

# China India Dialogue

Chinese Views of China-Indian Competition in RCEP

## Abstract

China and India, as two of the largest developing countries, are now in the developing stage of domestic industrialization and urbanization, and faced by multiple challenges internationally. Based on the three-dimension and two-level framework, the paper analyzes the regional and global effects of the RCEP, explains how and why China and India act differently towards the regional agreement. Finally, the paper suggests the next steps for both China and India when the RCEP enter into force in the coming year.

Keywords: China – India – RCEP – two level-games – regional competition.

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## Regional and Global Effects of RCEP

The Regional Comprehensive Economic Partnership (RCEP), which includes China, Japan, South Korea, Australia, New Zealand and the ten members of the Association of Southeast Asian Nations (ASEAN), represents the world's largest free trade agreement. According to the Peterson Institute for International Economics (Petri & Plummer, 2020), it is expected to raise trade among members by US\$428 billion, add US\$500 billion to global exports, and improve the national income of the 15 countries by US\$186 billion by 2030.

From RCEP's own dimension, it is a "deep" agreements which covers a larger set of policy areas, at the border and behind the border. One of the targets is to eliminate 90% of tariffs, while making advances in areas such as competition policy, intellectual property rights (IPRs), investment, economic and technical cooperation, and government procurement among the 20 chapters. The agreement does not have chapters on either environment or labor. Furthermore, it covers a third of the global population and about 30% of the world's GDP.

From the spatial dimension, European Economic Community was created in 1958 and the North American Free Trade Agreement was implemented in 1994, the

RCEP marks the creation of the last trade integration block in Asia after Europe and the American continent. Notably, it is the first time that China, Japan and South Korea have been in a single free-trade bloc, and the first bilateral tariff reduction arrangement between China and Japan. According to the Ministry of Foreign Affairs of Japan (MFA 2021), the expected economic effect of the RCEP could correspond to a GDP increase of about 2.7% and a boost of 15 trillion yen (US\$137.5 billion).

From the historical dimension, the RCEP members diversified greatly in terms of development level, natural resource endowment and economic structure, and such diversification is also an advantage in terms of markets. There is a circular basis within the scope of RCEP from financing to raw materials, from processing and production to sales. In the context of the COVID-19 pandemic, it would be critical to mitigate the negative impact on trade and investment and help the rapid and robust economic recovery in the region.

## Different Landscapes of China and India

From the two-level-games perspective (Putman, 1988), the signature and ratification requirement of regional trade agreement provides the critical link

between the international and domestic level. India as a case, has changed its attitude towards the RCEP. Finally, India withdraw from the mega-regional trade agreement because of the Talisman of Gandhiji after 28 rounds of negotiations in November 2019. On the other hand, China has completed the approval process in March 2021. Policy decisions are decided by the awareness of the potential interests and importance, as well as other stakeholders' desired benefits. Why China and India, the original negotiating participants act differently towards the regional agreement?

First, India has its rationale for their protectionism. The impact on India's dairy, agricultural and manufacturing industries is highest on the agenda, and Indian Prime Minister Narendra Modi cited concerns that exports from China, New Zealand and Australia will damage the competitiveness of domestic production (Indiatimes 2019). Meanwhile, India's service sector, such as e-commerce and financial services, could have benefited from the negotiations of greater market access and received even more consumers in Southeast Asia. Obviously, the RCEP agreement is both an opportunity and a challenge to India. Using a GTAP model to estimate the impact of TPP on India, Rahman and Ara find that with complete tariff elimination between the TPP partners, India's real GDP would drop by 0.14% and the welfare loss will amount to US\$3.5 billion (Rahman and Ara 2015). TPP and RCEP are different. India's withdrawal from RCEP reflects the lack of competitiveness and the fear for competition.

Second, with or without India, this is the beginning of a new era for China. China has signed 19 free trade agreements with 26 countries or regions. One of the most notable changes is that ASEAN has historically surpassed the European Union to become China's largest trading partner, which is another breakthrough after ASEAN surpassed the United States to become China's second largest trading partner in 2019 (ECO 2021). The implementation of the RCEP is an important step for China to expand opening-up and advance reforms in facilitating China's industrial upgrading. India aims to be the Global Manufacturing Hub as well (PMoI 2021). However, not joining the RCEP, India will be excluded from regional supply chains in the long run, while China remains a key player in the regional and global supply chain and sustains supply chain advantages. China will not only maintain the stability of the global industrial chain and supply chain, but also enhance its own position in it.

Third, ASEAN is at the center of RCEP negotiations. China has always been supporting ASEAN centrality. At the first ASEAN-India summit in November 2002, Singapore's former Prime Minister Goh Chok Tong noted that "India and China resembled the two wings of an ASEAN jumbo jet" (Limaye 2003), now the plane becomes unbalanced. The Indian negotiators were caught between the prime minister's enthusiasm to cultivate the region and their own sense that there had to be something to show "at home" (Nambiar, 2019). Both China and India matter to ASEAN. As India's largest trading partner, China values deeper practical cooperation

with India in various fields. The power shift between China and India will deepen. India's perception of its identity, external threats, and potential interests towards China and other RCEP partners have combined to shape India's decisions on RCEP and other RTAs.

In the long run, respect and cooperation can overcome differences to promote common interest. That's also the implication for bilateral relations between China and India.

### Next Steps for China and India

Marxist theory argues that economic situation is the most important determinant of all other aspects of a society within the "superstructure"<sup>1</sup> of society. Thus, the "superstructure" cannot determine the economic foundation, otherwise it will violate the economic principles and laws. During the post-pandemic era, the global industrial chain shows a general trend of regional aggregation, and globalization also shows a trend of gloregionalizaion (a combination of the words "globalization" and "regionalization") and glocalization (a combination of the words "globalization" and "localization"). At present, regional value chain linkages among RCEP members remain below the regional average.

"The RCEP agreement, signed among 15 participating countries, is beneficial to all." Chinese Premier Li Keqiang said at

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<sup>1</sup> Society's superstructure includes such things as "politics, laws, morality, religion, metaphysics, etc." (Marx and Engels, *German Ideology* 47). Marx

the State Council executive meeting in February 2021 (Wang 2021). So far, as much as 87 percent of the 701 binding obligations stipulated in the agreement are ready to be enforced in China. The remaining 13% can also be implemented immediately after the agreement enters into force. It will enable more than one-third of China's foreign trade goods to enjoy zero tariffs in the next 5stage. Meanwhile, China's 14th Five-Year Plan (2021-2025) which aims to advance high-quality development and improve people's quality of life promises to lift regional economic ties (STPRC 2020). China has also expressed its positive consideration for entry into CPTPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (STPRC 2021). Some developed countries such as Japan, Australia and New Zealand and some developing countries like Singapore, Vietnam and Malaysia are members of both CPTPP and RCEP. RCEP and CPTPP could be merged at some point in the near future to become the largest trade agreement in the Asia-Pacific region. Moreover, based on the dual-circulation development strategy, China will further expand the networks of the free trade zones, and upgrade the negotiation of the existing free trade agreements during its 14th Five-Year Plan period (2021-2025) and for a longer period of development.

As the fifth largest economy in the world in terms of GDP, 17th in commodity exports, tenth in the world in importation,

argued that the superstructure is generally dependent on the modes of production that dominate in a given period.

and net FDI to ninth in the world, India's expected decline in economic expectations is bound to cast a shadow on the world economic recovery (WEF 2020). On the other hand, recently the World Economic Outlook by the IMF predicted that India's GDP will grow by 12.5% by 2021. However, with the intensification of COVID-19 infections in India, the downward revision of India's economic expectation will also lead to a slowdown in the regional and global economy. India will need second-generation reforms of its domestic economic policies, including factor markets reform, making its trade more competitive and export-oriented. These reforms will help India better access other markets and mitigate some of the repercussions arising from the RCEP. It is also important that India focuses on resolving the structural issues in the domestic market, before joining mega RTAs. Going forward, there is not much time left for India, but we believe China welcomes India to return to RCEP as soon as it is ready to do so. Regardless, the RCEP could be a significant step toward a more integrated Asian market.

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