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India and RCEP Agreement: The trade cost of rejoining amid COVID-19

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The benefit of international trade for the countries party to it is not a new phenomenon to understand. Starting from the mercantilist views of Adam smith (1776) to product life cycle theory of Vernon (1966) and the new trade theory of Krugman (1983), every trade theory subscribed to the idea of benefit of trade, though at different degree of sophistication or diversification. However, the growing realisation of the role of Free Trade Agreements (FTAs) in improving the overall economic environment of the participant country has intensified the trade negotiation across the globe since late eighties. Developing and emerging economies are in particular jumping into it with an expectation of strengthening the market access, economic growth, income level and living standards, to mention a few. The Regional Comprehensive Economic Partnership (RCEP) is one such agreement finalised after a tough twenty-eight rounds of negotiations between ASEAN and five of its FTA partners after India opts out of it citing the adverse impact of the agreement on its people. At present, this trade bloc comprises of 15 nations across the Asia Pacific region having a combined GDP of close to 30% and population share of over 30%. While this monumental trade deals may have positive (or negative) impact on some of the economies in the negotiation, but the exit of India from it raises many questions. RCEP goes much beyond trade and tariff negotiations as it includes several chapters ranging from issues of market access, technical barriers to trade, sanitary and phytosanitary measures, rules of origin, customs cooperation, investment, services and legal and institutional aspects of the negotiation, government procurement, competition, intellectual property, labour and environment issues. Although each of these issues needs to be analysed in detail, but the trade implications of RCEP is an important aspect for India mainly because of the involvement of many important economies of the region which are traditionally major trading partners with India. Given the fact that India has serious concerns on the unfair trade practices of China, the recent trend shows a decline in India's import from China in the wake of COVID-19. In other words, the trade deficit with China has narrowed down in the recent years. Given this, the present study chooses two alternative scenarios. First incase India joins and the second scenario is in case India chose to opt out of it. The First Scenario is studied with a quantitative assessment which estimates the trade gain and losses for India in the post RCEP scenario using the Partial Equilibrium Model namely SMART by World Integrated Trade Solution (WITS). In a Second Scenario, if India chooses not to join the RCEP in future, the study estimate the impact of various factors on bilateral trade between India and RCEP countries, this study uses gravity model as proposed by Tinbergen (1962) and Poyhonen (1963). In the line of the recent developments, the basic gravity model is extended as follows by adding the dummy variable that may influence the bilateral trade between the RCEP countries. In $X_{ijt} = \alpha_0 + \beta_1 \ln (GDP_{it} \times GDP_{jt}) + \beta_2 \ln (POPN_{it} \times POPN_{jt}) + \beta_3 \ln (DIST_{ijt}) + \beta_4 \ln (Tariff) + \beta_5 (TA_t) + \lambda_{ij} + \varepsilon (1)$ Where, X_{ijt} = Exports of country 'i' to country 'j' at time 't', measured as the total value of exports between trading partners and is taken from the wits database. GDP_{it} / GDP_{jt} = Gross Domestic Product of country 'i' and country 'j' at time 't'. The proxy of economic size where larger the economic size of country in term of GDP, the larger of number of varieties of goods offered to trade and is taken from the world bank database. $POPN_{it} / POPN_{jt}$ = Population of country 'i' and country 'j' at time 't'. This is derived from the world bank database. $DIST_{ijt}$ = Distance between country 'i' and 'j' at time 't'. It is the proxy of transportation or trade cost and is taken from the CEPII database. Tariff= MFN Applied tariff of the reporting country TA_t = A dummy variable, 1 indicates if country 'i' and country 'j' belong of any free trade agreement otherwise 0 at time 't'. This is based on the information available with the World Trade Organisation and cross checked from country sources. ij is the country pair dummy ε = error term and Ln= natural log. The data has been used for the period 2001-2020 for all the RCEP members. Three main models viz., pooled model, fixed effect model (FEM) and random effect model (REM) will be used in gravity model. In the present study, we use both the FEM and REM for our estimations as multilateral resistance factors could bias the estimation of gravity model (Anderson and Wincoop; 2003, Baier and Bergstrand; 2009 etc.). However, the choice of methods for the interpretation of the estimated results would depend upon the estimated test statistics viz. Hausman test and Langrangian Multiplier statistics. The use of gravity model will guide what could influence India more in engaging with these countries in trade, in case it choose to opt out of the agreement in future. The findings shows that most of our variables used in the gravity equation is in line with the majority of the existing studies (Anderson, and Wincoop, 2003; Okubo, 2004; Carre`re, 2006; Baier and Bergstrand, 2007; Jayasinghe and Sarker, 2008; Narayan and Nguyen, 2016; etc.). The present study finds that importing country's Population positively affects the export growth from the partner country (India in this case). As per the expectation, the tariff, distance, common language and boarder proxy has the expected sign and in line with many existing studies. The present findings shows that even after RCEP, India still could influence a great deal of trade with these RCEP countries without being a party to it.