RCEP and India's ICT Import Dependence: What should be our priorities?**

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Given that ASEAN, South Korea and Japan are already India's FTA partners, the ongoing Regional Comprehensive Economic Cooperation (RCEP) negotiations will primarily add China as well as Australia and New Zealand as new free trade partners for India. Australia and New Zealand's membership in RCEP have raised the fear of severe adverse impacts on India's agricultural and dairy sectors. On the other side, the prospect of duty-free imports from China has raised concerns about the ability of our indigenous manufacturing firms, including in the information technology and communication (ICT) hardware sector, to withstand further competition from the state-supported firms in China and allied countries.

These concerns have to do with the fact that even when India does not have an FTA with China, between 15-17% of India's overall imports already originate from China compared to just 2.8% in 2000, the year before China joined the WTO. While India's growing import dependence on China is significant in several industries including pharmaceutical ingredients, it has been severe in the case of the electronics industry, which includes ICT hardware products. From the time of its entry into the WTO in 2001, China became eligible for duty-free access for several electronics exports into every WTO member's market, including India, because of the Information Technology Agreement (ITA-1). This is despite the fact that China did not sign the ITA-1 until 2004. Chinese electronics firms which matured and attained economies of scale in its large domestic market under strategic trade and FDI policies supporting indigenous manufacturers, have subsequently been able to gain massive market shares in India.

If we go by the OECD definition of ICT products, China singlehandedly accounted for 63-64% of India's total ICT imports during the two year period 2016-17. Altogether, the sixteen member RCEP grouping accounted for as high as 85-86% of India's total ICT imports during 2016-17. But this share came down to 74% in 2018, which was due to a massive 15% drop in China's share. While China still accounted for nearly half of India's ICT imports in 2018, this drop seems explainable by a re-routing of Chinese imports through neighbouring countries driven by the heightened US focus on China's ICT technology strength from around 2017. It seems that Chinese exports have been making their way particularly through Vietnam, followed by Singapore, both of which showed an increase in their shares in Indian ICT imports in 2018.

The shift to Vietnam is especially visible in the consumer electronics and telecommunication equipment segments. China used to account for about 50% of Indian consumer electronics imports during 2015-16, followed by Malaysia and Thailand. However, in 2018, while China's share dropped to 43%, Malaysia's more than halved to 6% and Thailand's share declined to 8%, Vietnam's share nearly tripled from 6% in 2016 to about 18% in 2018. In India's imports of telecommunication equipment, while China's share dropped from around 71% during 2016-17 to 53% in 2018, Vietnam's share jumped four times from about 3% to about 12% between 2017 and 2018.

The re-routing of Chinese exports through Vietnam has clearly been to circumvent the sharp US focus on Chinese ICT exports. But for India, the sudden drop in China's share which seems mirrored in Vietnam's rise in shares amidst a significant rise in ICT import value in 2018 raises many questions than answers. Given that Vietnam is a beneficiary under the India-ASEAN FTA, this brings back the focus on compliance with the rules of origin criteria. If India is going ahead with RCEP negotiations, we must insist on rules of origin mandating significant domestic value addition in the country of the final exporter as well as strengthen bilateral mechanisms for ensuring compliance. Additionally, we need to negotiate availability of firm-level investment data with the RCEP grouping to understand the nature of Chinese investments in different countries.

Strikingly, the largest re-routing of Chinese ICT exports appears to be through Hong Kong, whose share in India's total ICT imports jumped from less than 3% during 2016-17 to about 14% in 2018. Specifically, between 2017 and 2018, Hong Kong's share increased from 1.5% to 21.5% in electronic components, and from less than 4% to nearly 15% in telecommunication equipment, from 0.7% to 7.5% in consumer electronics, and from 1% to 8% in computers and peripheral equipment. Given that Hong Kong is not part of RCEP, India also needs to urgently re-look at the non-preferential rules of origin applied on MFN trade, beyond what has been achieved at the WTO.

It is critical for the government to approach these trade negotiations with foresight, realising the need for coherence with its Make in India and Digital India missions. Electronics industry supplies the devices and equipment required to advance digitalisation. In particular, telecom equipment provides the network connectivity and access layer of the digital infrastructure base. We are moving beyond the simple internet era into the era of the internet of things, with automated controls among connected devices and equipment driven by data intelligence. There is increased merging of the digital and the physical spheres across sectors including in those critically integral to national security like defence, energy, agriculture, transport, etc. Apart from the fact that our country can ill afford another wave of import surge in electronics arising from digitalisation, we cannot depend on imported telecom equipment and control devices as the backbone of our critical digital infrastructure. Thus strengthening indigenous capabilities in these high-technology industries is a must for national security. India must ensure that RCEP's architecture will not undermine the capital-intensive efforts going on among indigenous manufacturers, which will help realise the government's target of achieving net zero electronics imports by 2022.

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