A Quantitative Assessment of India's Withdrawal from RCEP: Issues and Concerns

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PREFACE

THE Regional Comprehensive Economic Partnership Agreement (RCEP) has been touted as a mega-regional agreement that can bring prosperity, development and well-being to the countries and peoples of the Asian region. After eight years of negotiations, at the cost of many millions of dollars, the governments of 15 countries propose to sign the deal by the end of 2020.

In their attempt to justify the deal they will undoubtedly cite anticipated economic gains that sound impressive. But behind those ball-park figures the economic case for RCEP is, as best, thin and at worst disguises serious negative impacts, both in traditional trade terms and in less quantifiable effects on healthcare, jobs, services, development, regulation of digital technologies and tax revenue.

The original 16 countries of the RCEP are the 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and six countries (Australia, China, India, Japan, New Zealand and South Korea) that already have free trade and investment agreements with ASEAN. That means they already have a complex web of agreements among them, which further reduces the prospects of significant gains. India's participation and access to its huge and potentially lucrative market was the major prize in the RCEP, especially for those countries that do not already have any free trade agreement with India - China, Australia and New Zealand.

The withdrawal of India from the RCEP in late 2019 dealt a severe blow to the ability of the remaining countries to sell the RCEP as delivering any of its projected gains.

This economic analysis uses standard economic modelling to project the economic gains that might be expected from the RCEP when it included India and once India had withdrawn. While it looks only at one aspect of the agreement that deals with traditional trade it casts serious doubt on earlier more optimistic projections and shows that the case for proceeding with the RCEP without India's participation is even less convincing. For India, the research vindicates the government's conclusion that the RCEP would impose significant costs on India's economy and in particular on the resilience of crucial areas of its economy and livelihoods.

ABSTRACT

THIS study identifies and rationalizes some of the issues and concerns that India has with signing of the RCEP. By analysing the existing trade balance, import surge trends, dumping, and agricultural sensitivities, among other factors, the study provides the justification for India's decision to remain outside of this mega FTA.

The study examines some of the issues pertaining to the India-China trade in the recent past. Further, it predicts the impact of tariff elimination under the RCEP on various macro-economic variables of the RCEP member countries by using the GTAP model under two scenarios: (1) India does not join the RCEP, and (2) India joins the RCEP.

Results show that India's GDP would be adversely affected in case India joins this agreement, and its overall trade deficit might deteriorate after joining the RCEP. In terms of the bilateral trade balance, India's trade deficit with ASEAN and China will grow steeply if it joins the agreement. The study also finds that an RCEP without India might lose its shine as the GDP of most of the other members of the RCEP would be negatively impacted by India's decision to stay out. ASEAN member countries, in particular, will be adversely impacted by the agreement in terms of their trade balance whether or not India joins the RCEP.

Finally, the study concludes that it may not be favourable for India to re-join this mega FTA.

Section 1
Introduction

AFTER protracted negotiations spanning over seven years, India, on 4 November 2019, decided against joining the Regional Comprehensive Economic Partnership (RCEP). While withdrawing from the RCEP at the 3rd RCEP Summit in Bangkok, Indian Prime Minister Narendra Modi said, '*When I measure the RCEP agreement with respect to the interests of all Indians, I do not get a positive answer.*' (Reuters 2019) The decision to withdraw from the negotiations stemmed from the potential adverse impact the agreement would have had on its economy, especially on sectors such as agriculture, dairy, and Micro, Small & Medium Enterprises (MSMEs) (Haidar and Raghavan 2019).

The RCEP, which is sometimes viewed as a response to the US-led Trans-Pacific Partnership (TPP), aims at a free trade agreement (FTA) and close regional integration among its members (Goh 2019; Mishra 2016). The negotiations on this mega FTA were launched by 10 economies of the ASEAN region – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam – and six of its free-trade partners – Australia, China, India, Japan, New Zealand, and South Korea in 2012, indicating the ASEAN-centrality of the RCEP. This agreement with all 16 countries as members would have accounted for more than 30% of the world's gross domestic product (GDP) and half of the world's population (ASEAN 2016). The proposed agreement envisaged disciplines on trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium enterprises (SMEs), among others.

Several studies have highlighted projected benefits for India if it signs the RCEP agreement. One study claimed the RCEP would provide access to new markets and enhance integration in the global supply chains (Das and Dubey 2014; Panda 2014; Hsu 2013). Another expected the agreement to lead to an increase in foreign investment, trade in services, and GDP growth (Mahadevan and Nugroho 2019; Raghavan & Haidar 2018). Even gradual reforms in the agricultural sector were touted as gains for India upon joining the RCEP (Elms and Tran 2014). The Report of the High-Level Advisory Group (HLAG) to the Indian Government also made a strong case for India to be a part of the RCEP. It observed that the RCEP would help India to participate effectively in regional value chains (RVCs) as well as global value chains (GVCs), which may have a long-lasting favourable impact on domestic economic sectors. Further, it suggested that India's engagement with other countries for preferential trade should be focused more on economic benefits rather than on geopolitical factors (HLAG 2019).

Pertinent to note here is the fact that India already has FTAs/Comprehensive Economic Partnership Agreements (CEPAs) in place with ASEAN, Japan, and South Korea. Various studies have highlighted that India has not benefited much from these FTAs (Chakraborty et al. 2019; Saraswat et al. 2018; Jha 2014). Consequently, India's trade balance with these three regions had remained negative over the years, standing at US$-38.78 billion in 2019. Given the negative trade balance under the existing FTAs, domestic stakeholders were concerned about the worsening of the trade deficit further under the RCEP. Although India does not have an FTA with China, it is currently negotiating FTAs with Australia and New Zealand. Its trade balance with these countries is also negative and increasing. The biggest concern for India remains the surge of cheap products from its trading partners, specifically China. The reduction in tariffs under the RCEP would have spurred the influx of imports in India, resulting in the displacement of the domestic industry.

Some of the sectors sensitive for India in the RCEP are agriculture, dairy, MSMEs, steel, and automobile. It was expected that agriculture and dairy, which have been traditionally protected with tariffs, would have been negatively impacted by this agreement (Dhar 2019; Das 2019; Jafri 2018). Contrarily, it was also opined that India's dairy sector could have potentially benefited by joining the RCEP agreement (Sharma and Das

2019). However, given the fact that India's dairy sector is dominated by small-scale dairy farmers, it would have been unable to compete with the large-scale and automated dairy industries of Australia and New Zealand after joining the RCEP (Verma 2020; GRAIN 2019).

The expected adverse impact of the agreement on Non-Agricultural Market Access (NAMA) products, especially those produced by MSMEs, was another crucial factor for India's withdrawal from the RCEP. The Indian steel industry, which had long been battling the dumping of Chinese steel, was against the opening of the steel sector under this mega FTA (Iyengar and Thomas 2019; Thomas 2019). Even the Indian automobile and auto-parts industries were expected to be negatively impacted due to the RCEP (Narayanan et al. 2019). To address its concerns regarding these expected import surges, India had demanded an automatic trigger safeguard mechanism for imposing additional tariffs once the volume of imports exceeded a specified threshold. However, consensus remained elusive on this issue and India's concerns remain unaddressed (Pant and Sarma 2019).

India had also sought to strengthen the rules of origin in a bid to check the rerouting of imports of a country/member through another member of the RCEP, but other members remained reluctant (Pant and Sarma 2019). Another contentious issue was the 2014 base year that was proposed for the calculation of tariff reductions. India was seeking a more recent base year for determining the tariff commitments. The reason for this demand was that India had raised tariffs on various lines since the negotiations started and keeping the base at 2014 would have not given India the benefit of higher and increased applied tariffs (**Table 3**). Finally, India also had concerns regarding the proposed disciplines on intellectual property (Mueller 2019). These rules went beyond what had been established under the World Trade Organization (WTO) and would have impacted the Indian generic drug market (Verma 2020).

Domestically as well, there were many outstanding issues. Joining the RCEP would have undermined the flagship 'Make in India' programme of the government that sought to make India a manufacturing powerhouse (Ghosh 2019a). Based on all these concerns, India decided against signing the RCEP agreement in 2019, which undoubtedly was a major blow to this mega FTA. With India's population of 1.31 billion, along with a huge market, the RCEP without India definitely loses some of its sheen (Ghosh 2019b). Other members such as Japan have urged India to reconsider its withdrawal, expressing their willingness to address its concerns (Chellany 2019).

In this context, this paper examines the various concerns of India under the RCEP, especially trade deficit and potential import surges after the tariff liberalisation. More specifically, this paper identifies the import surge in agricultural, and non-agricultural Chinese, goods in India based on historical data by using the volume-based special safeguard mechanism (SSM) methodology as prescribed in the Doha development round of the WTO negotiations (WTO 2008). Further, the implications of tariff elimination under the RCEP agreement on various macro-economic indicators of different international regions with a specific focus on India have also been examined by a comparative analysis under two scenarios: (1) India continues to remain out of the RCEP; and (2) India signs the RCEP. This comparative analysis has been undertaken based on a computable general equilibrium model namely the Global Trade Analysis Project (GTAP) static model.

This paper is divided into five sections. The second section explains the methodology adopted in the paper. The third section evaluates the sensitivities that India has regarding the RCEP, and the fourth section deals with the results regarding tariff elimination under two scenarios based on the GTAP model. The fifth section sums up the findings of this study.

Section 2

Methodology

THE study has used descriptive statistics as well as the standard GTAP comparative static model to assess the likely impact of the RCEP negotiations on various regions. Relevant data and literature have been used to highlight the various issues and concerns that India has with the RCEP.

One of the major concerns for India is the import surge of Chinese goods in the domestic market after the elimination of tariffs under the RCEP. To examine the basis for this concern, the study has calculated the import surge of Chinese goods in India for the year 2018 and 2019. To investigate the issue of import surge across all the goods, this study adopted the provisions related to the volume-based Special Safeguard Mechanism (V-SSM) in the revised draft modalities text of agriculture negotiations (WTO 2008). As per this text, V-SSM can be invoked on agricultural goods if the current year import is at least 10% higher than the average volume of import of a concerned product during the last three years (base import). Once the import surge is more than 10%, a developing member has the flexibility to increase the applied tariff on that product. The revised text modalities provide for a tier system to impose additional tariffs in the wake of import surge. It is to be noted that SSM in the WTO negotiations is discussed with respect to the agricultural goods.

Though the RCEP members have discussed the auto-trigger to safeguard domestic stakeholders from the import surge, its modalities are not public. Due to the absence of this information in the public domain, import surges across agricultural and NAMA goods have been identified based on an increase in current import by more than 10% in comparison to base import. For this purpose, India's import from China on a volume basis has been extracted at six digits for all tariff lines from the World Integrated Trade System (WITS). This exercise may test the hypothesis about the import surges of Chinese goods in the Indian market.

Table 1: Regional aggregation by mapping 141 regions into 10 broad regions

No.	New Region Code	Region's description
1	ASEAN	Brunei Darussalam
		Cambodia
		Indonesia
		Lao People's Democratic Republic
		Malaysia
		Philippines
		Singapore
		Thailand
		Vietnam
2	Australia	Australia
3	New Zealand	New Zealand
4	China	China
5	Japan	Japan
6	South Korea	South Korea
7	India	India
8	USA	United States of America
9	EU_28	28 countries of European Union
10	Rest of World	Remaining 97 regions/countries

Note: Myanmar is not included in ASEAN due to non-availability of data in the GTAP database.
Source: Authors' compilations based on GTAP database 10

This model has used GTAP database version 10 which has data with the reference year 2014 for 141 regions and 65 sectors. For simplicity in the analysis of the results, the 141 regions have been mapped into 10 broad regions, namely ASEAN, Australia, New Zealand, China, Japan, Korea, India, the USA, the European Union including the United Kingdom, and rest of world (**Table 1**). Pertinently, it must be noted that ASEAN has 10 members; however, due to the non-availability of data in the GTAP database for Myanmar, the ASEAN group represents nine countries excluding Myanmar. Further, the 65 sectors have been broadly categorised into 10 sectors (**Table 2**).

Table 2: Sectoral aggregation by mapping 65 goods sectors into 10 broad sectors

New Code	Coverage	New Code	Coverage
GrainsCrops (Grains and Crops)	Paddy rice	**LightMnfc** (Light Manufacturing)	Leather products
	Wheat		Wood products
	Cereal grains nec		Paper products, publishing
	Vegetables, fruit, nuts		Chemical products
	Oil seeds		Basic pharmaceutical products
	Sugar cane, sugar beet		Rubber and plastic products
	Plant-based fibres		Metal products
	Crops nec		Motor vehicles and parts
	Processed rice		Transport equipment nec
MeatLstk (Livestock and Meat)	Bovine cattle, sheep and goats		Manufactures nec
	Animal products nec	**HeavyMnfc** (Heavy Manufacturing)	Petroleum, coal products
	Raw milk		Mineral products nec
	Wool, silk-worm cocoons		Ferrous metals
	Bovine meat products		Metals nec
	Meat products nec		Computer, electronic and optic
Extraction (Mining and Extraction)	Forestry		Electrical equipment
	Fishing		Machinery and equipment nec
	Coal	**Util_Cons** (Utilities and Construction)	Electricity
	Oil		Gas manufacture, distribution
	Gas		Water
	Minerals nec		Construction
ProcFood (Processed Food)	Vegetable oils and fats		Real estate activities
	Dairy products	**OthServices** (Other Services)	Accommodation, food and service
	Sugar		Financial services nec
	Food products nec		Insurance
	Beverages and tobacco		Business services nec
TextWapp (Textiles and Clothing)	Textiles		Recreational and other service
	Wearing apparel		Public administration and defence
TransComm (Transport and Communication)	Trade		Education
	Transport nec		Human health and social work
	Water transport		Dwellings
	Air transport		
	Warehousing and support activities		
	Communication		

Note: nec – Not elsewhere classified
Source: Authors' compilations based on GTAP database 10

Further, to estimate the impact of tariff elimination under the RCEP on different regions, a multi-sector and multi-region Computable General Equilibrium (CGE) GTAP Static model has been used for simulation. The results of CGE simulation represent the impact of exogenous shock such as tariff elimination on the endogenous variables like GDP, export, import, output, among others. The difference between the base and simulated data represents the impact of exogenous shocks across regions and sectors (WTO 2012). Unlike the dynamic model, it ignores the time path of the impact of policy change (Gilbert 2013; Narayanan and Sharma 2016). All the simulations reported in this paper may be thought of as occurring in one shot over a time period that is needed to reach an equilibrium. In other words, results show the total impact of a policy change on various macro-economic variables and ignores the time path. This model is based on multiple standard economic assumptions which are too simplistic such as perfect competition, the constant return to scale, profit or utility-maximising behaviour of various agents of the economy (Hertel 1997). Studies that do incorporate imperfect competition tend to generate welfare estimates that are roughly double those of competitive models (Gilbert 2013). This study does not capture the service sector trade reforms and thus underestimates the potential impact of service liberalisation. Data aggregation is an important issue, since the result may be different if one does detail sectoral and country-level analysis (Banga 2019).

The GTAP model has been run under two scenarios by assuming complete elimination of tariff among the RCEP members including intra-ASEAN but maintained for non-RCEP regions. Under Scenario 1, it is assumed India is not a member of the RCEP, whereas Scenario 2 includes India as a part of this mega FTA. It is unlikely that the RCEP members may eliminate tariffs among themselves, as each member may have their sensitive list of sectors, which they want to protect due to various socio-economic factors. However, complete elimination of tariff may provide the opportunities and challenges for the various regions under the maximalist trade liberalisation in the RCEP. It is to be noted that tariff reductions under the FTAs are generally implemented in a phased manner over a period. However, this study has considered a scenario of immediate tariff elimination after the agreement. We consider this as a hypothetical case that provides the maximum possible liberalisation of trade based on tariffs.

Non-tariff barriers are out of the scope of this study, however, which makes our results relatively more conservative than what may happen in reality, because reducing such barriers could also have been part of the RCEP negotiations. Additionally, given that unemployment is a general phenomenon, the standard closure has been changed by modifying the full employment assumption for unskilled workers. We assume sticky real wages for unskilled labour and let the aggregate employment of unskilled labour adjust downward or upwards in response to changes in supply and demand. For skilled labour, we assume full employment and completely flexible real wages. Therefore, a reduction in overall demand for skilled labour would get translated into a reduction in the real wages of skilled labour, while keeping the skilled employment constant. In contrast, a reduction in overall demand in real wages of unskilled labour would get translated into a reduction in employment of unskilled labour, while keeping the real wages for unskilled labour constant.

Section 3

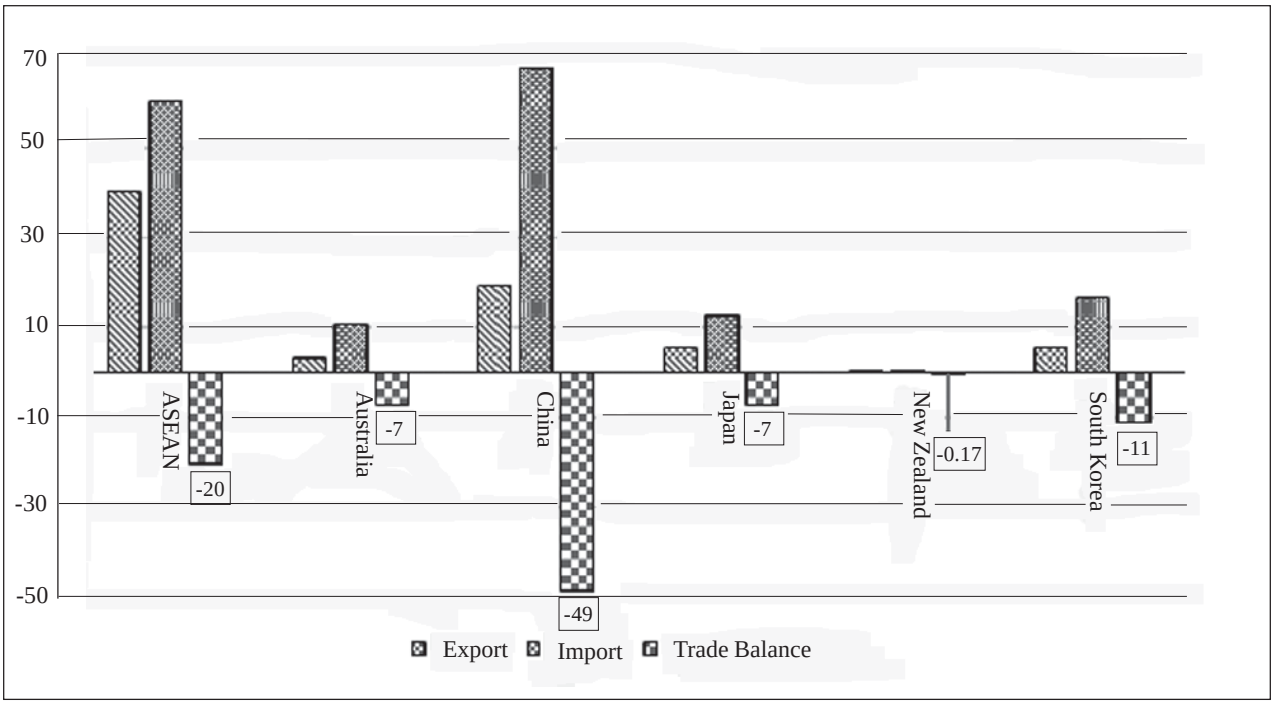
RCEP Negotiations and Sensitivities for India

TO examine the implications of the RCEP, it is necessary to assess the existing trade pattern, tariff structure, import surges and other related concerns that India has regarding the RCEP. These are dealt with in the following sub-sections.

3.1 Trade balance in goods

The examination of the trade balance is an important consideration for estimating the future trend in trade for India if it joins the RCEP. Perhaps the most important issue raised time and again is India's negative trade balance with the RCEP members (**Figure 1**). It is undisputed that India's trade balance is negative with almost all of the RCEP members with the exception of a few, mainly small economies of ASEAN namely Cambodia, Lao PDR, Myanmar and the Philippines. India has a negative total trade balance of US$-94.9 billion with the RCEP members, which comprises US$-1.3 billion in agricultural and US$-93.6 billion in NAMA products in 2019. The share of the RCEP regions in India's total export and import was 20.3 and 28.9% respectively (**Table 3**).

Figure 1: India's trade balance with the other RCEP members in 2019 (Billion US$)



Source: Authors' compilation based on WITS data

In agriculture, India has a positive balance of trade with Japan, South Korea and China, whereas it is unfavourable with ASEAN, Australia and New Zealand. India has a US$-2.9 billion negative balance of trade with ASEAN, mainly due to significant imports of vegetable oil from Indonesia and Malaysia. It is observed that India's negative trade balance with the RCEP is principally on account of NAMA products and the share of agricultural products in this is minuscule by comparison. Almost half of India's total trade deficit with the RCEP is on account of its negative trade balance with China, amounting to almost US$-48.7 billion. Given the existing trade structure, it is expected that further liberalisation under the RCEP may worsen the trade deficit for India and make it vulnerable to import surges.

Table 3: India's trade balance in agricultural and NAMA products with the RCEP members in 2019 (Million US$)

	Agriculture			Non-agriculture			Total Trade		
Region	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
Australia	277	326	-49	3,048	10,266	-7,217	3,325	10,592	-7,266
Brunei	15	-	15	42	1,160	-1,118	57	1,160	-1,103
Cambodia	11	4	7	193	43	151	204	47	158
China	1,433	549	883	17,872	67,471	-49,599	19,305	68,020	-48,715
Indonesia	798	3,355	-2,557	3,859	12,347	-8,489	4,657	15,702	-11,045
Japan	353	19	333	5,039	12,571	-7,532	5,392	12,591	-7,199
Korea, Rep.	377	15	362	5,068	16,716	-11,648	5,445	16,731	-11,286
Lao PDR	3	-	3	26	2	24	29	3	27
Malaysia	834	2,549	-1,715	6,709	10,054	-3,345	7,543	12,603	-5,060
Myanmar	220	371	-151	772	136	636	992	507	486
New Zealand	54	81	-27	332	477	-145	386	558	-172
Philippines	253	50	202	1,420	506	913	1,673	557	1,116
Singapore	252	609	-357	14,891	14,906	-14	15,143	15,515	-371
Thailand	469	302	166	4,001	6,748	-2,747	4,470	7,051	-2,581
Vietnam	1,898	403	1,495	3,622	7,042	-3,420	5,520	7,445	-1,925
RCEP total	7,247	8,634	-1,387	66,894	160,445	-93,551	74,141	169,079	-94,939
ASEAN	4,753	7,643	-2,890	35,535	52,944	-17,409	40,288	60,587	-20,299
Non-ASEAN RCEP	2,494	991	1,503	31,359	107,501	-76,142	33,853	108,492	-74,639
World	30,719	22,617	8,102	334,880	562,908	-228,028	365,599	585,525	-219,926
Share of different regions in India's global trade %									
China	4.7	2.4	10.9	5.3	12.0	21.8	5.3	11.6	22.2
RCEP total	23.6	38.2	-17.1	20.0	28.5	41.0	20.3	28.9	43.2
ASEAN	15.5	33.8	-35.7	10.6	9.4	7.6	11.0	10.3	9.2
Non-ASEAN RCEP	8.1	4.4	18.6	9.4	19.1	33.4	9.3	18.5	33.9

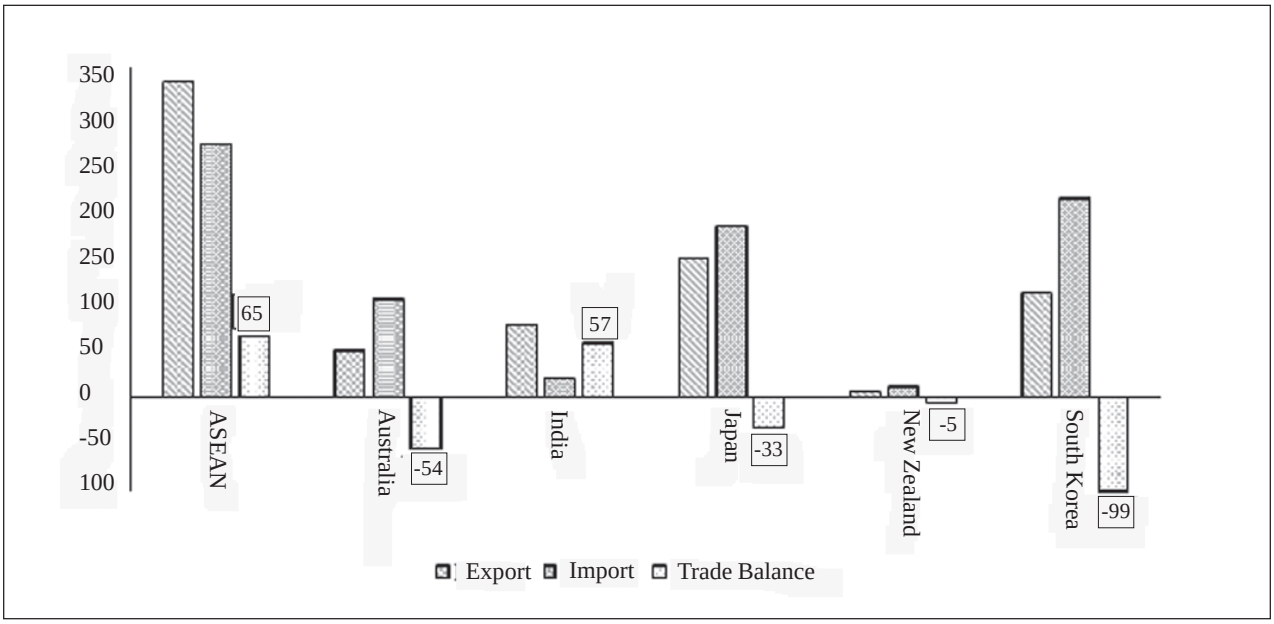
Source: Authors' compilation based on WITS data

Table 4: China's trade balance in agricultural and NAMA products with the RCEP members in 2018 (Million US$)

Partners	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
Australia	762	9,765	-9,003	48,437	93,704	-45,266	49,200	103,469	-54,270
Brunei	16	-	16	1,583	248	1,335	1,599	248	1,351
Cambodia	55	199	-144	5,984	1,176	4,808	6,039	1,375	4,664
India	495	1,048	-553	76,336	18,785	57,552	76,832	19,833	56,999
Indonesia	2,168	5,451	-3,284	41,536	29,213	12,323	43,704	34,664	9,040
Japan	6,848	776	6,072	141,369	180,459	-39,090	148,217	181,235	-33,018
Korea, Rep.	3,355	915	2,440	107,453	209,282	-101,830	110,807	210,197	-99,390
Lao PDR	42	182	-140	1,357	1,451	-94	1,399	1,633	-234
Malaysia	2,000	2,589	-589	44,802	67,978	-23,176	46,802	70,567	-23,765
Myanmar	544	193	351	9,774	3,524	6,250	10,318	3,716	6,602
New Zealand	157	6,689	-6,533	5,643	4,369	1,275	5,800	11,058	-5,258
Philippines	1,384	915	468	36,188	19,765	16,423	37,572	20,680	16,891
Singapore	606	296	310	58,546	35,753	22,793	59,152	36,049	23,103
Thailand	2,482	5,383	-2,901	40,631	40,096	535	43,113	45,479	-2,366
Vietnam	5,096	2,516	2,580	79,719	52,429	27,289	84,815	54,945	29,869
RCEP	26,009	36,919	-10,910	699,359	758,230	-58,872	725,368	795,149	-69,781
ASEAN	14,392	17,725	-3,333	320,120	251,632	68,488	334,512	269,357	65,155
Non-ASEAN RCEP	11,617	19,194	-7,577	379,239	506,599	-127,360	390,856	525,792	-134,937
World	57,667	123,821	-66,154	2,468,110	2,240,595	227,515	2,525,777	2,364,416	161,361
Share of different regions in India's global trade %									
India	0.9	0.8	0.8	3.1	0.8	25.3	3.0	0.8	35.3
RCEP	45.1	29.8	16.5	28.3	33.8	-25.9	28.7	33.6	-43.2
ASEAN	25.0	14.3	5.0	13.0	11.2	30.1	13.2	11.4	40.4
Non-ASEAN RCEP	20.1	15.5	11.5	15.4	22.6	-56.0	15.5	22.2	-83.6

Source: Authors' compilation based on WITS data

Figure 2: China's trade balance with the other RCEP members in 2019 (Billion US$)



Source: Authors' compilation based on WITS data

With the emergence of China as a major economic power, it is also interesting to examine its trade pattern with the other RCEP members. Except for India and Japan, China has already free trade agreements with all the other RCEP countries. At the aggregated level, China has a negative trade balance in agriculture and NAMA of US$-69.78 billion with the RCEP members **(Table 4)**. With India and ASEAN, the trade balance is in favour of China to the tune of US$122.15 billion. However, with the other remaining members of the RCEP, namely Australia (US$-54.27 billion), Japan (US$-33.02 billion), South Korea (US$-99.39 billion), and New Zealand (US$-5.29 billion), China has a total negative trade balance of US$-191.94 billion (**Figure 2**). Even though India does not have an FTA with China, its trade balance is unfavourable even under the existing tariff structure. Reduction in tariffs under the RCEP by India has the potential to further deteriorate the balance of trade with China. Other countries may not share India's sentiment regarding China, because most of them already have China as an FTA partner.

Further, except for ASEAN, the existing trade pattern is favourable to other countries of the RCEP. The existing unfavourable trade pattern with the RCEP members explains to some extent the concerns of Indian stakeholders with this mega-FTA.

3.2 Import surge of Chinese products in India

Another pertinent question that arises is whether concerns of India regarding an import surge of Chinese goods have any valid basis. To examine this issue, volume-based import surge has been calculated at a six-digit level of the harmonised system of product classification for the years 2018 and 2019. The main idea behind it is to see whether the import of a product in quantity terms has increased more than 10% of the moving average import of the last three years, also known as the base import. This highlights the level import surge of Chinese goods in India under the existing tariff structure, and before undertaking any tariff reduction commitments under the RCEP.

It can be observed from **Table 5** that India faced an import surge from China on 61.1 and 45.6% of the tariff lines under which imports occurred in 2018 and 2019 respectively. In 2018, India's import from China covers 4,193 tariff lines; India experienced an import surge of more than 10% on 2,562 of those tariff lines when compared to base import. Interestingly, on 1,807 tariff lines, the import surge of Chinese products was more than 60%.

Table 5: Volume-based import surge in India on account of imports from China

S.N.	% Import Surge distribution	Number of Tariff Lines					
		Agriculture		NAMA		Total	
		2018	2019	2018	2019	2018	2019
1	≤ 0	154	159	1,356	1,911	1,510	2,070
2	0-10	5	7	116	207	121	214
3	10-20	8	12	163	224	171	236
4	20-30	7	5	147	207	154	212
5	30-40	7	4	141	145	148	149
6	40-50	4	4	148	119	152	123
7	50-60	5	7	125	114	130	121
8	>60	76	66	1,731	1,009	1,807	1,075
9	Others (N/A)	397	399	461	452	858	851
10	**Total Lines**	**663**	**663**	**4,388**	**4,388**	**5,051**	**5,051**
11 = (10-9)	Total lines excluding N/A	266	264	3,927	3,936	4,193	4,200
12 = sum (3 to 8)	Import Surge >10%	107	98	2,455	1,818	2,562	1,916
13= (12/11*100)	**% of lines of import surge**	**40.2**	**37.1**	**62.5**	**46.2**	**61.1**	**45.6**

Source: Authors' calculations based on WITS database

Table 6: India's import from China as per tariff distribution in 2018 and 2019

	2018		2019	
Applied Duty	Million US$	%	Million US$	%
Total Import	**89,652**	100.00	**67,951**	**100.00**
Import at 0 %	11,516	12.84	10,196	15.01
0-5%	4,928	5.5	3,155	4.64
5-10%	53,277	59.43	38,077	56.04
10-20%	16,520	18.43	13,383	19.7
20-30%	2,608	2.91	2,403	3.54
30-40%	25	0.03	41	0.06
40-50%	17	0.02	14	0.02
50-60%	-	0.00	-	0.00
60-100%	35	0.04	18	0.03
100% &above	29	0.03	10	0.01
Import at NAV	696	0.78	653	0.96

Note: Total import from China is not matching with Table 3 mainly due to import under 'other' category under HS code 99999.
Source: Authors' calculations based on WITS and Tariff download facility database

Such levels of import surge could have a devastating impact on various Indian sectors, especially electrical goods, steel and MSMEs, among others. **Table 6** shows that more than 15% of India's imports from China were duty-free in 2019. However, more than 56% of Chinese imports faced tariffs between 5-10%, while more than 23% of imports faced tariffs greater than 10% in the same year. It is reasonable to expect that import surges may further increase if India were to reduce tariffs under the RCEP agreement. Based on these concerns about import surge from other members, India had demanded a safeguard mechanism in the form of additional duty that would automatically trigger once the volume of imports crossed a certain threshold. However, negotiations on this appear to have failed and India's concerns remain unaddressed.

3.3 Tariff structure

As is the case in any FTA, tariffs under the RCEP need to be reduced significantly to terms that give more favourable treatment to the parties to an FTA than non-parties. Similarly, the RCEP members are expected to open their market by reducing or eliminating tariffs on at least 90% of tariff lines (Sen 2019; ATC 2017). A country with a high tariff structure usually provides higher market access after the FTA, in comparison to other members who have lower tariffs. In this context, before evaluating the implications of tariff reductions on India under the proposed RCEP, the existing tariff structure merits a discussion.

It is to be noted that India has already a preferential tariff structure on a significant number of lines for ASEAN, South Korea and Japan under the existing FTAs. Currently, the other RCEP members with whom India does not have an FTA are subject to the MFN applied tariff in the Indian market. The market access opportunities offered by India to a great extent depends on the existing tariff structure and sensitive list under the proposed FTA. In 2018, the aggregated average MFN duty on all tariff lines as well as NAMA products was highest in India in comparison to all other RCEP members **(Table 7)**. Even the average total tariff on agriculture goods in India was higher than other RCEP parties except for South Korea. Higher tariffs in agricultural products than NAMA highlight the sensitivities of India regarding opening the sector due to issues related to farm income and livelihood. Not only India, but other countries such as Japan and South Korea also accord special status to the agricultural sector due to economic, social and cultural factors. For instance, the average tariff in Japan and South Korea was 95 and 66% for dairy products. Furthermore, South Korea has imposed a 187% tariff on cereal products to protect its farm community from import surges. Similarly, at a disaggregated level, India's tariff structure is one of the highest in many NAMA goods especially compared to China, Australia and New Zealand.

Given the fact that India already has FTAs with ASEAN, Japan and South Korea, market access opportunities for India in these countries may not be very significant after joining the RCEP. For other countries such as Australia, New Zealand and China with whom India does not have FTAs, their tariff structure is significantly lower than India's. This implies that India will end up providing more opportunities to these countries under the RCEP than what it is expected to gain. With a huge existing negative trade balance with the other RCEP countries along with the prevailing high tariff structure of India, it is reasonable to expect that India's trade balance may further worsen upon joining this mega-FTA due to flooding of imported goods.

Besides the above issues, India also had concerns regarding the selection of the base year for calculation of tariff reductions. As part of the negotiations, the RCEP members sought to establish 2014 as a base for tariff commitments, while India had been pushing for a more recent year as a base instead. This is because India's applied MFN tariffs on almost all broad tariff lines have increased since 2014. For instance, the average total tariff has increased from 13.5% in 2014 to 17.1% in 2018. This would have set a higher base for tariff commitments, effectively decreasing the tariff commitments in comparison to the 2014 levels. However, consensus remained elusive on this issue (Pattanayak 2019).

3.4 Agriculture-related issues

Agriculture has remained a sensitive sector in India due to its importance in food security, farm income, rural development and employment. More than 99.44% of Indian farmers are low-income or resource-poor farmers with an average landholding of less than 1.08 hectare, who are mainly engaged in subsistence farming (GoI 2019). Contrastingly, the other RCEP members such as Australia and New Zealand have an average landholding of 4,331 and 252 hectares, respectively. For Australia and New Zealand, accessing tariff-free Indian markets under the RCEP would have provided a major impetus to their export. To this end, both these countries are pursuing two-pronged strategies at the regional and multilateral levels.

Both countries are seeking access to the Indian market on preferential tariff under the RCEP. On the other hand, at the multilateral level, both countries are challenging the domestic support measures available to Indian farmers. Recently in 2019, Australia had challenged the domestic support as well as export subsidies to the Indian sugar sector through the WTO dispute resolution (WTO 2019b). At the same time, price support

Table 7: MFN applied tariff profile of the RCEP members in 2018 (%)

Broad Tariff Lines	India		Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Australia	China	Japan	S. Korea	New Zealand
	2014	2018															
Total	13.5	17.1	**0.2**	**11.1**	**8.1**	**8.5**	**5.6**	**6.5**	**6.2**	**0.0**	**9.6**	**9.5**	**2.5**	**9.8**	**4.4**	**13.7**	**2.0**
Agriculture	33.4	38.8	0.0	15.1	8.6	11.2	7.9	9.5	9.8	0.1	24.0	16.5	1.2	15.6	15.7	57.0	1.4
NAMA	10.2	13.6	0.3	10.5	8.0	8.1	5.3	6.0	5.6	0.0	7.3	8.4	2.7	8.8	2.5	6.7	2.1
Animal products	31.1	32.5	0.0	26.6	7.1	11.0	3.2	9.8	20.2	0.0	29.0	14.3	0.4	14.2	13.2	21.5	1.5
Dairy products	33.5	34.8	0.0	13.9	5.5	5.0	3.7	3.4	3.4	0.0	27.3	10.3	3.6	12.3	95.1	66.0	1.3
Fruit, vegetables, plants	30.8	32.4	0.0	12.0	5.7	13.4	2.6	12.9	9.6	0.0	34.1	20.2	1.4	14.8	10.5	59.5	1.1
Coffee, tea	56.3	56.3	0.7	26.7	13.2	24.2	5.6	16.9	15.7	0.0	29.4	24.5	1.0	14.9	14.7	56.4	2.3
Cereals & preparations	31.3	37.1	0.1	11.9	7.4	8.0	5.5	8.6	10.1	0.0	17.8	17.7	1.1	23.0	37.5	187.1	2.4
Oilseeds, fats & oils	37.0	54.1	0.0	7.9	4.4	9.7	1.9	3.1	5.3	0.0	13.4	8.6	1.5	10.9	7.8	40.7	0.6
Sugars and confectionery	35.9	51.5	0.0	7.0	7.2	10.6	2.4	6.6	19.1	0.0	17.4	17.8	1.8	28.7	26.0	15.7	1.4
Beverages & tobacco	69.1	74.7	0.0	29.9	45.8	10.4	80.0	23.0	8.2	1.7	44.8	42.3	3.6	23.7	15.0	31.4	3.1
Cotton	6.0	26.0	0.0	0.0	4.0	3.0	0.0	3.8	2.6	0.0	0.0	6.0	0.0	18.0	0.0	0.0	0.0
Other agricultural	22.4	29.0	0.0	11.1	4.1	10.4	0.6	3.9	3.6	0.0	7.8	6.7	0.3	11.8	3.9	20.4	0.7
Fish & fish products	29.9	30.0	0.0	21.7	6.3	12.4	0.7	8.8	8.8	0.0	9.2	15.1	0.0	10.9	5.6	16.7	0.3
Minerals & metals	7.6	11.0	0.0	7.4	7.1	5.8	7.1	4.3	4.5	0.0	4.9	8.3	2.7	7.8	1.0	4.6	1.8
Petroleum	4.9	9.2	0.6	10.6	0.2	5.2	0.6	1.8	1.0	0.0	5.6	11.7	0.0	5.3	0.7	4.5	0.5
Chemicals	7.9	10.1	0.1	6.9	5.3	6.6	2.5	3.6	3.6	0.0	2.6	2.9	1.7	6.7	2.1	5.7	0.7
Wood, paper, etc.	9.0	10.0	1.9	9.8	5.0	13.6	9.7	7.7	6.3	0.0	5.8	10.0	3.3	4.1	0.9	2.4	1.3
Textiles	12.0	20.7	0.5	5.3	11.5	8.8	8.8	9.0	9.1	0.0	8.4	9.6	4.2	9.6	5.4	9.0	1.9
Clothing	12.5	20.5	0.0	15.0	23.9	10.0	0.2	16.7	14.8	0.0	29.6	19.8	4.6	16.0	9.0	12.5	9.7
Leather, footwear, etc.	10.1	12.1	0.7	12.4	9.9	11.2	10.3	5.9	6.7	0.0	11.3	12.6	4.1	13.2	10.3	7.6	3.2
Non-electrical machinery	7.1	7.8	0.0	13.3	5.4	6.1	3.2	3.3	1.7	0.0	3.0	3.3	2.8	8.1	0.0	5.9	3.0
Electrical machinery	7.3	8.8	0.0	17.1	6.0	6.8	3.9	5.6	3.4	0.0	7.0	7.8	2.9	8.4	0.1	5.7	2.3
Transport equipment	21.7	31.1	0.0	15.7	13.5	9.9	12.0	5.5	9.8	0.0	22.8	19.5	3.4	12.3	0.0	5.7	3.2
Manufactures, n.e.s.	8.8	11.1	0.6	14.3	7.5	10.2	4.5	6.4	4.5	0.0	9.2	9.9	1.4	11.6	1.2	5.7	1.6

Note: Cambodia, Malaysia, Thailand data for 2017. For others, data is for 2018.
Source: Tariff Profile 2015, 2018, 2019, WTO

measures for Indian farmers have been regularly questioned at the WTO by both countries. Over and above, New Zealand and Australia tabled a proposal on domestic support at the WTO in 2017 to curtail the flexibility of developing members to provide input subsidies to low-income or resource-poor farmers (WTO 2017). Such challenges by these RCEP members at the multilateral level on Indian agriculture have a bearing in the context of regional trade agreements as well and cannot be viewed in isolation. In effect, these challenges on dual fronts may expose the farmers at the mercy of the market without any adequate safety-nets.

For Australia, India is a vast potential market for sugar, pulses and cereals, among others. Another agricultural item is dairy products where both Australia and New Zealand will be keen to export to the Indian market. The dairy sector in India employs 70 million Indian households and is dominated by small-scale farmers that are highly vulnerable to price fluctuations and import surges. Unsurprisingly, this issue became highly contentious during the RCEP negotiations with farmers' organisations, the dairy industry and civil society vociferously voicing their concerns against opening the dairy sector under the RCEP. Additionally, India's tariff on dairy products stands at 34.8% in comparison to 3.6 and 1.3% for Australia and New Zealand respectively in 2018, which implies India would have been required to provide greater tariff concessions in the RCEP than these countries.

Given the huge negative trade balance in agriculture trade with ASEAN, the RCEP would have negatively impacted Indian farmers' income and livelihood. In light of these sensitivities, it would have been extremely difficult for India to agree to a substantial tariff liberalisation on agricultural goods under the RCEP negotiations.

3.5 NAMA sensitivities and dumping

Although India's average applied MFN tariff for NAMA products is higher than all the RCEP countries, it is significantly lower than that for its agricultural products. India has a US$-93.55 billion negative trade balance with the other RCEP members, out of which more than 50% is contributed by China. Telecommunication, solar cells, computer-related items and electrical goods from China contribute significantly to India's negative trade balance with China. With a proposed zero-duty regime for most products under the RCEP, India's bilateral trade balance would have further tilted in favour of China. These concerns have a sound basis, for India has experienced import surges in more than 61.1% of NAMA goods from China in 2018 (**Table 5**).

Further concerns have been raised by Indian stakeholders about the unfair practices by China which led to the dumping of goods in the Indian market, making it difficult for the domestic industry to compete with these imported goods. This is evident by the large number of anti-dumping measures initiated by India against China. Indian industries such as toys, tyres, rubber, electronics, steel and chemicals, among others, have faced these unfair practices from China over the years. In order to tackle this, India has frequently used anti-dumping measures against China. Out of a total of 706 anti-dumping measures by India during 1995-2019, 187 have been initiated against China, the highest so far by any member (WTO 2019a). As per India's anti-dumping notification to the WTO, definitive anti-dumping measures in force against China as of December 2019 cover a large number of products like rubber, glass, woven fabric, sewing machines, wheels, plastic processing machinery, steel, glassware, fishing nets, steel, tyres, kitchenware and chemicals (WTO 2020). Most recently in June 2020, India imposed anti-dumping duty on certain steel imports from China, Vietnam and South Korea for five years after investigations found that these countries exported steel at prices lower than its associated normal value and caused injury to the domestic players (GoI 2020). China being the world's largest steel producer accounts for 51.3% of the global production. At such levels, exports from China have the potential to disrupt global trade and international prices of steel and would have a severe impact on India's steel industry (PWC 2019). Not just steel, but many other industries such as chemicals, automobiles and MSMEs have also raised their concerns regarding India joining the RCEP.

With India becoming a member of the RCEP and lowering its tariffs, these concerns regarding dumping of products would only magnify. It is pertinent to note that for the imposition of anti-dumping duty, there are stringent investigation procedures and the requirement to prove injury to the domestic sector. It is a time-consuming process, and, in many cases, it is difficult to establish injury especially for MSMEs and agriculture, where the producers are not well organised. Further, to impose anti-dumping duties it is required to establish

that a country is dumping a product. However, import surges may occur irrespective of whether a country is dumping or not. Tariff reduction under the RCEP to a great extent will reduce the protection under the existing tariff structure. Therefore, a need was felt for a mechanism which is effective, operable and accessible to deal with import surges, irrespective of whether a product is dumped or not. To address these concerns regarding import surges, India had demanded a safeguard mechanism in the RCEP that would automatically trigger the imposition of higher tariffs once the volume of imports crossed a certain threshold. In the case of an automatic safeguard mechanism, there would have been no need to prove injury. However, negotiations on this end failed.

Additionally, India had also sought to strengthen the rules of origin which are needed to determine the national source of imported products. Under the RCEP, India's tariff schedule is likely to have been based on differential market liberalisation, where the implementation period for tariff reduction in respect of China would have been longer than the other RCEP members. Further, the coverage of tariff lines for reduction may have been narrower for China in comparison to the other RCEP members. In the absence of adequate rules, it may happen that China would have circumvented India's tariff by rerouting its exports via the other RCEP members with whom India would have a more preferential tariff schedule under the RCEP agreement (Francis and Kallummal 2019). In this context India wanted a higher threshold of value addition for an exported good; however, the other members wanted minimal value addition. The Indian concerns regarding these are legitimate, especially given the injury the domestic bicycle MSMEs have already suffered at the hands of cheap imports routed from Chinese proxies in Bangladesh and Sri Lanka, both of whom enjoy preferential tariffs with India under the SATFA (Gupta and Singh 2019; Sharma 2019). All these concerns and sensitivities have an important bearing on India's position in the RCEP negotiations.

Table 8: India's imports from China based on UNCTAD stage of processing classification

Product classification	2017		2018		2019	
	Million US$	%	Million US$	%	Million US$	%
Capital goods	40,451	57.21	46,485	52.16	33,920	50.21
Consumer goods	10,125	14.32	13,155	14.76	10,192	15.09
Intermediate goods	19,346	27.36	28,764	32.28	22,816	33.77
Raw materials	780	1.10	718	0.81	625	0.93
Total	70,703	100.00	89,122	100.00	67,554	100.00

Source: Authors' compilation based on WITS database

3.6 Recent domestic policy changes in India

The decision to withdraw from the RCEP comes at a time when India has recalibrated its priorities in a bid to strengthen its manufacturing capabilities. With the launch of the flagship 'Make in India' programme, India sought to become a manufacturing powerhouse and joining the RCEP would have undermined this (Ghosh 2019a). The goal of achieving a US$5 trillion economy by 2024-25, which relies heavily on India strengthening its manufacturing capabilities, would also have suffered a setback under the RCEP. Further, to realise the vision of doubling farm income, India had adopted a more defensive strategy to increase tariff across almost all tariff lines.

The COVID-19 pandemic also has to a certain extent exposed the fault-lines in global trading regimes. With many countries resorting to trade-restrictive measures during the pandemic, the credibility of the international market as a reliable source for goods and services has decreased. In this context, India's recent calls for '*atma*

nirbharta' or 'self-reliance' are also important (PIB 2020). For example, India before 2020 was an importer of personal protective equipment (PPE); however, now it is the second-largest manufacturer of PPE after China. Further, given the deteriorating India-China relations due to the recent border tussle, there have been calls for the substitution of Chinese imports by domestically produced goods in a bid to establish a vibrant manufacturing base in India. However, there are challenges for import substitution as India's imports from China mainly constituted capital (50.21%) and intermediary (33.77%) goods in 2019 (**Table 8**). Despite the composition of existing import structures from China, the changing domestic landscapes along with external factors do not seem to provide a conducive environment to re-join the RCEP negotiations.

Section 4

Results Predicted from the GTAP Model

THE implications of tariff elimination under the RCEP for different regions and sectors have been examined under two scenarios, i.e., (1) India is not a part of this mega-FTA, and (2) India signs the RCEP agreement. The reduction or elimination of tariffs under the FTA may lead to a fall in domestic prices of imported goods. It may result in an increase in demand for both final and intermediary imported goods by private households and firms respectively, insomuch as they depend on imports before the policy change. For firms, the reduction in prices of imported inputs may result in a decline in costs of production across various sectors. Additionally, an increase in demand and supply of imported final goods may result in excess supply in the domestic market, which further puts downward pressure on domestic prices to reach an equilibrium. In contrast, if exports of member countries increase due to tariff elimination among FTA partners, the supply of domestically produced goods would decrease. This may push domestic prices upwards to reach an equilibrium. On the other hand, the model also captures the substitution between domestic and imported goods, which may lead to reduced production of some commodities domestically due to competition from imports, because of lower prices of the imports relatively.

In general, most papers in the literature examine the results in real supply and demand, while discussing the fall in prices either separately or implicitly. In our paper, we take a different approach. We examine the results for all variables, accounting for both price changes and real changes. It is important to consider both these effects because, in any policy change, different producers and consumers may gain and lose, and their gains/losses may be captured by different variables. For example, in trade liberalisation scenarios import prices fall, and hence the price fall in almost the entire economy depends on the extent of dependence on imports. This may create stress on producers, who face higher competition from cheaper imports. At the same time, both producers and consumers may gain from cheaper imports of intermediate inputs and final goods, respectively. Therefore, the price reduction may harm the producers, while the real economic expansion may benefit everyone. To understand the holistic impact, we focus on the total effect and then decompose it into price effect and real effect.

From the bilateral trade perspective, change in the level of imports depends on two opposite effects: (1) trade creation, and (2) trade diversion that occurs in response to the price differential. Trade creation results in a shift in demand from high-cost to low-cost products as a result of tariff elimination. In case domestic products become relatively costly in comparison to imported goods due to the reduction of tariffs, then consumption may shift towards goods of preferential trading partners. Under trade diversion, demand shifts from low-cost producers of a non-preferential trading partner to high-cost producers of preferential trading partners, thus there is a reduction in trade due to the high prices. The combined but opposite effects of trade creation and trade diversion determine the changes in trade due to the trading bloc, which further impact the macroeconomic indicators through interlinkage of various sectors. As mentioned earlier, simulation results show the total change in various variables because of a policy shock rather than per-year changes under the dynamic GTAP model. Therefore, caution needs to be taken while interpreting the simulation result which represents the total change rather than a per-year change.

The impact of tariff elimination on macroeconomic variables under both the scenarios has been reported against a baseline scenario of no RCEP. Under scenario 1, India does not change its tariff structure as it is not a part of the RCEP; however, other RCEP members agree to eliminate tariffs among themselves. Due to this, the relative import price would be higher in comparison to the RCEP members, thus reducing the domestic demand for imports in India. Similarly, India's export to the RCEP members may become relatively less competitive as it still has to face tariffs in these countries. With the contraction of exports along with the

Table 9: Change in the GDP due to tariff elimination of the RCEP member countries if India does not join the RCEP (US$ million)

GDPEXP	Consumption	Investment	Government expenditure	Export	Import	Total
1 ASEAN	-6,568	81	-1,265	15,236	-18,393	-10,909
2 Australia	11,789	10,399	3,815	7,260	-13,396	19,866
3 New Zealand	1,501	769	493	837	-1,165	2,435
4 China	13,420	24,971	4,764	59,554	-73,588	29,120
5 Japan	91,214	53,009	31,993	28,402	-57,698	146,921
6 Korea	17,891	29,654	6,812	29,482	-48,240	35,599
7 India	-6,528	-5,107	-1,273	-395	2,949	-10,354
8 USA	-70,501	-44,049	-15,158	5,658	25,973	-98,076
9 EU_28	-41,686	-30,784	-15,429	-8,081	26,860	-69,119
10 Rest of World	-48,313	-34,879	-13,783	-12,284	31,027	-78,232

Source: GTAP simulation

relatively high cost of intermediate goods, there would be shrinkage in demand by different agents of the economy. It may ultimately lead to a fall in various components of India's GDP. Under this scenario, India's GDP may decline by US$-10.3 billion due to a reduction in domestic consumption, investment, government expenditure and exports (**Table 9**). Given the relatively higher import price as well contraction of economic activities, demand for imports may also decline in India. The decline in India's GDP is expected to be both in nominal as well as in real terms. In nominal terms, India's GDP may decline by -0.51% after the tariff shock. This decline may be attributed to a reduction in real GDP (-0.05%) as well as GDP price index (-0.46%) (**Table 11**). This is also evident from the fact that output in nominal terms declines across all the sectors, coming from market prices as well as the change in real output (**Table 13**). The overall impact on India's trade balance may be positive, amounting to US$2.5 billion, as the reduction in import is more than the export (**Tables 12 & 14**).

Table 10: Change in the GDP due to tariff elimination of the RCEP member countries if India joins the RCEP (US$ million)

GDPEXP	Consumption	Investment	Government expenditure	Export	Import	Total
1 ASEAN	2,572	4,804	627	24,091	-28,423	3,670
2 Australia	13,213	11,299	4,278	8,134	-14,555	22,369
3 New Zealand	1,445	708	475	900	-1,181	2,347
4 China	17,526	32,903	6,719	63,342	-79,395	41,096
5 Japan	93,310	53,460	32,725	29,991	-59,059	150,426
6 South Korea	21,402	34,215	8,370	29,230	-50,238	42,978
7 India	-8,814	50	-1,104	32,193	-36,121	-13,796
8 USA	-81,311	-50,886	-17,488	6,856	29,771	-113,058
9 EU_28	-48,424	-35,677	-17,934	-9,840	31,664	-80,210
10 Rest of World	-59,177	-42,315	-16,909	-16,296	38,934	-95,763

Source: GTAP simulation

Under scenario 2, India is a part of the RCEP, therefore faces no tariff barriers in the other RCEP members, nor do they have any tariff on their exports to India. Elimination of tariff may result in lower prices of imported goods from the other RCEP members for various economic agents of India namely households, firms, government and investors. As the import price from non-RCEP members may become relatively higher, domestic agents may shift demands for imported goods from others to the RCEP members. Overall, India's total import may increase by US$36.12 billion in comparison to base imports. Similarly, India's export competitiveness in the other RCEP countries may relatively increase due to the absence of tariff for Indian exports, which may result in an increase in India's total export by US$32.18 billion.

Table 11: Comparison of the impact of tariff elimination under two scenarios on the GDP of different regions (US$ million)

Regions	India not an RCEP member				India is an RCEP member			
	Change in GDP	Change in value of GDP (vgdp)	GDP quantity index (qgdp)	GDP price index (pgdp)	Change in GDP	Change in value of GDP (vgdp)	GDP quantity index (qgdp)	GDP price index (pgdp)
	Million US$	%	%	%	Million US$	%	%	%
1 ASEAN	-10,909	-0.44	0.14	-0.59	3,670	0.15	0.27	-0.12
2 Australia	19,866	1.37	0.39	0.97	22,369	1.54	0.41	1.12
3 New Zealand	2,435	1.22	0.15	1.06	2,347	1.17	0.14	1.03
4 China	29,120	0.28	0.22	0.06	41,096	0.40	0.28	0.12
5 Japan	146,921	3.20	0.39	2.80	150,426	3.27	0.40	2.87
6 South Korea	35,599	2.52	1.38	1.12	42,978	3.05	1.87	1.16
7 India	-10,354	-0.51	-0.05	-0.46	-13,796	-0.67	0.60	-1.27
8 USA	-98,076	-0.57	-0.04	-0.53	-113,058	-0.65	-0.05	-0.61
9 EU_28	-69,119	-0.37	-0.03	-0.34	-80,210	-0.43	-0.04	-0.40
10 Rest of World	-78,232	-0.39	-0.05	-0.35	-95,763	-0.48	-0.06	-0.42

Source: Authors' simulation

Table 12: Trade balance across different regions under both the scenarios (US$ million)

Trade balance	India not an RCEP member	India is an RCEP member
ASEAN	-3,157	-4,344
Australia	-6,136	-6,422
New Zealand	-329	-281
China	-14,033	-16,035
Japan	-29,294	-29,064
South Korea	-18,758	-20,973
India	2,554	-3,938
USA	31,628	36,616
EU_28	18,778	21,836
Rest of World	18,745	22,626

Source: Authors' simulation

Though India's export and import increase significantly under this scenario, a higher increase in import may result in a negative trade balance to the tune of US$-3.9 billion (**Table 12**). With a significant increase in demand for imported goods, consumption of domestic goods by households, firms and government may fall. As a result of a negative trade balance along with a decline in consumption (US$-8.8 billion), India's GDP may decline by US$-13 billion (**Table 10**). In nominal terms, its GDP may decline by -0.67% which is mainly due to the fall in domestic prices as reflected in GDP price index (-1.27%) (**Table 11**). Most sectors like extraction, processed food, textile, heavy and light industry witness a decline in output in nominal terms due to a steep price decline (**Table 13**). One of the main reasons is higher import in comparison to export in these sectors. This brings down the market price of output in these sectors, outweighing the increase in production in quantity terms.

Table 13: Impact on sectoral output under both scenarios (%)

	India not an RCEP member			India as an RCEP member		
Sectors	Change in real output (qo)	Change in market price (pm)	Total impact (pm+qo)	Change in real output (qo)	Change in market price (pm)	Total impact (pm+qo)
GrainsCrops	-0.09	-0.52	-0.61	0.88	0.79	1.67
MeatLstk	-0.06	-0.53	-0.59	2.36	0.77	3.13
Extraction	0.18	-0.19	-0.01	0.27	-0.37	-0.10
ProcFood	-0.18	-0.44	-0.62	-7.86	-1.82	-9.68
TextWapp	-0.58	-0.39	-0.97	0.28	-1.06	-0.78
LightMnfc	-0.03	-0.32	-0.35	0.97	-1.12	-0.15
HeavyMnfc	0.10	-0.25	-0.15	0.59	-0.81	-0.22
Util_Cons	-0.27	-0.37	-0.64	0.71	-0.68	0.03
TransComm	-0.03	-0.42	-0.45	0.29	-0.61	-0.32
OthServices	0.05	-0.47	-0.42	0.34	-0.43	-0.09

Source: Authors' simulation

One of the largest setbacks by joining the RCEP may happen in the food industry, which comprises vegetable oils and fats, dairy products, sugar, other food products, and beverages and tobacco products. As a result of tariff elimination, the trade balance in processed food may negatively increase by US$-11.16 billion. Due to the increase in import of US$13.43 billion in comparison to base import (**Table 15**), domestic price, as well as real output in the food processing industry, declines by -1.82 and -7.86% respectively (**Table 11**). Given the fact that millions of farmers in India are engaged in the dairy and sugar sectors, this result validates the concerns and sensitivities of Indian farmers in joining the RCEP. A reduction in real output, further aggravated in nominal terms by reduced prices, can be quite challenging for farmers, who are already facing difficulties such as lack of income security and stability in the demand for their domestic products.

Table 14: Sectoral trade balance under RCEP agreement without India (Million US$)

DTBALi	ASEAN	Australia	New Zealand	China	Japan	Korea	India	USA	EU_28	Rest of World
GrainsCrops	909	224	-33	9,225	-1,348	-7,070	-98	-1,419	20	-1,614
MeatLstk	-129	7,721	517	-1,016	-3,953	-831	-37	-1,397	-657	-412
Extraction	-996	-1,182	36	-282	169	-2,051	465	-282	152	3,338
ProcFood	980	2,507	1,112	2,238	-4,348	1,408	-229	-684	-1,608	-2,118
TextWapp	-2,109	-1,149	-143	7,974	-2,357	1,138	-717	457	-1,133	-2,636
LightMnfc	-2,727	-7,740	-834	-17,731	12,343	-964	355	11,807	-698	3,231
HeavyMnfc	-278	-3,666	-481	-11,709	-14,260	-2,902	1,439	13,728	8,794	8,078
Util_Cons	113	-86	-23	-171	-2,142	-1,150	71	593	1,688	1,107
TransComm	1,106	-1,149	-229	-958	-5,887	-2,236	553	3,162	7,545	5,706
OthServices	-26	-1,615	-251	-1,603	-7,511	-4,147	752	5,667	4,674	4,062

Source: Authors' simulation

Table 15: Sectoral trade balance under RCEP agreement with India being a member (Million US$)

DTBALi	ASEAN	Australia	New Zealand	China	Japan	Korea	India	USA	EU_28	Rest of World
GrainsCrops	-73	402	25	3,307	-1,348	-6,733	6,486	-1,587	146	-1,650
MeatLstk	-2,144	7,121	417	-630	-4,011	-522	2,639	-1,540	-881	-505
Extraction	-53	-818	92	-1,380	-203	-2,105	-1,227	-380	21	5,003
ProcFood	14,049	2,378	1,074	1,945	-4,498	2,655	-11,166	-751	-2,103	-5,091
TextWapp	-2,838	-1,211	-148	8,309	-2,452	1,011	-410	604	-1,187	-2,478
LightMnfc	-5,387	-8,145	-803	-14,274	12,186	-2,038	496	13,016	-1,933	3,605
HeavyMnfc	-5,107	-2,976	-458	-9,508	-12,973	-4,775	-2,114	16,215	10,659	9,409
Util_Cons	-60	-99	-23	-275	-2,194	-1,338	98	664	1,884	1,343
TransComm	-515	-1,289	-217	-1,413	-5,871	-2,529	783	3,723	9,246	7,395
OthServices	-2,218	-1,785	-241	-2,119	-7,696	-4,639	481	6,664	5,977	5,580

Source: Authors' simulation

In case India joins the RCEP, its negative trade balance with China may increase significantly from US$-46 billion to US$-65 billion. As expected, the adverse trade balance may increase substantially in NAMA products: heavy and light manufacturing goods along with textiles due to an increase in import of Chinese products. Even in agriculture, the trade balance with China may also become unfavourable in comparison to baseline data. India's trade balance with ASEAN may deteriorate by US$-23.5 billion in case India joins the RCEP (**Table 16**). One of the reasons for that is the substantial increase in export of processed food by ASEAN to India resulting in an increase of US$-15.7 billion trade balance in this sector. From these observations, we may conclude that China may have much more to gain in India's market due to the RCEP than India can expect to gain from the Chinese market.

Table 16: India's bilateral trade balance with China and ASEAN (US$ million)

	Trade balance with China			Trade balance with ASEAN		
Sectors	Base Trade balance	India not an RCEP Member	India as an RCEP Member	Base Trade balance	India not an RCEP Member	India as an RCEP Member
1 GrainsCrops	1,287	1,352	890	1,940	1,915	56
2 MeatLstk	-290	-284	-825	3,214	3,133	6,403
3 Extraction	1,663	1,693	1,663	-16,501	-16,387	-22,036
4 ProcFood	402	384	624	-4,948	-4,997	-20,731
5 TextWapp	-1,556	-1,648	-3,208	526	232	242
6 LightMnfc	-17,815	-17,777	-25,123	-3,780	-4,365	-6,023
7 HeavyMnfc	-39,468	-39,245	-48,419	-4,029	-4,216	-5,200
8 Util_Cons	412	428	437	-218	-216	-211
9 TransComm	4,100	4,174	4,210	1,033	1,062	1,104
10 OthServices	4,723	4,823	4,826	3,252	3,311	3,355
Total	-46,541	-46,101	-64,926	-19,511	-20,528	-43,040

Source: Authors' simulation

The comparison of macroeconomic results under both scenarios highlights that India's nominal GDP may decline steeply if it joined the RCEP. Such a reduction mainly comes from an adverse reduction in prices that hurts the producers in terms of flooding imports that substitute for domestic production, even after accounting for the real GDP effects that are positive due to the benefits of these lower prices. Further, India's trade balance may worsen in case India joins the RCEP due to the negative trade balance in the agriculture as well as NAMA goods, which may adversely affect the farmers as well as people engaged in the manufacturing sector. Results are not encouraging for India to join the RCEP.

However, questions arise regarding the impact of tariff elimination under these two scenarios on the other members of the RCEP. Under Scenario 1 (India not an RCEP member), GDP in ASEAN falls US$-10.9 billion or -0.44% in comparison to base data due to a decline in domestic consumption as well as the negative trade balance. However, in case India joins the RCEP, then GDP of ASEAN may increase by US$3.6 billion or 0.15%. Under both cases, ASEAN's trade balance may be negative, but it may be more negative in the second scenario when India is a part of the RCEP. This is despite the observation from Table 16 that India, as an RCEP member, may play a greater role for the ASEAN countries in terms of importing from them, thereby facing the deterioration of its bilateral trade balance with ASEAN. When India is part of the RCEP, its exports to some RCEP countries such as South Korea may increase, which will lead to erosion of ASEAN's export with these countries. For example, India may reduce its bilateral trade deficit with South Korea substantially because of the greater market access for Indian agricultural and food exports to South Korea. On the other hand, ASEAN may substantially increase its trade deficit with South Korea, mainly because of the trade diversion away from ASEAN in favour of India, in South Korean agricultural and food markets.

For other members of the RCEP, namely Australia, New Zealand, China, Japan and South Korea, GDP increases under both scenarios. Generally, the entry of India in the RCEP may have a positive impact on most members of this trading bloc. Non-RCEP members such as the US and the EU may witness adverse effects on their GDP, but may have a positive trade balance due to a steep decline in imports. It is due to the fact that their constant import tariffs fail to avail the relative price reduction in imports that RCEP members face, though exports do not change as much. In other words, their imports decrease or increase slightly in some instances, while their exports either decrease less than imports or even increase in some instances. Non-RCEP countries gain in terms of the trade balance, because they have fewer imports from the RCEP countries, due to trade diversion away from them to the lower-tariff RCEP regions that mutually trade with each other. Of course, they also lose out on export market access to the RCEP countries, but the import effect is far higher than the export effect, and therefore their trade balance increases. In short, the RCEP members may gain less in terms of new export avenues than greater imports, while the vice versa may happen to non-RCEP members, thereby resulting in a more negative and more positive trade balance situation in RCEP and non-RCEP countries respectively, under both scenarios.

Section 5
Conclusions

THE RCEP negotiations that had been underway since 2014 received a major setback when India decided to withdraw from this proposed mega-FTA in 2019. This study has made a modest attempt to highlight the sensitivities and concerns behind India's decision to withdraw from the RCEP. An apprehended substantial increase in the trade deficit of India with the other RCEP members is one such factor. Existing trade patterns show that India has an unfavourable trade balance of US$-95 billion with the other RCEP members in 2019. India already has FTAs with three of the RCEP members, namely ASEAN, Japan and South Korea, with whom it runs a trade deficit of US$-38.8 billion. Other members such as Australia, New Zealand and China also enjoy a trade surplus with India. The existing trade patterns to a great extent determine the likely impact of the RCEP on macroeconomic variables on India. With the highest prevailing *ad-valorem* tariffs among the RCEP members, India is expected to provide higher market access opportunities in comparison to what it would gain after tariff elimination. Indian farmers including dairy producers have been strongly protesting India's participation in the RCEP due to the likely adverse impact on farm income as a result of import surges. Further, challenges by some of the RCEP members namely Australia and New Zealand at the WTO on India's domestic agricultural support measures such as price support, input subsidy and sugar policy, appear to have added fuel to anti-RCEP sentiments among the farmers.

Indian stakeholders' concerns regarding the anticipated increase in import surge of Chinese products in the India market appear to be well-founded and these have a potential to weaken India's manufacturing base. The result shows that India has faced an import surge in more than 61% of tariff lines on which import occurred from China in 2018. It is not only the import surges but also the unfair practices of China such as dumping of goods that have aggravated India's concerns.

The GTAP result shows that India's GDP will be more negatively affected in a scenario when India joins the RCEP in comparison to when India is not a part of the RCEP. One of the reasons for the contraction of India's GDP by joining the agreement may be a substantial increase in import which will result in a decline in prices across all the sectors, along with the displacement of domestic production. The dominant negative price effect results in a fall in nominal output in many sectors, which ultimately pulls down the GDP. As expected, based on existing trade patterns, simulation results show that India's overall trade deficit may deteriorate after joining the RCEP. In terms of the bilateral trade balance, India's trade deficit with ASEAN and China will grow steeply under this agreement.

With India not joining the RCEP, the mega-FTA will lose at least some of its shine for the GDP of most of the remaining members will be adversely affected, in contrast to the situation where India is a part of the RCEP. Therefore, other members have urged India to reconsider its decision regarding the RCEP membership. However, there have been substantial changes at the domestic front since 2014 due to internal and external factors. This study provides an explanation for India's decision to stay away from the RCEP and why attempts by other members have been made to persuade India to join the agreement. With programmes such as 'doubling farm income', 'Make in India', 'US$5 trillion economy', 'Atma Nirbhar Bharat Abhiyan', along with contraction of trade due to COVID-19, India's focus has shifted to the creation of a strong domestic agricultural and industrial base, and therefore, joining the RCEP no longer appears to be a priority for India.

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