

China border tensions cloud Asia trade pact talks in India

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By

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A meeting of 16 nations in India on a mega Asia trade pact is happening in the shadow of elevated border tensions between India and China, a wrinkle that could further slow progress on the deal.

Trade officials gathered in the southern city of Hyderabad are seeking to hammer out agreement on sticky issues like the free movement of people in the pact that takes in the world's second and third-biggest economies — China and Japan — but does not involve the U.S.

China is urging the 10 members of the Association of Southeast Asian Nations, along with India, Australia, New Zealand, South Korea and Japan, to wrap up the Regional Comprehensive Economic Partnership as soon as possible. Still, India's reluctance to cede on its demand for greater market access for its professionals has hindered the process.

India is making it clear it won't rush toward an early conclusion of the trade talks and is insisting on mobility for its highly-skilled workers. That demand has raised concern among Asean nations who view such a move as a potential threat to their domestic economies.

The battle lines have been drawn, said Amitendu Palit, a senior research fellow at the Institute of South Asian Studies at the National University of Singapore.

“The challenge for RCEP is that China would want a quick end to the deal so that it can establish itself as a leader of world trade,” said Palit. “Japan, New Zealand won’t be in favor of concluding early as they would want a high quality agreement. However RCEP is a low-quality agreement as it is not going beyond tariff cuts and investment.”

After President Donald Trump pulled the U.S. out of the separate 12-nation Trans-Pacific Partnership shortly after he took office, all eyes are now on the Asia trade pact, which would account for almost 30 percent of global gross domestic product and over a quarter of exports.

While the situation remains tense along their border, India will actively engage with China and other member nations in the talks. But it will insist that the deal rests on concessions regarding the service sector, people with knowledge of the matter said.

India is willing to give a better offer for broader tariff cuts on goods to RCEP countries, although it expects similar concessions on services, the people said, asking not to be identified given the confidential nature of the discussions.

The service sector contributes over 50 percent to India’s GDP and any trade pact that fails to reflect this lacks ambition and is not commercially meaningful, the people said.

“We have certain reservations in terms of how it needs to be taken forward, like seeing more progress on the services track,” said Ashok Kantha, the Indian ambassador to China until 2016 and now director of the New Delhi-based Institute of Chinese Studies.

“We’d like to see a more balanced opening, a trade liberalization” covering both goods and services, he said, adding there is particularly strong concern about India’s more than \$51 billion trade deficit with China.

At a trade-themed lecture in Geneva on July 18, Commerce Minister Nirmala Sitharaman said India was perceived as a “reluctant, even unreasonable, deal-maker in international trade negotiations,” but that the country had reason to be cautious.

She said India needed to be mindful — as it negotiates trade deals — that that parts of its \$2.3 trillion economy are “untouched by modernization,” dependent on agriculture and “vulnerable to the vagaries of the monsoon.”

Meanwhile, Qian Keming, China’s vice minister of commerce, said at a briefing in Beijing last week the government is willing to make joint efforts with Southeast Asian Nations and would like to finish the talks by the end of this year.

The two Asian powers have been engaged in a weeks-long standoff over an area where Indian, Chinese and Bhutanese territory meet in the remote Doklam region of the Himalayas.

India is also cautious about China’s inroads into South Asia, especially President Xi Jinping’s signature “Belt and Road” trade and infrastructure initiative which include projects

that cross through the Pakistan-administered part of the disputed region of Kashmir, which India claims.

“Despite the Doklam stand off, when it comes to various multilateral arrangements the two sides are moving ahead regardless,” Kantha said, noting Prime Minister Narendra Modi’s trip to a China-hosted BRICS summit in September appears to be going ahead.

Partner countries — particularly Asean nations — will have to play a balancing role in the trade deal, said Sachin Chaturvedi, director general of the New Delhi-based Research and Information System for Developing Countries.

“India wants to be connected to the region economically but further polarization has happened with Asean nations tilting towards China,” he said.

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