Ecowrap

'Be the Bank of Choice for a Transforming India'

BUILDING CAPABILITIES MUST FOR A FRUITFUL RCEP DEAL FOR INDIA

Issue No. 50, FY20
Date: 24 October 2019

The Regional Comprehensive Economic Partnership (RCEP) negotiations were launched by leaders from ASEAN and ASEAN's free trade agreement (FTA) partners in the margins of the East Asia Summit in Phnom Penh, Cambodia on 20 November 2012. The negotiations went through several rounds already and it is expected that the deal will be signed by the members by this year. All in all, there are 25 chapters to be negotiated. Countries have reached a conclusion on a majority of topics. **India ran a merchandise trade deficit with 11 out of the 15 other members of RCEP in 2018-19, totaling $107.28 billion. India's overall merchandise trade deficit was $184.00 billion in 2018-19**. China is the biggest trade partner among these countries.

In 2018-19, 34% of India's imports were from this region, while only 21% of India's exports went to this region. Considering the segment-wise imports and exports, India runs trade surplus in agri and allied products, textiles and gems and jewelery. However, this is miniscule compared to our deficit in other commodities. There is also a lingering concern that even the small surplus in these segments might turn into deficit once India becomes a part of RCEP. For example, in agri imports, currently India imports only a meagre amount in milk and dairy products, however imports of these products could increase if New Zealand and Australia succeed in negotiating reduced duty on dairy products. Also, there is a fear that imports of cheaper electronic and engineering goods from China could increase further post RCEP impacting manufacturing sector. Alternatively, If other countries go ahead and sign the RCEP without India, then it can be detrimental to India's export ambitions as it could miss becoming part of global supply chains for high-end goods such as electronics and engineering. **Thus India will be reaping the benefits of this trade deal only if it builds its capabilities, otherwise it runs the danger of seeing adverse impact on its domestic producers.**

In case of services exports, India is trying to push for strong agreement on services trade, including a deal on easier movement of skilled manpower. Even IMF has said that services trade could provide a substantial engine of growth for India and other South Asian economies. Additionally, India should take up the task of building high value goods at competitive prices. All these factors have to be kept in mind before entering into RCEP. India's **FTA experience so far has been mixed, with SAFTA showing trade gains post FTA, while others like ASEAN & India African FTA showing an increase in trade deficit with partners.** A long run vision which entails extensive focus on innovation and research is also needed so that Indian exports, both goods and services, are top-notch while remaining competitively priced and contributes significantly in our quest to become a $ 5 trillion economy by 2024-25, with a vision share of exports at 20% of $5 trillion!

WHAT IS RCEP?

- The Regional Comprehensive Economic Partnership (RCEP) negotiations were launched by leaders from ASEAN and ASEAN's free trade agreement (FTA) partners in the margins of the East Asia Summit in Phnom Penh, Cambodia on 20 November 2012. RCEP would initially include the ten ASEAN member states and those countries which have existing FTAs with ASEAN – Australia, China, India, Japan, Republic of Korea and New Zealand.

CURRENT STATUS

- The negotiations went through several rounds already and it is expected that the deal will be signed by this year. There are 25 chapters to be negotiated.
- India ran a merchandise trade deficit with 11 out of the 15 other members of RCEP in 2018-19, totaling $107.28 billion. India's overall merchandise trade deficit was $184.00 billion in 2018-19. China is the biggest trade partner among these countries.

IMPACT ON INDIA ON JOINING RCEP

- India already has FTAs with the ASEAN nations. However, the agri exports to these areas is marginal except for Vietnam and China. Marine and meat products, cotton, spices were the major exports. In case of manufactured goods, chemicals and related products, machinery, transport equipment, metals, textiles are the major segments. However, the whole dynamic of non petroleum products is driven by our exports to China which is our biggest export partner in this region. In case of imports, the major concern is with electronic goods and engineering goods where again China is our biggest import partner. Chemicals, ores and minerals and non-electrical machinery are other principal imports of India from the signatories of RCEP.
- In 2018-19, 34% of India's imports were from this region, while only 21% of India's exports went to this region. Considering the segment-wise imports and exports, India runs trade surplus in agri and allied products, textiles and gems and jewelery. However, this is miniscule compared to our deficit in other commodities. And there is a concern that even the small surplus in these segments can be wiped out once India becomes a part of RCEP.

India's Mechandise Trade with RCEP Members FY19($ million)

	Merchandise Imports	Merchandise Exports	Merchandise Trade Deficit
China	70,320	16,752	-53,567
Republic of Korea	16,759	4,705	-12,054
Indonesia	15,850	5,276	-10,574
Australia	13,131	3,520	-9,611
Japan	12,773	4,862	-7,911
Singapore	16,282	11,572	-4,709
Malaysia	10,819	6,436	-4,382
Thailand	7,442	4,441	-3,000
Vietnam	7,192	6,507	-685
Brunei	591	56	-535
New Zealand	631	380	-251
Laos	1	39	38
Cambodia	43	196	153
Myanmar	521	1,206	684
Philippines	581	1,744	1,163
% share	**34**	**21**	

Source: SBI Research

India's Segment wise exports and imports to RCEP* FY19($ million)

	Exports	Imports
Agricultural & allied products	10,988	8381
Ores & minerals	2,018	20927
Manufactured goods	40,077	134651
Chemicals & related products	9,912	23115
Engineering goods	16,788	50200
Electronic goods	1,994	38555
Textiles	4,068	3,460
Gems & jewellery	2,529	2329
Plastic & linoleum products	1,817	7925

Source: SBI Research, *excluding Cambodia, Brunei, Laos, New Zealand

- In the agri imports, currently India imports only a meagre amount in milk and dairy products, however imports of these products could increase if New Zealand and Australia succeed in negotiating reduced duty on dairy products. But on the other side customers will benefit as cheaper dairy products are available.
- Also, there is a fear that imports of cheaper electronic and engineering goods from China could increase further post the signing of RCEP which in turn could have negative impact on manufacturing sector.
- If other countries sign the RCEP without India, then it can be detrimental to India's export ambitions as it could miss becoming part of global supply chains for high-end goods such as electronics and engineering. However, India will be reaping the benefits of this trade deal only if it builds its capabilities, otherwise it could see adverse impact on its domestic producers.
- In case of services exports, India has an impressive track record and has put the agenda for a strong agreement on services trade, including a deal on easier movement of skilled manpower. Even IMF has said that services trade could provide a substantial engine of growth for India and other south Asian economies.

INDIA'S FREE TRADE AGREEMENTS RECORD IS MIXED

- India has entered into bilateral and regional trading agreements over the years. Majority of the agreements are with its Asian counterparts. **Overlapping RTAs are a consequence of their proliferation.**
- The merchandise trade data shows that over the span of 6 years (2014 -19), **India has improved its trade balance with SAFTA countries, as a whole. Meanwhile with the ASEAN countries, the merchandise trade deficit has widened**. India's oldest Preferential Trade Agreement, The Asia-Pacific Trade Agreement (APTA), previously named the Bangkok Agreement, has China as one of its signatories.
- In the Latin American economies with which we have the **MERCUSOR**, the trade deficit has remained small in the last 6 years. **The India Africa Trade Agreement has many signatories from Africa.** India ran the largest deficit with Nigeria, among these. **Overall, with the group under India Africa Trade Agreement, India runs a merchandise trade deficit.**
- Multiplicity of Trade agreements is leading to complexity in the trade framework. Also, according to a study, the utilization rate of India's FTAs is very low. Most estimates put it at less than 25%. Lack of information on FTAs, low margins of preference, delays and administrative costs associated with rules of origin, non-tariff measures, are major reasons for underutilization.
- Just entering into agreements and focusing on tariff reduction won't help unless, India takes up the task of building high value goods at competitive prices. All these factors have to be kept in mind before entering into RCEP.
- A long run vision which entails extensive focus on innovation and research is also needed so that Indian exports, both goods and services, are top-notch while remaining competitively priced.

India's Merchandise Trade Deficit Movement with its trade agreement partners ($ billion)

	Country	Change from 2014 to 2019
Africa (India Africa Trade Agreement)	Botswana	0.47
	South Africa	1.45
	Angola	-1.71
	Mozambique	0.99
	Zambia	0.13
	Zimbabwe	-0.03
	Cameroon	0.16
	Republic of Congo	0.39
	Ghana	3.51
	Ivory Coast	0.15
	Liberia	0.19
	Nigeria	-3.55
	Senegal	0.29
	Rwanda	-0.05
	Uganda	-0.06
	Democratic Republic of Congo	-0.15
	Mauritius	-0.11
	Seychelles	-0.03
	Tanzania	1.88
	Total	**3.92**
Latin America (MERCUSOR)	Argentina	0.67
	Brazil	2.44
	Chile	-1.60
	Paraguay	-0.06
	Uruguay	0.00
	Total	**1.45**
ASEAN	Brunei	-0.20
	Cambodia	-0.02
	Indonesia	0.67
	Laos	-0.03
	Malaysia	-0.65
	Myanmar	-1.29
	Philippines	-0.14
	Singapore	10.46
	Thailand	1.36
	Vietnam	3.53
	Total	**13.70**
	China	**17.36**
	Japan	**5.24**
	South Korea	**-8.29**
SAFTA	Afghanistan	-0.01
	Bangladesh	-2.49
	Bhutan	-0.08
	Maldives	-0.10
	Nepal	-4.20
	Pakistan	0.28
	Sri Lanka	0.63
	Total	**-5.96**
India's Total		**48.17**

Source: SBI Research, +amount indicates worsening trade deficit

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point
Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
:@kantisoumya