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Whither the Asian FTA?

Biswajit Dhar, Mint

August 13, 2012: In recent weeks, leaders of the 10-member Association of Southeast Asian Nations (Asean) have made overtures to India to join the Regional Comprehensive Economic Partnership (RCEP) that Asean members have agreed to pursue. At the conclusion of their last summit meeting in Indonesia, the leaders agreed that RCEP would be an Asean-led process under which Asean would "engage interested Asean free trade agreement (FTA) partners in establishing a RCEP agreement and, subsequently, with other external economic partners".

RCEP is aimed at establishing the centrality of Asean in the economic dynamics of Asia. For more than 15 years, since the decision by Asean member states to create an FTA, the grouping has sought to position itself as the hub in the Asian region. In order to realize this objective, the grouping adopted a carefully crafted two-pronged strategy. The first was to engage in a process of regional economic integration, the culmination of which will be the formation of FTAs with all the countries in its immediate neighbourhood; India, Japan, China, Korea, Australia and New Zealand. In a way, the grouping had succeeded in forming the hub and spoke structure by reaching out to all its major partner countries. There was, however, one major weakness in this structure—the level of economic integration was not even. While with China, Korea, Australia and New Zealand, integration was fairly deep for it included not only the goods sector, but services and investment as well. With India and Japan, the integration was rather shallow: very little progress beyond a FTA in goods has been achieved.

For RCEP to materialize, several challenges will have to be overcome. The most significant being the proposed trilateral free trade agreement between China, Japan and Korea (CJK-FTA). The CJK-FTA will be the third largest FTA next to only the North American Free Trade Agreement (Nafta) and the European Union (EU), and which according to some estimates, would cover a population of 1.5 billion and would represent 70% of the Asian economic aggregate.

The feasibility study for CJK-FTA was completed at the end of last year, which recommended the formalization of a comprehensive and a high-level agreement covering goods, services and investment, besides a host of other issues such as non-tariff barriers and intellectual property rights. Although the formal negotiations for CJK-FTA will begin towards the end of this year, leaders of the three countries took a major step some months back by signing an agreement on promoting, facilitating and protecting investments. This agreement on investment is not just the first agreement among these three countries; it establishes the institutional arrangements for the three countries to encourage investment flows. But perhaps more importantly, the investment agreement could provide the much needed political impetus that could put CJK-FTA negotiations on a fast track. And, if CJK-FTA does proceed quickly, the future of RCEP could be uncertain.

On the other hand, a successful RCEP could deal a body-blow to a more comprehensive regional economic integration that the East Asia Summit (EAS) members had initiated towards the middle of the past decade. This grouping, which brings the Asean members together with the "plus-6 countries", viz. India, Australia, New Zealand, China, Japan and Korea had agreed to forge a Comprehensive Economic Partnership for East Asia (CEPEA). The feasibility study for CEPEA was concluded in 2009 and this proposal was immediately accepted by the leaders in their summit the same year.

When it was mooted, CEPEA could have made a significant impact on at least three counts. The first was that it brought together some of the most rapidly expanding economies, which had considerable presence in the global economy. Just less than one-third of the global merchandise trade was being conducted by countries supporting CEPEA. In the commercial services trade, the share of these countries was consistently rising, aided by the performance of two of the largest countries in the developing world, viz. China and India. In terms of foreign direct investment, the Asean+6 members accounted for more than one-fifth of the inflows and were contributing more than one-sixth of the total outflows. A second factor that made CEPEA important was that forging of close ties between the strong and resilient economies could have given the global economy a much needed support, using which it could have overcome the weaknesses that it faces. A third factor was that CEPEA was truly the "second-best" solution to further the process of global economic integration, given that the "best solution" provided by the World Trade Organization (WTO) was headed nowhere. In the decade-long pursuit for finding multilateral solutions for economic integration between its member states, WTO has witnessed disagreements galore. CEPEA could have provided the much needed signal that countries can and do negotiate to further their economic engagements.

Despite its pluses, CEPEA has remained in the back-burner. With the impending threat of the region being sliced out into overlapping and competing FTAs, leaders of the member countries must take effective steps to implement CEPEA.

Biswajit Dhar is director general at Research and Information System for Developing Countries, New Delhi.

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India gets China jitters at Asean

Sidhartha, Times Of India

31 October 2012, New Delhi: India is caught in a bind over a new trade grouping, Regional Comprehensive Economic Partnership (RCEP), that Asean is trying to create with countries that have bilateral agreements with the trading bloc. Although New Delhi is keen to join the group, the proposed alliance will have China as one of the members, which has raised the worry levels in the government over the possibility of cheap imports flooding the domestic market.

For several years, India has resisted efforts to sign a free trade agreement with its neighbour as it fears that the trade deficit will widen further. The government is worried over the rising gap, which touched a record $39 billion in 2011-12 and accounted for over a fifth of the country's trade deficit of $183 billion. In fact, the commerce department had started work on a strategy to lower the burden by checking imports and pushing exports. But RCEP could force it to alter this as it will result in the 11 Asean members, along with India, China, South Korea, Japan, Australia and New Zealand agree to lower import duties on a majority of the goods.

Officials within the government are also worried as RCEP may require India to increase its commitment on intellectual property rights, a move that could hurt access to medicine and the local drug manufacturers, who have come to acquire a reputation of specializing in developing low-cost generics of patented medicines.

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India set to join talks for largest trade bloc

Sidhartha, Times of India

9 November 2012, New Delhi: India is set to join talks for creating the world's largest trade bloc, the Regional Comprehensive Economic Partnership or RCEP, comprising Asean members and three manufacturing giants - China, Japan and South Korea - after a committee headed by Prime Minister Manmohan Singh endorsed the move.

The 16 members who will launch talks in Phnom Penh later this month account for over a quarter of the world economy. Last Friday's decision by the Trade & Economic Relations Committee (TERC) signals the government's intent to drive down import duties further in the coming years, a proposal that may not get too much support from the domestic industry, although it is being sold as an attempt to increase competitiveness of local players.

In return, the government is hoping to get a sweeter deal for Indian nurses, teachers and auditors who want to work in any of the 16 initial members of the proposed RCEP, which will also have Australia and New Zealand. Of course, this will come with the promise of allowing overseas companies easier access by giving them more flexibility in FDI rules.

The biggest concern, however, is the China factor as the Indian government has so far hesitated in entering into any sort of a trade arrangement with Beijing, fearing that the market would be flooded with cheap imports and make the trade deficit look even grimmer.

But TERC is learnt to have taken the view that it would be imprudent to ignore RCEP as India was taking a 'Look East' view of the world. Besides, it is seen as the trading region of the future, with trade expanding rapidly. The fear in government circles is that entering the bloc late would entail higher commitments, including a steeper reduction in import tariffs.

The industry, however, believes that the government needs to set its house in order before engaging in a negotiation like RCEP. "If we are looking to join these talks, it is very important that we accelerate our reform process and improve competitiveness and seriously look at seamless movement of goods and services within the country," Ficci president R V Kanoria said.

RCEP is seen as a counter to the Trans-Pacific Partnership, which had Asean members such as Singapore and Malaysia apart from New Zealand as a founding member, but the agenda is now largely driven by the US, backed by Canada and Mexico. "It is important that we have our own proactive agenda so that we become a meaningful player," said Biswajit Dhar, director general of Research and Information Systems, a Delhi-based think tank.

Although India is keen on entering the RCEP talks, it is likely to pursue a defensive agenda in order to buy time for the local industry to become more competitive, sources familiar with the thinking in the government said.

Similarly, New Delhi is not in favour of including intellectual property rights as one of the issues given that it wants TRIPS, a multilateral agreement under WTO, as the guiding principle to ensure that access to cheap medicines are not stopped.

Industry, however, believes that it may be tough to slow down the talks, as the government intends to do, given the presence of at least 15 other countries. In any case, a deadline of 2015 is being proposed to clinch a deal.

But the government decision to join the talks, for which the "guiding principles and objectives" will be discussed by the leaders at the East Asia Summit this month, signals a significant shift from multilateralism to bilateralism, a strategy that India has been pursuing since the collapse of the WTO talks in Cancun in 2003.

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More FTAs, less red tape

Business Standard

22 November 2012, New Delhi:The recent summit of the Association of Southeast Asian Nations, or Asean, in Phnom Penh was noteworthy for two reasons. First, because it became clear that a powerful bloc within Asean is not willing to allow Beijing to bully its way through maritime territorial disputes, even though the host nation, Cambodia, lobbied hard for China. And second, the strong commitments from all participating nations to move forward on what is being called the Regional Comprehensive Economic Partnership, or RCEP. The RCEP is, basically, an arrangement for a putative free-trade area that will cover Asean and six major trading partners — India, China, Japan, South Korea, Australia and New Zealand. The reason this should be viewed as more than the usual freer-trade-is-good communiqué that emerges from regional talk shops is that, in this case, Asean already has free-trade agreements (FTAs) with all six of these nations. Enveloping them into one large agreement or partnership, therefore, is a step forward.

The big exception is, as usual, India. While the FTA in goods was signed in late 2009, no FTA in investment or in services has been worked out yet. And even the goods FTA, as is India's wont, was hedged about with more exceptions than Asean's other such agreements. Even the truncated version, with only about 80 per cent of tariff lines freed up, reportedly faced objections in the Union Cabinet from Congress ministers from Kerala, who were concerned about its impact on employment. Prime Minister Manmohan Singh has said, however, that an FTA on investment and in services is close; some indications are that it could be signed as early as December. If so, that is welcome, as the welfare gains are substantial from such an agreement, especially if it leads to a general RCEP-type trading zone in a world where multilateral trade talks have made little progress.

However, the great increase in goods trade with Asean countries in recent years has led some to worry about de-industrialisation of India. Competing with more efficient manufacturing units in East and Southeast Asia, it is argued, will further kill Indian manufacturing. This is a valid worry, as vibrant manufacturing is necessary to grow employment sufficiently. However, trade cannot and should not be held responsible for disasters and uncompetitiveness that are born of home-grown policy. Indian consumers cannot be expected to pay forever for Indian manufacturing's inability to modernise, or for the government's unwillingness to get out of industry's way. It isn't just about the vast disadvantages of inadequate infrastructure and restrictive labour laws. The operative problems are faulty administration and subsequent risk for producers.

Consider this newspaper's report on Wednesday that several major Indian steel producers are facing production bottlenecks due to problems with the availability of iron ore. Recent Supreme Court actions have cut the amount of iron ore mined in Karnataka to only one million tonne a month, which is less than half of what steel producers in the state require. Meanwhile, the National Mineral Development Corporation, or NMDC, isn't even mining that much — and it is, according to steel producers, altering price determination from auction-based to spot-based methods. This is far from the only place where government action is hurting producers. Attempts to introduce "pooling" of coal, for example, effectively penalise those producers who were expecting coal at a particular long-term price from Coal India to help those who were dependent on coal from overseas. It is the government's short-sightedness and capriciousness, not international trade, that continue to stifle manufacturing.

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Difficult choices in Asia's trade bloc alphabet soup

Jyoti Malhotra, Business Standard

26 November 2012, New Delhi: As India prepares to host a summit of leaders of all 10 members of the Association of South-East Asian Nations (Asean) next month, to commemorate 20 years of its partnership with the region, an alphabet soup of trade blocs threatens to shake up what till now was a relatively quiescent area.

Leading the charge is the 16-country Regional Comprehensive Economic Partnership (RCEP) unveiled in Phnom Penh, Cambodia, last week on the margins of the East Asian Summit, enthusiastically embraced by China and which includes India. When it comes into being in 2015, it will be the world's largest trade bloc.

Meanwhile, the Barack Obama administration plans to reinvigorate the Trans-Pacific Partnership (TPP), an 11-country initiative launched in the later months of the US president's first tenure, by launching free trade negotiations across the Asia-Pacific bloc. India and several other countries in the region are also part of the TPP.

With the West still ploughing through its four-year-old economic crisis, the centre of the recovery has decisively shifted to Asia. Clearly, China leads the way inside the continent. China has already signalled that it intends to assert itself in the region. Its spirited claims on the contested Spratly and Paracel islands, as well as the South China Sea, is expected to be invigorated by its new political leadership. This potential catfight between the world's greatest powers, the US and China, through the leadership of the TPP and the RCEP, is making the rest of Asia nervous. Asean is economically beholden to China but in spirit is largely supportive of US geo-strategic goals. It is also right in the middle of this argument.

India's decision to engage with Asean in the China-led RCEP has been taken after considerable thought, especially since Delhi has consistently refused Chinese overtures to build their own regional free-trade area. But when Asean decided to buy into RCEP, Delhi decided it must show solidarity with the former, with which it is commemorating 20 years of partnership next month.

In that sense, Delhi is hoping it will be able to gain from having a leg in both worlds, in the US and China, and perhaps even hopes to leverage its relatively weaker power status by postponing the moment when it will need to choose one over the other. Most importantly, India does not want to be left out of a trade bloc such as RCEP, which will cover more than half of the world's population when launched in 2015.

India and Asean are also far more comfortable with the "salad bowl" approach of RCEP, which allows both to keep their own partnerships with other countries. The US, on the other hand, wants TPP to adopt a "WTO-plus approach", where issues like the environment, climate change and human rights are integral to the business of trade. Certainly, India is uncomfortable with the latter approach. Obama's national security adviser Tom Donilon, on the other hand, has signalled that the Americans are thinking differently. On the eve of Obama's departure for the East Asian Summit, he outlined the renewed administration's Asia policy, especially with the two big powers, India and China. While the US has "given a full embrace of India's rise", Donilon said, its ties with Beijing were far more complex with "elements of both cooperation and competition", he added.

Clearly, the Americans are keen to win India in this imminent competition with the Chinese. With India's bitter memories of the way they fought with China 50 years ago still dominant and Beijing's refusal to still open its market to competitive Indian companies in the information technology and pharma sectors, Delhi believes it must lean in favour of the US. But it will hesitate to articulate this intention in so many words. Inside Asean, fractures over the US versus China issue are becoming public, as in disputes over the wording of communiques on the South China Sea dispute.

Surin Pitsuwan, head of the Asean summit, said all sides, including the US and China, understood they could not afford to let these disputes hold back “lucrative” trade agreements. "The effort is to try to isolate the two issues. Economic integration will have to go forward... because everybody is going to benefit from this new architecture," he said.

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RCEP is huge for Indian businesses - which should scale up

Surojit Gupta, Times Of India

6 February 2013: *With the budget approaching, discussions on India's economic future are growing. Ganeshan Wignaraja, director of research at the Asian Development Bank (ADB) Institute, Tokyo, spoke with Surojit Gupta about how India should look beyond and* embrace *the Regional Comprehensive Economic Partnership (RCEP). This could help Indian businesses gain access to big new markets including Chinese bazaars-but, for this to work, Indian industry will need to up its game significantly:*

We've seen certain free trade agreements (FTAs) between Asian countries recently -what's been the response from Indian business?
Well, some initial apprehensions were that most of India's agreements until recently weren't with major markets. Business interests initially thought, OK, it's only with smaller regional countries, and while this is useful for geopolitical reasons, it may not be much economically speaking. From a company point of view, you really want agreements with major markets. In India's case, this would have been the European Union, the United States and some East Asian countries. That was missing in the early days, causing some apprehension - now you have Japan and Korea. That fits very nicely with the 'Look East' policy too.

What are Asian governments doing to encourage companies towards FTAs?
There are several good practices. In East Asia, particularly Korea and Japan, now in China, they're giving a lot of business support for firms to use these agreements, particularly to small and medium enterprises. Korea has set up an independent agency to help small businesses use FTAs - they send experts to companies to help re-engineer the business process and restructure the company, so they use the FTAs better. The second is designing simple rules of origin. The third is going for comprehensive or deep FTAs - India-Japan and India-Korea are good examples. The fourth point is one should emphasise region-wise consolidated agreements rather than use bilaterals. There is a proposal called the Regional Comprehensive Economic Partnership (RCEP). India should be very active in this because RCEP could eventually create access to a bigger regional market - it will help link dynamic India with dynamic East Asia.

What happens when RCEP comes into play?
At the moment, RCEP is based on three issues - goods, services and investment. If the political will exists, there'll be a common agreement. What RCEP will do is provide for India-China trade. So that's the huge advantage for India. I know that has domestic issues. People are a little worried about India-China. In the short run, China appears to have price, quality and standards very few people can match but India has advantages in some sectors.

RCEP also provides inroads for Indian services - information and communication technology, professional services, lawyers, bankers, so India should push for that aspect in this.

RCEP is a huge opportunity for Indian businesses, small and large. But Indian businesses need to gear up for RCEP, invest in price, quality and delivery of international standards. They need to invest in technology and quality control - they need to scale up their game.

What has India's response to RCEP been?
Well, RCEP negotiations start this year. India appears to be very positive. Remember, Asean plus six was the one before and India was generally positive about that. The good thing about RCEP is it's a step-by-step process, so any country that meets the template can join. RCEP should be easy for India because it has got the India-Japan and India-Korea agreements. So, my expectation is Indian business should embrace RCEP - this has all the Asean countries in it and others as well.

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