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India's Act East Policy: RCEP Negotiations and beyond

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INDIA'S ACT EAST POLICY: RCEP NEGOTIATIONS AND BEYOND

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Abstract

After the inception of World Trade Organization (WTO) in 1995, India initially focused on multilateral route for export promotion. However, after conceding defeat in a number of WTO disputes, the country was forced to open up domestic market for foreign players during late nineties. The negotiations during Doha Ministerial (2001) and Cancun Ministerial (2003) meetings of WTO did not lead to the expected level of market access for India. As a result, the country from 2003 onwards had increasingly looked for the possible export markets through preferential trade arrangements. The 'Look East' initiative, launched after the 1991 reforms, emerged as a major guiding motive in this regard. The series of 'East'-centric regional trade agreements (RTAs) since 2010, participation in the Regional Comprehensive Economic Partnership (RCEP) negotiations and subsequent policy shift thorough announcement of 'Act East' initiative in 2014 underlined the country's resolve in this direction. Given this wider background, the current analysis explores the drivers behind India's recent decision to not join RCEP and the possible economic outcomes.

JEL Classification: F13, F15

Keywords: India, Regional Trade Policy, Domestic Value added in exports, RCEP, Act EastPolicy

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1. Introduction

Although India enjoyed a rich history of cultural exchanges with the East and Southeast Asia (Frost, 2009), the economic association with the region had gradually weakened over the centuries. After independence, trading with the partners from the 'East' was not actively pursued, given the emphasis on import-substitution policy. In the post-reform period (i.e., from 1991 onwards), the country adopted the 'Look East Policy' (LEP) with two major objectives in mind. While on one hand, Japan, Singapore and South Korea were considered as possible sources of updated technology and capital investment, high growth rates in several economies of East and Southeast Asia encouraged the country to consider them as potential export destinations (Chakraborty, 2014a). India subsequently became Sectoral Dialogue Partner of ASEAN in 1992, covering trade, tourism, investment and science and technology, which helped the country in improving trade relations with Southeast Asia.

The inception of WTO in 1995 and the consequent tariff reforms through the multilateral reformswere expected to enhance Indian exports(Mattoo and Stern, 2003). However, after conceding defeat in a number of WTO disputes spanning over application of quantitative restrictions on certain merchandise imports, patent protection norms and investment measures in the automobile sector, the country was forced to open up domestic market for foreign players during late nineties (Chaisse and Chakraborty, 2006). Conversely, the expectations on better export growth through the WTO-led tariff reforms were also not fulfilled. The successive failures of the Doha and Cancun Ministerial Meetings of WTO in 2001 and 2003 respectively forced the country to gravitate towards preferential trade arrangements for sustaining export growth (Fiorentino et al, 2006).During both Doha and Cancun as well as the Hong Kong Ministerial meetings (2005), India had to negotiate hard with the developed countries of the 'West' over a series of issues (Draper and Sally, 2005). Therefore, the 'East' emerged as a natural trade partner, as noted from the National Common Minimum Programme (2004) statements, 'India actively sought to engage with regionaleconomic groupings such as ASEAN, Mekong - Ganga Cooperation, BIMSTEC ..' (GoI, 2004a). So, a series of East-centric regional trade agreements (RTAs) followed, namely: India-Singapore CECA (2005), India-ASEAN FTA (2010), India-Korea CEPA (2010), India-Japan CEPA (2011), India-Malaysia CECA (2011). Finally, India joined the Regional Comprehensive Economic Partnership (RCEP) negotiations from 2013 onwards, involving ASEAN and six of its bilateral FTA partners (Australia, China, India, Japan, New Zealand and South Korea), which was expected to further deepen the economic collaboration in a wider geographical region (Seshadri, 2017).

However, the potential import threat perceptions from the regionalization drive with the 'East' were acknowledged long back, as one major objective of the Foreign Trade Policy (2004-09) stated, 'Avoiding inverted duty structures and ensuring that our domestic sectors are not disadvantaged in the Free Trade Agreements/Regional Trade Agreements/PreferentialTrade Agreements that we enter into in order to enhance our exports' (GoI, 2004b). So, the decision to opt out of the RCEP negotiations during November 2019 and not join back the bloc, when the RCEP was signed on 15 November 2020, need to be viewed in terms of theselong-standing potential import threat considerations.

The current analysis is arranged along the following lines. First, it briefly examines the

RCEP negotiations over the period. The realized trade outcomes of engaging with the eastern

RTAs and the evolving urge to move towards Atmanirbhar Bharat Abhiyan have been judged next. In this context, the domestic value added (DVA) content of exports have been compared for India and China, a crucial RCEP partner country, to draw insight on relative manufacturing sector performance. Finally, on the basis of the obtained observations, a few policy conclusions are drawn.

2. Look, Act, Contemplate and Quit? Brief Look into India's 'East' Perspective

The hard negotiations during the WTO Doha Round from 2001 onwards and the modest outcomes therein made India aware on the obstacles to market access in no uncertain terms (Ray and Saha, 2008). Since 2004, the country therefore increasingly started to explore the RTA route for export promotion. After the failure of the Hong Kong Ministerial Meeting of WTO (2005) in particular, the country realized the limits to trade expansion through multilateral reforms, and active participations in 'Eastern' RTAs followed. A public speech by the then Commerce Minister of India makes the evolving perspective clear:

> "The Uruguay Round took eight years to negotiate. The Doha Round has already taken four. When the WTO process reaches its final culmination, perhaps in the next fifteen years or so, regional FTAs would become redundant. But that is a long way off. But that is a long way off…. RTAs consolidate peace and regional security, and also confer greater bargaining power in multilateral negotiations by tying in partner countries through regional commitments." (GoI, 2004b).

One major driver behind India's tryst with the 'East', through RTAs with ASEAN, Japan, South Korea and finally RCEP, was to facilitate capital inflows, i.e., both foreign direct investment (FDI) and technology transfer. The 'Flying Geese' model, which enabled several ASEAN countries and China to enhance their manufacturing process sophistication through FDI initially from Japan and subsequently from South Korea and Singapore deserves mention in this regard (Hayter and Edgington, 2004). In other words, the outward investment from a technologically superior, but laden with high labour cost, economy enabled manufacturing sector consolidation in a relatively poorer but labour-abundant country.As a result, the process of production fragmentation in East and Southeast Asia was initiated (Kimura and Ando, 2005). The Japanese, Korean and Singaporean FDI sequentially developed the manufacturing sectors in the recipient countries, which lowered the search, training, skilling and reskilling costs for the investing MNCs (Edgington and Hayter, 2000). In addition, the participation of Japanese / Korean players in domestic production process facilitated the deepening of IPN linkage for recipient countries in the region and led to creation of Factory Asia, where the countries specialised in the intermediate and final products as per endowment, 'without having to develop complete products or value chains' (Ash, 2015). The cross-border trade in parts and components was further facilitated through the improved regional connectivity between the East and Southeast Asian countries thorough the ADB-sponsoredas well as bilateral infrastructure augmentation initiatives (Hong, 2018; Pomfret and Sourdin, 2014).

The expected economic benefits of India's trade partnership with East and Southeast Asia, measured by rising export potential and investment intensity, was observed by several studies, which helped shaping the government's negotiating perspective (Chakraborty and Sengupta, 2010; Kumar et al., 2006). In addition, India also introduced a number of infrastructure development initiatives to facilitate trade with Southeast Asia (Bhattacharyya

and Chakraborty, 2011; De, 2014; Kumar, 2020). The orientation is likely to continue in

future as well with the, 'establishment of an institutional mechanism for encouraging investmentsby Indian manufacturing and infrastructure development companies in CLMV countries through a ProjectDevelopment and Facilitation Framework (PDFF)' (Exim Bank, 2018).

Subsequently several trade agreements with the region, namely, Early Harvest Programme (EHP) under the Indo-Thai FTA (2004), Indo-Singapore Comprehensive Economic Cooperation Agreement (CECA) (2005) and few framework agreements followed. India's enthusiastic outlook towards an RCEP-like arrangement in the context of Asian integration, which was yet to see daylight, was obvious from the statements made during this period.

> "Our Prime Minister .. foresees the rise of a major free trade area in Asia covering all major Asian economies, including China, Japan and South Korea and possibly extending to Australia and New Zealand. This Pan-Asian Free Trade Area could be the third pole of the world economy after the European Union and North Atlantic Free Trade Area." (GoI, 2006).

The Indian scepticism over multilateral reforms in the post-Cancun period was shared by the Asian countries as well, as reflected from the timeline of the spread of Asian RTAs. ASEAN in particular emerged as a lucrative market for the neighbouring partners, leading to a series of arrangements, namely: Sino-ASEAN FTA (2005) , South Korea-ASEAN FTA (2007), Japan-ASEAN FTA (2008) , Australia-New Zealand-ASEAN FTA (2010) and ASEAN-India FTA (2010) in that order.

During 2008-09 period, the WTO negotiations on reform modalities on agriculture and non-agricultural market access (NAMA) were intensified and the formulas and coefficients for reduction of tariffs and subsidies were proposed. India was highly disappointed by the progress of these negotiations and the RTA-orientation of the country received a further boost (Chaisse et al, 2011). The expected economic benefits of trade partnership with East and Southeast Asia, measured by rising export potential and investment intensity, was observed by several studies (Chakraborty and Sengupta, 2010; Kumar et al., 2006; Nag and Chakraborty, 2006). Accordingly, the India-ASEAN Free Trade Agreement (FTA) (2010), India-Korea Comprehensive Economic Partnership Agreement (CEPA) (2010), India-Japan CEPA (2011) and India-Malaysia CECA (2011) came into existence in quick succession.

The idea of launching RCEP was first discussed in 2012 and negotiations started from 2013 onwards with the objective of integrating all the existing ASEAN-centric RTAs (Basu Das, 2014). It was expected that the tariff reforms and the resulting simplification of the rules of origin (ROO) provisions would deepen trade interlinkages within a wider geographical region for a significantly large range of commodities on one hand and deepen the IPN participations based on micro-level comparative advantage patterns on the other (Medalla, 2015). While ASEAN countries were at the central node, the pivotal role of China as a major influencing factor in the bloc has been acknowledged from the early days (Hamanaka, 2014).

During the negotiations on India-ASEAN FTA, the threat perception on sectors like palm oil played a crucial role in delaying the conclusion of the same (Chakraborty and Sengupta, 2010). One expectation of India from the bloc was to gain access to services trade in ASEAN market, where it anticipated bright export prospects (Exim Bank, 2018). However, after formation of the bloc the slow delivery on trade in services front soon made India dissatisfied

(Chakraborty, 2014b; Gupta, 2019). Keeping these past experiences in mind, the Indian

policymakers were cautious when the RCEP negotiations were launched in November 2012. The possible challenges during the negotiations were anticipated right from the beginning, as evident from the stead RCEP goal: 'to minimize possible grievances among members during the trade reform by taking into consideration the development divergence and accordingly, through technical cooperation to solve the problems of the developing members'(ASEAN Secretariat, 2012).

Despite the entry into preferential trade relationships, India's trade performance in the RTA markets, i.e., ASEAN, Japan and South Korea remained modest. Moreover, abuse of the preferential route also surfaced as several Chinese manufacturing firms invested in ASEAN countries like Vietnam for enjoying duty-free access to Indian market (Chaudhuri, 2015). In this context, strengthening of the local manufacturing sectors emerged as a priority for the country. On one hand, for revitalizing the domestic manufacturing sector and building a closer association with the international production networks (IPNs) located in Southeast and East Asia, the 'Make-in-India' (MII) initiative was introduced in 2014. On the other hand, the 'Act East Policy' (AEP),also announced in 2014,called for practicing a closely integrated and more action-oriented policy towards ASEAN and East Asian partners. These two policies underlined the seriousness of the country in engaging with the 'East', based on the expected benefits of production sharing (Athukorala, 2014).However, the direction of RCEP negotiations kept India seriously worried for multiple reasons, a few of which deserve particular mention.

First, given the widespread presence of bilateral arrangements among the members (e.g., Australia-China; Australia-South Korea, India-South Korea, China-New Zealand), and the existing commitments, RCEP set the target on complete elimination of tariffs, both in agriculture and manufacturing industries (ASEAN, 2012). It was obvious that given the relatively higher average tariff level, India needs to embrace relatively deeper reforms, fueling the fears on import surge from RCEP in general and from China in particular (Jayaswal, 2019). To complicate matters, India's initial offer on country-specific tariff reform schedules was summarily rejected by all the RCEP partners, forcing it to re-submit a single tariff reform plan for all countries ((Dhar, 2019; Sen, 2017). Given the lucrative size of the Indian market and the national priorities in trade partners, the pressure was on India. For Instance, China introduced the 'Make in China 2025' initiative in 2015, to strengthen the domestic manufacturing sector and exports further (Wübbeke et al, 2016), and accordingly pushed for deep tariff reforms during RCEP negotiation rounds.India's call for longer duration for reforming duties against Chinese imports hence were not received enthusiastically (ET, 2018). The threat perception from tariff reforms was also strong for certain agricultural segments, namely the dairy sector (Tripathi, 2019). For instance, the Cairns group countries like Australia and New Zealand envisaged deep tariff reforms in agricultural sectors (e.g., wheat, dairy), much to India's discomfort (Wignaraja, 2018). Indian bid to keep dairy sector in the negative list was not welcomed (BS, 2019). Second, while India aspired for the liberalization of trade in services within RCEP in its areas of interest (Mode 4), e.g., easing visa procedures on movement of skilled professionals for short-term work (Arun, 2017), RCEP partners were not too eager to open their markets at an early date due to the associated political sensitivity (Mukherjee and Kapoor, 2017; Sen, 2017). This significantly lowered the incentive for India to join the bloc. Third, at the beginning of the negotiations India was happy with the RCEP discussions relating to reduction of IPR-related obstacles to trade and investment among members (Kim, 2016). However, the negotiations drifted towards incorporation of stronger provisions, including TRIPS-Plus ones. For

instance, Japan, and South Korea supported more business-friendly IPR provisions in RCEP,

with immense ramifications for access to medicines and public health policy choices (TNI, undated). In particular, given the TRIPS-Plus orientation of the proposed RCEP text on border enforcement and other provisions (MSF, 2016), the apprehension of Indian negotiators was understandable (Sen, 2018).

After a series of negotiations, ASEAN finally allowed India to liberalize tariff for only 83 per cent of the products (Mahadevanhi, and Nugroho, 2019), though the concerns over effective market access obtained in ASEAN markets continued (Prasad, 2017). As a result, the demand for pull-out from RCEP negotiations gradually intensified among Indian players (Sen, 2019). When it became apparent that its concerns would not be immediately addressed in the RCEP forums, the Indian policymakers decided to opt out of the 'East' integration process in November 2019, citing economic considerations. On the eve of the upcoming RCEP meeting, India withdrew from the negotiations by noting:

> "India's economic interests and national priorities come first and theconcerns of the farmers, dairy sector, MSMEs and domestic manufacturing will be addressed and these sectors will be protected. Commerce and Industry Minister informed that throughout the seven-year long negotiations in RCEP India has consistently stood its ground to uphold its demands particularly over controlling trade deficit, stronger protection against unfair imports and better market opportunities for Indian goods and services.The opening up of the Indian market must be matched by openings in areas where our businesses can benefit and India will not allow its market to become a dumping ground for goods from other countries said the Minister." (GoI, 2019).

In the aftermath of the pull-out in 2019, a section of the industry supported the decision, underlining their perceived threat and the associated relief perception (Hindu, 2019). Empirical estimates also indicated that it may not benefit India to re-join RCEP (Sharma et al, 2020). The potential threat from RCEP negotiations has been expressed in discussions on policy implications as well (Saraswat et al, 2019). Two distinct steps have been adopted by India in the subsequent period, which deserve mention. First, the announcement on 'Atmanirbhar Bharat Abhiyan' in May 2020 signals growing reliance on a manufacturing-led growth model on India's behalf (GoI, 2020). Second, the country has started exploring the possible benefits of entering into FTAs with the EU and the US, signifying a diversification attempt of the bloc partner basket (Sikarwar, 2020). While overtures had been made from the partners to encourage India to resume talks, the RCEP agreement has finally been signed on November 15, 2020 without the elephant. After the RCEP deal was closed, the External Affairs Minister Mr. S. Jaishankar stressed that the non-fulfillment of its concerns has been the main driver behind the Indian decision to turn away from the bloc (Roche, 2020).

Table 1: India's 'East' Focus is the RTAs?

No.	Operational	Ongoing Analysis, Discussion and Negotiation	Pull-out from Negotiations
1	Bangkok Agreement (now APTA) (1976)	India – China RTA (2003)	RCEP (launched in 2013, pull-out in 2019)
2	India-Thailand FTA (EHP) (Duty abolition in 2004 on a limited set of products)	BIMSTEC FTA for Services and Investment (Framework Agreement signed in 2004; Negotiations from 2014)	

3	India-Singapore CECA (2005)	India – Thailand FTA (FA signed in 2004; Negotiations from 2014)	

4	India-ASEAN FTA (2010)	India – New Zealand CECA / FTA (2010)	
5	India-South Korea CEPA (2010)	India – Australia CECA / FTA (2011)	
6	India-Malaysia CECA (2011)	India–Indonesia CECA (2011)	
7	India-Japan CEPA (2011)	India – Philippines PTA (2020)	

Source: Constructed by authors

An account of the trade arrangements involving India since 2005, covering both concluded and ongoing ones, is summarized in Table 1. Several of the trade agreement provisions are overlapping (e.g., engagement with Thailand through ASEAN and BIMSTEC), which perhaps explains the resulting stalemates in the ongoing negotiations. The next section looks into the concern areas for India.

3. India's Act East Policy: Drivers and Transformation

There is a need to closely assess the factors which influenced Indian RCEP pull-out decision, marking a turnaround in the ongoing AEP process. Table 2 demonstrates how India's trade orientation with ASEAN and other East Asian partners evolved over the last two decades vis-à-vis other regions. It is observed that ASEAN's share in Indian export basket has declined in recent past, with a simultaneous rise in import shares. Conversely, the export share to North East Asia declined but import shares increased sharply. These dynamics and the resulting trade deficit become evident from the observation that India's import basket from ASEAN and North East Asian partners are laden with technologically sophisticated products like machineries (e.g., from China, Japan, South Korea, Thailand) on one hand, and mineral, fuel etc.on the other (e.g., Indonesia, Malaysia and Brunei), demand of which are inelastic in nature. Conversely, the export basket to these destinations consists of primary and intermediate products, which are considerably low-value in nature vis-à-vis the import basket (Dhar, 2019).

Table 2: India's Evolving Trade Orientation (Percent)

Partner	**Export**					**Import**				
	1997-98	**2005-06**	**2008-09**	**2017-18**	**2019-20**	**1997-98**	**2005-06**	**2008-09**	**2017-18**	**2019-20**
EU	26.86	22.57	21.28	17.66	17.15	26.23	17.45	14.15	10.28	10.79
SACU	1.15	0.97	1.17	1.33	1.41	1.20	1.69	1.83	1.85	1.64
Other South African Countries	0.26	0.25	0.52	0.52	0.92	0.31	0.08	0.56	1.38	1.13
West Africa	1.24	2.02	1.81	2.21	2.61	3.18	0.78	3.65	3.62	3.63
East Africa	1.40	1.20	2.43	2.15	2.12	0.24	0.15	0.12	0.30	0.30
North Africa	1.20	1.28	1.85	1.61	1.74	2.01	0.56	1.91	0.87	1.17
North America	20.91	22.49	12.51	17.85	19.01	10.16	7.02	7.58	7.58	9.24
Latin America	1.69	2.06	2.98	2.84	3.21	1.19	1.72	2.68	4.45	3.60

Oceania	1.48	1.15	0.95	1.47	1.07	3.79	3.54	3.90	3.20	2.19

ASEAN	7.09	8.76	10.33	11.27	10.05	8.19	7.30	8.69	10.12	11.68
West Asia (GCC)	7.80	9.32	17.34	12.98	12.92	10.49	5.23	19.40	13.76	16.99
Other West Asia	2.15	3.68	3.32	2.96	3.40	3.24	1.48	8.13	6.87	5.88
NE Asia	15.67	14.92	13.73	13.00	12.34	12.18	15.51	19.36	25.41	24.11
South Asia	4.69	5.28	4.62	7.61	6.99	0.59	0.95	0.60	0.69	0.81

Source: Export Import Data Bank data (GoI, undated)

Table 3 displays how RCEP's importance has changed in India's export and import baskets (in percentage terms). For interpreting the temporal effect of policy changes, the data has been presented over four distinct ranges, namely: 2001-05 (reliance on WTO-ledexport enthusiasm phase), 2006-10 (RTA overture phase), 2011-14 (RTA implementation phase) and 2015-19 (RCEP negotiation phase, coinciding with launch of MII and AEP) respectively. A few interesting observations emerge from the left panel on export dynamics. First, the average aggregate share of ASEAN countries in India's export basket has increased upto 2014, but declined during 2015-19, which perhaps played a key role in influencing India's RCEP pull-out decision. Moreover, the rise of ASEAN's importance in India's export basket can be explained mainly by greater orientations towards a limited number of countries (e.g., Myanmar, Vietnam). On the other hand, relative importance of crucial markets like Indonesia, Malaysia and Singapore has fluctuated, underlining absence of any unidirectional relative export growth therein. Second, India's export orientation towards Singapore and Japan have declined, while the corresponding figures for Malaysia and South Korea increased during the period when RCEP negotiation gathered momentum (i.e., from 2015 onwards). The fact that India had entered into comprehensive partnership agreement with these economies beforehand (2005 for Singapore and 2010-11 for the other three economies), the observation underlines a major concern for Indian export competitiveness there, and in turn long-term export prospects. Third, export shares involving Australia and New Zealand, the two countries with whom India have initiated RTA negotiations but not concluded yet, registered only a modest increase. Finally, proportional importance of China, with whom an RTA was envisaged in 2003, but never concluded, has declined in the export basket since 2010. This relative decline can be explained by the intensity of primary and intermediate products in India's export basket (Dhar, 2019; Islam, 2014).

On the other hand, the import side dynamics, as evident from the right panel of Table 3, underlines Indian concerns in no uncertain terms. First, while ASEAN's presence in India's import basket remained largely unchanged upto 2014, the sharper rise in the subsequent period can be explained by the phased tariff reforms under India-ASEAN FTA (Prasad, 2017). Second, the growing import shares in the post-2015 period are originating not from the comprehensive trade agreement partners like Singapore and Malaysia, but from Brunei, Indonesia, Thailand and Vietnam, who are benefitting from the Indo-ASEAN FTA preferential rules of origin (ROOs). The deeper inroads made by these countries can be explained by several factors, namely: competitiveness gains in these economies vis-à-vis India (Exim Bank, 2018), relocation of Chinese and other firms therein in search of lower labour cost and trade preference advantages (Chaudhuri, 2015) etc. Third, import shares from Japan and Australia declined while the same for South Korea increased. The growing share of South Korea in Indian imports has been influenced by the performances in the electrical and electronics products (HS 85), organic chemicals (HS 29) etc. Finally, import propensity from China sharply increased, given the growing technological sophistication of the dragon (Sahoo

and Bhunia, 2014). A cursory look into the import scenario from Trade Map data reveals that

for a wider range of commodities (e.g., chemicals, iron and steel, electrical and electronics, machinery and equipment, auto-components and vehicles), China happens to be the single largest import source for India, often accounting for more than 20 percent of the total imports (Ahmed et al, 2020; Dhar and Rao, 2020; PHD, 2018). All these underlines the threat perception in no uncertain terms.

Table 3: Importance of RCEP Partners in India's Trade Basket (Percentage Share)

Partner Countries	Export Share (%)				Import Share (%)			
	2001-05	2006-10	2011-14	2015-19	2001-05	2006-10	2011-14	2015-19
Brunei	0.007	0.015	0.081	0.016	0.001	0.116	0.179	0.125
Cambodia	0.027	0.030	0.039	0.051	0.001	0.001	0.003	0.011
Indonesia	1.470	1.612	1.813	1.285	2.260	2.380	3.104	3.405
Laos PDR	0.005	0.005	0.013	0.011	0.000	0.001	0.020	0.029
Malaysia	1.425	1.528	1.416	1.860	2.234	2.236	2.124	2.220
Myanmar	0.135	0.117	0.207	0.360	0.513	0.363	0.286	0.185
Philippines	0.593	0.411	0.402	0.528	0.173	0.102	0.093	0.133
Singapore	3.528	4.456	4.282	3.253	2.467	2.615	1.601	2.272
Thailand	1.252	1.061	1.111	1.244	0.765	0.977	1.157	1.473
Vietnam	0.616	0.946	1.562	2.165	0.059	0.146	0.487	1.094
Australia	0.903	0.752	0.783	1.150	2.935	3.630	2.510	2.613
China	4.409	6.459	4.935	4.339	5.298	10.659	11.707	15.542
Japan	2.973	2.109	2.015	1.526	3.216	2.533	2.344	2.540
South Korea	1.239	1.892	1.441	1.420	2.857	2.760	2.765	3.398
New Zealand	0.133	0.168	0.093	0.117	0.129	0.156	0.144	0.132
ASEAN	9.058	10.182	10.926	10.775	8.472	8.937	9.055	10.947
ASEAN + Japan + South Korea	13.269	14.183	14.382	13.721	14.545	14.231	14.164	16.885
Australia + New Zealand (ANZ)	1.036	0.920	0.877	1.267	3.063	3.786	2.655	2.746
RCEP	18.714	21.561	20.194	19.327	22.907	28.676	28.525	35.173

Source: Constructed by the authors from Trade Map data (ITC, undated)

It emerges from India's pull-out announcement in November 2019 that import threat (both realized as well as perceived) from the RCEP partners forced the country's decision. To evaluate the trade outcomes in this perspective, the trade balance scenario over 2001-19 for all the RCEP participants vis-à-vis RCEP, India, China and ASEAN are reported in Table 4. For obtaining a temporal perspective, the time period is divided over the aforesaid four periods. A few interesting observations can be noted. First, several developed (Japan, South Korea, Singapore) as well as developing (Brunei, Malaysia) countries are enjoying trade surpluses with respect to both ASEAN and RCEP partners, which indicate the competitive advantage the countries might be enjoying. It may be argued that for the developed and developing countries the advantages are originating from technological sophistication (e.g., capital-intensive manufacturing products) and resource intensity (e.g., primary and energy

products) respectively. In addition, all these three developed countries have heavily invested

in labour-intensive part of the industrial value chains in ASEAN (Ambashi, 2017). Given the trade surplus enjoyed and the gains from deepening IPN participation, the eagerness of these countries for an early conclusion of RCEP negotiations is obvious. Second, interestingly China and Thailand enjoy trade surplus against ASEAN partners but deficit against RCEP as whole. This indicates that these two countries are competitive vis-à-vis ASEAN but suffer a deficit against the other RTA partners (i.e., Japan, South Korea). The result perhaps indicates a relative specialization in lower to mid value-added segments of manufacturing sector therein as compared to Japan and South Korea. Third, on the other hand, Australia experienced trade surplus against the aggregate RCEP bloc, but deficit vis-à-vis ASEAN partners. The observation can be explained by the relatively higher labour cost in Australia, forcing the country to specialize accordingly. Lastly, it is observed that a couple of low-income (Cambodia,Lao PDR, Myanmar), middle-income (India, Indonesia, Philippines, Vietnam) as well as high-income (New Zealand) countries have witnessed trade deficits against both ASEAN and RCEP partners. For the six ASEAN countries, the trade deficit against both their current ASEAN partners and potential RCEP collaborators did not discourage their participation in RCEP negotiations, unlike the Indian experience. A possible explanation behind the differing experience can be the evolved trade complementarity in production and growing IPN participation through intra-industry trade (IIT) within ASEAN (Cheewatrakoolpong et al., 2013), which raise expectations in these countries on long-term trade and welfare gains. As an additional worry for the India policymakers, the trade complementarity index (TCI) of Indian exports and RCEP imports have not improved over the period (Chakraborty, 2018). This led to severe stress on economic viability of domestic players, raising the fear of premature deindustrialization(Chaudhuri, 2013). As a result, the worsening of the average trade deficit since 2015 dominated India's RCEP pull-out decision.

Tables 5-7 compare the average tariff scenario in India and a few RCEP partners, namely: China, Japan, South Korea, Thailand and Vietnam. It is clearly observed that the average tariff in India is relatively higher than partner countries in several sectors. It can be argued that the sharp decline in the tariff rates, in line with the deeper cuts as mandated by RCEP, would have been in contrast with the MII strategy being followed by the country since 2014. On the other hand, the upward rise in the average duty in several countries and the associated decline in the percentage of duty-free imports underline the relative protectionist intent of these RCEP partners and the consequent Indian apprehensions.

Table 4: Intra-RCEP Average Trade Balance Scenario (USD Billion)

Reporter Country	Partner Country															
	With RCEP				With India				With China				With ASEAN			
	2001-05	2006-10	2011-15	2016-19	2001-05	2006-10	2011-15	2016-19	2001-05	2006-10	2011-15	2016-19	2001-05	2006-10	2011-15	2016-19
Australia	1.20	18.52	45.23	29.20	2.11	8.95	7.71	5.62	-3.88	0.93	30.52	22.73	-5.77	-17.64	-17.84	-12.67
Brunei	3.42	7.47	7.20	2.08	0.30	1.32	0.42	-0.02	0.15	0.10	-0.13	-0.63	0.34	0.66	0.22	0.29
Cambodia	-0.99	-2.12	-5.22	-9.25	-0.01	-0.04	-0.10	-0.08	-0.26	-0.81	-2.65	-4.59	-0.57	-0.99	-2.25	-4.64
China	-52.48	-100.01	-86.03	-45.75	-0.58	12.22	34.05	53.44	-	-	-	-	-13.71	-10.33	36.66	59.95
India	-6.88	-39.67	-74.45	-98.00	-	-	-	-	-1.60	-17.69	-42.06	-54.88	-0.86	-6.23	-9.80	-16.56
Indonesia	15.74	14.30	-2.36	-6.49	1.04	4.28	8.71	8.65	0.60	-1.60	-9.13	-15.05	2.10	-4.89	-10.06	-1.32
Japan	-11.36	-7.82	-59.96	-32.57	0.09	2.19	2.75	4.54	-23.14	-15.87	-44.77	-34.75	3.02	1.44	-4.57	1.66
South Korea	-6.49	-4.82	50.43	57.44	1.27	3.18	6.05	9.19	13.58	26.41	53.25	41.60	1.40	6.47	27.14	37.80
Laos PDR	-	-0.01	-1.08	-0.32	-	-0.01	-0.01	0.10	-	0.04	-0.09	0.12	-	-0.07	-1.23	-0.38
Malaysia	4.10	15.03	20.61	11.29	1.69	3.71	4.89	2.78	-1.44	-0.49	-2.62	-9.28	6.49	9.53	8.11	15.54
Myanmar	-	0.42	-2.12	-3.54	-	0.80	0.84	-0.25	-	-0.70	-1.09	-0.67	-	0.44	-0.76	-2.65
New Zealand	-2.07	-2.98	-0.29	-1.41	0.00	0.17	0.24	0.00	-0.92	-2.09	-0.18	0.86	-0.45	-1.43	-2.40	-1.93
Philippines	-4.92	-6.88	-7.16	-38.39	-0.26	-0.31	-0.56	-1.21	0.14	0.57	-2.06	-12.64	-1.24	-5.37	-6.49	-16.72
Singapore	8.70	30.13	60.02	49.28	1.59	4.06	1.88	4.46	-1.29	-0.71	6.02	3.62	11.02	28.36	52.40	36.78
Thailand	-6.16	-5.13	-9.06	-5.30	-0.15	1.07	2.26	2.54	-1.14	-2.34	-10.96	-19.13	3.35	8.56	17.16	18.36
Vietnam	-5.40	-20.76	-38.75	-44.03	-0.38	-1.12	-0.50	0.71	-1.29	-9.61	-22.95	-25.13	-2.85	-6.85	-4.55	-5.12

Source: Chakraborty and Aggarwal (2020)

Note: For Brunei, Cambodia, Indonesia, Lao PDR, Myanmar and Vietnam, the last period's average has been computed for 2016-18 due to unavailability of 2019 data.

Table 5: Average Import Tariff Scenario in China and India for Select Sectors

Commodity Groups	HS Codes	2005			2010			2015			2019		
		MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)
		Average	Maximum		Average	Maximum		Average	Maximum		Average	Maximum	
India													
Cotton	52	17.0	30	0.0	12.0	30	98.0	6.0	30	99.9	26.0	30	0.0
Chemicals	28-38	15.0	100	0.4	7.9	10	1.9	7.9	10	2.2	10.2	100	0.2
Textiles	50-51, 53-60	20.2	268	0.0	14.7	170	0.0	11.8	147	0.0	22.3	112	0.0
Clothing	61-63	22.4	103	0.0	13.4	83	0.0	12.3	53	0.0	23.9	69	0.0
Leather and Footwear	41, 42, 64	15.4	70	0.1	10.2	70	0.0	10.1	70	0.1	13.1	70	0.0
Non-Electrical Machinery	84	14.3	15	27.6	7.3	10	17.0	7.1	10	23.3	8.1	20	19.0
Electrical Machinery	85	12.3	15	53.8	7.2	10	54.6	7.2	10	56.6	9.1	20	29.6
Vehicles and Auto-components	87	24.8	100	0.0	20.7	100	2.6	19.4	100	0.8	31.2	125	0.0
China													
Cotton	52	22.0	40	0.0	15.2	40	0.0	22.0	40	0.0	22.0	40	0.0
Chemicals	28-38	6.7	47	0.8	6.6	47	3.1	6.7	47	0.6	6.0	35	0.9
Textiles	50-51, 53-60	9.7	38	0.0	9.6	38	0.0	9.6	38	0.0	7.0	38	0.0
Clothing	61-63	16.1	25	0.0	16.0	25	0.0	16.0	25	0.0	6.8	12	0.0
Leather and Footwear	41, 42, 64	13.0	25	0.1	13.2	25	0.2	13.5	25	0.1	10.6	25	0.3
Non-Electrical Machinery	84	8.3	35	43.1	8.0	35	37.7	8.2	35	38.2	6.8	25	44.3
Electrical Machinery	85	8.7	35	82.4	8.3	35	82.1	9.0	35	84.9	6.0	20	81.6
Vehicles and Auto-components	87	11.6	45	0.0	11.5	45	0.0	11.4	45	0.0	9.6	45	0.0

Source: Author's compilation from World Tariff Profiles, WTO (2006, 2011, 2016, 2020)

Table 6: Average Import Tariff Scenario in Japan and South Korea for Select Sectors

Commodity Groups	HS Codes	2005			2010			2015			2019		
		MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)
		Average	Maximum		Average	Maximum		Average	Maximum		Average	Maximum	
Japan													
Cotton	52	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0
Chemicals	28-38	2.5	16	50.6	2.2	7	71.5	2.2	7	58.5	2.1	7	62.1
Textiles	50-51, 53-60	5.5	25	7.8	5.5	25	6.3	5.4	25	7.3	5.3	25	8.8
Clothing	61-63	9.2	13	0.0	9.2	13	0.0	9.0	13	3.5	9.0	13	3.4
Leather and Footwear	41, 42, 64	15.0	724	36.2	15.0	476	5.9	8.9	371	37.0	10.0	315	35.6
Non-Electrical Machinery	84	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0
Electrical Machinery	85	0.2	5	96.6	0.2	5	97.5	0.1	5	99.8	0.1	5	99.6
Vehicles and Auto-components	87	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0
South Korea													
Cotton	52	1.0	1	0.0	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0
Chemicals	28-38	5.8	50	13.8	5.7	321	14.8	5.7	253	16.1	5.6	104	14.5
Textiles	50-51, 53-60	9.2	13	0.5	9.1	13	5.6	9.0	13	4.1	9.0	13	2.5
Clothing	61-63	12.6	13	0.0	12.6	13	0.0	12.5	13	1.7	12.5	13	0.0
Leather and Footwear	41, 42, 64	7.9	16	0.0	7.9	16	17.4	7.5	16	12.0	7.6	16	7.2
Non-Electrical Machinery	84	6.0	13	45.1	6.0	13	36.4	6.0	13	5.7	5.8	13	54.6
Electrical Machinery	85	6.0	13	72.0	6.2	13	72.0	6.2	13	70.9	5.4	13	67.5
Vehicles and Auto-components	87	5.4	10	49.9	5.5	10	43.2	5.5	10	24.4	5.7	10	19.8

Source: Author's compilation from World Tariff Profiles, WTO (2006, 2011, 2016, 2020)

Table 7: Average Import Tariff Scenario in Thailand and Vietnam for Select Sectors

Commodity Groups	HS Codes	2005			2010			2015			2019		
		MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)	MFN Applied Duty (%)		Duty Free Import (%)
		Average	Maximum		Average	Maximum		Average	Maximum		Average	Maximum	
Thailand													
Cotton	52	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0	0.0	0	100.0
Chemicals	28-38	3.8	30	28.5	3.1	30	38.0	3.1	30	38.8	2.6	30	43.4
Textiles	50-51, 53-60	8.1	30	0.0	8.0	30	5.6	8.6	49	3.9	8.5	53	8.2
Clothing	61-63	24.5	60	0.0	29.8	60	0.0	29.6	60	0.0	29.6	60	0.0
Leather and Footwear	41, 42, 64	12.7	30	16.8	12.4	40	20.5	12.6	30	17.6	11.3	30	18.5
Non-Electrical Machinery	84	4.7	30	40.0	4.1	30	42.9	3.0	30	65.3	3.0	30	65.1
Electrical Machinery	85	8.3	30	63.2	7.5	30	50.3	7.6	30	65.5	6.8	30	67.8
Vehicles and Auto-components	87	20.7	80	0.3	20.3	80	15.8	19.9	80	26.5	22.8	80	24.0
Vietnam													
Cotton	52	6.0	10	-	6.0	10	99.8	6.0	10	100.0	6.0	10	100.0
Chemicals	28-38	5.2	50	-	3.5	31	57.5	3.1	27	47.4	2.9	27	47.8
Textiles	50-51, 53-60	30.4	100	-	9.7	100	11.4	9.6	100	10.6	9.6	100	4.5
Clothing	61-63	49.3	50	-	19.7	20	0.0	19.8	20	0.0	19.8	20	0.0
Leather and Footwear	41, 42, 64	19.0	50	-	14.1	40	15.6	12.5	35	15.2	12.6	35	12.6
Non-Electrical Machinery	84	5.4	100	-	3.4	50	61.9	3.3	50	69.3	3.3	50	67.4
Electrical Machinery	85	12.8	50	-	8.9	37	55.2	7.9	35	78.3	7.7	35	86.9
Vehicles and Auto-components	87	22.2	150	-	18.0	85	14.9	17.5	75	16.8	19.5	75	13.3

Source: Author's compilation from World Tariff Profiles, WTO (2006, 2011, 2016, 2020)

4. Value Addition Dynamics: Driver of Trade Deficit?

A key driver behind India's decision to deepen trade relationship with ASEAN and RCEP has been to benefit from closer association with the Asian IPNs (Das and Dubey, 2014). Table 4 underlines that India has suffered from a major aggregate trade deficit against ASEAN and RCEP partners. The deficit has been noticed across several manufacturing product segments (Dhar, 2019). India's lack of relative competitiveness in manufacturing product segments have been noted in the literature (Hong, 2007; Sahoo and Bhunia, 2014). One of the major indicators of manufacturing sector maturity is the consistent rise in domestic value addition (DVA) in exports. Suppose, a country in short run develops its domestic manufacturing segment through an infant-industry protection policy by levying high tariffs on imports. This policy may reduce import dependence of domestic players, and the producers of final products may be forced to procure the necessary parts and components from the local vendors. As the result, the total value addition in exports, from within the nation, will increase, though the quality as well as price competitiveness of the produce might be ambiguous. Now if the policy framework enables the 'infants' to learn, innovate and grow, their competitiveness would eventually increase in the long run. This would in turn allow the firms to gain even when the economy embrace a tariff liberalization policy, either through WTO-induced or RTA-led tariff reforms. On the other hand, if the 'infants' remain 'dwarfs', then their competitiveness would fall and eventually the imports of both intermediate and final products would go up.

While the rise in import of intermediate products, parts and components in the aftermath of tariff reforms is signifying deeper integration with IPNs, the replacement of the domestic input manufacturing firms by the foreign entities may lead to significant policy ramifications. First, at the macro level the inroad by the foreign input suppliers in the domestic value chain (or, the backward integration) may increase the imports, and in turn, the level of trade deficit. Second, on a more serious note, the restructuring at the domestic input tier would lead to disruptive domestic labour market adjustments, unless the economy can foresee the challenges and accordingly adopts corrective steps. The effects of trade liberalization, intra-sectoral trade and the associated labour market adjustments in countries have been extensively discussed under the 'Smooth Adjustment Hypothesis' literature (Brulhart, 1994; Brulhart, 2000; Dix-Carneiro, 2014).

It may be argued that if the domestic manufacturing firms in an economy benefit from the initial period of tariff protection by specializing in all the segments within the sectoral value chain and develop comparative advantages in the higher ends of manufacturing production and service activities (e.g., branding, marketing), the DVA-content of its exports may remain high. Immediately after the liberalization, the imports of parts and components from abroad may somewhat rise due to price effect, but they will eventually go down if the domestic players can innovate and come out with price competitive alternatives. The maturity of the domestic parts and components suppliers may encourage even the foreign firms to relocate in the country, which in turn may facilitate transfer of technology and rising skill-intensity of exports, along with spread in final assembling activities. In that case, the DVA-content of exports may slightly fall in the aftermath of tariff reform, but a turnaround in the same is expected afterwards. Conversely, if the tariff protection regime is unsuccessful in strengthening the domestic manufacturing segment, the DVA-content would not revive in the post-liberalization period. Dollar *et al*. (2019) however cautioned that attempts to artificially enhance DVA-content in

exports through interventions (e.g., tariffs and non-tariff measures), rather than through domestic reforms, might increase the cost of production and negatively influence a country's participation in GVCs.

The possible contour of the DVA-content in exports has been discussed under the 'Smile Curve' literature (Rehnberg and Ponte, 2018; Ye et al, 2015). Figure 1, which plots value-added and knowledge accumulation (also, logically the time dimension) in the vertical and horizontal axes respectively, summarizes a graphical representation of the 'Smile Curve' phenomenon. The Smile Curve literature indicates that if a country is able to domestically create and internationally attract knowledge and technology-intensity in production, it would emerge as a victor by embracing globalization and regionalization waves. It has been observed that Asian economies have witnessed interesting dynamics in terms of DVA-content of their exports, which in turn has shaped their performance within trade blocs and incentives for incremental reforms in newer trade arrangements (Taguchi, 2014). For instance, while the DVA-content in exports has increased sharply for China (Wen, 2018; Yu and Luo, 2018; Zhang et al, 2013), the corresponding scenario for India has been relatively modest (Goldar et al, 2017; Nag, 2016; Sen and Srivastava, 2012; Veeramani and Dhir, 2017).

Figure 1: Conceptual Framework of the Smile Curve

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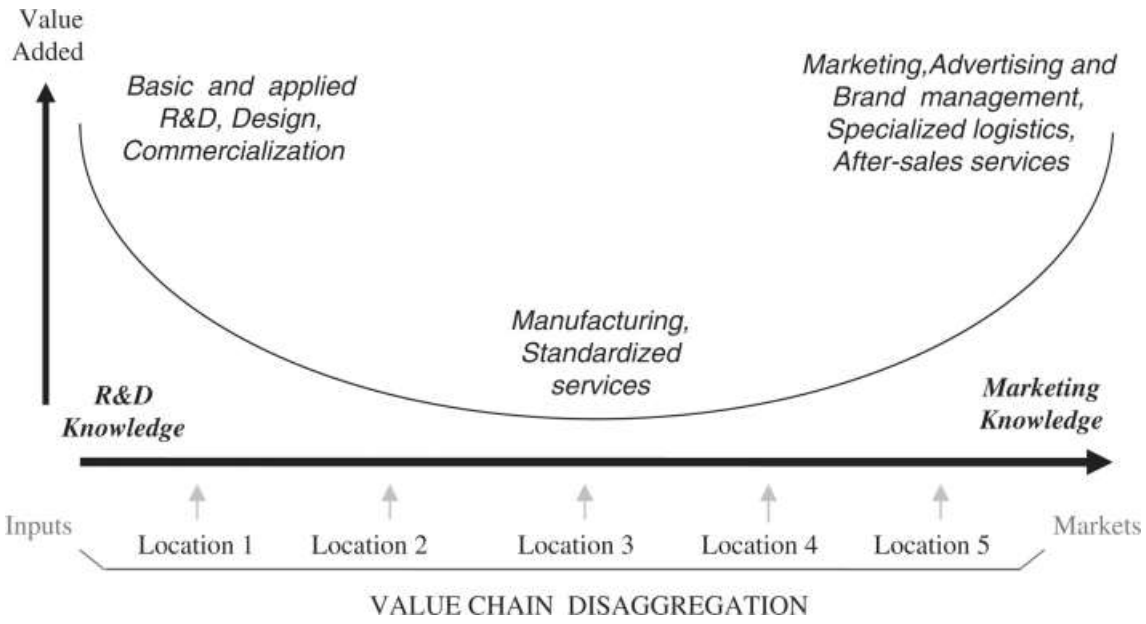


Source: Mudambi (2008)

To observe the manufacturing sector competitiveness of the countries, the DVA-content of their sectoral exports can be compared by obtaining data from Organisation for Economic Co-operation and Development's (OECD) Trade in Value Added (TiVA) database. Tables 8 and 9 summarize the scenario for China and India for six major manufacturing sectors by drawing the OECD (2018) data. An analysis of the TIVA data for 2005 and 2015 provides interesting policy insights. The numbers reported in the table are interpreted in the following manner. For instance,

for China in 2015, its own share in total exports (i.e., the DVA-content of exports) of the base metal category had been 83.57 percent, compared to the corresponding figure of 63.56 percent for India. The corresponding figures during 2005 had been 76.20 and 67.19 percent respectively.

The numbers indicate that while both China and India had been able to increase their DVA-content of exports in the base metal sector over the period, the gains realized by China is clearly higher. It is also observed from the TIVA data that China has consolidated the domestic manufacturing segments significantly, as evident from the gradually rising DVA-content of exports (Yu and Luo, 2018). It has also been able to sharply increase participation in other ASEAN and RCEP country's export value chains, including India (Veeramani and Dhir, 2017). On the other hand, the DVA-content of Indian exports has declined after the deeper RTA participation from 2010 onwards, and only revived in the recent period in the aftermath of introduction of the 'Make-in-India' initiative. Allowing duty-free import of intermediate products (e.g., auto-parts, electronic components) for boosting export competitiveness reduced the DVA-content in India gradually (GoI, 2015). Conversely, India's modest participation in several RCEP country's value chains can be part explained by the declining trade complementarity scenario with them (Chakraborty, 2018). Finally, in Indian exports value contribution from ASEAN and the US have increased in all product categories, signifying the importance of both the 'East' and 'West' in its production process. This is happening because the role played by Japanese and South Korean 'Flying Geese' FDI in East and Southeast Asia has largely been absent in India (Ray and Miglani, 2018). Hence the country experienced greater investment relationship with the 'West' for a long time, with consequent influence for participation in Asian IPNs.

In figures 2-7, the DVA-content scenario in the six select sectors over 2001-15 have been shown for leading RCEP economies, namely: China, India, Japan, South Korea, Singapore and Thailand respectively. The DVA-content in exports and time have been plotted in the vertical and horizontal axes respectively. The graphs also portray whether the 'Smile Curve' phenomenon exists in these countries within the selected sectors. The cross-country comparison presents an interesting respective. India in the recent period is witnessing a turnaround from the bottom point of the DVA-content in most of the sectors (e.g., chemicals, electricals), underlining slow gains in competitiveness. China and South Korea on the other hand are on the rising phase of the curve, which stresses their advantages in these categories. Conversely, Japan has witnessed a recent decline in DVA-content in several categories (e.g., base metal; textile, leather and footwears), which part reflects the rising labour cost in the economy and, in turn, rationalizes massive FDI outflow from the country. In case of Singapore and Thailand, the DVA-content had stabilized in several sectors. It can be said that the negotiating perspectives of all the countries during RCEP negotiations reflected their respective position on the sectoral 'Smile Curves'.

Table 8: Comparing the Domestic Value Added (DVA) Content of Exports in China and India (2005)

Source Country for DVA (%)	**Exporting Country**											
	China						**India**					
	Base Metals and Fabricated Metal Products	Chemicals and Non-Metallic Minerals	Machinery and Equipment	Computers, Electronic and Electrical	Textile, Leather and Footwear	Transport Equipment	Base Metals and Fabricated Metal Products	Chemicals and Non-Metallic Minerals	Machinery and Equipment	Computers, Electronic and Electrical	Textile, Leather and Footwear	Transport Equipment
Australia	2.34	0.59	1.12	0.79	0.39	0.85	5.15	0.81	4.00	4.71	0.41	2.57
China	**76.20**	**76.13**	**75.11**	**59.93**	**82.52**	**75.98**	**1.80**	**1.12**	**1.73**	**3.02**	**1.91**	**1.62**
Chinese Taipei	1.12	1.52	1.71	5.69	1.68	1.50	0.22	0.27	0.25	0.58	0.16	0.27
Hong Kong, China	0.37	0.38	0.45	0.52	0.49	0.39	0.13	0.10	0.14	0.21	0.35	0.16
India	**1.13**	**0.41**	**0.57**	**0.37**	**0.32**	**0.45**	**67.19**	**67.39**	**72.61**	**65.36**	**84.69**	**74.62**
Indonesia	0.43	0.47	0.36	0.53	0.35	0.33	1.34	0.40	0.57	0.58	0.30	0.49
Japan	3.02	3.19	4.67	7.96	3.02	4.43	0.90	0.67	0.96	1.49	0.58	1.09
Malaysia	0.23	0.39	0.33	1.25	0.25	0.31	0.64	1.80	0.52	0.75	0.49	0.53
South Korea	1.61	1.98	2.19	5.80	1.99	2.21	0.67	0.39	0.79	1.65	0.39	0.95
Singapore	0.20	0.39	0.35	1.27	0.25	0.32	0.25	0.32	0.32	0.82	0.26	0.40
Thailand	0.20	0.39	0.28	0.93	0.35	0.27	0.21	0.27	0.21	0.33	0.28	0.24
Vietnam	0.12	0.13	0.07	0.08	0.07	0.07	0.07	0.04	0.04	0.05	0.03	0.04
ASEAN	1.26	1.86	1.51	4.52	1.35	1.40	2.56	2.84	1.70	2.59	1.37	1.73
EU 28	2.88	2.87	4.39	4.86	2.43	4.67	5.59	3.15	5.18	6.05	2.56	5.37
USA	1.58	2.12	2.21	4.25	1.53	2.75	1.83	1.60	1.90	3.02	1.18	2.09
OECD Members	13.38	11.76	16.01	25.25	9.97	16.07	16.53	7.96	14.56	19.04	5.82	13.55

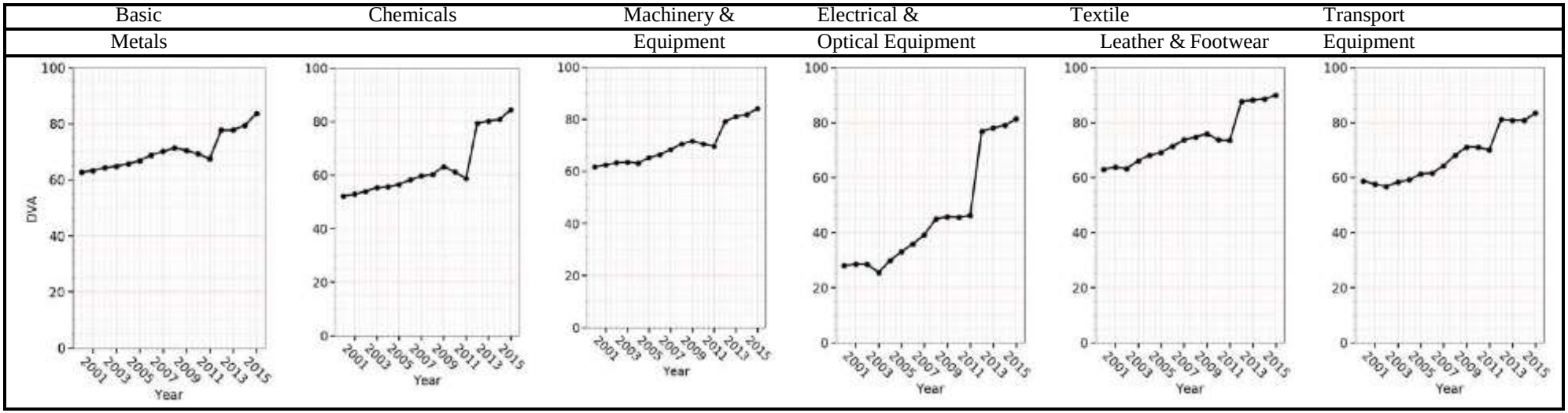
Source: Constructed by authors from OECD TIVA database (OECD, 2018)

Table 9: Comparing the Domestic Value Added (DVA) Content of Exports in China and India (2015)

Source Country for DVA (%)	**Exporting Country**											
	China						**India**					
	Base Metals and Fabricated Metal Products	Chemicals and Non-Metallic Minerals	Machinery and Equipment	Computers, Electronic and Electrical	Textile, Leather and Footwear	Transport Equipment	Base Metals and Fabricated Metal Products	Chemicals and Non-Metallic Minerals	Machinery and Equipment	Computers, Electronic and Electrical	Textile, Leather and Footwear	Transport Equipment
Australia	2.58	0.52	1.22	0.85	0.25	0.79	2.99	0.68	1.79	1.89	0.31	1.20
China	**83.57**	**84.34**	**84.05**	**73.02**	**89.80**	**83.32**	**3.75**	**3.34**	**4.43**	**6.53**	**3.82**	**4.17**
Chinese Taipei	0.40	0.57	0.83	3.82	0.09	0.68	0.22	0.24	0.28	0.50	0.12	0.25
Hong Kong, China	0.09	0.10	0.11	0.13	0.52	0.09	0.11	0.08	0.11	0.12	0.23	0.13
India	**0.21**	**0.23**	**0.21**	**0.24**	**0.49**	**0.20**	**63.56**	**67.27**	**69.20**	**63.76**	**83.61**	**73.64**
Indonesia	0.31	0.29	0.24	0.29	0.25	0.21	2.96	0.78	1.19	1.03	0.44	0.90
Japan	1.02	1.19	1.63	2.93	0.80	1.62	1.01	0.59	1.04	1.07	0.46	1.01
Malaysia	0.21	0.26	0.26	0.90	0.14	0.22	0.46	0.42	0.49	0.66	0.21	0.38
South Korea	0.75	1.04	1.31	4.43	0.74	1.18	0.99	0.58	1.12	1.36	0.45	1.06
Singapore	0.16	0.26	0.25	0.82	0.15	0.22	0.30	0.43	0.34	0.59	0.35	0.41
Thailand	0.15	0.29	0.22	0.68	0.25	0.22	0.25	0.28	0.29	0.38	0.28	0.30
Vietnam	0.08	0.12	0.09	0.17	0.30	0.10	0.12	0.09	0.13	0.16	0.10	0.11
ASEAN	1.03	1.31	1.22	3.45	1.15	1.08	4.20	2.15	2.54	2.95	1.43	2.19
EU 28	1.74	2.02	2.64	3.41	1.64	3.70	3.93	2.76	4.31	4.88	2.16	4.02
USA	1.43	1.60	1.79	2.88	1.11	3.18	3.16	1.72	3.47	4.38	1.22	2.89
OECD Members	8.95	7.03	9.74	15.98	5.00	11.41	16.49	7.34	14.03	16.26	5.18	11.88

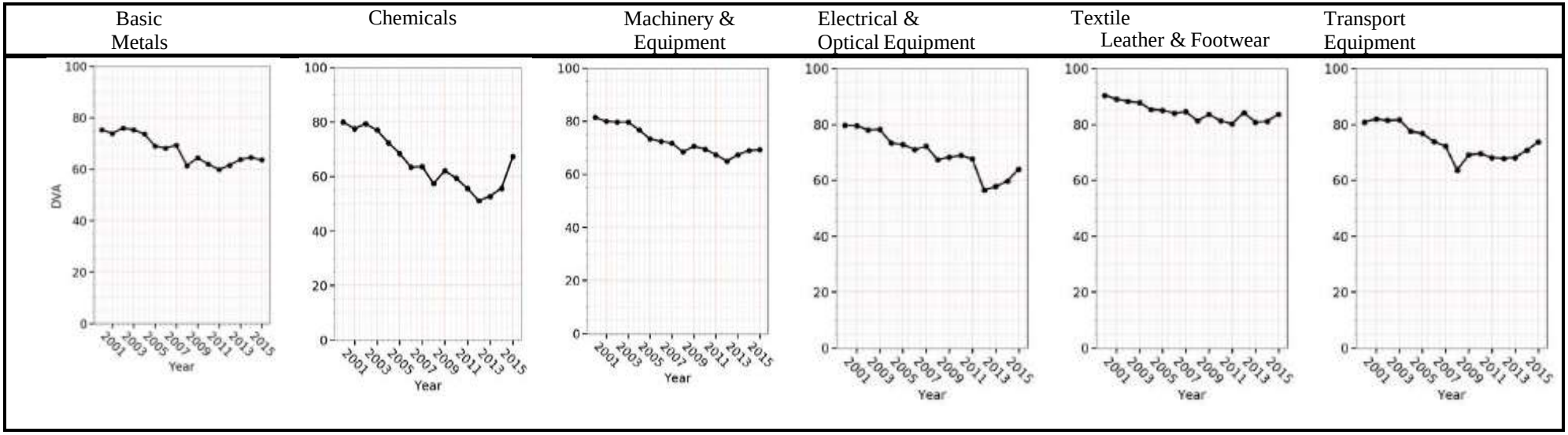
Source: Constructed by authors from OECD TIVA database (OECD, 2018)

Figure 2: China's Domestic Value-Added content of Exports across Sectors(%)



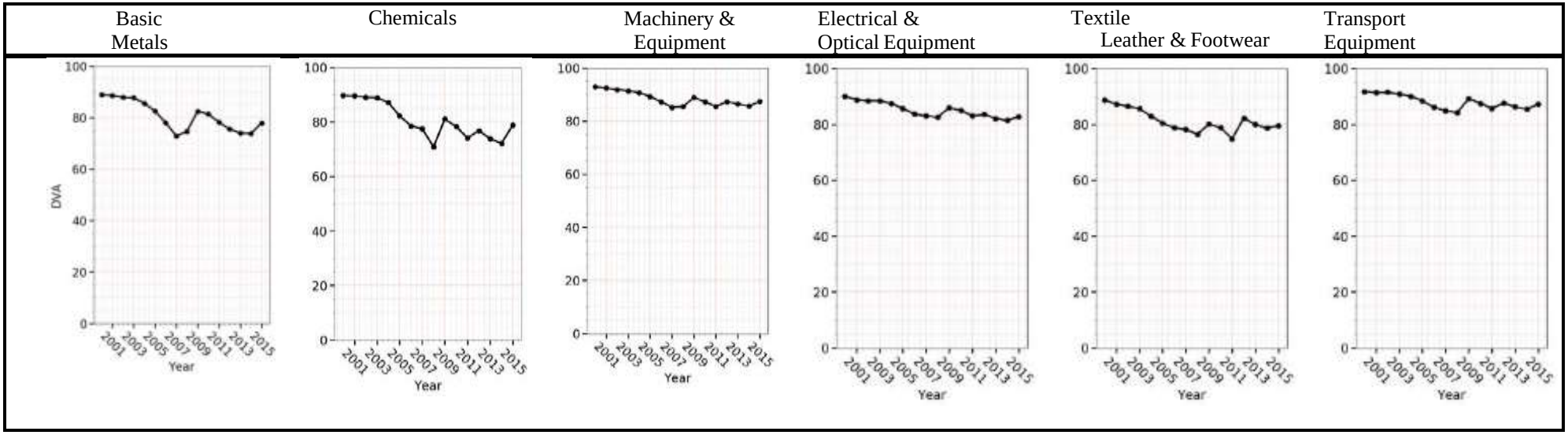
Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

Figure 3: India's Domestic Value-Added content of Exports across Sectors(%)



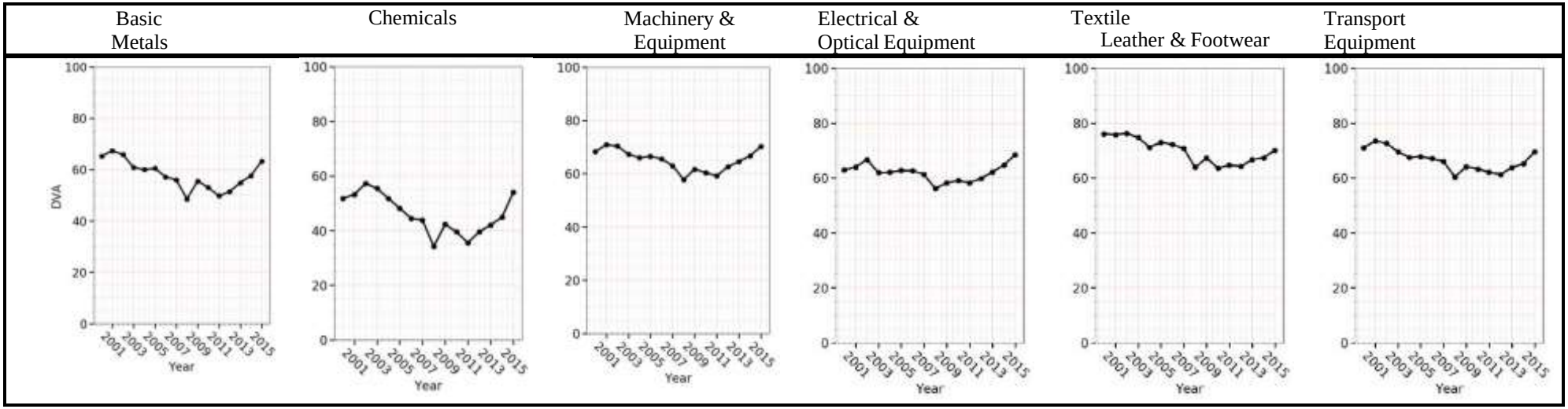
Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

Figure 4: Japan's Domestic Value-Added content of Exports across Sectors(%)



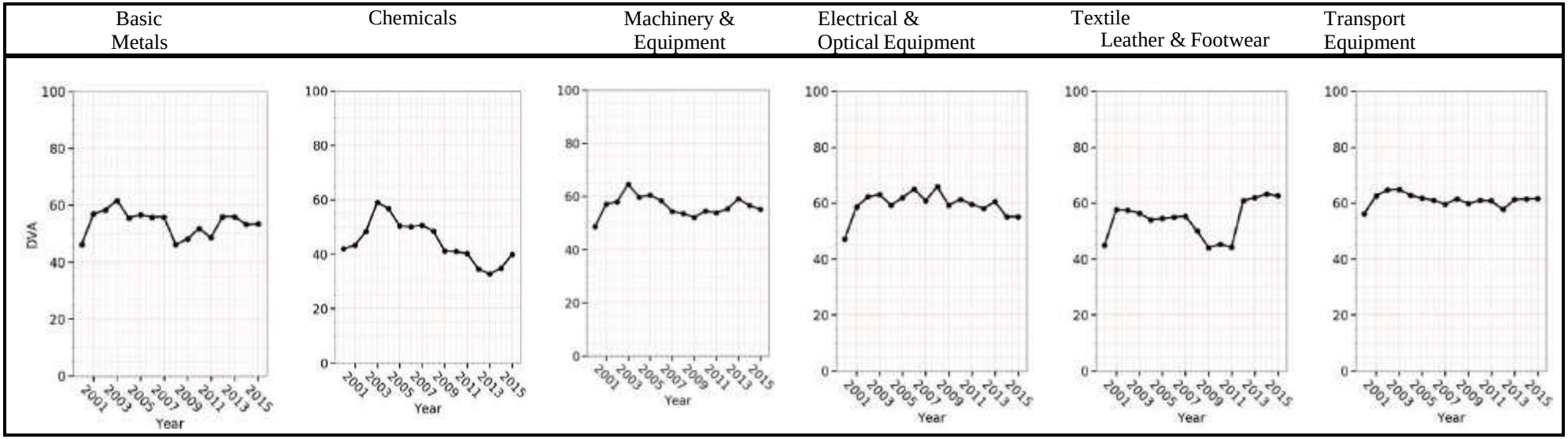
Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

Figure 5: Korea's Domestic Value-Added content of Exports across Sectors(%)



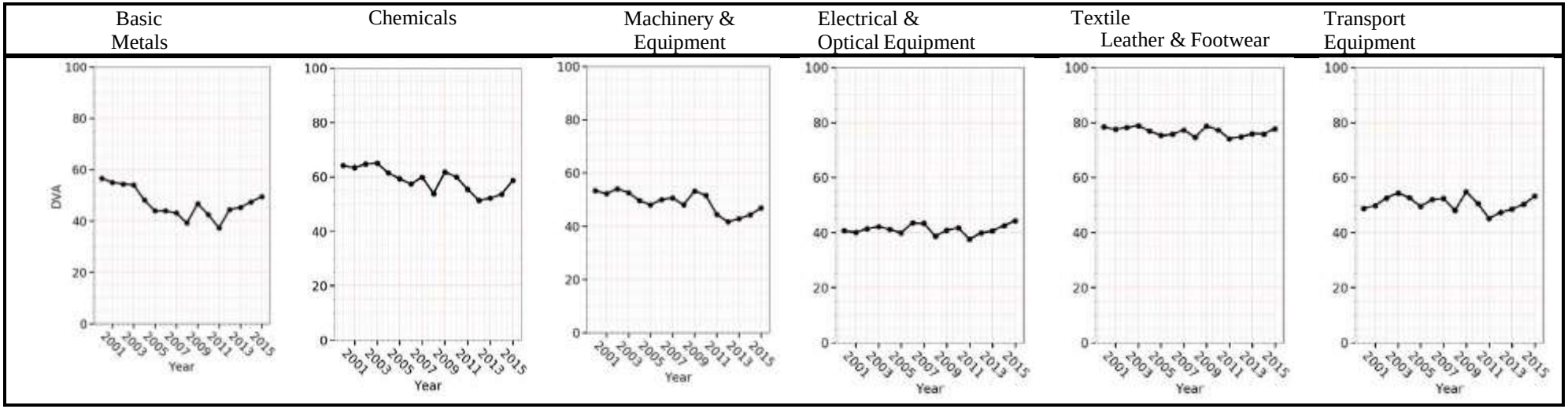
Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

Figure 6: Singapore's Domestic Value-Added content of Exports across Sectors(%)



Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

Figure 7: Thailand's Domestic Value-Added content of Exports across Sectors(%)



Source: Constructed by authors from OECD TIVA database (OECD, 2018, 2016)

The modest trade performance of India so far with the RCEP partners in general and ASEAN in particular can also be part explained by the timeline of its RTA journey. The ASEAN-plunge of the six RCEP outsiders is shown with the help of Table 10 in the following. The second to fourth columns in the table represent the launching of their FTA negotiations with ASEAN, conclusion of the same and their final entry into effect respectively. The observed time lag between the second and fourth columns underline the difference in the perspectives of the two sides during the RTA negotiations – a longer negotiation timeline signifies wider disagreements on the extent of the tariff liberalization schedules. The last two columns show the other ongoing / existing RTA memberships of the six countries (i.e., involving rest of the world), underlining the RTA orientation of these economies.

Table 10: FTA with ASEAN - RCEP's Journey

Partner	Negotiation with ASEAN			RTA Agreements	
	Negotiations launched	Signed but not yet In Effect	Signed and In Effect	In Force / Ongoing Negotiations	Signed and in Effect
Australia	2005-02-21	2009-02-27	2010-01-01	24	12
China	2002-11-04	2004-11-29	2005-07-01	28	17
India	2004-03-07	2009-08-13	2010-01-01	29	13
Japan	2005-04-14	2008-04-14	2008-12-01	25	15
New Zealand	2005-02-21	2009-02-27	2010-01-01	20	11
South Korea	2004-11-30	2006-08-24	2007-06-01	27	16

Source: Constructed from ADB ARIC Database (ADB, undated)

It is observed from Table 10 that India took the longest time to conclude the FTA with ASEAN as compared to other five RCEP countries, given the difference in perspectives and sectoral interests (Chakraborty and Sengupta, 2010; Chakraborty, 2014). It also deserves mention here that the number of India's active RTAs are lesser than China, Japan and South Korea, which underlines the cautious approach adopted by the country so far. While China's RTA negotiations with ASEANstarted in 2002 and concluded in 2005, other countries moved to join ASEAN only around 2004-05. So, in ASEAN market, China already enjoys a first mover advantage against India and other RCEP partnersand a 5-year head start over India, justifying its better trade performance with ASEAN. Given this sequential development and poorer competitiveness scenario, recent empirical analysis also reveal that the RTAs with ASEAN and East Asia are not likely to expand India's trade significantly (Pant and Paul, 2018).

5. Conclusion

So, what can be expected on the RCEP front? A move to turn away from RCEP permanently may not lead to an automatic gain for India. For instance, one post-Covid expectation had been the possible relocation of global MNCs from China to India, given the potential rise in uncertainty therein on one hand and the policy environment related achievements in India on the other (e.g., improvement in the 'Ease of Doing Business' ranking). However, the evidence so far indicates that the realized benefits on this front can be far too modest. For instance, some global firms have indeed shown inclination to relocate to Vietnam from China, which is part of ASEAN well as RCEP, thereby enjoying tariff preferences in a wider geographical region (Abraham et al,

2020). So, staying out of the RCEP arrangement for long might create a different set of challenges for India altogether.

While RCEP may initially be unhappy with India for not joining the bloc, the sheer size of the domestic market holds a key for pacifying the partners. As India is already partnering with ASEAN, Japan and South Korea and engaged in preferential trade negotiations with Australia and New Zealand, the question of joining RCEP ultimately boils down to the country's competitiveness vis-à-vis the Chinese players and managing the expected benefits. Under the 'Atmanirbhar Bharat Abhiyan' initiative, India is already taking steps to strengthen the economy, which is likely to develop and consolidate the domestic value-chain across sectors and thereby the competitiveness patterns. So, India must adoptconscious steps to prepare the domestic industries against future competition from China. Nag and Puniani (2020) have attempted to identify sectors where such strategic initiatives can ensure rich long-term dividends. For instance, the analysis notes that in the short-run India may pose a challenge to China in several product lines within key sectors, including metals, auto-components, engineering products, electrical machinery and chemical products (including pharmaceuticals). Moreover, in the long-run, after suitably developing the domestic value chains by focusing on Small and Medium Enterprises (SME) and adopting appropriate technology management initiatives, India can successfully enjoy a better competitive position vis-à-vis China in sectors such as chemicals, electronics, electricals, metals, capital goods, machine tools and auto- components. In addition, apart from confrontation, there can be some opportunities for collaborations. For instance, the medical sector in the post-Covid period may benefit significantly through value co-creation with suitable Chinese partners, by effectively leveraging the existing complementarities (Nag and Chakraborty, 2013). Before finally deciding on the RCEP re-join question, the Indian policymakersneed to deliberate on these aspects. The recent focus on the MSME sector in the Union Budget for 2021-22 and the strategic import duty impositions on industries indicate that the government has taken note of this long-run perspective. For instance, while the import duty on electronics ahs been increased, the same on steel products has been reduced (Dutta and Majumdar, 2021).

In the aftermath of the RCEP pull-out decision, India has also shown interest to enter into RTAs with the EU and the US, which has been reiterated in November 2020 as well (BS, 2020). The existing empirical literature has shown possible trade benefits for India by joining into FTAs with both the EU (Khorana and Perdikis, 2010) and the US (Fukase and Martin, 2016). However, it needs to be borne in mind that the two developed countries have long-standing multiple RTAs in general and with developing countries in particular (Hartwell and Movchan, 2018; Hundt, 2015). Moreover, EU has pushed India earlier on several policies, e.g., tariff on wine and spirits, agricultural tariff and subsidies, data exclusivity, use of contingency measures and so on during EU-India Bilateral Trade and Investment Agreement (BTIA) negotiations (Chaisse and Chakraborty, 2014). It is expected that these issues would resurfaceagain during fresh RTA negotiation rounds. So, if the competitiveness worries for India persist, the proposed RTAs with the EU and the US might again result in modest trade outcomes. It may also be noted that during the recent Trade Policy Review meeting for India in January 2021, both the EU and the US expressed concerns over several areas, namely: high level of import tariffs, complexities in product standards, differences in intellectual property regimes (IPR) like data exclusivity requirements, transparency and openness in government procurement, local content requirements

mandated under the 'Atmanirbhar Bharat Abhiyan' and so on (Sidhartha, 2021). Hence, it appears while India might be able to obtain tariff preferences in EU-US markets during FTA negotiations, it would be forced to concede several concessions in return, with potential trade balance ramifications. So, while the 'Look West' policy can offera credible option for boosting Indian exports, the potential import threats need to be judged more closely before any final plunge in that direction is taken.

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