RCEP - Tariff Wars

Why in news?

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The ministerial level meeting for RCEP, scheduled currently is expected to see tough negotiations on tariff duties.

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What is the background?

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- Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between the members of ASEAN and the six other countries - Australia, China, India, Japan, South Korea and New Zealand.
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- RCEP negotiations were formally launched in November 2012 at the ASEAN Summit in Cambodia.
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- The agreement is scheduled to be finalized by the end of 2017.
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- RCEP is viewed as an alternative to the Trans-Pacific Partnership.
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What are the problems?

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- Rigid stands of other nations demanding India to remove import duties on more than 92% of all goods (both agricultural & industrial) is presently making negotiations unsustainable.
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- This would mean almost entirely dismantling the wall protecting Indian industry and farmers from indiscriminate competition.
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- Considering the disastrous consequences of such a move & the rigidity of others, India would find it difficult to reach a compromise and risks being

isolated.
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What are India’s concerns?

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- While New Delhi was willing to eliminate tariffs on a considerable number of items on a country to country basis, it is being pressured into treating all members equally, along with almost complete tariff elimination.
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- For a country like India, with a large ‘sensitive agricultural setup’ and labour-intensive industrial sector, bending to such exorbitant demands is impossible to meet.
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- **China Fear -** The biggest of worry is the unhindered flow of goods from China with which India already has an annual trade deficit of over $50 billion.
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- A Free Trade Agreement (FTA) with no duties on most products could increase this deficit significantly.
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How has the negotiations progressed thus far?

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- The gradual cornering of India by RCEP partner countries is reflected in the how the negotiations have progressed.
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- **1st Proposal -** India initially proposed a three-tier system for tariff elimination that was country specific.
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- The proposal vouched a reduction of - 42.5% of tariff lines for China, New Zealand and Australia, 65% for South Korea and Japan and 80% for ASEAN.
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- This was rejected by all members including the ASEAN.
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- **2nd Proposal -** India was then forced to give up its initial proposal in favour of a single offer for all with only a small caveat for addressing its vulnerabilities with minimum deviations.

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- Over the past year, New Delhi has indicated to RCEP members that it could offer to eliminate tariffs on about 70-75% of items for all members with certain minor deviations.
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- These too failed to satisfy the RCEP members & an increased market access for items like wheat and dairy was demanded.
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What does India stand to gain for RCEP?

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- India’s expected gains in goods from the RCEP pact are not significant, given the fact that the existing tariffs in member countries are already relatively low.
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- While India’s gains in RCEP are to mainly come from services liberalisation, including easier work visa norms, the offers in that area have been almost non-existent.
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- Moreover, many RCEP members are now insisting on inclusion of substantial commitments in the area of e-commerce and investment facilitation — the two areas where India wants to preserve its sovereign right for policymaking.
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What are India’s options?

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- A free trade pact between the RCEP countries accounting for 45% of the world population and over $21 trillion of GDP does seem attractive, but not at the price India is being asked to pay.
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- India should not run the risk of putting the future of its industry and farmers at stake while getting almost nothing in return.
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- There is a world of wisdom in exiting while there is still time rather than signing a bad deal.
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Source: Businessline

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