariff approach can result in Indian markets being flooded by cheap imports from China and other RCEP countries.[14] This proposal, however, is now off the table as a consequence of the resistance from China and some of the ASEAN countries in June 2016.

As of now, the negotiations on goods trade regime are still on without any substantial breakthrough so far.

Negotiation on Services

Negotiation on services has also been a pain point for India when it comes to liberalisation. ASEAN countries, along with Japan and Korea, are not very much enthused by the idea of a liberal visa regime within RCEP. Though India had promised to show greater flexibility on goods tariff in return for meaningful and productive discussions on services and investments liberalisation, the proposal has not invited serious discussions on it.

In the recently organised negotiations in Vietnam (May 2017), Commerce Minister Nirmala Sitharaman "urged member countries to work towards liberalisation across all modes of services, including movement of professionals in Mode 4, in line with the RCEP Guiding Principles". She later added, "We have actually given a proposal for RCEP business card. So, we have proposed that for business people, like APEC (Asia-Pacific Economic Cooperation) member countries have APEC business cards, similarly we have asked for RCEP members."[15]

The rationale behind pushing the liberalisation of services is fairly simple and straight forward. Among the top economies in RCEP, India is the only country with a consistent positive services trade balance over the last half decade.

[14] http://www.business-standard.com/article/economy-policy/china-backed-asean-opposes-india-s-stand-on-rcep-116062301192_1.html

[15] http://www.business-standard.com/article/news-ians/india-urges-speedier-rcep-negotiations-117052400040_1.html

Country	Balance of Trade (US $ Millions)
India	65,702
New Zealand	3,028
Australia	-3,167
Japan	-10,549
Korea	-17,608
China	-2,44,163

Source: OECD Database

Table 3: Balance of Trade in Services for Select Countries (2016)

India has been facing stiff opposition from the member countries and of late, it has been branded as the one impeding the overall negotiations with its unjustified demands of three-tier tariff reduction and services liberalisation. However, India too has taken a tough position in this regard. "Our stand is, we want a balanced outcome. Other countries want us to take our tariff liberalization up to 92% which we cannot do. There is still no agreement on modalities for tariff reduction and limited deviation (in tariff liberalization for some countries) that we have been advocating. We are under no pressure to quickly conclude the deal. We will negotiate what is important for us and on our terms. We are ready for give-and-take but cannot agree to a deal where we get nothing in services. There has been no substantive progress in services negotiations," said a commerce ministry official.[16]

Negotiation on Investments

Historically, FDI proposals in India have been dealt on a case-by-case basis by Foreign Investment Promotion Board (FIPB) and Department of Industrial Policy & Promotion (DIPP), both organisations under the Government of India. However, it has been argued that part of the policymaking around some of these decisions had been held ransom by the investing companies. If seen on a bilateral treaty frontier itself, Indian FDI policies have been liberalised on a rapid pace. The only point of contention remains ease of doing business and within that investor protection and taxation agreements.

As of now, RCEP negotiations have talked of much stronger provisions of investor protection than what currently prevails in India. In the current state of negotiations, India has acceded to some of the provisions including the clause that gives the investors the right to sue host governments in international tribunals.

[16] http://www.livemint.com/Politics/m7oHka4DBZoNIlfabyStCP/RCEP-talks-hit-a-snag-over-Indias-demand-for-liberalization.html

Analysis of Bilateral Merchandise Trade with RCEP Countries

Eight RCEP countries have been considered for the study of trade imbalances with India and the competitive advantage of Indian exports in these destination countries. The decision on selection of these countries is based on their historical trade ties and volumes of trade with India.

The competitive advantage for the exports of a country can be measured using the Revealed Comparative Analysis (RCA) framework, developed by Bela Balassa and Mark Noland (1965). RCA helps in identifying whether a country has a relative export advantage or disadvantage with respect to the rest of the world in a particular category of goods or services.

RCA for country i under commodity category j, RCA_{ij} is given by:

$$RCA_{ij} = \frac{X_{ij}/X_{wj}}{X_i/X_w}$$

Equation 1: Computation of RCA

X_{ij} is Country i's exports in category j
X_{wj} is World exports in category j
X_i is Country i's total exports
X_w is Total exports of the world

Since the analysis also includes destination based competitive advantage of exports, another ratio called Destination-Specific RCA (DS-RCA) has been used. DS-RCA is a slightly modified version of RCS. It is measured by considering the export destination as the market instead of the whole world. The same has been used to calculate the competitiveness of India's exports.

The destination specific RCA for country i under commodity category j for destination k, DS-RCA_{ijk} is given by:

$$DS - RCA_{ijk} = \frac{X_{ijk}/X_{wjk}}{X_{ik}/X_{wk}}$$

Equation 2: Computation of Destination Specific RCA

X_{ijk} is Country i's exports in category j to country k
X_{wjk} is World exports in category j to country k
X_{ik} is Country i's total exports to country k
X_{wk} is Total exports of the world to country k

For the purpose of the study, Harmonised System (HS) at level 2 disaggregation has been used for the goods trade categories. The top 20 goods categories of Indian were identified, and RCA & DS-RCA values were calculated for the same.

Aluminium and articles	Cereals
Articles of apparel and clothing	Copper and articles thereof
Articles of iron or steel	Iron and steel
Cotton	Mineral fuels and mineral oils
Fish and aquatic invertebrates	Oil seeds and oleaginous fruits
Natural or cultured pearls	Pharmaceutical products
Organic chemicals	Electrical machinery and electronics
Ships, boats and floating structures	Vehicles other than railway
Nuclear reactors and boilers	Ores, slag and ash

Table 4: Top 20 Export Commodities by Value

The destination countries in this analysis include New Zealand, Australia, South Korea and major economies of ASEAN including Thailand, Philippines, Indonesia, and Singapore. After computing RCA and DS-RCA for various trade categories, the ratio DS-RCA/RCA was calculated. Based on whether the ratio is greater than 1 and whether RCA is greater than 1, following analysis framework was used categorise the goods and identify their trade potential.

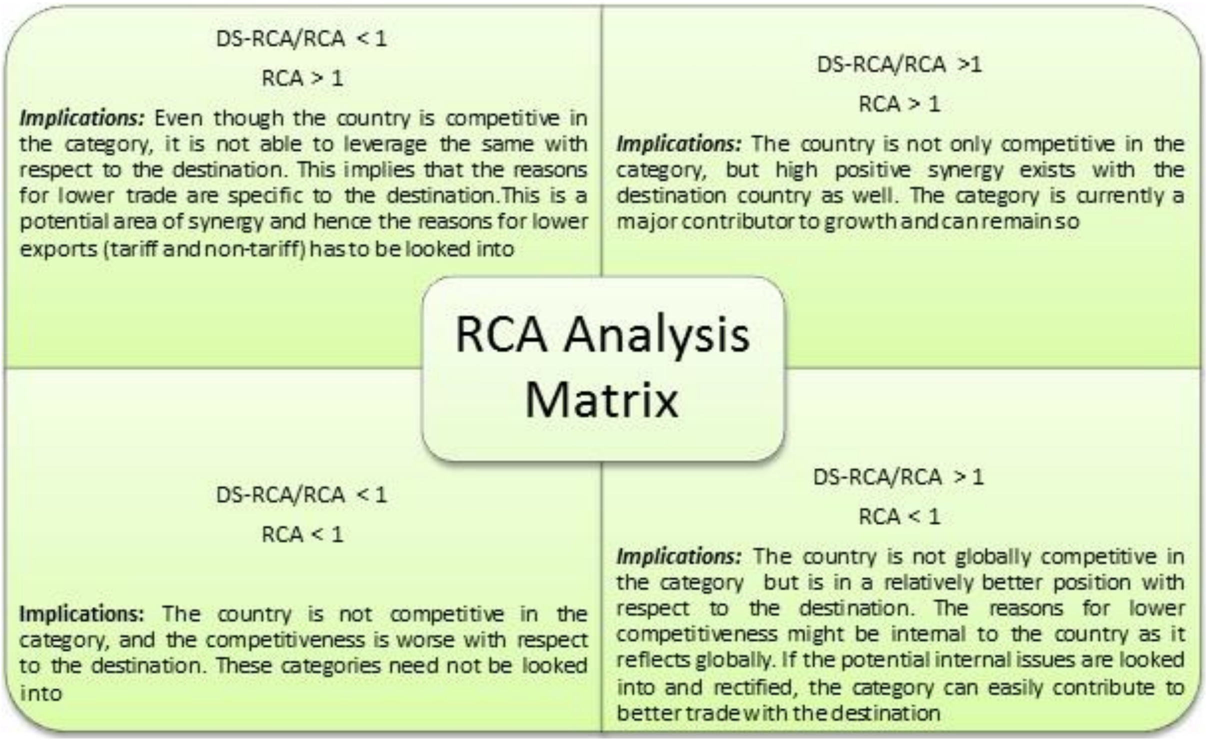


Figure 7: RCA Analysis Matrix based on DS-RCA and RCA

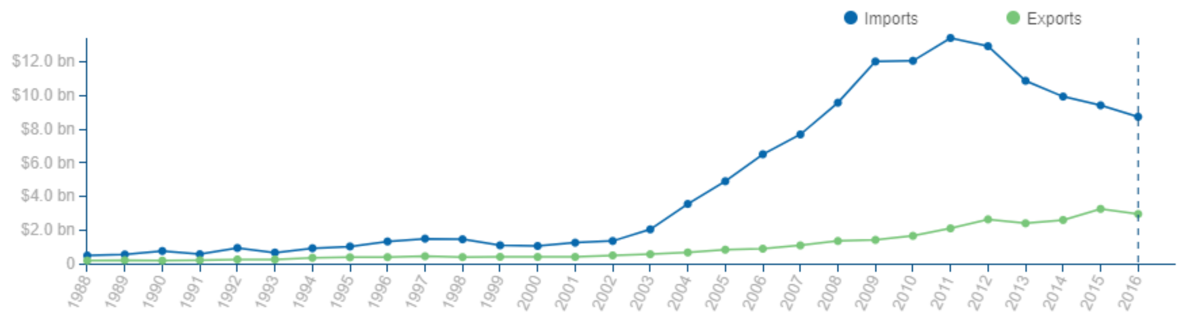
As per the analysis matrix, goods in the top left corner require attention and should be negotiated for. Negotiations for goods falling in the top right and bottom right corners should ensure that they do not attract any disadvantage going forward.

Also, even though India might boast of a competitive advantage for a particular commodity category, exports from China might pose a potential competition to the same within RCEP. This is specifically true for electronic equipment and articles of iron and steel (refer Exhibit 3). Similar analysis has been done for exports from Japan and South Korea to select ASEAN countries (refer Exhibit 4).

Apart from that, trade commodities like shipping structures, telecom, pharmaceutical products, electrical machinery and equipment etc. lack a conducive domestic manufacturing policy and robust export promotion which render them as uncompetitive on the global level. Targeted policy decisions are required to exploit the selective competitive advantage with certain countries.

1. Australia

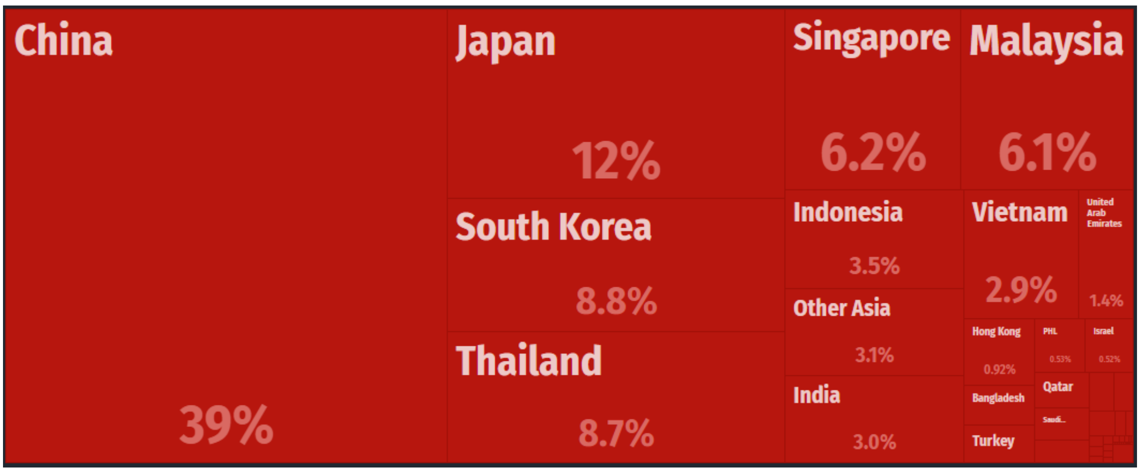
In 2016, Australia emerged as the 26th largest export market for India accounting for 1.1% of India's exports ($2.9 billion). On the import front, it accounted for 2.4% of Indian imports ($8.7 billion) being the 11th largest exporter to India. Since its inception, Indian trade balance with Australia has been negative. As is evident from the below graph, the same deteriorated in the period from 2002-2011. There has been some positive movement, though, after formation of CECA in 2011.



Source: UN Commodity Trade Database

Figure 8: India-Australia Bilateral Trade

Australia is heavily dependent on imports from Asia which stood at $116 billion (out of total $191 billion) in 2015. China accounts for 39% of these trades, heavily dominated in the electric machinery and fuel category. India, on the other hand, accounts for a minuscule 3%.



Source: The Observatory of Economic Complexity, MIT

Figure 9: Origin of Asian Imports for Australia (2015)

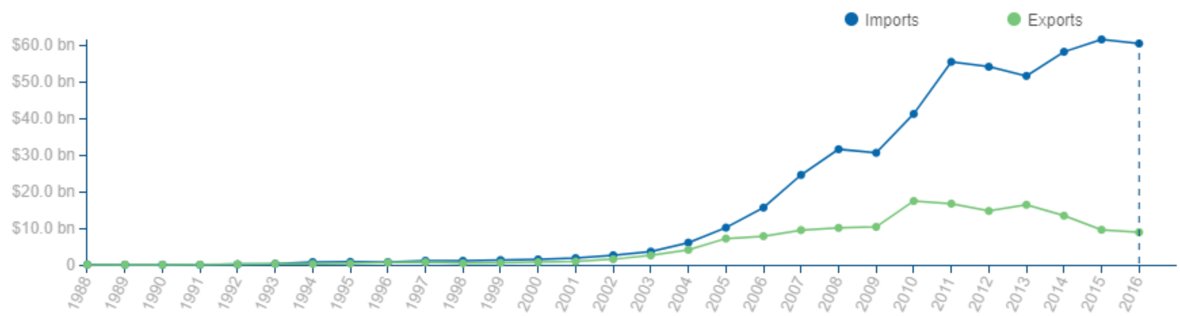
Considering competition from China and DS-RCA analysis for Australia, India should look towards expanding its exports in categories like finished articles of steel and aluminium, cotton, pearls and ship structures.

	DS-RCA < 1	DS-RCA > 1
RCA > 1	Aluminium and articles	Cereals
	Articles of apparel and clothing	Copper and articles thereof
	Articles of iron or steel	Iron and steel
	Cotton	Mineral fuels and mineral oils
	Fish and aquatic invertebrates	Oil seeds and oleaginous fruits
	Natural or cultured pearls	Pharmaceutical products
	Organic chemicals	
	Ships, boats and floating structures	
RCA < 1	Nuclear reactors and boilers	Electrical machinery and electronics
	Ores, slag and ash	
	Vehicles other than railway	

Table 5: RCA Analysis Matrix for Australia

2. China

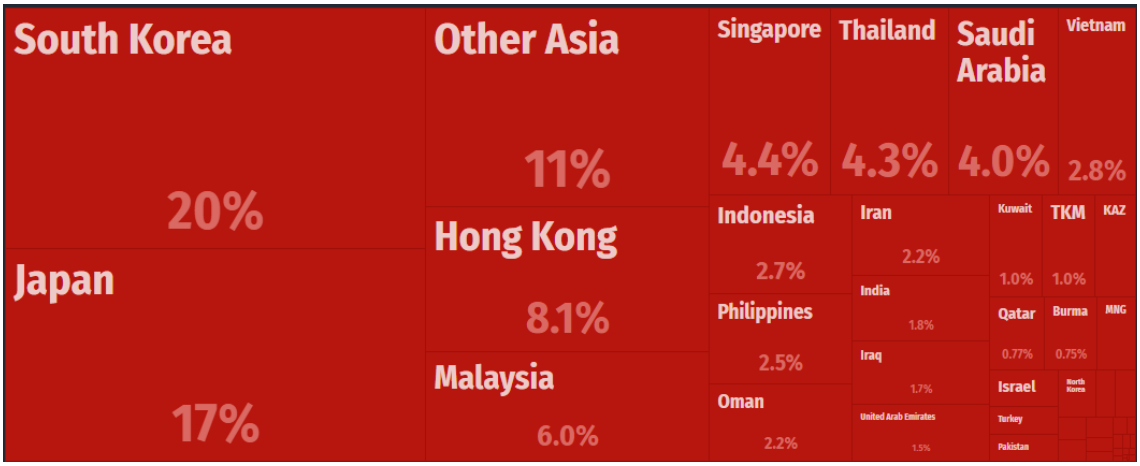
China was the 4th largest export market for India (3.4% of Indian exports) and the largest import market for India accounting for 17% of the Indian imports in 2016. The overall bilateral trade stood at $69.4 billion with India having a trade balance of -$51.6 billion. The same is being worried to get worse once India enters RCEP.



Source: UN Commodity Trade Database

Figure 10: India-China Bilateral Trade

China, again, is heavily dependent on imports from Asia which stood at $673 billion (out of total $1.2 trillion) in 2015. South Korea and Japan, collectively, account for 37% of these trades, heavily dominated in the machinery and metals. India, here, accounts for a minuscule 1.8%.



Source: The Observatory of Economic Complexity, MIT

Figure 11: Origin of Asian Imports for China (2015)

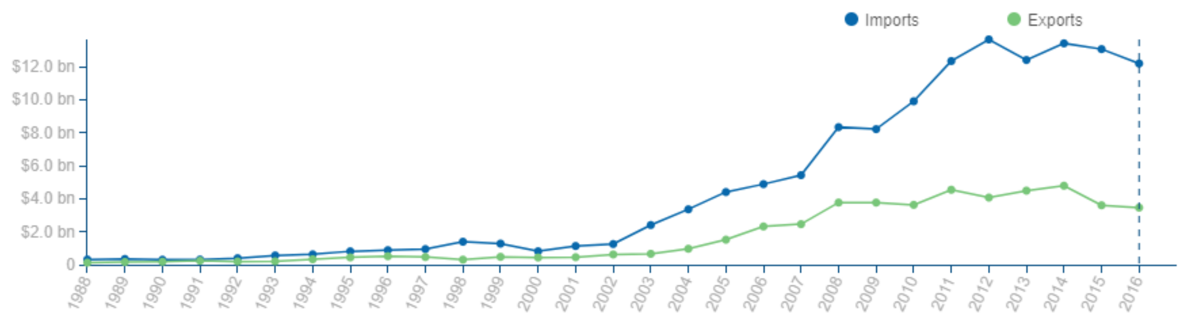
Considering competition from South Korea and Japan and DS-RCA analysis for China, India should look towards expanding its exports in categories like cereals, pharmaceuticals and ship structures.

	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Aluminium and articles	Articles of apparel and clothing
	Articles of iron or steel	Copper and articles thereof
	Cereals	Cotton
	Mineral fuels and mineral oils	Fish and aquatic invertebrates
	Natural or cultured pearls	Iron and steel
	Oil seeds and oleaginous fruits	Organic chemicals
	Pharmaceutical products	
	Ships, boats and floating structures	
RCA < 1	Electrical machinery and electronics	Nuclear reactors and boilers
	Vehicles other than railway	Ores, slag and ash

Table 6: RCA Analysis Matrix for China

3. Republic of Korea (South Korea)

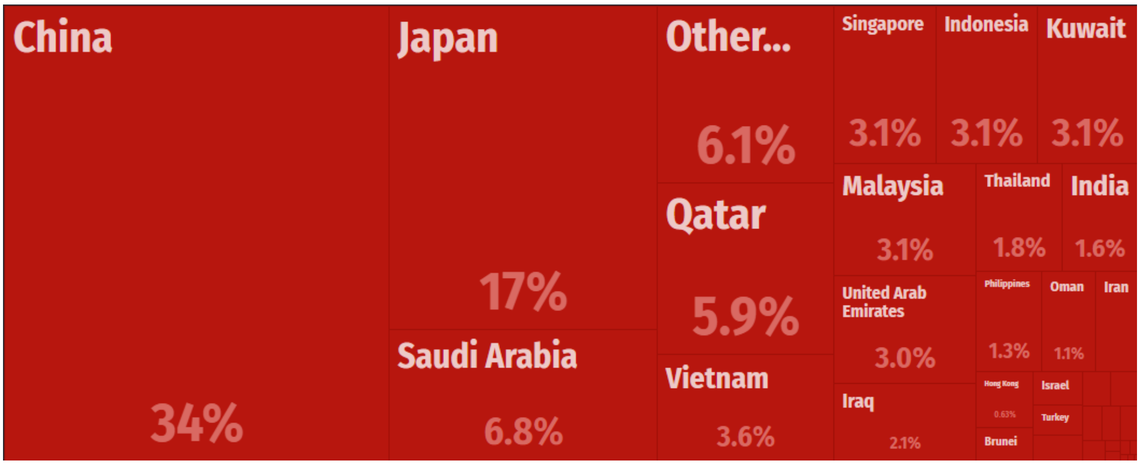
South Korea, in 2016, was the 6th largest import market for India and accounted for 3.4% of the total Indian imports ($12.2 billion). On the export front, it was the 20th largest export market with a share of 1.3%.



Source: UN Commodity Trade Database

Figure 12: India-South Korea Bilateral Trade

South Korea sources around 50% of its imports from Asia which stood at $264 billion (out of total $423 billion) in 2015. Again, China and Japan dominate here with a share of 34% and 17% respectively. Machinery, chemicals and metals form the dominant categories in this regime. India, on the other hand, accounts for only a minuscule 1.6%.



Source: The Observatory of Economic Complexity, MIT

Figure 13: Origin of Asian Imports for South Korea (2015)

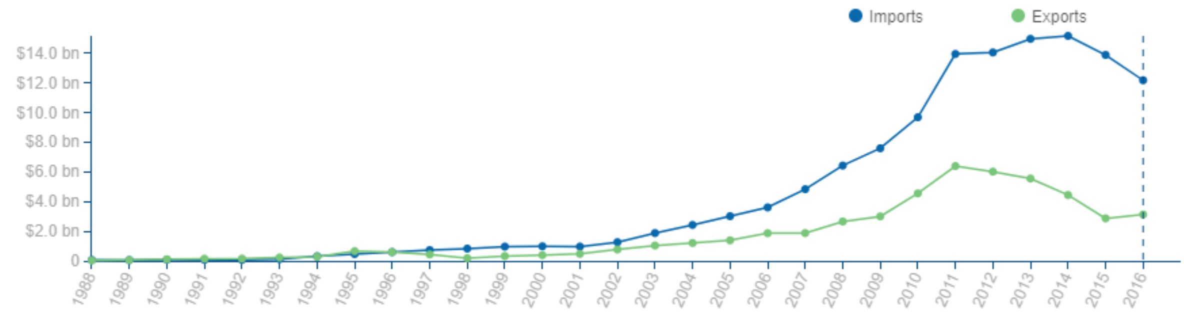
Considering competition from China and Japan and DS-RCA analysis for South Korea, India should look towards expanding its exports in categories like cereals, mineral fuels and oils.

	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Articles of apparel and clothing	Aluminium and articles
	Articles of iron or steel	Cotton
	Cereals	Natural or cultured pearls
	Copper and articles thereof	Oil seeds and oleaginous fruits
	Fish and aquatic invertebrates	Organic chemicals
	Iron and steel	Pharmaceutical products
	Mineral fuels and mineral oils	
RCA < 1	Ores, slag and ash	Electrical machinery and electronics
	Vehicles other than railway	Nuclear reactors and boilers

Table 7: RCA Analysis Matrix for South Korea

4. Indonesia

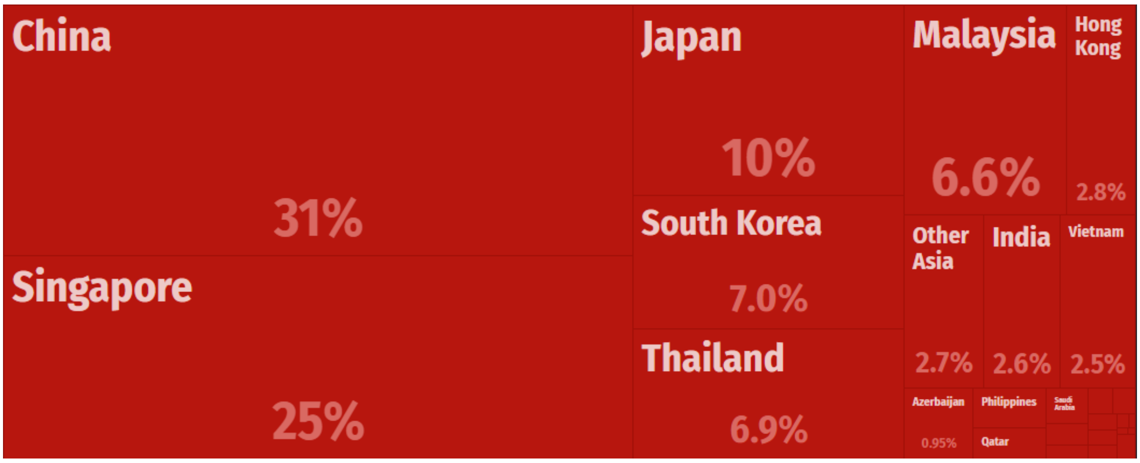
Indonesia accounted for a minimal 1.2% of India's exports while it was the 7th largest import market for India (3.4% of Indian imports). Though India signed FTA with ASEAN in 2009, it has so far failed to capitalise it in terms of bridging the trade imbalance.



Source: UN Commodity Trade Database

Figure 14: India-Indonesia Bilateral Trade

Indonesia is heavily dependent on imports from Asia which stood at $112 billion (out of total $140 billion) in 2015. Again, China dominates here with a share of 31%. The major categories of import include machinery and metals. India, on the other hand, accounts for a minuscule 2.6%.



Source: The Observatory of Economic Complexity, MIT

Figure 15: Origin of Asian Imports for Indonesia (2015)

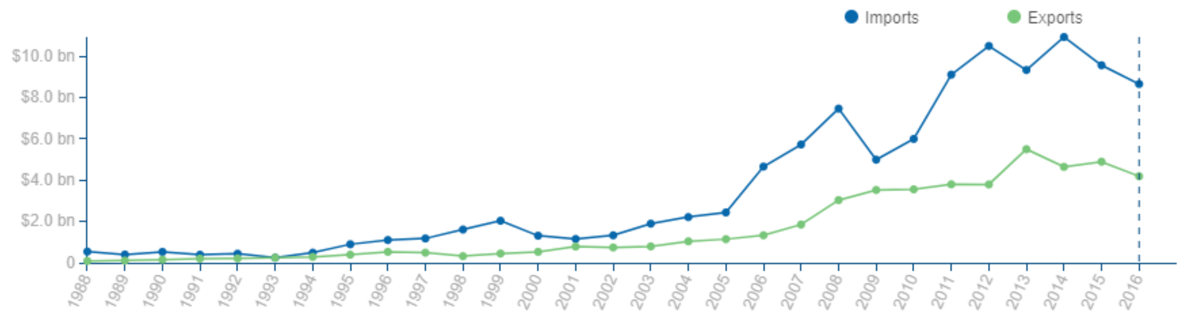
Considering competition from China and Japan and DS-RCA analysis for Indonesia, India should look towards expanding its exports in categories like cereals, cotton, pearls, pharmaceutical products, mineral fuels and oils.

	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Articles of apparel and clothing	Aluminium and articles
	Articles of iron or steel	Copper and articles thereof
	Cereals	Iron and steel
	Cotton	Oil seeds and oleaginous fruits
	Fish and aquatic invertebrates	Organic chemicals
	Mineral fuels and mineral oils	Ships, boats and floating structures
	Natural or cultured pearls	
	Pharmaceutical products	
RCA < 1	Ores, slag and ash	Electrical machinery and electronics
		Nuclear reactors and boilers
		Vehicles other than railway

Table 8: RCA Analysis Matrix for Indonesia

5. Malaysia

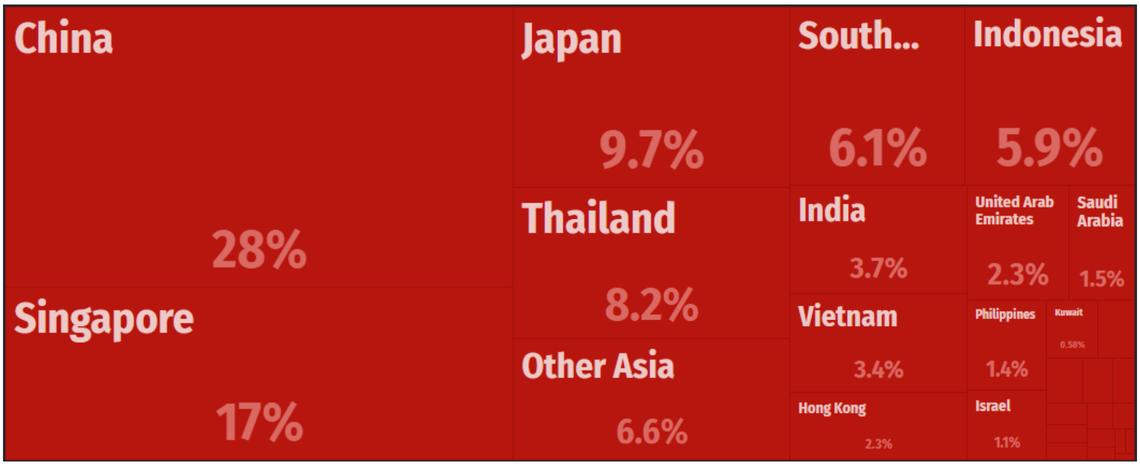
In 2016, Malaysia emerged as an Indian trade partner with almost equal share of Indian exports and imports. It accounted for 1.6% of Indian exports and 2.4% of Indian imports. As a result, the trade balance with Malaysia is also negative for India.



Source: UN Commodity Trade Database

Figure 16: India-Malaysia Bilateral Trade

Malaysia, like other ASEAN countries, is heavily dependent on imports from Asia which stood at $130 billion (out of total $176 billion) in 2015. China and Singapore account for 28% and 17% of these trades respectively, supplying machinery, metals and fuels. India, on the other hand, accounts for a minuscule 3.7%.



Source: The Observatory of Economic Complexity, MIT

Figure 17: Origin of Asian Imports for Malaysia (2015)

Considering competition from China and Singapore and DS-RCA analysis for Malaysia, India should look towards expanding its exports in categories like cereals, cotton, pearls, pharmaceutical products, mineral fuels and oils.

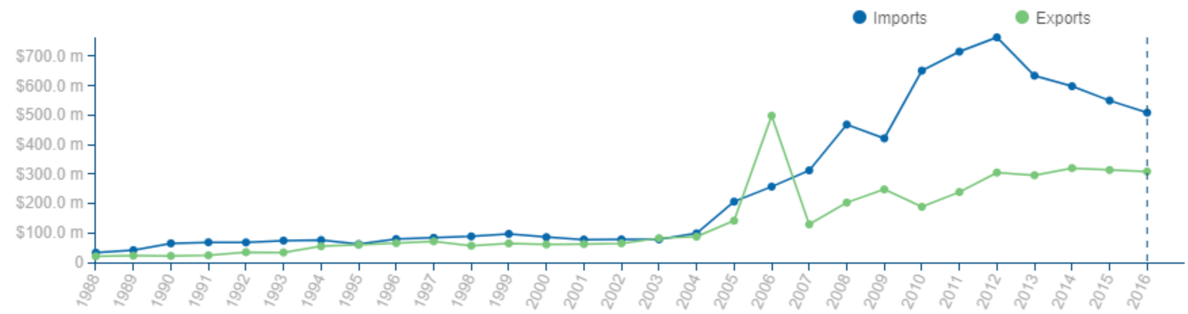
	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Articles of apparel and clothing	Aluminium and articles
	Articles of iron or steel	Copper and articles thereof
	Cereals	Iron and steel
	Cotton	Oil seeds and oleaginous fruits
	Fish and aquatic invertebrates	Organic chemicals
	Mineral fuels and mineral oils	Ships, boats and floating structures

	Natural or cultured pearls	
	Pharmaceutical products	
RCA < 1	Electrical machinery and electronics	Nuclear reactors and boilers
	Ores, slag and ash	
	Vehicles other than railway	

Table 9: RCA Analysis Matrix for Malaysia

6. New Zealand

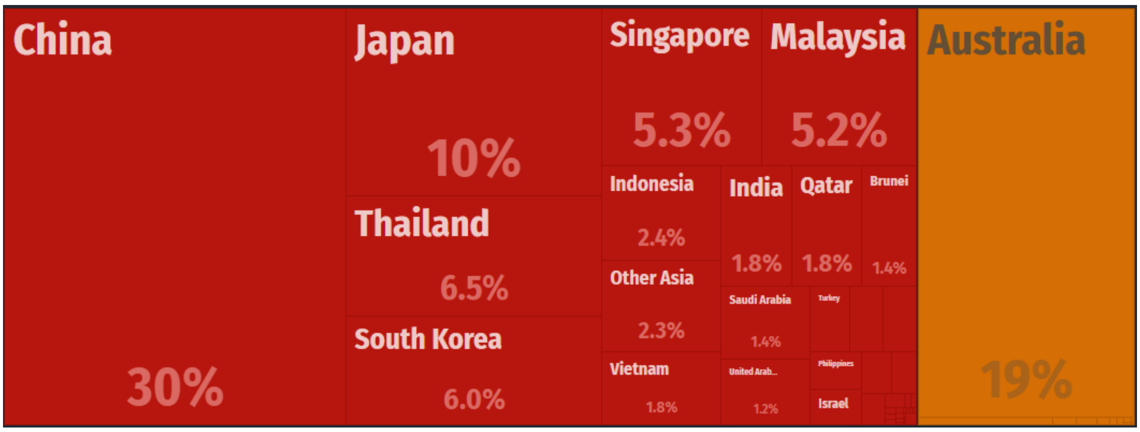
Bilateral trade with New Zealand as on 2016 was $817.4 m. It was the 79th largest export market for Indian goods with exports of $308.7 million. With the country, India maintained a negative trade balance of $200.1 m. The reason for the small amount of trade can be attributed to the competition which Indian goods face with their Chinese competitors. The Chinese goods have an advantage as China has already entered into a free trade agreement with New Zealand since 2008. To make Indian goods more competitive in New Zealand market, an FTA with the country can be on the cards.



Source: UN Commodity Trade Database

Figure 18: India-New Zealand Bilateral Trade

New Zealand is heavily dependent on imports from its Asian neighbours and Australia, which stood at $23.2 billion (out of total $35.7 billion) in 2015. China and Australia account for 30% and 19% of these trades respectively. China sends its machinery while Australia supplies food products and chemicals as a part of this trade regime. India is yet to make a presence here and accounts for only a minuscule 1.8%.



Source: The Observatory of Economic Complexity, MIT

Figure 19: Origin of Asian & Australian Imports for New Zealand (2015)

Considering competition from China and Australia and DS-RCA analysis for New Zealand, India should look towards expanding its exports in categories like finished articles of aluminium, cotton, mineral fuels and oils.

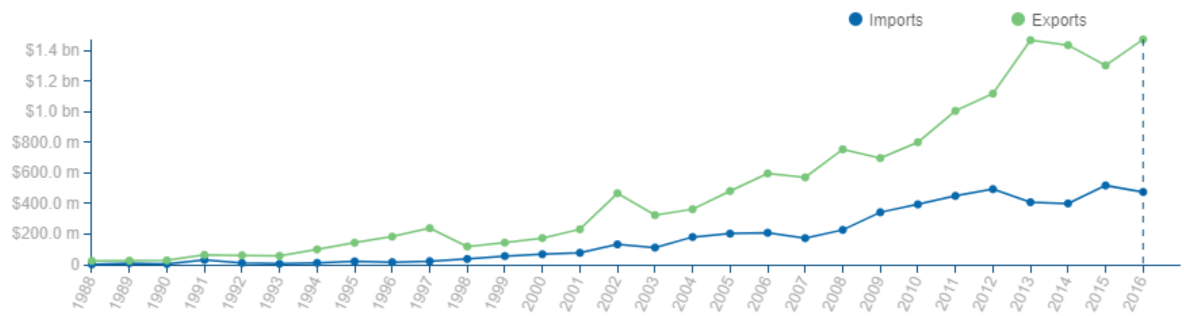
	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Aluminium and articles	Cereals
	Articles of apparel and clothing	Copper and articles thereof
	Articles of iron or steel	Natural or cultured pearls
	Cotton	Oil seeds and oleaginous fruits
	Fish and aquatic invertebrates	Organic chemicals
	Iron and steel	Pharmaceutical products
	Mineral fuels and mineral oils	
RCA < 1	Nuclear reactors and boilers	Electrical machinery and electronics
	Vehicles other than railway	Ores, slag and ash

Table 10: RCA Analysis Matrix for New Zealand

7. Philippines

Compared to other South East Asian countries, the bilateral trade with the Philippines was smaller with a value of only $2 billion as on 2016. The bilateral trade with the Philippines received a significant boost after the FTA of 2009 with ASEAN where trade doubled from $1 billion in 2009 to $ 2 billion in 2016.

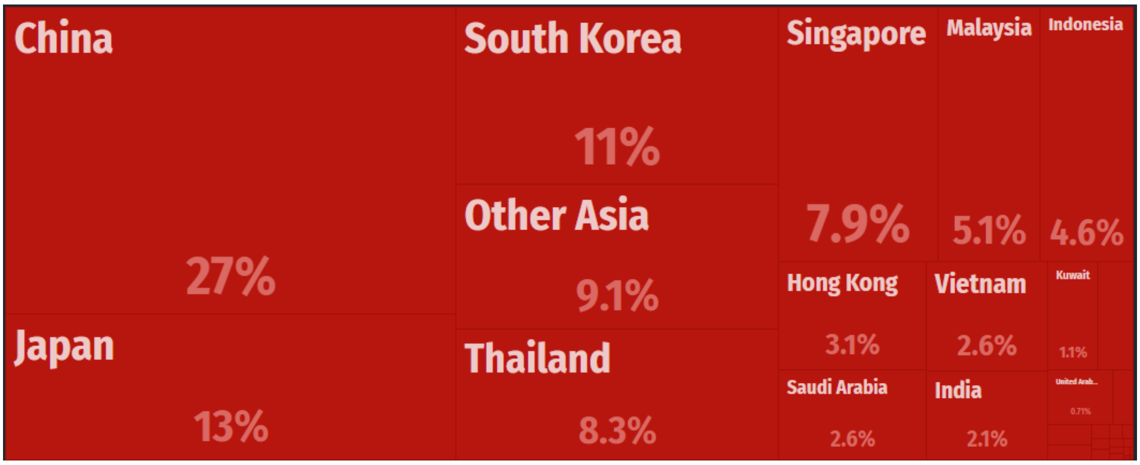
As of 2016, it was the 41st largest export market for India with trade value of $1.5 billion and favourable trade balance of $968.4 million with the country. Going forward, there is a lot of scope as compared to other RCEP countries; the Philippines market still remains unexplored for Indian goods.



Source: UN Commodity Trade Database

Figure 20: India-Philippines Bilateral Trade

Philippines imports from Asia stood at $64.5 billion (out of total $83.6 billion) in 2015. China and Japan account for 27% and 13% of these trades respectively; heavily dominating in the electric machinery. India falls behind here as well and accounts for a minuscule 2.1%.



Source: The Observatory of Economic Complexity, MIT

Figure 21: Origin of Asian Imports for the Philippines (2015)

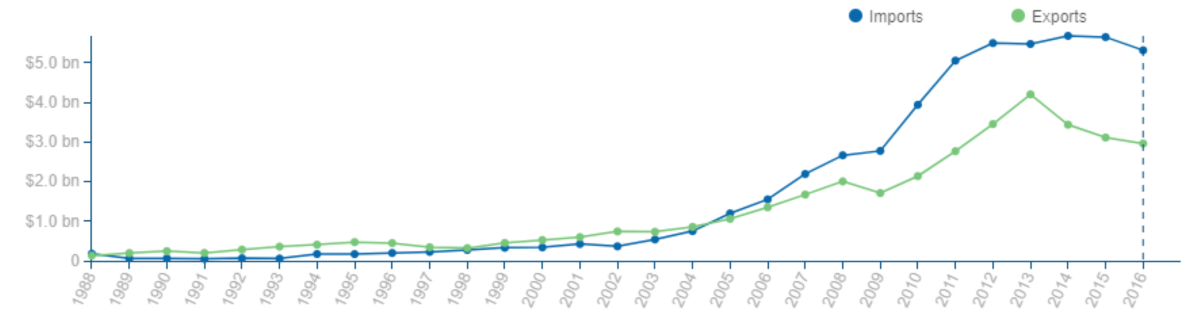
Considering competition from China and Japan and DS-RCA analysis for the Philippines, India should look towards expanding its exports in categories like finished articles of aluminium, cotton, cereals, ship structures, mineral fuels and oils.

	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Aluminium and articles	Articles of iron or steel
	Articles of apparel and clothing	Oil seeds and oleaginous fruits
	Cereals	Organic chemicals
	Copper and articles thereof	Pharmaceutical products
	Cotton	
	Fish and aquatic invertebrates	
	Iron and steel	
	Mineral fuels and mineral oils	
	Natural or cultured pearls	
	Ships, boats and floating structures	
RCA < 1	Ores, slag and ash	Electrical machinery and electronics
		Nuclear reactors and boilers
		Vehicles other than railway

Table 11: RCA Analysis Matrix for the Philippines

8. Thailand

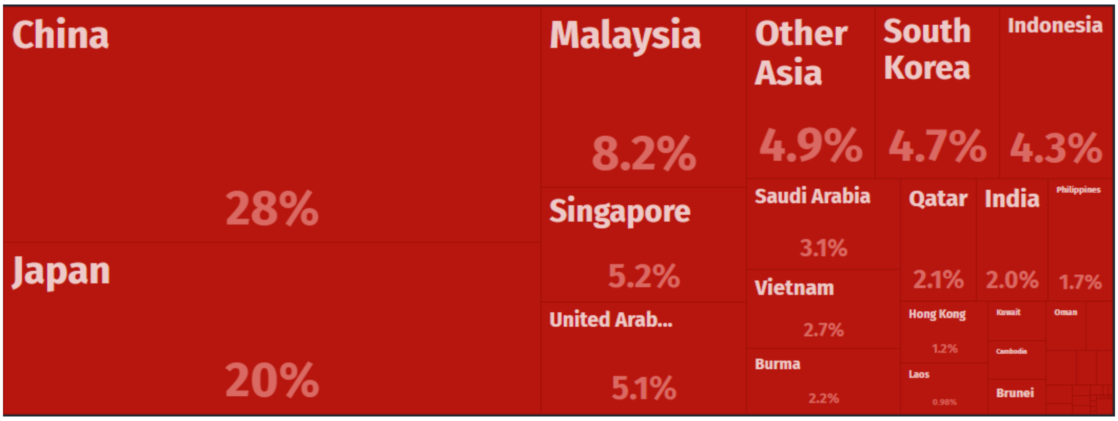
As on 2016, Thailand was the 25th largest export market for India with exports of $3.0 bn. Despite signing the free trade agreement with the ASEAN in 2009, the trade imbalance with the country has widened in the subsequent years. As on 2016, India had a trade imbalance of $2.4 bn.



Source: UN Commodity Trade Database

Figure 22: India-Thailand Bilateral Trade

As other ASEAN economies, Thailand too is heavily dependent on imports from Asia which stood at $145 billion (out of total $190 billion) in 2015. China and Japan account for 28% and 20% of these trades respectively. These imports are heavily dominated by electric machinery, mineral products and metals. India accounts for a minuscule 2% at 10th position.



Source: The Observatory of Economic Complexity, MIT

Figure 23: Origin of Asian Imports for Thailand (2015)

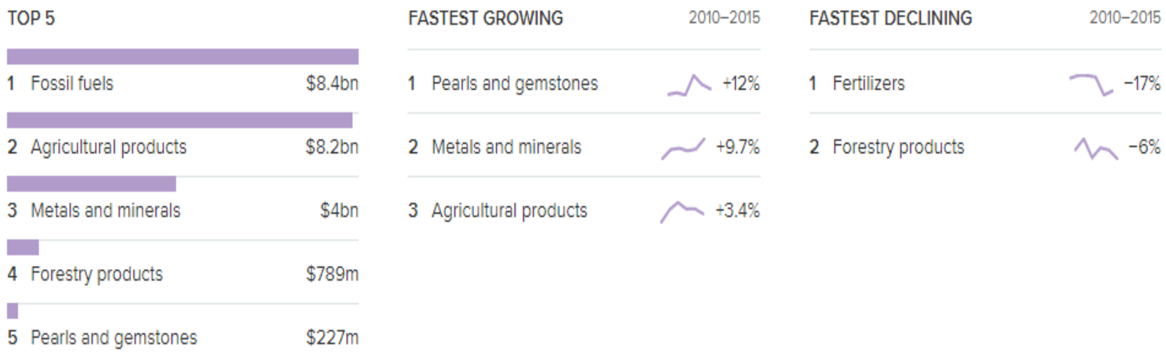
Considering competition from China and Japan and DS-RCA analysis for Thailand, India should look towards expanding its exports in categories like finished articles of aluminium, cotton, pearls, mineral fuels and oils.

	DS-RCA < 1	***DS-RCA > 1***
RCA > 1	Aluminium and articles	Fish and aquatic invertebrates
	Articles of apparel and clothing	Oil seeds and oleaginous fruits
	Articles of iron or steel	Organic chemicals
	Cereals	Pharmaceutical products
	Copper and articles thereof	
	Cotton	
	Iron and steel	
	Mineral fuels and mineral oils	
	Natural or cultured pearls	
RCA < 1	Electrical machinery and electronics	Nuclear reactors and boilers
	Ores, slag and ash	Vehicles other than railway

Table 12: RCA Analysis Matrix for Thailand

Conclusion

The analysis for the above countries suggests that India does not have significant import partnerships within RCEP despite having bilateral FTAs and hence, getting into RCEP might help it to broaden the same. However, the categories for expansion are limited given heavy competition from Chinese products. On the contrary, imports into India might increase many folds resulting in worsening of trade deficits. There is no denying the fact that India stands to lose on merchandise trade; it can only restrict it by carefully expanding exports and protecting domestic production from imports. Some of the key commodities in this list should include agricultural products, metals and minerals, and pearls and gemstones.



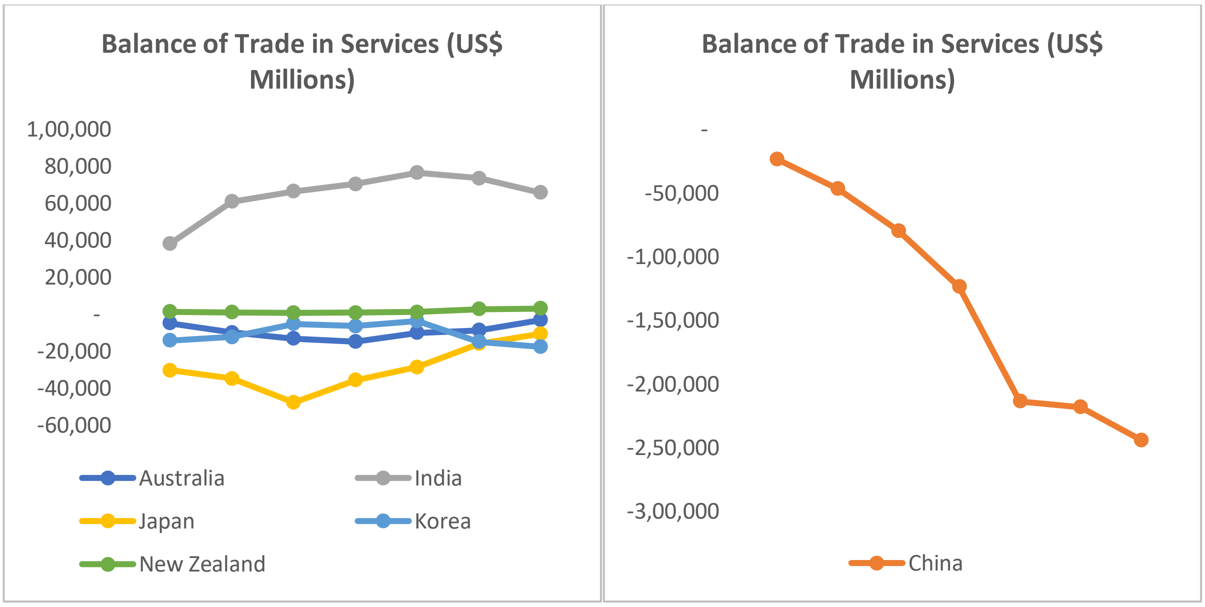
Source: Chatham House, The Royal Institute of International Affairs

Figure 24: Commodity Imports Trend from ASEAN to India

Analysis of Services Trade of RCEP Countries

The competitiveness of a particular country on the services front can be analysed based on the overall balance of trade in services. Within RCEP member countries, six major economies, namely India, China, South Korea, Japan, New Zealand, and Australia were analysed based on the above-mentioned criteria. RCA values then were used to consolidate the potential competitive advantage of a country in a particular service sector.

As can be inferred from Figure 25, out of these six members, India is the sole nation with a considerable positive trade balance. This points to a window of opportunity for India to expand its presence in the other countries, if not already present.



Source: OECD Database

Figure 25: Balance of Trade in Services (US$ Millions) for Select Countries (2010-16)

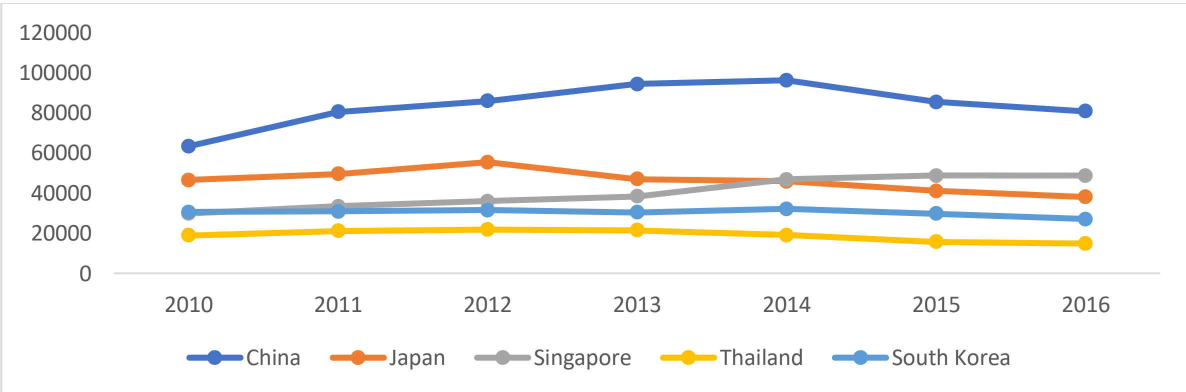
Though it is true that Indian services trade is skewed towards the Western countries with Computer & IT forming ~35% of the overall exports, areas like transportation and construction, in particular, are witnessing fast paced growth and accounted for 10% of the exports trade value in 2016 (refer Figure 5). A closer look on the services imports of the ASEAN members and other RCEP countries reveals that the services imports of these nations are on the rise and India can leverage its competitive advantage in cultural tourism, travel, transport, construction and insurance & pension services to expand the magnitude of its services exports portfolio.

Country	Construction	Financial Services	Insurance & Pension	Culture & Recreation	Telecom & IT	Transport	Travel
Australia	0.31	1.50	0.77	3.60	1.18	1.47	6.34
China	8.93	0.45	2.03	1.10	3.08	2.37	2.21
India	***1.89***	0.93	***1.38***	***2.67***	***8.64***	***1.37***	***1.44***
Indonesia	1.45	0.32	0.23	1.04	1.03	2.16	5.23
Japan	7.92	1.99	1.02	1.45	0.55	2.66	1.83
South Korea	17.33	0.57	0.69	3.77	0.97	4.16	1.92
Malaysia	4.60	0.45	1.03	3.30	1.78	1.66	5.17
New Zealand	0.20	1.02	0.76	5.85	1.05	1.84	6.60
Philippines	0.33	0.37	0.28	1.67	4.43	0.92	1.70
Singapore	0.93	3.74	4.44	0.96	1.09	4.72	1.27
Thailand	1.02	0.31	0.11	0.28	0.21	1.25	7.79
Vietnam	0.00	0.00	0.00	0.00	0.00	3.07	6.90

Table 13: RCA for Service Categories (BPM6 Category)

Shipping & Transportation

East and South-East Asian economies are known for their dependency on the shipping and other transport services for the transfer of goods across nations. In particular, nation states of China, Japan, Singapore, Thailand and South Korea show a promising market for India with transport services contributing between 3-8% of the services imports in 2016. In totality, this amounts to a market of over $200 billion.

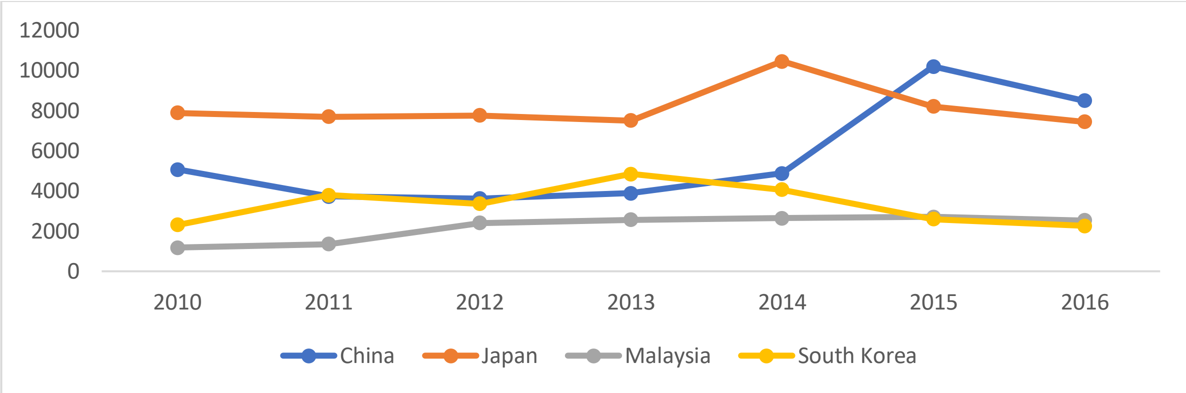


Source: OECD Database

Figure 26: Imports in Transportation Services (US$ Millions) by Select Countries (2010-16)

Construction

Another potential sector for India to step up its presence could be construction. China and Japan present a good opportunity since construction constitutes to almost 1% of the services imports basket. South Korea and Malaysia too could be promising. However, these countries have shown rather declining or stable trends since 2010. Overall, these nations present India with $20 billion business opportunity. Though being themselves a market, China and South Korea are tough competitors globally in the construction sector.



Source: OECD Database

Figure 27: Imports in Construction Services (US$ Millions) by Select Countries (2010-16)

In addition to construction and transportation, sectors like financial services and travel services too have shown promising potential in terms of exports for India. Conducive policies promoting capital expansion in these industries will help the domestic players capture the foreign markets once India enters into RCEP agreement.

Movement of Natural Persons

Movement of natural persons is one of the four ways of delivering services in the international market. Also known as Mode 4, it covers individuals who are either independent professionals or who work for a service supplier present in another WTO member country.[17] In this context, business movement of professionals has always been an issue with the Eastern and some South-Eastern economies. Barring Singapore and Thailand, none of the member countries of RCEP has been welcoming towards the entry of foreign professionals in their domestic economy. The reasons are structural/cultural for some (Japan, South Korea and China) and economic for others (Malaysia, Indonesia, Philippines).

Taking a specific case of Japan; as a part of the FTA signed with India in 2011, Japan has committed to allow the entry of short-term visitors, intra-corporate transferees and investors into the country. On the professional individuals front; lawyers, judicial scrivener, administrative scrivener, social insurance and labour consultant, maritime procedure commission agent, certified public accountant, tax accountant, land and house surveyor are allowed. Engineers and specialists in Humanities / International Services working on a contract with Public or Private Organizations have also been provisioned for entry.

In response to a request from India, Japan also committed to granting entry and temporary stay to 'Indian cooks' as natural persons engaged in independent professional services under the 'skilled labour' status of residence.[18] Though similar negotiations and provisions exist in FTAs with some of the other RCEP countries as well, the overall movement of Indian nationals into these economies do not scale to the full potential.

[17] https://www.wto.org/english/tratop_e/serv_e/mouvement_persons_e/mouvement_persons_e.htm
[18] http://www.meti.go.jp/english/report/data/2015WTO/03_03.pdf

Mutual Recognition Agreements (MRAs)

Apart from difficulties in obtaining the visa permits, Indian professionals are also discriminated from entry since some of the countries do not recognize the professional degrees issued by Indian educational institutions. India has raised concerns on this front, specifically with Singapore, South Korea and Japan citing that it is not able to benefit out of the FTAs due to lack of mutual recognition agreements (MRAs). Technically, MRAs between two countries pertain to recognizing each other's qualification and academic certifications in order to allow the foreign professionals to work in other countries. For this regulatory bodies of various professional services enter into MRAs with their counterparts.

One of the reasons cited by the partner countries for refusing to sign MRAs is the lack of standardisation in the courses offered by Indian Universities with some of them not matching the international curriculums. Hence, these trading partners usually demanded to identify premium institutions to sign MRAs with. However, Government of India can't prefer one institution over another without a ranking framework in place. This has, to a large extent, can now be taken care of using the National Institutional Ranking Framework launched in 2016.[19]

Conclusion

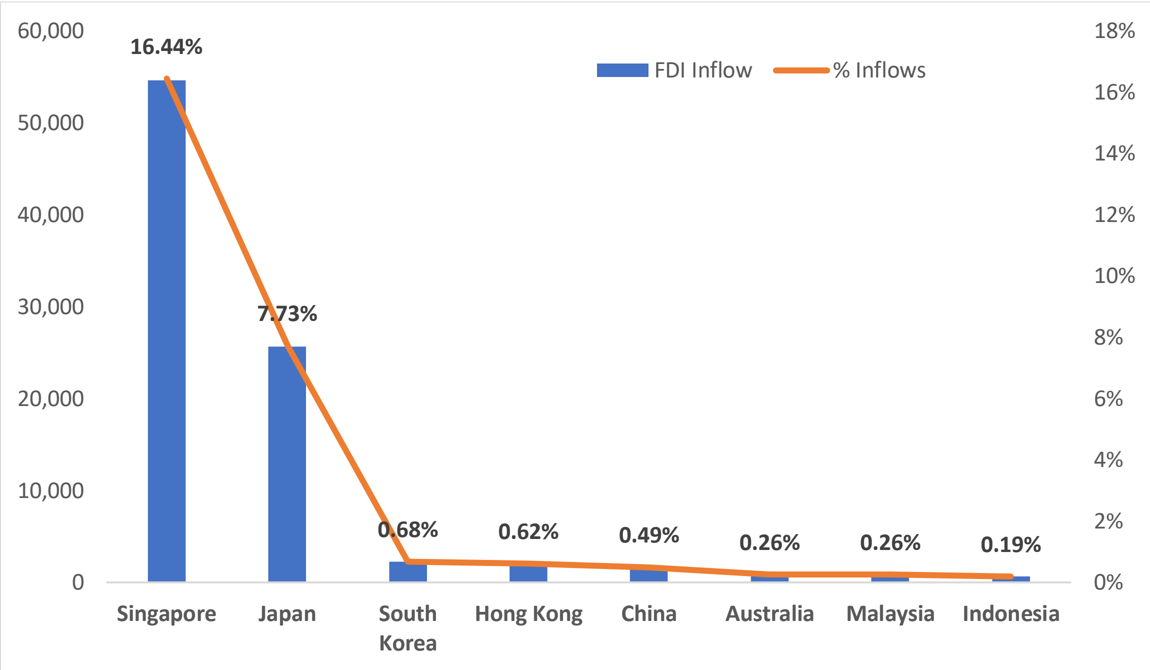
To overcome the potential loss in the goods trade regime, India needs to negotiate the services deal with utmost prudence. There are sectors like shipping & transportation, IT, financial services, construction, and tourism & travel where India holds competitive advantage which can be leveraged and used to balance the trade deficits. Even though if India is not able to extract highly favourable terms in RCEP negotiations, it should make sure to prevent any negative provisions being made on the services currently offered.

As far as the movement of natural persons is concerned, India can adopt certain provisions of the EU-Switzerland Free Trade Agreement (refer Exhibit 6) where no residence permit is required for short-term employed persons and it is incumbent on both the countries to adopt measures that are necessary for the mutual recognition of diplomas, certificates and other qualifications. There could be a quota in this provision to allay the fears of misuse which then can be subsequently removed.

[19] http://www.livemint.com/Politics/4aDjezDhFLkYOhRfIhFN2O/India-urges-Singapore-S-Korea-and-Japan-to-sign-MRAs-on-de.html

Analysis of FDI from RCEP Members

As of now, India has 8 Bilateral Investment Treaties (BITs) and 5 Treaties with Investment Provisions (TIPs) with the individual RCEP members notably including China, South Korea, Vietnam, Thailand in the former and Japan, Malaysia, Singapore in the latter category respectively (refer Exhibit 7). However, apart from Japan, Singapore and South Korea, there has not been much of FDI inflows into the country from other countries. In fact, Japan and Singapore combined have contributed ~25% of the total FDI inflows between FY 2010-2017 (refer Figure 28).



Source: Department of Industrial Policy & Promotion[20]

Figure 28: FDI Equity Inflows from Select RCEP Countries (April 2010 - March 2017)

Japan

As mentioned earlier, Japan contributes significantly in terms of FDI inflows into India. Currently, it is the third largest investor in India after Singapore and Mauritius.[21] Even the number of Japanese companies registered and operating in India have been increasing at a steady pace. By 2016, some 1,305 Japanese companies were registered in India, 76 companies more as compared to 2015.

India has, over the years, witnessed Japanese FDI, but in selected sectors only viz., automobile, electrical equipment, telecommunications, chemical and pharmaceutical sectors. Even though sectors like automobile and pharma have had some investments, there is still potential left to be capitalised. For instance, acquisition of Ranbaxy by Daichi Sankyo was one of the big-ticket deals that happened in 2008; but no such high-value transactions have taken place since then. Also,

[20] http://dipp.nic.in/sites/default/files/FDI_FactSheet_January_March2017.pdf
[21] http://economictimes.indiatimes.com/news/economy/finance/japans-investments-in-india-getting-diverse/articleshow/58863341.cms

despite such strong diplomatic and trade relations, India lacks a full-fledged Bilateral Investment Treaty with Japan and still relies on a Treaty with Investment Provisions (TIPs) since 2011.

As another dimension, however, a close look at the investments by Japan reveals that a significant majority of it goes to infrastructure development in the country. In fact, as a part of Japanese Official Development Assistance (ODA), Japan has been assisting India in developing public infrastructure with soft loans worth ~1400 Billion Yen in the past decade. The Fiscal Year 2015-16 saw the highest ever ODA loan disbursement (390 Billion Yen) in a financial year.[22]

Under the banner of Act East Policy, India has taken various steps to increase Japanese investments in India. Initiatives like Japan Plus, specifically, have been targeted to invite Japanese companies to be a part of the industrial township development plans in various states of the country. DMIC is the flagship project of the Indo-Japanese cooperation on this front.

One of the major areas where Japanese firms have remained concerned is dispute resolution. Be it MAT or TATA-NTT Docomo arbitration, Japanese firms have found it difficult to get a speedy redressal of their disputes. As a result, Japanese investors have to contend their claims via offshore seated arbitration, usually in Singapore. [23]

South Korea

South Korea is an emerging investor in the India story. After signing and operationalisation of CEPA with India in 2010, Korean investments in the country have picked up and remained steady (~$300 million) since then. Among the Korean companies that have invested in India, Hyundai Motor Group, Samsung Electronics and LG Group remain at the forefront; again, dominating the automobile and consumer electronics segment like Japan.

According to Korea Trade Investment Promotion Agency (KOTRA), about 88% of all Korean subsidiaries established in India are wholly-owned while approximately 11.3% are joint ventures. These JVs mostly have Korean companies as the reference entities, while JVs involving Indian companies are rare. The reason dates back to 1990s when Korean SMEs tried to enter India through JVs with Indian companies but could not do so due to the indifferent experience of the firms involved.

Interestingly, some Indian companies are very active in Korean market taking the Indian investments in the country to about $ 3 billion by 2017. Notable firms among these include Novelis Inc. (a subsidiary of Hindalco Industries Ltd.), TATA Motors, Mahindra & Mahindra, and L&T Infotech.

Also, cooperation between the countries in appraising the Indian ecosystem have been increasing over the years. These include,

- Signing of Double Taxation Avoidance Agreement on 18 May 2015 while Prime Minister Modi was on State visit to South Korea.

[22] https://www.indembassy-tokyo.gov.in/india_japan_economic_relations.html
[23] http://www.iflr.com/Article/3673584/The-Japanese-Overseas-Investment-Report-2017-India.html

- Indian delegations now being a regular part of the Business Promotion and Road Shows hosted in Korea. The sectors in focus are mainly textiles, gems and jewellery and infrastructure.
- Establishing Indian Chamber of Commerce in Korea (January 2010) to help Korean companies interested in doing business with India.
- KOTRA having five operational offices in India; Korea International Trade Association (KITA) opening an office in Delhi to assist Korean businessmen in doing business in India[24]

Though inter-ministerial and inter-agency cooperation is on the rise, a substantive effort is required to take the investment partnership between the two countries to the next level.

The Indian Advantage

Because of the demographic and geographic advantages, RCEP would likely bring in foreign investments in the country's ailing manufacturing sector. Low cost of borrowing across the world is also likely to push in foreign multinational companies to expand their geographical foot print in terms of finding new locations for manufacturing and new markets.

Sensing these opportunities, the government has relaxed FDI norms in most of the sectors to attract foreign investments. The government expects that the relaxed norms would help India compete with other developing countries to attract FDI. Expectations are legitimate, as India had a huge demographic advantage with per capita manufacturing wages far lower than the global average.

Not only in terms of demographic advantage, but India offers a huge market to the companies bringing in the FDI. Till now, a significant portion of India’s non-oil imports is composed of electronics, advanced manufacturing goods, speciality steels, etc. This deficit offers huge opportunities for the multinational companies especially in electronics and advanced manufacturing goods to come independently or tie up with local players to set up their manufacturing base in the country.

Impediments & Competition

One of the major impediments for the foreign companies to invest in the manufacturing sector is the lack of adequate infrastructure as compared to other RCEP developing countries. Although the government has taken several steps like relaxing FDI, simplifying tax structure, increase in capital expenditure to the building of infrastructure etc. but still the country lags far behind its Asian competitors in ease of doing business.

The recent rankings by the World bank shows the country performing worse than its ASEAN counterparts in all the major parameters[25].

[24] https://www.indembassy.or.kr/pages.php?id=23
[25] http://www.doingbusiness.org/rankings

Economy	Ease of Doing Business	Construction Permits	Electricity	Getting credit	Protecting minority investors	Paying Taxes	Resolving insolvency
Cambodia	131	183	136	7	114	124	72
China	78	177	97	62	123	131	53
India	130	185	26	44	13	172	136
Indonesia	91	116	49	62	70	104	76
Lao PDR	139	47	155	75	165	146	169
Malaysia	23	13	8	20	3	61	46
Philippines	99	85	22	118	137	115	56
Singapore	2	10	10	20	1	8	29
Thailand	46	42	37	82	27	109	23
Vietnam	82	24	96	32	87	167	125

Table 14: World Bank Rankings on Ease of Doing Business

Because of this, it can be said that even if RCEP deal goes through, FDI in manufacturing as a percentage of GDP is more likely to increase in ASEAN countries as compared to India. Although these countries are not that big in size, but they offer the similar benefits which India can offer but with better infrastructure and ease of doing business.

To this date, a lot of big FDI have already gone to the ASEAN countries. Since India has already FTA with ASEAN, companies investing in ASEAN are leveraging the FTA to export goods to India. This can be clearly seen with the rising imports or widening of trade deficit with ASEAN countries post-FDI. Apart from the lack of infrastructure, the legal and physical infrastructure is not industry friendly. Examples of Cairn and Vodafone portrays a bad image of the Indian legal infra.

Conclusion

In order to leverage the RCEP deal to bring in FDI, the government needs to improve the overall business environment to make it conducive for the foreign multinational companies. The current government has taken several steps to improve the business climate in the country. In this context, one of the major upcoming moves would be to scrap Foreign Investment Promotion Board (FIPB) and allow the foreign investment to have a direct window with the concerned ministry for their project approval. This is expected to give a big boost to the country's ease of doing business and enhancing the overall business ecosystem.

Geo-Political Factors

Though India stands to lose on some fronts of negotiations and gain on others, the current geo-political environment would also play a crucial role in defining India's decision on the level of engagement in RCEP.

Strategic Imperatives

Some of the East and South-Eastern nations do not favour China when it comes to trade. They have been complaining against Chinese dumping of goods for long and hence want to limit the benefits of RCEP to China in goods trade. Some of these nations include Japan, Vietnam, India and Indonesia. Sino-Japanese trade relations, in particular, are at crossroads now. The political distance between these economies is on the rise and trade is getting affected due to looming uncertainty. For instance, Japan is increasingly pursuing a 'China Plus' strategy and is diversifying its investments and trade across Asian economies including India, Vietnam, Philippines and Indonesia. This is stemming from both the commercial front (rising labour costs in China) and the political front.[26] In the context of declining Sino-Japanese relationship, RCEP could be a potential move to liberalise and diversify Japanese trade regime yet contain China.

Maritime Security Implications

July 12th, 2016, United Nations Convention on the Law of the Sea (UNCLOS) Tribunal gave a ruling in favour of Philippines in its decade long case against China. The ruling was regarding the contested islands and waters of the South China Sea which are claimed by six countries including Taiwan, China, Vietnam, Philippines, Brunei and Malaysia. Ever since the Chinese government has rejected to abide by the judgement, international community, particularly, ASEAN has grown wary of Chinese intentions. Many scholars suggest that RCEP would be an excellent platform to bring together all the stakeholders and hold discussions to bring stability in the larger Indo-Pacific Ocean region.[27]

North Korean Nuclear Program

Despite sanctions, the North Korean Nuclear Program has been flourishing over the years. With heavy trade restrictions in place, North Korea is dependent on its trade with China for supplies of essential commodities. Since a nuclear armed North Korea pose a great security threat to the very existence of Japan and South Korea, both these nations would like to use RCEP as a bargain to cut trade between China and North Korea.

India, too, in this context for the first time cut down its trade ties North Korea. This has allowed India to be considered as one of the serious proponents of nuclear proliferation along with strengthening relations with South Korea.[28]

[26] http://thediplomat.com/2016/03/japan-and-china-the-geo-economic-dimension/
[27] http://economictimes.indiatimes.com/news/defence/the-30th-asean-summit-and-the-south-china-sea-issue/articleshow/58357339.cms
[28] http://thediplomat.com/2017/07/indias-u-turn-on-north-korea-policy/

Conclusion

India has been looking towards checking the rising dominance of China in its backyard (Indian Ocean region and borders along Pakistan, Nepal and Bhutan). Getting into RCEP would provide India with an international forum to raise its concerns as a part of large geopolitical stability context and prevent China from its practice of 'weaponizing the trade', at least in its neighbouring areas.[29]

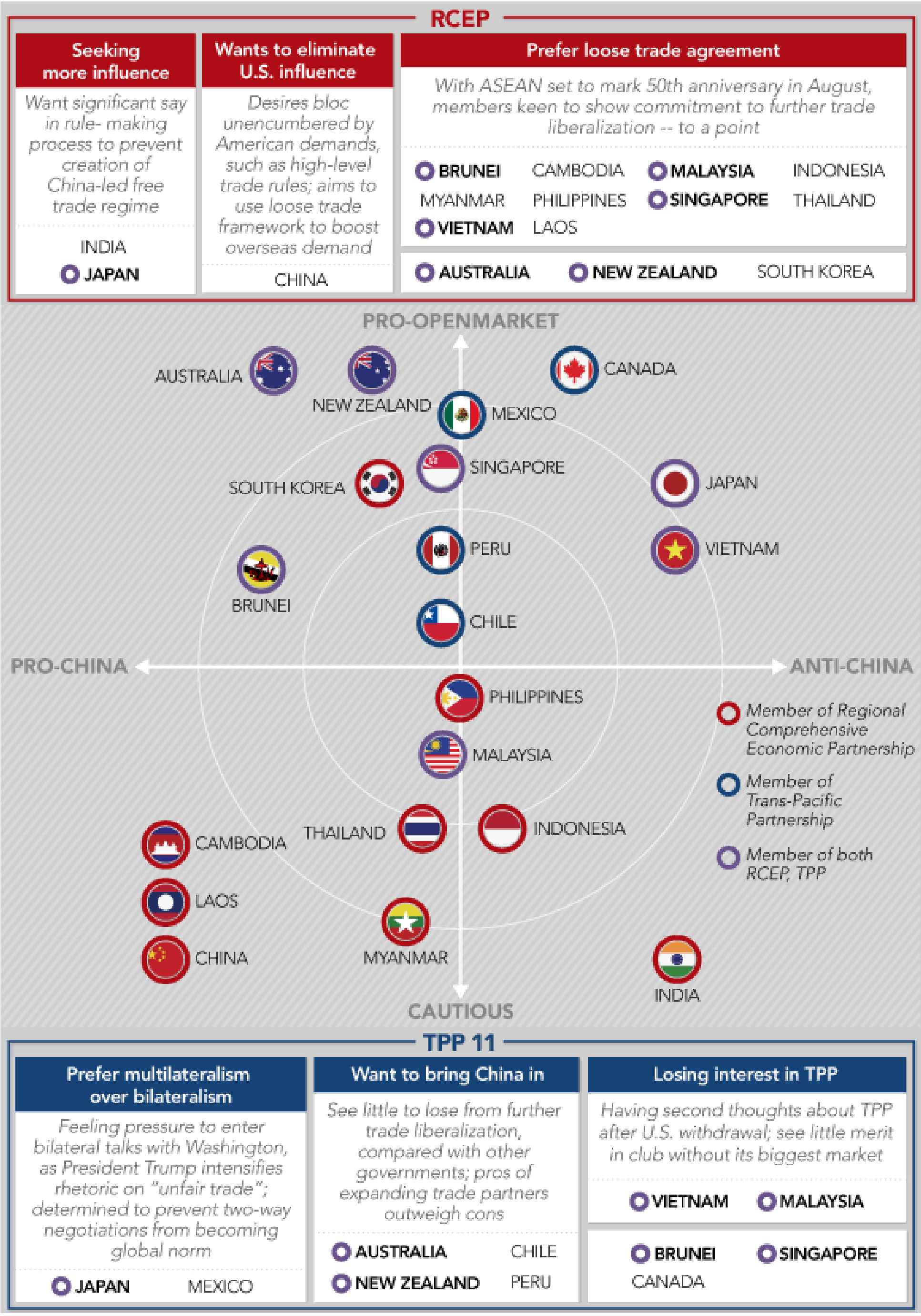


Figure 29: Geo-political Inclinations of RCEP & TPP Countries

[29]https://www.project-syndicate.org/commentary/china-weaponization-of-trade-by-brahma-chellaney-2017-07

Recommendation

India has to really think through its decision on whether to join RCEP or not. Membership at RCEP shall bring with it certain positive aspects and an equal or rather more number of negative aspects. The analysis of the RCEP membership carried out on four dimensions have to be consolidated to arrive at a conclusion on the same.

Current negotiation status on goods trade suggests that India tends to lose heavily once the goods trade is liberalised. Apart from China, even smaller economies like Vietnam, Thailand and Philippines would be able to flood Indian markets with agricultural produces and thus, increase the trade deficit further. India can enhance its exports in the areas of cotton, gems and jewellery, mineral oil and fuels, but it has to remain wary of the competition from the other member states of RCEP.

On the other hand, India has a significant advantage in the services area which can be used (currently being negotiated) to compensate the above-mentioned loss. However, this advantage is contingent upon liberal visa regime allowing smooth Movement of Natural Persons and efforts towards signing Mutual Recognition Agreements. If these two bottlenecks are somehow addressed in well manner, RCEP deal might not turn out to be that bad on the trade front.

Investments, as on current date, mark a very important area in future growth of Indian economy. The current government is working hard to revamp the overall business ecosystem in order to enhance its ranking on the ease of doing business. This in some sense would help it court more FDI inflows. Apart from corruption/bureaucracy, unpredictable tax regime is one most contentious matter which needs to be addressed. Current negotiations in RCEP meetings have asked India for more investor protection in this regard. India is a bit reluctant on this front, however, going forward it might have to naturally adopt some of these provisions as a part of broader rejig of the business environment.

Geo-politics has always been an important part of East and South-East Asia and thus cannot be denied its rightful role in RCEP. With China's aggressive stances on disputed territories in the South China Sea and its active role in the weaponization of trade, particularly in the Indian sub-continent, points towards a need for a common platform involving all the stakeholders, including China. Though the member countries have spoken against China individually, there has been no collective protest. Even ASEAN itself was coerced by China to not include UNCLOS verdict on the South China Sea in their joint statements.[30]

Once RCEP deal goes through, it is believed that China could potentially be forced to come to a common table and bargain to avoid a combined action by 15 nations together. The unity of this faction would be bolstered by the presence of Japan and South Korea, two nations which are witnessing a decline in their relations with China.

India, to its benefit, can leverage RCEP to reinstate peace in its backyard with support from Japan and South Korea. It just has to sail through the negotiations on goods and services trade following a strategy of having a carrot in one hand and stick in another. In other words, a seat at RCEP is in India’s interests. And India should work around its stance on economics in order to reap the bigger geopolitical advantages.

[30] http://thediplomat.com/2016/07/no-asean-consensus-on-the-south-china-sea/

Exhibit 1

Existing and Negotiating FTAs of India with World Countries

FTAs/ Coverage	Agriculture	Industrial Goods	Services	Investment	Trade Facilitation	Competition, IPR and Other Issues
India- Sri Lanka FTA	Moderate	Substantial	Not Covered	Not Covered	Substantial	Not Covered
SAFTA	Moderate	Substantial	Not Covered	Not Covered	Substantial	Not Covered
India-Thailand FTA - EHS	Moderate	Not Covered	Not Covered	Not Covered	Substantial	Not Covered
India-Singapore CECA	Low	Substantial	Covered	Covered	Not Covered	Covered
India-ASEAN Trade in Goods	Low	Substantial	Not Covered	Not Covered	Substantial	Not Covered
India-South Korea CEPA	Low	Substantial	Substantial	Substantial	Substantial	Covered
India-Japan CEPA	Low	Substantial	Substantial	Substantial	Substantial	Substantial
India-Malaysia CECA	Low	Substantial	Substantial	Substantial	Substantial	Covered
India-ASEAN CECA	Moderate	Substantial	Substantial	Substantial	Substantial	Covered
India-MERCOSUR PTA	Moderate	Substantial	Not Covered	Not Covered	Substantial	Not Covered
India-Chile PTA	Moderate	Substantial	Not Covered	Not Covered	Substantial	Not Covered
India-EU BTIA	Low	Substantial	Substantial	Substantial	Substantial	IPR Covered
India-EFTA BTIA	Moderate	Substantial	Substantial	Substantial	Substantial	Covered
India-SACU PTA	Moderate	Substantial	Not Covered	Not Covered	Substantial	Not Covered
India-Canada CEPA	Low	Substantial	Substantial	Substantial	Substantial	Covered
India-Australia CECA	Moderate	Substantial	Substantial	Substantial	Substantial	Covered

Table 15: Existing and Negotiating FTAs of India with World Countries[31]

[31] Kyle Robert Cote, Purna Chandra Jena, "India's FTAs and RCEP Negotiations", CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), 2015

Exhibit 2

Indian Service Exports 2010-16 (US$ Millions)

	2010	2011	2012	2013	2014	2015	2016
Services	***117068***	***138528***	***145525***	***149164***	***157196***	***156278***	***161845***
Goods-related services	-	-	134	255	383	324	265
Transport	13275	17702	17507	16916	18597	14319	15192
Travel	14490	17708	17972	18397	19700	21013	22428
Other services	***89303***	***103119***	***109913***	***113596***	***118516***	***120622***	***123961***
Construction	526	838	922	1219	1613	1483	2078
Insurance and pension services	1781	2584	2258	2144	2281	1985	2145
Financial services	5834	6249	5352	6376	5645	5344	5083
Charges for use of IPR	127	303	321	446	659	467	529
Telecommunications, computer, & IT	40508	47113	48801	53805	54535	55046	55318
Other business services	34529	38549	47091	46651	48461	50097	53202
Personal, cultural, and other services	975	345	767	1232	1266	1266	1397
Government goods and services	485	593	495	461	582	561	595

Source: UNCTAD Database

Table 16: Flow of exports from India (BPM6 Category)

Exhibit 3

History and Timeline of RCEP Negotiations

November 2011: Regional Comprehensive Economic Partnership (RCEP) was introduced.

August-September 2012: Start of negotiations to start by the end of 2012

November 2012: RCEP was endorsed and negotiations were started.

Round 1: May 2013 in Brunei

Round 2: September 2013 in Brisbane, Australia

Round 3: January 2014 in Kuala Lumpur, Malaysia

Round 4: April 2014 in Nanning, China

Round 5: June 2014 in Singapore

Round 6: December 2014 in India

Round 7: February 2015 in Thailand

Round 8: June 2015 in Japan

Round 9: August 2015 in Myanmar

Round 10: October 2015 in South Korea

Round 11: February 2016 in Brunei

Round 12: April 2016 in Australia

Round 13: June 2016 in New Zealand

Round 14: August 2016 in Vietnam

Round 15: October 2016 in China

Round 16: December 2016 in Indonesia

Round 17: February-March 2017 in Japan

Round 18: May 2017 in Philippines

Round 19: July 2017 in India

Exhibit 4

Top 10 Exports by China to Destination Countries (2016)

Source: UN Commodity Trade Database

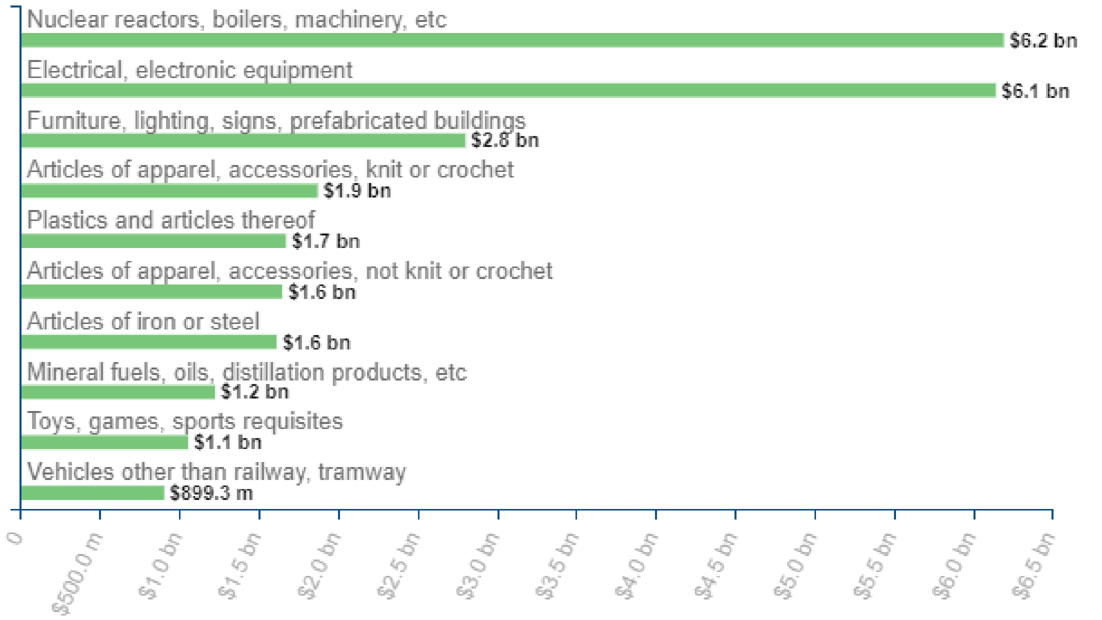


Figure 30: Top 10 Exports by China to Australia

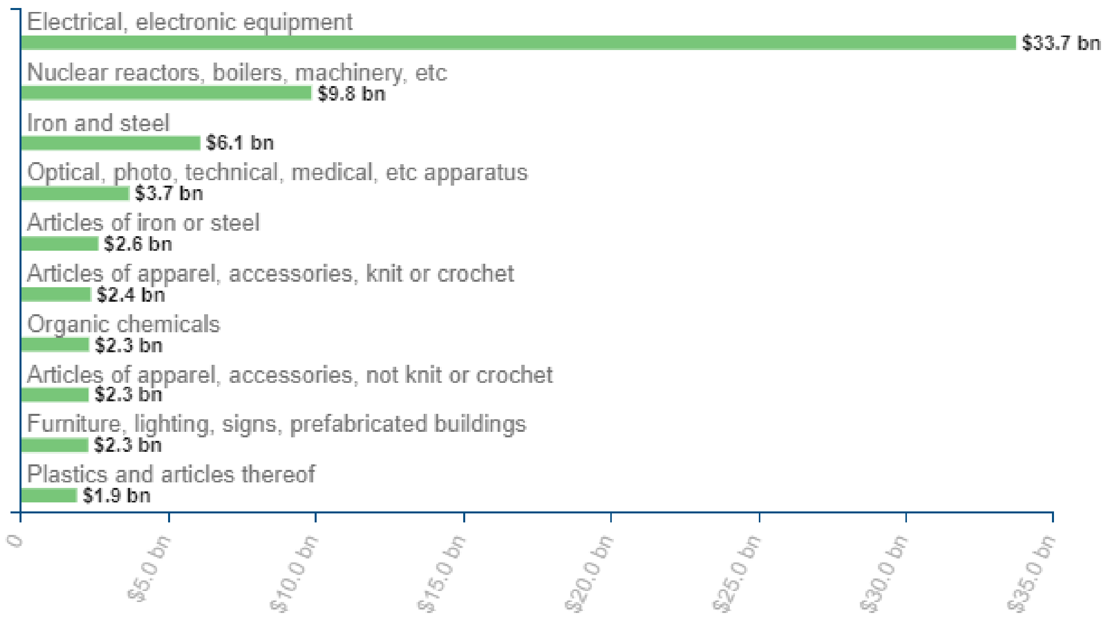


Figure 31: Top 10 Exports by China to Indonesia

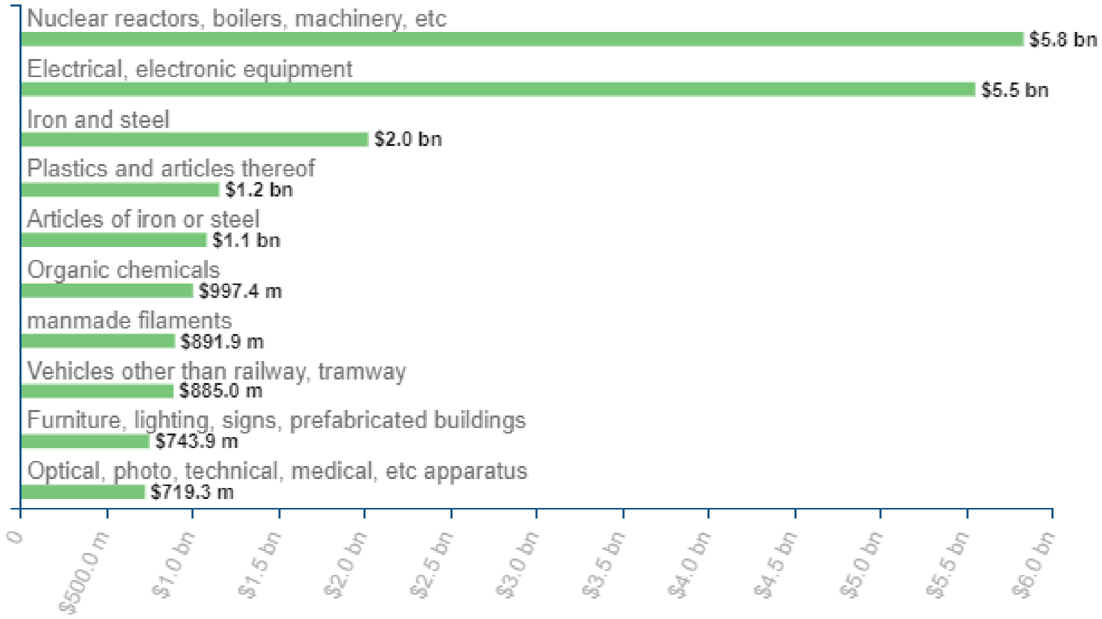


Figure 32: Top 10 Exports by China to South Korea

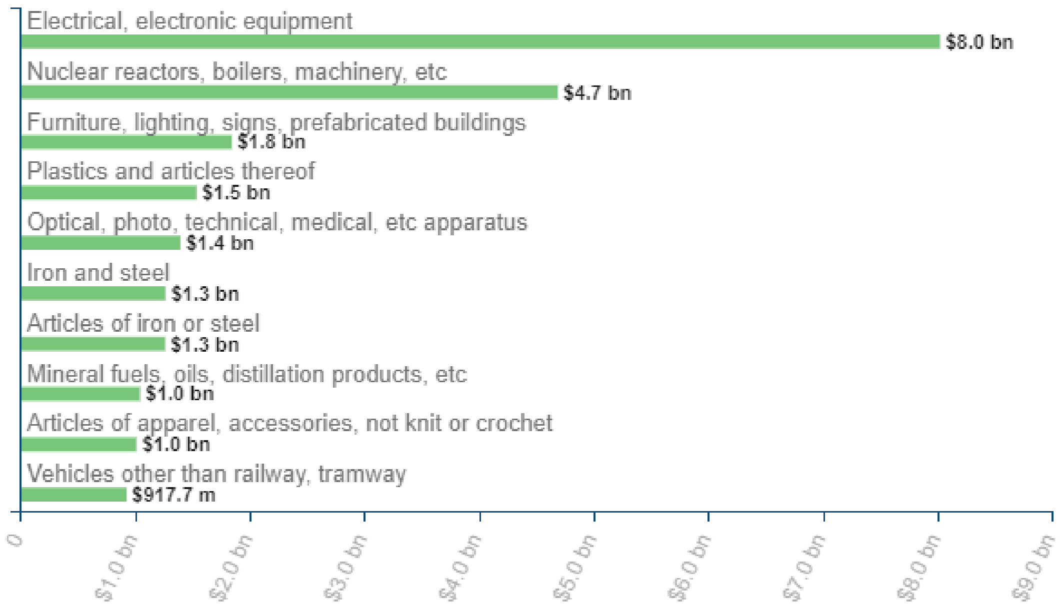


Figure 33: Top 10 Exports by China to Malaysia

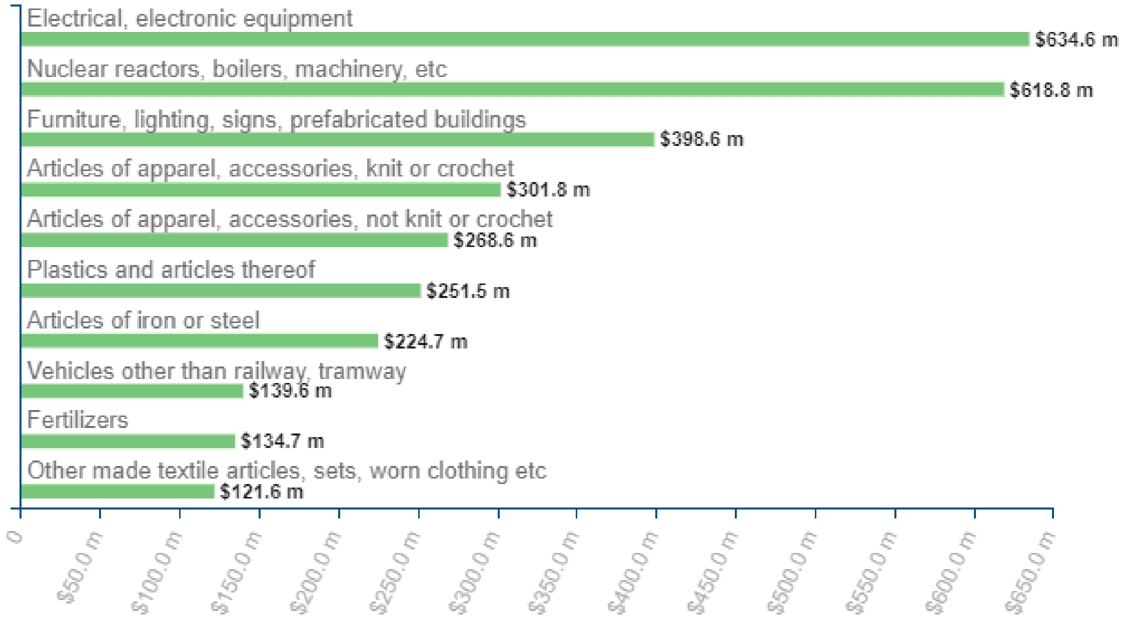


Figure 34: Top 10 Exports by China to New Zealand

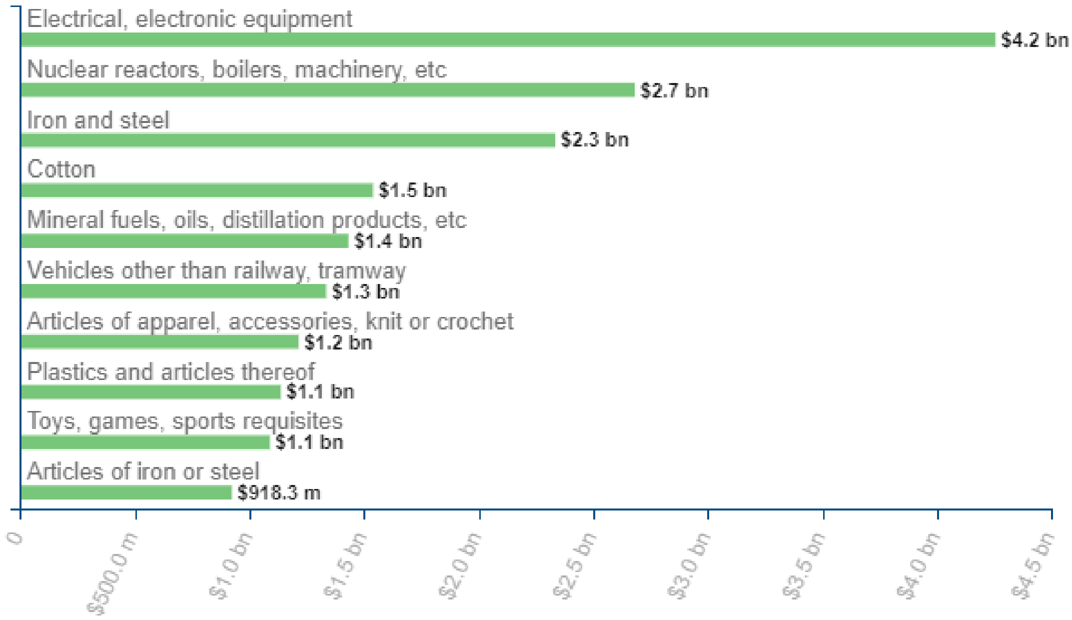


Figure 35: Top 10 Exports by China to Philippines

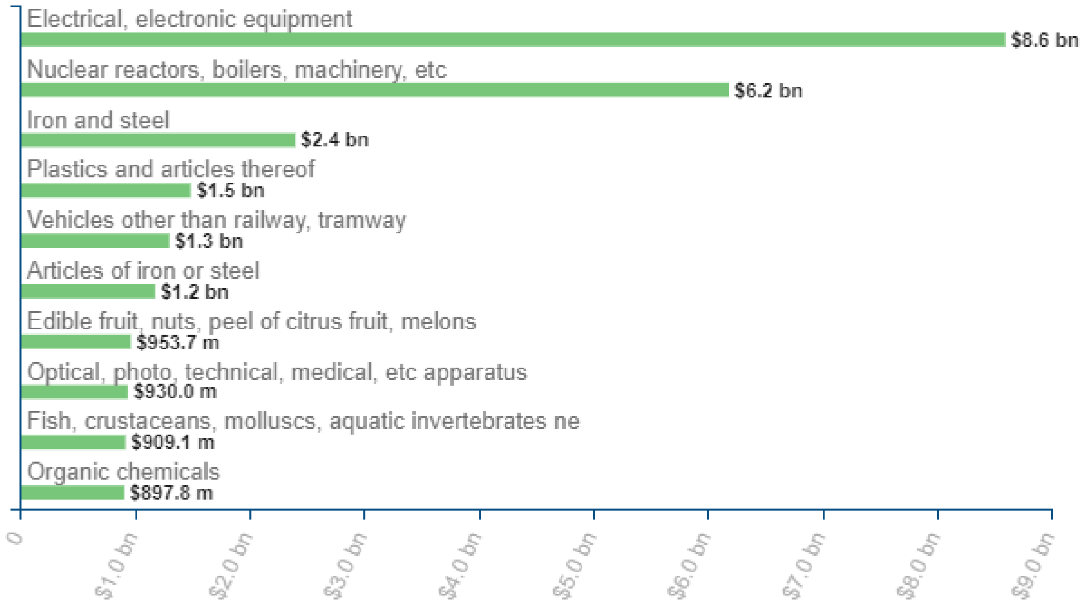


Figure 36: Top 10 Exports by China to Thailand

Exhibit 5

Top 10 Exports by Japan and South Korea to Select ASEAN Countries (2016)

Source: UN Commodity Trade Database

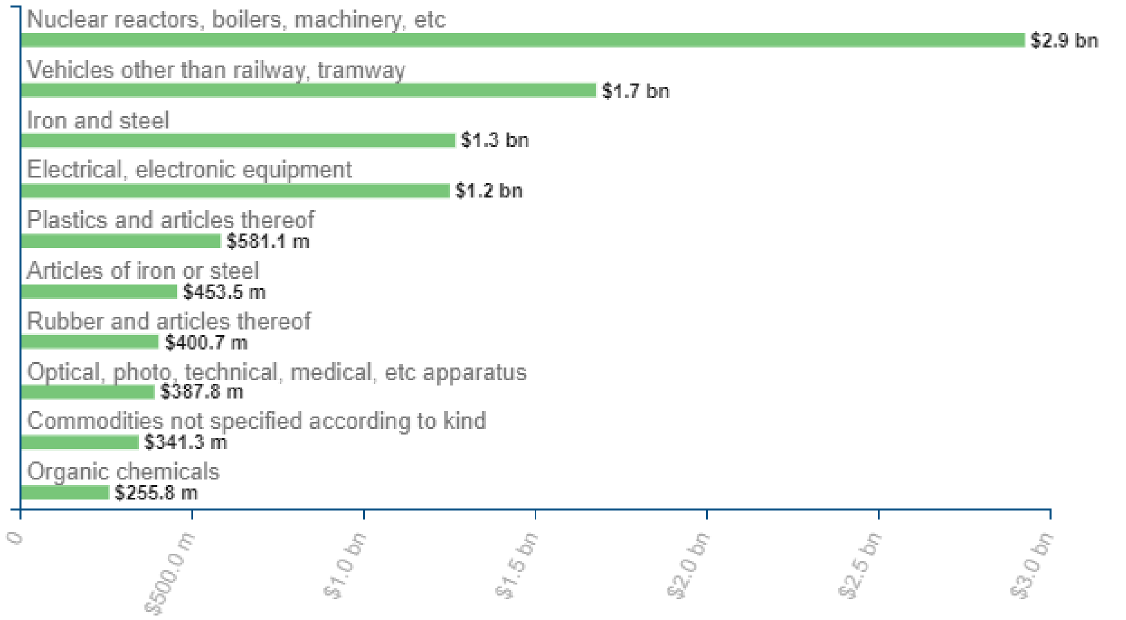


Figure 37: Top 10 Exports by Japan to Indonesia

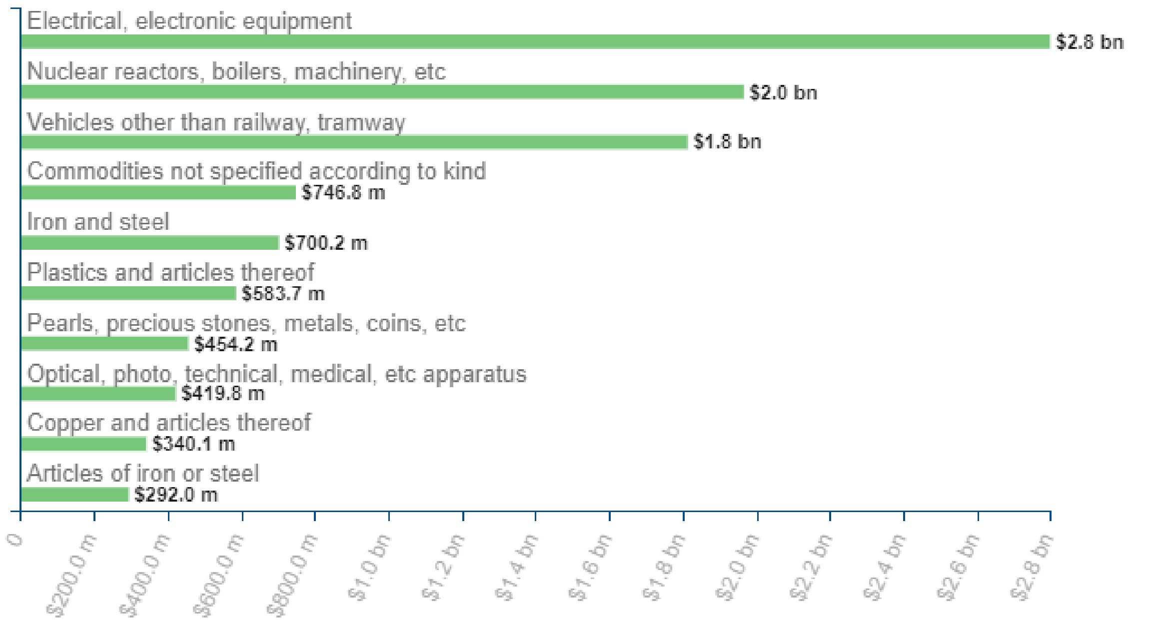


Figure 38: Top 10 Exports by Japan to Malaysia

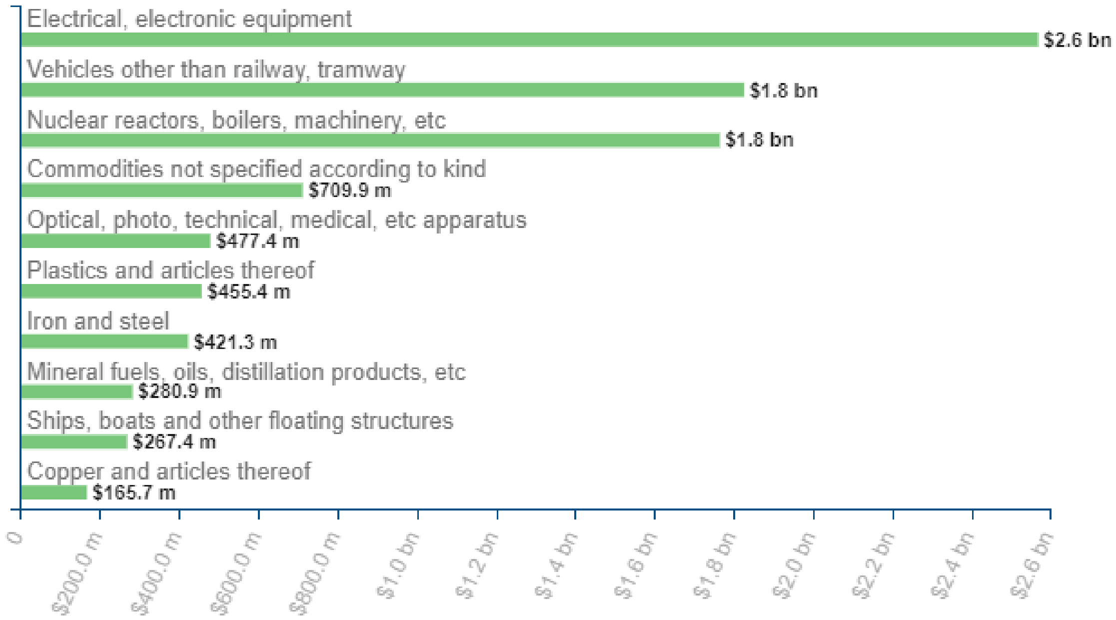


Figure 39: Top 10 Exports by Japan to Philippines

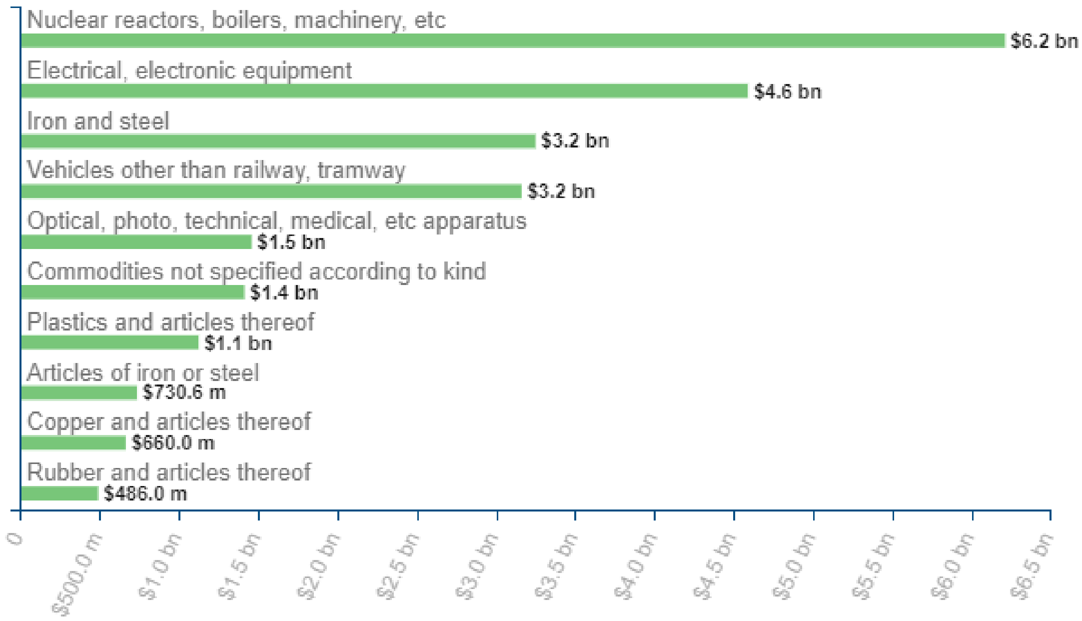


Figure 40: Top 10 Exports by Japan to Thailand

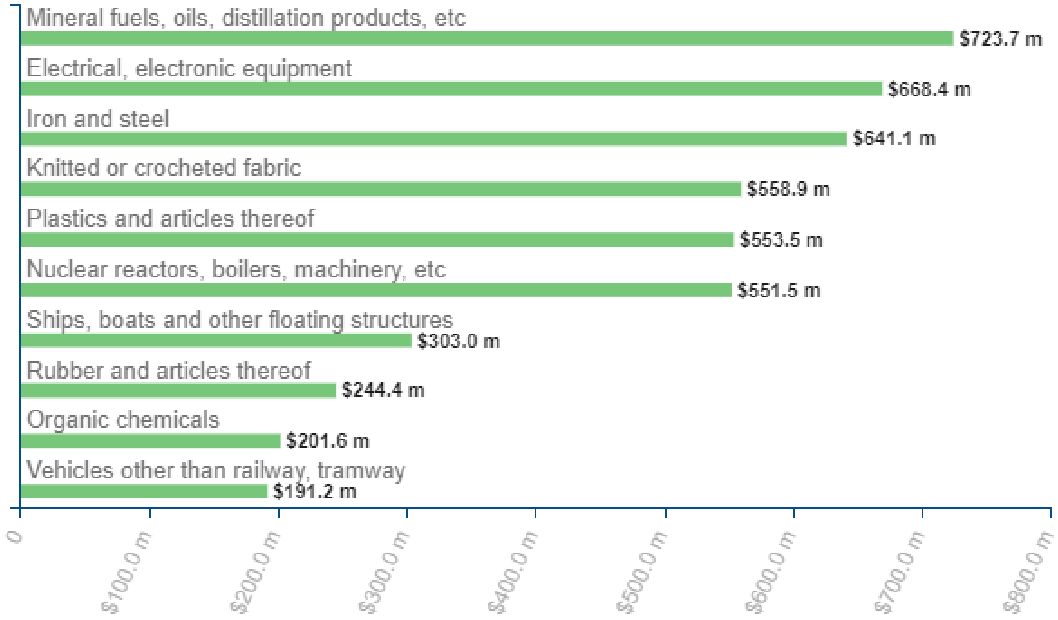


Figure 41: Top 10 Exports by South Korea to Indonesia

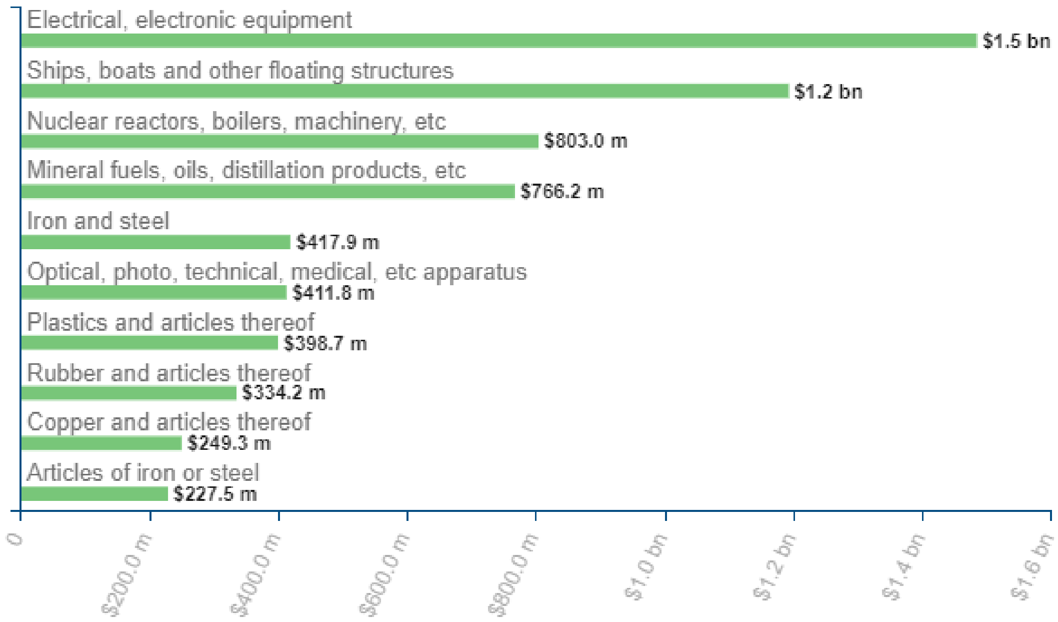


Figure 42: Top 10 Exports by South Korea to Malaysia

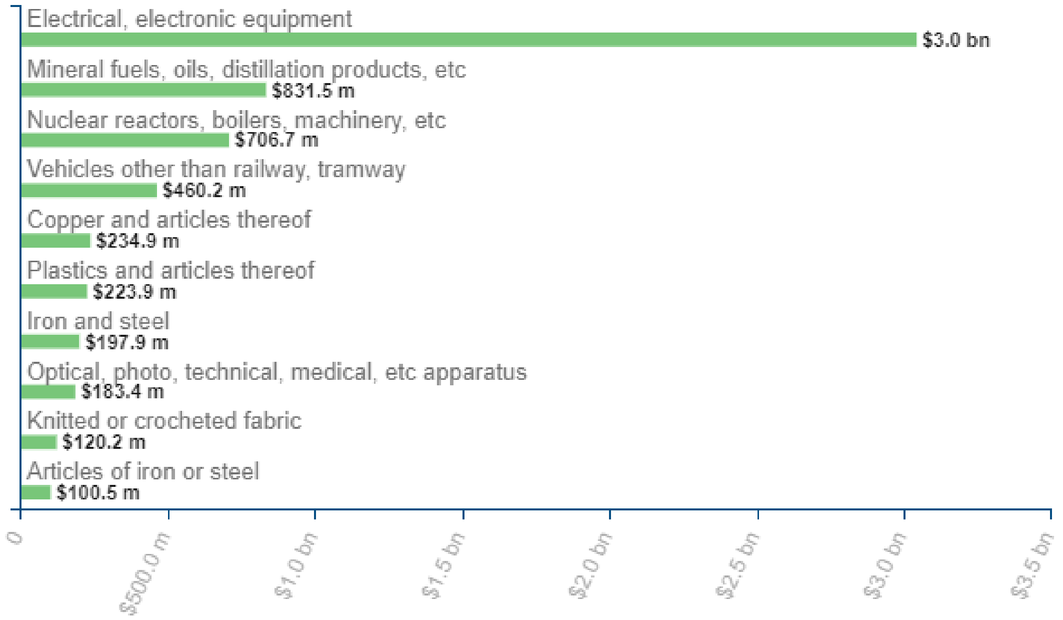


Figure 43: Top 10 Exports by South Korea to Philippines

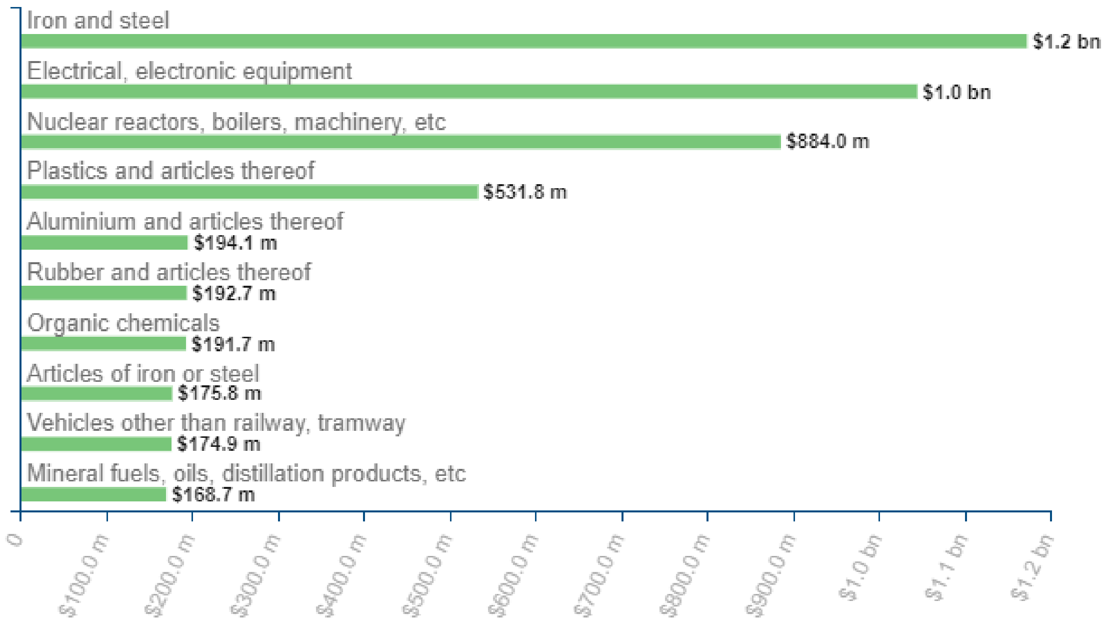


Figure 44: Top 10 Exports by South Korea to Thailand

Exhibit 6

Provisions of the EU-Switzerland FTA (Excerpt)[32]

Article 6 Right of residence for persons not pursuing an economic activity

The right of residence in the territory of a Contracting Party shall be guaranteed to persons not pursuing an economic activity in accordance with the provisions of Annex I relating to non-active people.

Article 7 Other rights

The Contracting Party shall make provision, in accordance with Annex I, for the following rights in relation to the free movement of persons:

(a) the right to equal treatment with nationals in respect of access to, and the pursuit of, an economic activity, and living, employment and working conditions;
(b) the right to occupational and geographical mobility which enables nationals of the Contracting Parties to move freely within the territory of the host state and to pursue the occupation of their choice;
(c) the right to stay in the territory of a Contracting Party after the end of an economic activity;
(d) the right of residence for members of the family, irrespective of their nationality;
(e) the right of family members to pursue an economic activity, irrespective of their nationality;
(f) the right to acquire immovable property in so far as this is linked to the exercise of rights conferred by this Agreement;
(g) during the transitional period, the right, after the end of an economic activity or period of residence in the territory of a Contracting Party, to return there for the purpose of pursuing an economic activity and the right to have temporary residence permit converted into a permanent one.

Article 8 Coordination of social security systems

The Contracting Parties shall make provision, in accordance with Annex II, for the coordination of social security systems with the aim in particular of:

(a) securing equality of treatment;
(b) determining the legislation applicable;
(c) aggregation, for the purpose of acquiring and retaining the right to benefits, and of calculating such benefits, all periods taken into consideration by the national legislation of the countries concerned;
(d) paying benefits to persons residing in the territory of the Contracting Party;
(e) fostering mutual administrative assistance and cooperation between authorities and institutions.

[32] http://www.meti.go.jp/english/report/data/2015WTO/03_03.pdf

Exhibit 7

List of International Investment Agreements (IIAs)

Source: International Investment Agreements Navigator[33]

Short Title	Status	Date of Signature	Date of Entry into Force	Date of Termination
China - India BIT (2006)	In force	21-11-2006	01-08-2007	
India - Indonesia BIT (1999)	Terminated	10-02-1999	22-01-2004	07-04-2016
India - Korea, Republic of BIT (1996)	In force	26-02-1996	07-05-1996	
India - Lao People's Democratic Republic BIT (2000)	In force	09-11-2000	05-01-2003	
India - Malaysia BIT (1995)	Terminated	03-08-1995	12-04-1997	23-03-2017
India - Myanmar BIT (2008)	In force	24-06-2008	08-02-2009	
India - Philippines BIT (2000)	In force	28-01-2000	29-01-2001	
India - Taiwan Province of China BIT (2002)	In force	17-10-2002	28-11-2002	
India - Thailand BIT (2000)	In force	10-07-2000	13-07-2001	
India - Viet Nam BIT (1997)	In force	08-03-1997	01-12-1999	

Table 17: Bilateral Investment Treaties between India and RCEP Countries

Short Title	Status	Date of Signature	Date of Entry into Force
ASEAN - India Investment Agreement (2014)	Signed	12-11-2014	
India - Malaysia FTA (2011)	In force	18-02-2011	01-07-2011
India - Japan CEPA (2011)	In force	16-02-2011	01-08-2011
India - Korea, Republic of CEPA (2009)	In force	07-08-2009	01-01-2010
India-Singapore CECA	In force	29-06-2005	01-08-2005
ASEAN-India Framework Agreement	In force	07-03-2004	01-07-2004
SAFTA	In force	06-01-2004	01-01-2006
India-Thailand Framework Agreement	Signed	09-10-2003	

Table 18: Treaties with Investment Provisions between India and RCEP Countries

[33] http://investmentpolicyhub.unctad.org/IIA