

STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...
To empower the student community...*

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Theme 336

RCEP

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Theme No: 336: “RCEP”

A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products. The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the “Forum”. Topic of discussion for this month is “RCEP”.

What is RCEP?

The Regional Comprehensive Economic Partnership (RCEP) is a proposed agreement between the ten member states of the Association of Southeast Asian Nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and their five FTA partners (Australia, China, Japan, New Zealand, and South Korea). India, ASEAN’s sixth FTA partner, opted out of the agreement in November 2019.

What is FTA?

A free trade agreement is a pact between two or more nations to reduce barriers to imports and exports among them. Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.

History of RCEP

Countries in East Asia region have thriving trade and economic relations with each other through free trade agreements. The Association of Southeast Asian Nations (ASEAN) has free trade agreements with six partners namely People’s Republic of China (ACFTA), Republic of Korea (AKFTA), Japan (AJCEP), India (AIFTA) as well as Australia and New Zealand (AANZFTA).

In order to broaden and deepen the engagement among parties and to enhance parties’ participation in economic development of the region, the RCEP negotiations were launched by ASEAN leaders and the six other countries during the 21st ASEAN Summit in Phnom Penh in November 2012. The objective of launching RCEP negotiations was to achieve a modern,

comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN member states and its FTA partners.

In 2012, talks for another major trade pact - the Trans Pacific Partnership or TPP was underway. Given China's absence in the then U.S led TPP, which was slated to be the world's largest trade deal, many observers considered RCEP a way for Beijing to counter American influence in the region. Since then, the RCEP has become a major tool for China to counter the US efforts to prevent trade with Beijing. The U.S - China trade war has hurt many Asian exporters by reducing demand for their goods and slowing down growth. The urgency to conclude RCEP increased after all that.

RCEP negotiations started in 2013 and till now it has undergone more than 27 rounds of negotiations.

Trade deals in force among original RCEP countries

| | ASEAN | Australia | China | India | Japan | New Zealand | South Korea |
|-------------|-----------------------|-----------------------|-------|-------|-------|---------------------|-------------|
| ASEAN | N.A. | Yes, with New Zealand | Yes | Yes | Yes | Yes, with Australia | Yes |
| Australia | Yes, with New Zealand | N.A. | Yes | No | Yes | Yes | Yes |
| China | Yes | Yes | N.A. | No | No | Yes | Yes |
| India | Yes | No | No | N.A. | Yes | No | Yes |
| Japan | Yes | Yes | No | Yes | N.A. | No | No |
| New Zealand | Yes, With Australia | Yes | Yes | No | No | N.A. | Yes |
| South Korea | Yes | Yes | Yes | Yes | No | Yes | N.A. |

SOURCE: Governments of Australia, China, India, Japan, New Zealand and South Korea



Significance of RCEP

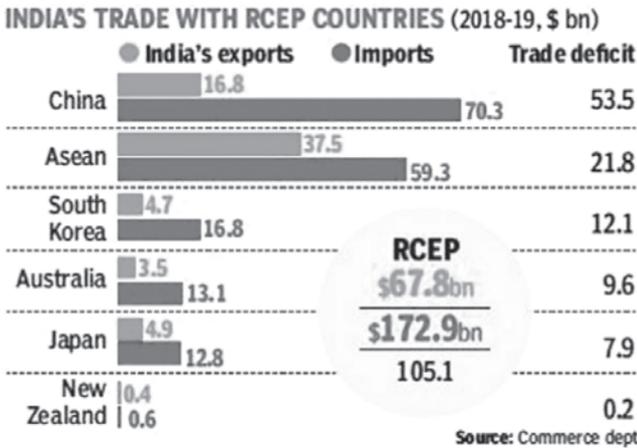
The proposed Regional Comprehensive Economic Partnership (RCEP) is gigantic in size and scope. RCEP has the potential to deliver significant opportunities for businesses in the East Asia region, given the fact that this would have been world's largest trading bloc, a zero-customs duty zone in a geography that contributes 34% of global gross domestic product (GDP) and 40% of world trade. The region is also home to almost half of the world's population.

RCEP aims to create an integrated market with 16 countries, making it easier for products and services of each of these countries to be available across this region. The negotiations are focused on the following: Trade in goods and services, investment, intellectual property, dispute settlement, e-commerce, small and medium enterprises, and economic cooperation. RCEP will provide

a framework aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region.

What is stopping India from joining RCEP trade deal?

In December 2018, the Government of India engaged three consultants — Indian Council for Research on International Economic Relations; New Delhi-based Centre for Regional Trade, and an expert in international trade, Rupa Chanda, also a professor at IIM – Bangalore, to independently take stock of the partnership’s “real gains and losses” to India in the long term. It was a smart move by the government, say trade negotiators. It reassures India Inc their apprehensions would be taken into account during the upcoming discussions on three crucial unfinished chapters — on trade, services and investments.



- Domestic industry and dairy farmers had strong reservations about the trade pact. India’s trade deficit with the RCEP nations is \$105 billion, of which China alone accounts for \$54 billion.
- India was looking for specific ‘rules of origin’ (ROO) to ensure the trade pact wasn’t abused by non-partner countries. New Delhi believes that the ROO are very relaxed and would allow Chinese goods, which may be behind higher tariff walls for a longer period compared to goods from ASEAN, to circumvent the duties and flow into India from the shores of ASEAN nations.
- The main worry is over Chinese manufactured goods and dairy products from New Zealand flooding Indian markets, hurting domestic interests. The trade agreement was also seen as being detrimental to the government’s Make in India initiative.
- E-commerce and trade remedies were among other key areas of concern that failed to find satisfactory redressal. New Delhi had proposed different

levels of tariff concessions for China to safeguard its domestic industry from cheap imports.

- Addressing the use of non tariff barriers by China, Japan and South Korea which have hindered India's access to their Markets. India didn't get any credible assurance on market access and non-tariff barriers.
- India was also worried about keeping 2014 as the base year for tariff reductions.

What is India Seeking?

- a) India wants to keep Dairy, Auto and certain textile out of the pact.
- b) India wants more liberalization of the services sector where it has an edge.
- c) Appropriate safe guard clauses need to be put in place within RCEP in case injury to domestic industry is found.
- d) Phased elimination of tariffs is necessary especially with respect to some key manufacturing industries that have long gestation periods until they start running on full capacity.
- e) India also demands tagging the country of origin on all products a base point in RCEP negotiations.
- f) India has demanded differential tariffs for its trade with China vis-à-vis others.
- g) An adequate auto-trigger safe guard mechanism to save the economy against dumping of cheap imports and import surges.
- h) Stricter investment regime and dispute management.
- i) Change in base tariffs from 2014 to 2019.

As negotiations failed to address New Delhi's Concerns, Ministry of External Affairs opted to quit, calling it a decision in national interest.

Some experts believe that in an increasingly protectionist world, it is important for India to join multilateral FTAs. Cumulative access to thriving East-Asian markets could also nullify protectionism from others. It will help tap a large geographical area in south East Asia and beyond and not make our policy only Europe or North America centric. This may be a chance to bring in historic trade reforms, which in itself will cement India's position as a major global economy.

Anyway, India is still open for negotiations if the member countries of RCEP would come up with a better offer which can address concerns and provide greater market access for the domestic industries. In international engagement and relations, the doors never shut for anybody. If sincere efforts are made to resolve our concerns, to give us confidence and help us to balance this trade inequality, India will then definitely consider joining RCEP.

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