Why industry and farmers fear the deal

India's trade deficit with ASEAN and five other countries in the bloc is over $100 b

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While the stage is set for finalisation of the Regional Comprehensive Economic Partnership (RCEP) pact between ASEAN and six other countries, including India, the country's manufacturing industries and farmers are keeping their fingers crossed.

Their apprehension is justified, given the country's past experience with free trade agreements (FTAs).

RCEP is a trade agreement under which associating countries agree upon reducing or completely eliminating tariff and non-tariff barriers on imports and exports.

India's trade deficit with the ASEAN bloc — Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam and the five others in the RCEP pact — China, Japan, South Korea, Australia, and New Zealand is already massive and increasing every year.

Trade deficit with the above countries which stood at $63 billion in 2013-14 had increased to $105 billion in 2018-19.

While India currently sends 20 per cent of its exports to the above countries, 35 per cent of all imports are from this bloc of countries. Strikingly, China, which is in the forefront pushing RCEP after breaking ties with the US, is the largest exporter into India.

Of the country's $105-billion trade deficit, $53 billion is with China. Electrical machinery, equipment, appliances, plastic articles, iron and steel, aluminium, ceramic products, man-made fibres and furniture are some of the many goods that China dumps into India every year. Thus, manufacturers of the above products fear increased dumping from China post the RCEP deal.

Massive trade deficit

($ billion)

	Exports	Imports	Trade deficit
2013-14	70.3	124.7	-54.4
2014-15	56.8	139.6	-82.8
2015-16	45.9	134.0	-88.1
2016-17	52.5	135.9	-83.4
2017-18	61.1	165.5	-104.4
2018-19	67.7	172.9	-105.2

Above is India's trade with ASEAN and five other partners - China, Japan, South Korea, Australia, and New Zealand Source: Ministry of Commerce

It is feared that India's commitment under the RCEP will be higher than what it is under the existing FTAs with ASEAN, Japan, South Korea and others.

Past experience

Post 2006, India started aggressively signing bilateral trade agreements, including the first bilateral FTA with Sri Lanka (ISFTA). This came into effect in March 2000.

India also signed bilateral trade agreements with Malaysia, Singapore and South Korea. It became a partner in many RTAs like the ASEAN CECA.

However, India has always been at the receiving end of the FTAs. According to the data, the imports from FTA partners have been more than India's exports to them. In fact, in a report published by the NITI Aayog two years ago, India's exports to FTA countries have not outperformed the overall export growth or exports to rest of the world. Further, the utilisation rate of RTAs by exporters in India is very low — between 5 and 25 per cent. Among the domestic manufacturing industries, the metal industry has been hit the most by FTAs. A 10 per cent reduction in FTA tariffs for metals has increased imports by 1.4 per cent, says the report. In the agricultural commodities basket, dairy products, pepper, and cardamom will face the heat of higher dumping, post the proposed RCEP, according to market observers. At present, cheap imports of cardamom and black pepper from Sri Lanka and ASEAN countries have been hurting farmers in Kerala. The same has been the case with rubber farmers as rubber at cheaper rates from Vietnam and Indonesia are being dumped into the country. Coconut farmers too are distressed with coconut oil cakes coming from the Philippines and Indonesia. This situation may only worsen with the new trade pact, according to farmer groups. If dairy products from Australia and New Zealand also flood the market, the domestic dairy sector will be also be affected.

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While the Chinese President Xi Jinping and Prime Minister Narendra Modi are meeting today, many hope that India's huge trade deficit with China will be kept in mind when engaging in trade negotiation talks. Between 2013-14 and 2018-19 India's trade deficit with China had increased from $36 billion to $53 billion. Now, China makes up for half of India's trade deficit.

While the news of India and China signing more than 120 MoUs before the meeting of Modi and XI Jinping (for export of products including sugar, chemicals, fish, plastics, pharmaceuticals and fertilisers from India) has brought a lot of cheer, what remains to be seen is how significant this would be in terms of value and its impact on reducing the trade deficit.