Political and Economic Notes:

EXIT RCEP - ENTER US

On November 4, India announced its decision to exit the negotiations on the proposed Regional Comprehensive Economic Partnership (RCEP). Prime Minister Narendra Modi conveyed the decision at the third RCEP Summit that took place in Bangkok. Modi stated: "The present form of the RCEP Agreement does not fully reflect the basic spirit and the agreed guiding principles of RCEP. It also does not address satisfactorily India's outstanding issues and concerns. In such a situation, it is not possible for India to join the RCEP Agreement."

During a media briefing at Bangkok, India's foreign ministry official added: "India had significant issues of core interest that remained unresolved… India has participated in good faith in the RCEP discussions and has negotiated hard with a clear-eyed view of our interests. In the given circumstances, we believe that not joining the agreement is the right decision for India."

With India opting out of the RCEP negotiations, the remaining 15 RPCs have decided to move ahead with the proposed agreement. In a Joint Statement issued on November 4, the RCEP leaders noted: "15 RCEP Participating Countries have concluded text-based negotiations for all 20 chapters and essentially all their market access issues; and tasked legal scrubbing by them to commence for signing in 2020."

Both the ruling BJP and opposition Congress parties claimed credit for the decision. Many a political commentators lauded Modi for his commitment to country's interests. Yet, India can still join the RCEP before it is signed next year.

The Joint Statement issued by the RCEP leaders on November 4 stated: "India has significant outstanding issues, which remain unresolved. All RCEP Participating Countries will work together to resolve these outstanding issues in a mutually satisfactory way. India's final decision will depend on satisfactory resolution of these issues."

Later on, the trade ministers of Australia, Singapore, and Japan expressed hopes that India will continue talks on the outstanding issues. While the Chinese Vice Foreign Minister, Le Yucheng, stated: "Whenever India is ready, it's welcome to get onboard."

If signed, the RCEP would have been its biggest FTA, and the country would have to offer far reaching concessions than already made under its existing FTAs with ASEAN, Malaysia, Singapore, South Korea, and Japan. Hence, most RCEP countries would like India to join the RCEP as it offers them preferential access to a large Indian market. For Australia, additional market access for agricultural exports would be substantial if India joins the RCEP because it already has an FTA with all the 15 countries except India.

After joining RCEP, India would have had to eliminate tariffs on almost 90 percent of items from ASEAN, Japan, and South Korea; and on more than 74 percent of items from China, Australia, and New Zealand.

The fear of cheaper imports displacing domestic production is real, and the proposed pact could negatively affect the livelihoods of millions of Indians and cripples its manufacturing sector. The consequences of cheaper imports displacing domestic production would be far-reaching as close to 93 percent of the country's work force is in the informal sector without any social security.

The main objection raised by many in India is that the country would be flooded with cheaper imported goods such as manufactured goods from China and dairy products from New Zealand once the tariff and non-tariff trade barriers are removed under the RCEP.

India has been demanding lower barriers for pharma and IT exports to China, but it was not addressed so far. At the same time, India's exports to China primarily consist of raw materials such as iron ore, metals, and cotton, while China's exports to India are dominated by finished manufactured products such as mobile phones and electrical machinery.

In 2018, India registered a trade deficit with 11 out of 15 RPCs. Trade analysts have pointed out that India's trade deficit with RPCs will further increase if it joins the RCEP on the current terms.

India's experience with earlier FTAs with Japan, South Korea, and ASEAN countries has been far from satisfactory. These FTAs have not resulted in a more balanced and mutually beneficial trade. Post-FTA, bilateral trade volumes have increased, but imports from partner countries have increased at a faster pace than India's exports with partners.

As far as the services sector is concerned, India could not secure greater market access in its trade agreement with ASEAN. In the case of bilateral trade agreements with South Korea, Japan, Malaysia, and Singapore, where India successfully negotiated the Mutual Recognition Agreements (MRAs) - aimed at facilitating the movement of IT and other service professionals- anticipated gains have not yet materialized because of weak enforcement of MRAs.

In a paper published in EPW (Novembeer 16 2019) Kala Dhar concluded: “We analysed the pattern of trade with ASEAN, RoK and Japan, India's FTA partners who are part of the RPCs, as well as China, until recently, India's largest trade partner. This analysis showed that India was unable to utilise the market access opportunities provided by our FTA partners since exports have remained sluggish. Exports to China remain virtually stagnant until the previous financial year, when some growth was observed. Unless this constraint is addressed seriously, India's participation in any FTA would not serve the interests of the country's stakeholders”.

India has now opted out of the RCEP negotiations based on the principle of protecting the Indian interests. Because most of the FTAs signed or under negotiations contained similar frame work on investment, trade and services as that of RCEP. Contrary to the experience with FTAs, it is not ready to abandon its policy of pursuing free trade agreements. At present, India is negotiating as many as 15 free trade agreements (including with Australia and New Zealand) while another 12 FTAs are proposed / under consultation and study.

Currently, bilateral discussions are underway between India and the US on a limited (“interim”) agreement in the near-term and a highly ambitious and broader FTA over the longer-term. The broader FTA may also cover a wide range of issues, including trade in services, IPRs, e-commerce, and investment. As the negotiations on a standalone India-US bilateral investment treaty have not progressed, both trading partners may incorporate an investment chapter under the broader FTA.

In the interim agreement, the US would like India to consider lower tariffs on ICT items and agricultural products besides removing price controls on medical devices such as stents and knee implants whereas India would like the US to immediately restore benefits to Indian exporters under the Generalised System of Preferences that was terminated by Trump administration in June 2019.

The same will the case when Indian and European trade negotiators resume negotiations on the long-pending India-EU free trade agreement.

There are at least three sets of provisions in the investment chapter that could have adversely affected India. The first is the asset-based definition of investment, which allows any form of participation by foreign companies to be recognized as investment. The second is indirect expropriation, which gives the foreign investor opportunity to challenge public policy formed by the government of host country. The third is investor-state-dispute settlement mechanism, under which the foreign investor can launch dispute against India in a private international tribunal.

All the three components go against the interests of our country. Leaked documents reveal that a compromise was resached at the final round of negotiations (September 2019) for not including the ISDS in the present agreement. However, under the work program, RPCs agreed to enter into discussions on ISDS provision within two years after the entry of force of the RCEP agreement and conclude them within three years from the start of discussions. The remaining two components were agreed to include in the document.

The government of India adopted the revised "Model Text for the Indian Bilateral Investment Treaty" (BIT) in 2015, basing on which India has to negotiate investment agreements. The investment chapter of RCEP goes against the framework of BIT. During the RCEP negotiations, the Indian representatives have agreed to the investment chapter as the news reports suggested.

At a time when the Indian economy is passing through a severe recession with falling industrial production, agrarian distress, and a severe unemployment crisis, the government's decision to come out of RCEP negotiations may appear to have taken to protect the domestic producers. But the reality is otherwise. The US imperialism has been increasingly drawing India into is hegemonic designs in Asia aimed at Isolating China and formed as axis with Australia, Japan and India. The US imperialism cannot stay as a mute spectator when some negotiations are going on which makes the Indian market accessible to China. The US imperialism used a proposal to have 'interim' trade agreement as a bait for India to take and pressurised it to come out RCEP. The Indian government complied with the US wishes.

RCEP is not the last FTA. Many more proposals to have bilateral and regional trade agreements would come before India. What is needed is comprehensive policies that promote the domestic market and protect the interests of people and country. It is the duty of all patriotic, democratic and revolutionary forces to oppose the capitulation of Indian ruling classes and their government to US imperialism and wage struggle to protect the interest of the people.

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