

If the TPP dies, Australia has other game changing trade options

Written by The Conversation

[Despite last-minute efforts by the Obama administration](#) , the US Congress' ratification of the [Trans-Pacific Partnership \(TPP\) agreement](#)

is
[in serious danger](#)

The [globalisation backlash](#) has extended to Democratic nominee Hillary Clinton, who has also turned her back on the TPP. [Progressive Americans remain concerned](#) with the role of free trade in rising levels of socioeconomic inequality.

But running alongside the crippled TPP, and potentially of more importance to Australian trade, has been the [Regional Comprehensive Economic Partnership](#) . Essentially, the RCEP is a free trade agreement (FTA) between the ten ASEAN members and the six countries with which ASEAN has existing FTAs. This includes Australia, China, India, New Zealand, Japan and South Korea. The 16 member states of the RCEP have agreed to finalise negotiations on the agreement [before the end of this year](#)

If, as seems likely, the RCEP is accomplished in the near future, it will be the world's largest free-trade agreement, covering a population of 3.5 billion, or more than 50% of the world total, and about 40% of the world trade volumes. Based on the latest figures released by both the [World Trade Organization](#) (WTO) and the [Australian Department of Foreign Affairs and Trade](#) (DFAT), the percentages below show the greater significance of RCEP to Australia's global trade.

Given the TPP agreement may never enter into force due to the [uncertain political landscape in the US](#) , Australia and the other five countries (New Zealand, Japan, Singapore, Malaysia and Brunei) that are members to both the TPP and the RCEP are focusing their international trade policies on the latter economic partnership.

India's change of tack may benefit Australia

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Australian food, wine and dairy sectors can make huge gains from India's openings on the Regional Comprehensive Economic Partnership (RCEP) negotiations. This is because India recently changed negotiating strategy. For the first time, [India signalled flexibility](#) to adopt a single-tier approach on tariff reduction in exchange for increased foreign direct investment (FDI).

The RCEP was somewhat stalling on India's intention to group trading partners within the region into different tiers. The TPP had readily adopted a single tier approach on tariff reduction, albeit to be phased out over long periods, up to 20 years.

To date, of all the RCEP countries, India has signed FTAs only with ASEAN, South Korea and Japan, leaving out Australia, New Zealand and China.

For the Australia-India trade relationship, the difference between a single or three-tiered approach to tariff reduction would be significant. Previously, India offered an 80% tariff reduction to the ten ASEAN countries in tier-I; in tier-II, 65% to Japan and South Korea; whereas in tier-III, only 42.5% to Australia, New Zealand and China. The disadvantage to Australian companies wishing to access the large Indian markets of goods and services would have been significant.

Single-tier tariff reduction in India could prove a boon to the Australian food, wine and dairy sectors, particularly for the latter at this time of struggles caused by the milk price cuts in Australia and the [reduced demand from China and Russia](#).

Is India's end game compatible with Australian interests?

Unlike Australia and the more developed RCEP nations, India has a strategic interest in greater liberalisation of trade and investment in IT-enabled services (ITES). For instance, India has traditionally been pursuing an easier visa regime for the movement of IT and other service professionals in service-oriented developed countries.

On top of that, India's appetite for foreign capital is also growing significantly. In 2015 [India overtook China as the world's top foreign direct investment](#) (FDI) destination with US\$63 billion of FDI. This included high-value project announcements across the coal, oil and natural gas, and renewable energy sectors.

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However most RCEP members are hesitant to further open up access for Indian IT service providers. On investment issues too, there is a clash between the interests of India and other RCEP member countries. For instance, there is a rising competition among cash-hungry countries, [such as Australia](#) , for [China's growing interest to invest capital overseas](#) in large infrastructure projects.

Despite timid improvements in recent times, [India is still one the least competitive economies in the world](#) . It punches below the weight of its huge market size and diversity, particularly in agriculture commodities and manufactured goods.

[Recent economic research](#) shows that India needs to address impediments to domestic and foreign competition in retail, transport, professional and other services before it can fulfil growth ambitions in its key manufacturing sectors.

The key issue will be how India is going to face the export strengths of non-ASEAN RCEP countries. In particular, China, but also South Korea and Japan, pose a significant [threat to India's manufactured goods](#) . Likewise, Australia and New Zealand have a clear interest for lower tariffs in agriculture commodities to gain [greater market access in India's food, wine and dairy sectors](#) .

Ultimately, the levelling of trade-offs in manufactured goods, services and investment with India is likely to make or break the whole RCEP deal. If Australia and the other non-ASEAN RCEP countries strike a far-reaching deal with India, the RCEP is likely to replace the TPP as the most significant (and polarising) free trade agreement of the present time.

The future for Australia-Trans Pacific trade

It's unlikely Australia-Trans Pacific trade will collapse with the failure of the TPP.

Trade ministers from the United States, China and other [Asia-Pacific Economic Cooperation](#) (APEC) forum nations are already working on a more powerful alternative. The 21 APEC members have recently promoted a

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[Collective Strategic Study on Issues Related to the Realization of the FTAAP](#)

, which is a “Free Trade Area of the Asia Pacific” agreement. The study is on track to be [released later this year](#)

The study will analyse potential economic and social benefits and costs of the FTAAP. It will identify trade and investment barriers, as well as the broader socio-economic challenges that all 21 APEC forum nations may face in [realising the agreement](#) .

Giovanni Di Lieto does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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