**INDIA IN THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP: A SERVICES INDUSTRY PERSPECTIVE**

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**Abstract**

Regional Comprehensive Economic Partnership (RCEP) negotiations were launched by 16 countries including 10 ASEAN members, Australia, China, India, Japan, Republic of Korea and New Zealand on November 20, 2012. The objective is to move beyond ASEAN+ FTA’s and create the world’s largest trading bloc covering nearly half of the global economy and around 40% of world ‘s trade. Services contribute more than 50% to the national GDP of all the RCEP countries. The diversity of interest and level of ambitions of each participating country has make the services negotiations in RCEP a challenging one.

Study aims to analyze and understand the services trade patterns and comparative advantage among RCEP countries, highlight India’s experiences in the past services agreement and comments on key concerns for India in RCEP. RCA index shows that RCEP will open the market for highly competitive services economies like China, Philippines, Singapore which are far more competitive in both infrastructure/manufacturing, knowledge and skill-based services such as logistics, transportation, construction, financial, IT services. Services may emerge as a competitive front for India in RCEP, depending on the relative extent to which RCEP countries undertake commitments on liberalization in trade in services. RCEP is a highly diversified region, especially when it comes to Services; the risk of entering the FTA is big. An open and transparent approach in the services sector, clearly laying out in public domain the expected gains in market access, the MRAs and other regulatory facilitating mechanisms for services exports being negotiated and demands of RCEP partners for services access into the Indian market is very important.

**Keywords:** Regional Comprehensive Economic Partnership, RCEP, Trade in Services, Revealed Comparative Advantage in Services, Movement of Natural Person, ASEAN, MRA’s.

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**Introduction**

Regional Comprehensive Economic Partnership (RCEP) negotiations were launched by 16 countries, including 10 ASEAN members, Australia, China, India, Japan, Republic of Korea and New Zealand on November 20, 2012. The objective is to move beyond ASEAN+ FTA’s and create the world’s largest trading bloc covering nearly half of the global economy and around 40% of the world ‘s trade.

The worrying trade deficit in goods with RCEP members and especially with China has increased the expectations from the services sector to balance the deficit. Around 65% of India’s Trade deficit in goods alone stands with the RCEP nations. China, the elephant in the room, alone accounts for half of India's total trade deficit nearly $63 billion in the FY 2018-19. This has put a lot of pressure and expectations on the Indian services industry.

Presently, Services is at the core interest in the ongoing Regional Comprehensive Economic Partnership [RCEP] negotiations for India. The diversity of interest and level of ambitions of each participating country has made the services negotiations in RCEP a challenging one.

Services may emerge as a competitive front for India in RCEP, depending on the relative extent to which RCEP countries undertake commitments on liberalization in trade in services (Chandran 2018). Study aims to analyze and understand the services trade patterns and comparative advantage among RCEP countries, highlight India’s experiences in the past services agreement and comments on key concerns for India in RCEP.

**An overview of Services Trade in RCEP**

Services is the most important sector for India. It alone contributes more than 50% to GDP, around 33% to employment and nearly 60% in Foreign Investments in India. India’s trade surplus in services trade reached 74 billion USD in 2018. In fact, the services are the interest of almost all RCEP members, since services contribute more than 50% to the national GDP of all the RCEP countries. Table 1 shows the Services Trade Openness of RCEP economies. Services Trade openness is calculated as imports and exports as a percentage of GDP. The larger the percentage, the more the country is exposed to international trade. Singapore is the highest among RCEP members in trade openness followed by New Zealand, Australia and Thailand.

**Table 1: Services Trade Openness (2017)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Country** | **Services Trade Openness** | **Country** | **Services Trade Openness** |
| Australia | 16.43 | Myanmar | 5.85 |
| Brunei Darussalam | 4.38 | Malaysia | 11.68 |
| China | 14.86 | New Zealand | 18.90 |
| Indonesia | 2.43 | Philippines | 11.35 |
| India | 7.14 | Korea | 5.72 |
| Japan | 14.14 | Singapore | 50.84 |
| Cambodia | 21.22 | Thailand | 16.62 |
| Lao PDR | 5.26 | Vietnam | 5.87 |

**Source: World Development Indicators, World Bank**

Table 2 shows that RCEP members account for around 21.36% of world exports of services in 2018 and an even higher 27.01% of world imports. China have highest trade deficit followed by Korea, Japan and Indonesia. India and Thailand have the highest trade surplus followed by Philippines, New Zealand, Cambodia and Myanmar. The credit for India’s favourable services balance mainly goes to Telecommunications, computer, and information services and other business services. Thailand mainly exports travel and business services, Philippines - Business services, New Zealand - Financial and Travel services. In terms of share in world services exports- China, India, Japan and Singapore are leading in RCEP. China’s heavily imports transport, intellectual property and insurance related services & its imports has already surpassed the exports however its huge contribution in construction, transport, other business services and travel services exports makes it the largest services exporter in the RCEP.

Table 2: Comparison of Services trade balance scenario of RCEP countries (Value in USD Billion)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Country** | **Exports (2018)** | **Imports (2018)** | **Net** | **Share in world services exports (%)** | **Share in world services import (%)** |
| Australia | 69.17 | 71.85 | -2.68 | 1.19 | 1.30 |
| Brunei Darussalam | 0.58 | 1.57 | -0.99 | 0.01 | 0.03 |
| China | 266.84 | 525.03 | -258.19 | **4.57** | **9.53** |
| Indonesia | 27.93 | 35.03 | -7.1 | 0.48 | 0.64 |
| India | 205.10 | 176.58 | 28.52 | **3.51** | **3.21** |
| Japan | 192.01 | 200.04 | -8.03 | **3.29** | **3.63** |
| Cambodia | 5.45 | 3.01 | 2.44 | 0.09 | 0.05 |
| Lao PDR | 0.92 | 1.15 | -0.23 | 0.02 | 0.02 |
| Myanmar | 5.37 | 3.98 | 1.39 | 0.09 | 0.07 |
| Malaysia | 39.64 | 44.54 | -4.9 | 0.68 | 0.81 |
| New Zealand | 16.89 | 13.73 | 3.16 | 0.29 | 0.25 |
| Philippines | 37.46 | 26.97 | 10.49 | 0.64 | 0.49 |
| Korea | 96.60 | 124.26 | -27.66 | 1.65 | 2.26 |
| Singapore | 184.01 | 186.95 | -2.94 | **3.15** | **3.39** |
| Thailand | 84.09 | 55.27 | 28.82 | 1.44 | 1.00 |
| Vietnam | 15.10 | 18.39 | -3.29 | 0.26 | 0.33 |
| **RCEP Total** | **1247.16** | **1488.35** | **-241.19** | **21.36%** | **27.01%** |

**Source: Compiled by Authors from ITC Trade Map**

Table 3: India’s bilateral services trade with RCEP members

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Export** | **Import** | **Trade Balance** | **Year** |
| Australia | 1661 | 3382 | **-1721** | 2017 |
| China | 537 | 940 | **-403** | 2016 |
| Japan | 1812 | 2444 | **-632** | 2017 |
| Malaysia | 844 | 502 | 342 | 2017 |
| New Zealand | 188 | 801 | **-613** | 2017 |
| Singapore | 3826 | 3680 | 146 | 2017 |

Source: WTO data (<https://data.wto.org/>)

While disaggregated country wise trade data are not available for all RCEP countries, India has a deficit in trade in services with Australia, China, Japan and New Zealand (countries which have good export share in RCEP). As per the data available from WTO, Education related travel (Australia and New Zealand), Other business services and transport related services (Japan), Transport and travel services (China) are mainly contributing to India’s services imbalance with these countries. Evidently, India’s strength in the areas of Computer and Information services and other business services (even after good contribution in exports) has not helped to balance the services trade in any of the above major RCEP economies.

Revealed Comparative Advantage (RCA) for RCEP countries indicate India’s strong position in services like travel, other business services, telecommunication and computer related services. RCA index reveals that except for telecommunication and computer services, India has strong competitors in RCEP. Even for the telecommunication and software exports, China and the Philippines are emerging as strong competitors in the region. Australia, Indonesia, Malaysia and Thailand are key destinations for travel and tourism related services in RCEP. Other Business Services which mainly comprises of professional services like architectural, consultancy, legal, accounting, medical professionals and nurses, etc.which are the 2nd largest services exports from India, have strong competitors like China, Indonesia, Japan, Philippines and Singapore in RCEP. China, Japan and Korea are at comparatively stronger position in the construction services sector and similarly competitive in Transport sector along with Singapore. Singapore is also the most attractive financial services centre in the RCEP region. Overall, RCA scores do not indicate a very positive picture for India except for IT & Ites Services and tourism sector.

Average RCA (2014-2017) based on **Balassa index**, introduced by [Béla Balassa](https://en.wikipedia.org/wiki/B%C3%A9la_Balassa) and Mark Noland (1965) on the Ricardian Comparative Advantage theory introduced by David Ricardo has been calculated to find the relative advantage of member countries in a certain services as evidenced by trade flows. Scores above 1 indicates strong position of a country in services.

Table 4: RCA Analysis for RCEP members (2014-2018)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Country** | **Travel** | **Other business services** | **Transport** | **Financial** | **Telecommunications, computer, and information services** | **Construction** | **Insurance** |
| Australia | **2.8** | 0.65 | 0.61 | 0.68 | 0.35 | 0.2 | 0.27 |
| China | 0.76 | **1.28** | 0.94 | 0.17 | **1.31** | **4.33** | 0.79 |
| Indonesia | **1.93** | **1.01** | 0.81 | 0.19 | 0.44 | 0.86 | 0.1 |
| India | **2.81** | **1.26** | 0.54 | 0.36 | **3.34** | 0.64 | 0.52 |
| Japan | 0.69 | **1.01** | **1.09** | 0.67 | 0.23 | **3.03** | 0.45 |
| Malaysia | **2.07** | 0.75 | 0.67 | 0.14 | 0.74 | **1.12** | 0.37 |
| New Zealand | 2.49 | 0.4 | 0.73 | 0.38 | 0.4 | 0.64 | 0.34 |
| Philippines | 0.8 | **2.41** | 0.4 | 0.11 | **1.61** | 0.11 | 0.13 |
| Korea | 0.66 | 0.97 | **1.72** | 0.24 | 0.41 | **6.66** | 0.32 |
| Singapore | 0.47 | **1.18** | **1.64** | **1.63** | 0.68 | 0.29 | **1.48** |
| Thailand | **3** | 0.68 | 0.52 | 0.11 | 0.08 | 0.36 | 0.05 |

**Source: Compiled by Authors from ITC Trade Map**

**India’s existing trade agreements in services with RCEP members**

India already have existing FTA’s covering services with RCEP countries like ASEAN, Japan, Korea and in-talks with Australia and New Zealand for Comprehensive Economic Cooperation Agreement covering services. ASEAN-India agreement on Trade in Services signed on November 13, 2014, came into effect on July 1, 2015 covering GATS plus commitments with fair sectoral coverage of services and different modes of supply. Among 10 member countries, Indonesia and Cambodia has not yet ratified the agreement. Indonesia believes that Indian professionals will flood their markets if they sign the agreement (Basu 2018). Separate schedules for Philippines and Indonesia in the current services agreement remain a contentious issue for Mode 4 (Nataraj and Sinha 2013). India’s services trade with ASEAN has grown from US$ 30 billion in 2010 to US$ 45 billion in 2016. India might have surplus in trade in services with ASEAN but the scope is highly unrealized due to lack of progress on market access issues within ASEAN (Prabir, De 2018).India is a net exporter of most of the services of which ASEAN is net importers indicating trade potential for India (Nataraj & Sinha 2013)

Joint Study Group (JSG) Report preceded Comprehensive Economic Partnership between India and the Republic of Korea states that the actual trade exchanges have shown very limited progress especially in the IT/ITeS services, MoNP where India has expected the most (Seshadri, V. S. 2015). Absence of any commitment by Korea in the health sector including hospital, medical, dental, nursing and physiotherapist services and the condition on local presence under Mode 1 for a whole range of services like architectural, engineering and advertising services is a strong limitation. Japan has offered good concessions under the India-Japan CEPA, most of them are without restrictions and substantive under Mode 1 and Mode 4, still the trade impact has not come out in favour of India (Das, Ram Upendra 2014). India has unfavorable trade balance in services with Japan, nearly around 600USD million in 2017 (OECD Stats).

**Liberalisation of Services in RCEP: The Cautious Note**

Around 65% of India’s total Trade Deficit i.e $105 bn out of $164 bn in goods during 2017-2018 stands with the RCEP nations, mainly with China (50%) followed by ASEAN (12.6%), Korea, Australia, Japan and New Zealand. Huge trade deficit in goods has increased expectations from the Services sector. India has exported $38 bln and imported $29 bln worth of services from the grouping during 2017-18 (Trade in Value Added Database, OECD) (Suneja 2019). Total services trade of $67 bln does not reflect a considerable number with such a big region. In fact, the overall anticipated gains from the existing FTA in services with the RCEP countries has not been as positive as expected. Due to lack of disaggregated & country specific data for trade in services, the actual impact can’t be quoted.

Since, RCEP guiding principles emphasized for more comprehensive and high-quality negotiations for trade in services, it projects an opportunity to the participating countries to consolidate the ever proliferating and overlapping sets of FTAs between themselves (Anuradha, R.V. 2013).

Due to high potential in skilled & professional services,India has been trying hard, especially in the mode-4 (Movement of natural persons) and Mode -1 (Cross Border Supply) for maximum market access. India has proposed for more business-friendly visa regime through a visa-fee waiver on a common reciprocal basis, and an RCEP Business Travel Card aimed at facilitating liberal movement of professionals and tourists in the region which was not accepted by most of the RCEP members (Suneja 2019). India’s focus on movement of natural persons, even if acceded may not benefit as expected without strong Mutual Recognised Agreements (MRA) with RCEP partners. Going with the earlier experiences, India’s FTA with Singapore, Japan and Korea has the provision for MRAs in professional services such as architects, doctors, accountants, auditors, dentists and nurses, however till date the only MRA signed is Nursing services MRA with Singapore.

Referring to the RCA analysis, Indian IT/Telecom and business sector enjoys competitive advantage but still the sector has strong competitors like Philippines and China, Australia and Thailand/Malaysia in Travel services especially education related and personal travel respectively. There are other services also like Intellectual Property and manufacturing related services in which RCEP countries have high potential. Japan has high potential in IP related services whereas Malaysia stands for highest in manufacturing related services and these services when open-up may be a tough competition for India. RCEP will open the market for highly competitive services economies like China, Philippines, Singapore which are far more competitive than India in both infrastructure/manufacturing, knowledge and skill-based services such as logistics, transportation, construction, financial, IT services.

In the view of top three premier think tanks in India, the gains in services in RCEP would be to the tune of US$ 20 billion even as a best case scenario which is a miniscule gain and will not be able to compensate for the higher amount of goods imports, especially from China (Kukreja 2019). RCEP is a highly diversified region, especially when it comes to Services; the risk of entering the FTA is big. An open and transparent approach in the services sector, clearly laying out in public domain the expected gains in market access, the MRAs and other regulatory facilitating mechanisms for services exports being negotiated and demands of RCEP partners for services access into the Indian market is very important. The diverse economic region with varying degrees of interests is the main challenge in RCEP.

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