The Savings Potential of Sino-Indian Free Trade Agreement within Regional Comprehensive Economic Partnership Initiatives

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Abstract: The ASEAN community as an international institution has proposed to strengthen economic development by widening cooperation with other countries through regionalism. ASEAN has proposed RCEP with six ASEAN FTA partners within the region. There is no FTA yet between some of the non-ASEAN member countries such as India and China. This condition has influenced the conclusion of RCEP because of different interest among the major power countries. This paper has examined the FTA saving potential analysis between India and China as two of the major power countries in the RCEP negotiations. The FTA saving potential of India and China will be analyzed by using ex-ante analysis. India and China are having the different interests of the preferential agreement on the tariff. India has high tariffs barrier to protect its domestic market. Furthermore, India has demanded the other members to liberalize their services market through RCEP negotiation. India and China have been seen as a rivalry from the political point of view. Both countries have the biggest GDP among RCEP member countries. Therefore, India and China participation in RCEP development are essential to be maintained. The economic interdependence between India and China could lead to cooperation through RCEP. The savings potential analysis shows the tariffs that could be negotiated between India and China. India has proposed to dismantle tariff up to 20 years. This paper has calculated the projection of maximum saving potential that includes three scenarios in the calculation: 20 years of dismantling tariff, export growth and utilization rate. RCEP has been developed to build a comprehensive mutual agreement and economic benefit among the members through cooperation.

Keywords: China, India, ASEAN, RCEP, political, economy, regionalism, saving potential.

1. INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) is one of the regional organizations that consist of ten countries: Singapore, Thailand, Lao PDR, Indonesia, Brunei Darussalam, Malaysia, Cambodia, Myanmar, Philippines, and Vietnam. The ASEAN community is a regional organization that attempts to improve political cooperation and socio-economic among the ASEAN member countries. ASEAN has an intention to expand good cooperation by establishing a Free Trade Agreement (FTA) with some other countries. In order to do that ASEAN has proposed a Regional Economic Comprehensive Partnership (RCEP) with six ASEAN's FTA partners. These six ASEAN's FTA partners are India, China, Australia, Japan, New Zealand, and South Korea. Expansion of trade and enhancing economic development are two major goals of the regional economic partnership. The political factor is one of the important issues that should be addressed in regionalism. ASEAN centrality is an important underlying element in reinforcing economic cooperation and enhancing economic integration within RCEP. Some of the six ASEAN's FTA partners within RCEP have no free trade agreement yet, especially with China and India. China and India have no free trade agreement. This paper focuses on the saving potential of FTA and the dynamic relations between China and India within RCEP.

China and India are the two biggest countries among RCEP initiative countries. These two big countries have a significant population and share high GDP among RCEP initiative countries. The Sino-Indian relationship has been viewed by neorealist insights as the rivalry states (Athwal, 2008, p.ix). The Sino-Indian relationship has attracted attention to be examined by some analysts in modern international politics. The dynamic pattern of Sino-Indian relationship has evolved over the years.

Many qualitative and quantitative studies have explored the progress of RCEP and development of FTAs among the initiative members, including China and India. Li & Whalley (2017) have examined Asia's current situation and the potential of Asia trade bloc. Some studies have investigated the economic implications of FTAs among RCEP initiatives countries using the Computable General Equilibrium (CGE) model (Itakura, 2014; Cheong & Tongzon, 2013). Li, Scollay, & Maani (2016) conducted research on the effect of FTA and FDI flows among China and ASEAN using an econometric model. Fukunaga & Isono (2013) described the FTA impact between ASEAN+1 and RCEP using dynamic GTAP analysis. These researches have studied the implication or impact of free trade and comprehensive economic partnership on

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economic development among members of this partnership.

Wilson (2015) has examined the dynamic mega regional trade arrangements of Trans-Pacific Partnership (TPP) and RCEP, explored the development of both proposals, and studied the trade policy option of both regional policy arrangements. Panda (2014) has investigated the policies and politics between China-India dynamic development towards TPP and RCEP. Hamanaka (2012) has distinguished two different approaches –expansion and consolidation- to make clear the contradiction of several ways toward the Asian regional agreement in the future. There are several studies that have evaluated the FTA's saving potential in some countries, such as between Switzerland and some countries in Asia, Middle East and America, China and Switzerland, between Switzerland and ASEAN member countries and Brazil, Switzerland and Taiwan (Ziltener & Blind, 2015; Ziltener, 2015, 2016b, 2017).

Some previous researchers have not explored the saving potential of FTA among RCEP initiatives countries in qualitative and quantitative studies, such as Li & Whalley (2017); Itakura, (2014); Cheong & Tongzon, (2013); Li, Scollay, & Maani (2016); Fukunaga & Isono (2013); Wilson (2015); Hamanaka (2012); Ziltener & Blind, (2015); Ziltener, (2015, 2016b, 2017). The saving potential is the tariffs of any export products that should be paid by exporters of the World Trade Organization (WTO) members to the other WTO member countries based on the export composition tariffs that have not been eliminated based on FTA (Ziltener, 2016a). There is no study that has explored the saving potential of FTA focusing on the non-member ASEAN countries within RCEP initiative countries, especially China and India.

Given the background above, this paper aims to assess the saving potential of FTA using ex-ante analysis and to forecast saving potential of FTA between India and China. India and China have a major market share distribution among the other members. These two countries have influence in terms of the global economic system and geopolitical circumstances. The dynamic relations between India and China are important to be maintained in the RCEP initiatives.

The ex-ante analysis is an essential analysis to study the implication of FTA. The calculation of saving potential of FTA can be used to give detail illustration of each country export and import commodities with the potential duties that can be saved in the future. Based on Wignaraja's (2014) study, the lack of information is one of the main reasons for some companies not using FTAs tariff preferences. He found that 84 Indonesian companies, 79 Philippines companies, and 72 percent of Malaysian companies are not utilizing FTA because of these companies lack detailed tariff preferences and other benefits of FTA. Kawai & Wignaraja (2011, p.7) survey has shown that only 28 percent of 841 sample companies use FTA preferences and 53 percent of the Asian companies are planning to use FTA preferences. Their survey result has shown that most of the Chinese and Japanese companies are utilizing FTA preferences, while Korea, Singapore, and Philippines countries are less utilizing the FTA preferences. It means the FTA does not provide maximum benefit if the country's companies or industries do not utilize the available tariff reduction for their export. Therefore, the saving potential analysis is needed by the decision-makers to make an assessment and to find the optimal mutual comprehensive agreement.

Some negotiations have been made to reach trade regional liberalization agreement. These negotiations conclude that the agreement will face some challenges. The member countries of RCEP will seek the balance to obtain the maximum benefit from the agreement among them. In order to search the benefits and challenges of the trade agreement between India and China within RCEP, this paper will investigate the following questions: 1) what have been the factors of Sino-Indian dynamic relations that slow down the RCEP formation and 2) how much is the saving potential tariff reduction of FTA between India and China?

This paper will be organized according to the following arrangement. Section two will describe literature reviews. Section three will describe the saving potential for China and India. Section four will describe maximum saving potential for ten years projection based on scenarios. Section five will be the conclusion part.

2. LITERATURE REVIEWS

2.1. International Institution and Regionalism

In world politics, cooperation might seem very difficult to be achieved. The cooperation among states or nations is needed in order to strengthen economic development in the interdependent world economy.

Keohane, (1983, p.50) has stated that nonhegemonic cooperation is feasible to be achieved and it could be accelerated by international regimes. Keohane has explained that cooperation is feasible after hegemony not mainly because the shared common interest that leads to regimes creation, but also because there are some conditions that met. Keohane has described that cooperation could be reached without free conflicts. In order to reach cooperation, actors have tried to adjust their behavior to the other interests or preferences through policy coordination.

Krasner, (1983, p.2) has defined the international regime as an establishment of explicit or implicit rules, norms, decision-making procedures, and principles of actors' expectations that could be covered in a certain arrangement of international relations. Some international institutions have emerged in the same regional or geographic area such as ASEAN. ASEAN has been developed as an international institution on 8 August 1967 (ASEAN Secretariat, 2012). ASEAN has established ASEAN charter. ASEAN charter has a role as a solid foundation to achieve the ASEAN community. ASEAN charter has provided the institutional framework and legal status for ASEAN (ASEAN Secretariat, 2007). ASEAN charter also provides the ASEAN rules, norms, and values; establish clear goals; and shows the compliance and accountability. The ASEAN goals and purposes are cooperating in the economic, cultural, social, educational, technical and other fields; and promoting regional peace and stability (ASEAN Secretariat, 2012). ASEAN has generated an essential diplomatic platform that systematically allows all the great powers gather in the epoch of rising geopolitical pessimism, while many major geopolitical theorists predict increasing tension and competition between great powers especially US and China (Mahbubani & Sng, 2017, p.2).

Regionalism becomes an essential element of international relations and international political economy today. Dent (2016, p.8) has defined regionalism as the arrangement, processes, and structures that effectively work in the direction of wider coherence within a particular international region by concerning political, economic, socio-cultural, security and other kinds of linkages. Regionalism theories emphasize the geographical closeness position as the main component to set up preferential trade relations that align with the cultural share, low transaction, and transportation cost, economic and political bind to promote policy coordination and engagement (Katada & Solís, 2008, pp.1-4). There is an attention to the regionalism in the specific geographical region that improves its political and economic coherence (Pempel, 2005, p.3). ASEAN has emerged as the international institution based on the regionalism. ASEAN has developed a culture of peace as absorb the Indonesian custom of *musyawarah* (consultation) and *mufakat* (consensus) and has begun to expand this culture of peace into larger Asia-Pacific region (Mahbubani & Sng, 2017, p.2). International cooperation can be maintained through international institution such as ASEAN and the realization of RCEP.

2.2. RCEP Objective

Doha round failed to reach an agreement among the different interests of developed countries and developing countries (Balaam & Dillman, 2014, p.139). It leads to the increasing number of regional trade agreements (RTAs) such as ASEAN and South Asian Association for Regional Cooperation (SAARC). RTAs have become a mean for some states to develop their trade agreement and have become a better way to create because of fewer states' interests involve to reconcile.

RCEP has emerged through the ASEAN summit. ASEAN has maintained centrality and has expanded the wider regional economic partnership with the other six ASEAN's FTA partners. Hamanaka (2014) has explained that the substance of regional economic partnership is a means to control the membership and agenda of the regional block. RCEP was proposed during 19th ASEAN summit in November 2011 (Basu Das, 2012). This proposal was made in order to expand the commitment between ASEAN member countries, with six ASEAN FTA's partners. The objective of the RCEP is to reach a modern economic partnership and comprehensively promote high-quality and mutual benefit economic for all the RCEP initiative member countries (ASEAN.org, 2016). In November 2012, ASEAN and six ASEAN FTA's leaders had supported the RCEP proposal (Fukunaga, 2015, p.106).

The common goals of RCEP are related with the three main motives of ASEAN towards RCEP formation. There are three main motives for ASEAN to work towards RCEP: 1) RCEP will open wider market access because the current ASEAN+1 did not achieve a full liberalization region, 2) ASEAN+1 is creating the noodle-bowl situation; thus RCEP can eliminate noodle-bowl situation, 3) ASEAN was unable to gain

the opportunity of economic benefit without China-Japan-South Korea (CJK) (Fukunaga & Isono, 2013, pp.2-3). RCEP will generate 32 percent of the world GDP and influence about 48 percent of the world population if RCEP is concluded (Basu Das, 2016, p.105). RCEP will establish the centrality of ASEAN and will show the ability to support all sixteen members of RCEP initiatives countries for development, economic growth and harmonization. RCEP has tried to gain commitment among the initiative member countries to limit the variation and has looked forward to reducing 90-95 percent tariff lines (Basu Das, 2016, p.113).

The development of the RCEP conclusion will need much more effort to deal with various actors in order to establish a certain objective through cooperation. Cooperation through negotiation within RCEP does not mean that it is free of conflict. RCEP has many series of negotiations among the members. These members have an intention to reduce their barriers tariffs protection in order to free market access for others. The RCEP has involved India and China that have certain preferences of the trade deal among them. India has tried to adjust their trade pattern and behavior to prevent increasing value of China's import.

2.3. China and India Relations

The China-India dynamic relations hold an important role in the international political arena. Both countries have power dynamics that need to be analyzed in the RCEP development. Antholis (2013a) has explained that China and India's politics in the domestic arena are important elements of both foreign-policymaking. The condition of the domestic arena for India and China has shaped their behavior towards the international playing field. China has developed its trading export tremendously to the world and India has sent their professional high skill workers to the world (Antholis, 2013b, p.9). RCEP seems to be multilateral negotiation deal; but the main negotiation between India and China lie down in its heart (Sharma, 2018). These conditions have influenced their interest in RCEP negotiations.

India and China have been seen as a rivalry. India and China have been involved in border tensions for a long time. There are some wars that have happened between both countries within the border. India was defeated in the border war in 1962, armed battle in 1967, and long conflict from 1986 to 1987 (Marcus, 2018). Sino-Indian relations have a problem, not only in terms of borders but also the Indian Ocean. India and China have different perspective over the Indian Ocean. The different perceived of threat, legitimacy, and status have lead to rising dynamic competition among them over the maritime realm (Brewster, 2018). Neorealist has an insight that the rivalry of naval strategy and naval development between India and China could lead to an overstated security dilemma, therefore it is better to seek the positives alternative elements such as building an elite consensus, economic interdependence, and energy development (Athwal, 2008, p.ix). The increasing consensus of the elite in India and China has been committed to enable and to continue the peaceful relation that could increase trade and could resolve the existing issues (Athwal, 2008, p.129).

China has an initiative project called the Maritime Silk Road (MSR). This project has been initiated by China to expand the connectivity of infrastructure over East Africa, Oceania, the Indian Ocean, and Southeast Asia and to support Silk Road Economic Belt for the development of infrastructure over Central Asia (Green, 2018, p.1). India has a great role to be involved in MSR initiative because India could gain economically from this project, but MSR could not gain positive impact if India does not participate in the MSR (Li, 2018).

President Xi and PM Modi had several bilateral meetings. The first meeting between President Xi and PM Modi was during the BRICS summit in Brazil 2014. This meeting has become a good momentum for China and India to gain positive relations. In this meeting Tiezzi (2014) has explained that China and India could become good cooperative partners instead of rivalry, President Xi said, "if two countries have a common voice, the entire world will listen." In April 2018, President Xi and PM Modi decided to address strategic guidance regarding militaries to intensify communications in order to gain trust and understanding (TIMESOFINDIA.com, 2018).

2.4. China Towards RCEP

The rising tension of trade war between US and China has interrupted business atmosphere between both countries because it generated loss of benefits that have been gained before the trade war. The current situation of trade war with US leads China to secure its access to diverse markets within RCEP; that means provide more certainty for China to grow its economic condition positively by increasing employment rate and increasing consumption demand

internally (Cyrill, 2018). RCEP will boost China's trade by 1.5 percent and will raise China's income by 0.6 percent (Li & Moon, 2018). RCEP can be utilized as a method for Beijing to attain its magnificent vision for extensive Belt Road Initiative (BRI) strategy (Gnanasagaran, 2017).

Bind India within RCEP helps China counterbalance not only the wider US motif of expanding economic circle with the leading economies within the regional trade block, but also look over India's continues policy in this region and Indian progress in maritime politics, especially the South China sea zone (Panda, 2017, p.171). Based on Chinese specialties RCEP has been seen as a "prototype of an Asian FTA," an instrument to shape regional integration and cooperation, and a good chance for ASEAN and its FTA partners to be free from Western economic dependence (Panda, 2014, p.54). RCEP would enable China to expand their trade influence through RCEP to link with TPP as previously become US-centered partnership before US withdraw from TPP. This strategic engaging with RCEP has been used to rebalance with the US economic supremacy (Panda, 2017, p.167).

2.5. India Towards RCEP

From India's point of view, under Modi government, India has determined to enhance India's relation with East Asian countries and ASEAN by expanding the region's main interests by incorporating present national needs and regional security (Tripathi, 2017). This determination has a tight relation with India's Look East and Act East policies that focus on India's political, economic and military interest with regional partners in the East. India's commitment with ASEAN has been utilized as a prospective security provider that become an important element of its present Act East policy as China's existence became the main major actor behind India's ambition (Panda, 2017, p.168). RCEP has an essential podium for India to exploit the substantial market access, including China, but India needs to improve industrial game significantly (Wignaraja, 2013). India has joined RCEP as part of its main interest, but India has doubt about FTA and has concerns about China's cheap products that might flood India's market (Chaulia, 2012). Panda (2017, p.169) has explained that realizing ASEAN+6 into RCEP will support India to actualizing the Act East policy objectives.

India has been concerned about the tariff reduction pressure and has been apprehensive about facing competition without tariff protection among RCEP members, especially China, as India is having a wide trade deficit with China (Sen, 2017). India is hesitant to open up its market, especially the sensitive commodities import products such as domestic agriculture industry (Mishra, 2018b). India has been disappointed with the RCEP negotiations because it has not offered services sector negotiation (Sen, 2018). These reasons have made India reluctant to participate in the RCEP negotiation. There is wide speculation that India would leave the RCEP negotiation (Ganapathy, 2018). Indian trade deficit with RCEP members has reached $104 billion (Mishra, 2018b). This trade deficit is 64 percent of the total trade deficit for India in 2017 up to 2018. The RCEP negotiations have been negotiated for seven years. It has not yet reached a conclusion towards agreement among the member countries.

The sixth RCEP meeting among ministries of RCEP was held in Singapore at the end of August 2018. At this meeting, the RCEP members expressed a concern about India's interest in the service market liberalization and the professionals' skilled movement (Mishra, 2018a). RCEP dialogue partners through this negotiation have accepted India's proposal about the linkage between services and good negotiations. India has been satisfied with the outcome of the Singapore ministerial meeting and has intended to continue negotiations on the RCEP conclusion (Ganapathy, 2018). India has the interest to phase out tariff over 20 years on important sensitive commodities from China (Mishra, 2018a). India has been urged to reduce the tariff on 74% of China's products and has been persuaded to commit with tariff reduction on 92% its commodities by RCEP members (FE Bureau, 2018). India wants to protect the domestic industries such as textile and steel from China if RCEP is concluded. India's steel industry has required for steel tariff lines to be excluded from RCEP negotiations (Mishra, 2018b). India has no FTA with China, New Zealand, and Australia. Therefore, India wants to have a special dialogue of trade agreement with those countries to agree with the reduction of tariff on sensitive commodities (Sen, 2018).

2.6. Saving Potential Duties for China's Import from India and India's Import from China

China and India have been trading to each other over the past years. The following table shows the export for the past ten years between India and China. Table **1** shows that China's exports to India have been

growing rapidly. India's exports to China have been unstable over the past 10 years.

Table 1: Export-Import of China and India (US$ Million)

Year	China's Export to India	India's Export to China
2008	31,586	20,258
2009	30,613	13,714
2010	41,249	20,846
2011	55,483	23,372
2012	54,140	18,797
2013	51,635	16,970
2014	58,230	16,358
2015	61,604	13,368
2016	60,483	11,764
2017	71,922	16,345

Data source: UN Comtrade 2018.

3. METHODOLOGY

The saving potential of export duties will be calculated based on the Most Favor Nation (MFN) applied rates. The database of MFN applied tariff rates has been accessed through the WTO website. All the WTO member countries have to refer to the standard code of the Harmonized System (HS) for their trades export tariff. It means that the WTO member's countries should pay tariff of their export based on the composition of its export duties. The saving potential is the total value of export duties for the exporters of a country, as a WTO member should pay if a certain country does not have FTA yet with the importer country (Ziltener, 2016a). This paper has used the HS code at the six-digit level to calculate the potential duties value for each commodity for both countries. The method will use model to represent trading partner between country Y and country Z. The country Y's trade value will be multiplied with the country's Z tariff. The export item tariff of country Z according to HS code six-digit level will be multiplied with the export trade value of country Y at the same HS code six-digit level. The cross-section data has been used as the basis for the latest export-import between India and China in the same year. The export-import data between India and China in 2017 is the most current data that has been used for the measurement of the saving potential. The data has been accessed through the UN Comtrade website. The applied tariff rate is available at the WTO statistic trade and tariff website.

This paper uses the scenario based on the maximum reduction tariff to zero. The reality of FTA might be different from this scenario. This assumption in this scenario will be difficult to be realized and will be unrealistic in the FTA application since India wants to protect their domestic industries. This assumption has been used to understand in detail all the commodities values. Therefore, all the stakeholders from different industry could understand the saving potential values in each export commodity, especially for the exporters. Each of the export commodity value will be important to be known by the exporters for both countries since they have to pay the tariff that will be attached to their export products.

The saving potential calculation in this paper has excluded the Information Technology Agreement (ITA). ITA is specific agreements among 82 participants who have agreed to reduce the tariff on information and technology (IT) completely (WTO, 2018). This agreement represents IT products up to 97 percent in the world trade (WTO, 2018). India and China have been urged by other members to grant and to bring the IT product tariff in line with the ITA (WTO, 2017). The detail information about the ITA tariff information from both countries is different. Therefore, there is a limitation to include the ITA products saving potential calculation up to this paper being made in the end of 2018. The savings potential analysis in this paper excludes four commodities. These four commodities are HS code 71, HS code 93, HS code 97 and HS code 99. HS code 71 is a commodity specification that includes coin, natural, precious, semi-precious stones, cultured pearls, articles thereof, imitation jewelry, metal clad with precious metal, and precious metal. HS code 93 includes ammunition and arms. HS code 97 includes antiques, works of art, collectors' pieces and antiques. HS code 99 includes commodities that have no specification commensurate to kind.

3.1. Export of India to China

The highest trade value for India's export to China in 2017 is mineral products. The total mineral products trade value is 7,416,531,723 US$. The total duties value for mineral products is 74,397,038 US$. The second highest trade values for India export to China is metals commodity. The total value for metals export commodity is 2,933,945,952 US$. The total duties value for metals export commodity is 66,267,193 US$. The third highest export commodity is textiles. The total trade value for textiles export commodity is 1,476,390,594 US$. The total duties value for textiles is

Table 2: Saving Potential for India's Exports to China 2017

Commodities	HS Code	Trade Values (US$ Million)	Duties (US$ Million)
Animal, Animal Products &Vegetable Products	01-15	655	64
Foodstuffs	16-24	45	4
Mineral Products	25-27	7,416	74
Chemicals & Allied Industries	28-38	1,103	68
Plastics / Rubbers	39-40	473	33
Raw Hides, Skins, Leather, & Furs	41-43	313	27
Wood & Wood Products	44-49	71	1
Textiles	50-63	1,476	94
Footwear / Headgear	64-67	189	34
Stone / Glass	68-70	38	3
Metals	72-83	2,933	66
Machinery / Electrical	84-85	1,008	52
Transportation	86-89	23	3
Miscellaneous	90-96	176	8
Total		15,925	537

Data source: UN Comtrade 2018, authors' calculations.

Table 3: The Top Highest Trade Values of India's Export to China in 2017

Commodity Code	Commodity	Duties	Trade Value (US$ Thousand)	Duties Values (US$ Thousand)
250100	Salt (including table salt and denatured salt)	1%	6,759,679	50,697
740311	Copper; refined, unwrought, cathodes and sections of cathodes	2%	2,143,615	42,872
720241	Ferro-alloys; ferrochromium, containing by weight more than 4% of carbon	2%	450,535	9,010
151530	Vegetable oils; castor oil and its fractions, whether or not refined, but not chemically modified	10%	378,450	37,845
520524	Cotton yarn; (not sewing thread), single, of combed fibers, 85% or more by weight of cotton, less than 192.31 but not less than 125 decitex (exceeding 52 but not exceeding 80 metric number), not for retail sale	5%	311,428	15,571
520512	Cotton yarn; (not sewing thread), single, of uncombed fibers, 85% or more by weight of cotton, less than 714.29 but not less than 232.56 decitex (exceeding 14 but not exceeding 43 metric number), not for retail sale	5%	307,269	15,363
271012	Petroleum oils and oils from bituminous minerals, not containing biodiesel, not crude, not waste oils; preparations n.e.c, containing by weight 70% or more of petroleum oils or oils from bituminous minerals; light oils and preparations	7%	269,542	18,868
790111	Zinc; unwrought, (not alloy), containing by weight 99.99% or more of zinc	3%	235,796	7,073
520514	Cotton yarn; (not sewing thread), single, of uncombed fibers, 85% or more by weight of cotton, less than 192.31 but not less than 125 decitex (exceeding 52 but not exceeding 80 metric number), not for retail sale	5%	177,545	8,877

Data source: UN Comtrade 2018, authors' calculations.

94,854,241 US$. It shows that the tariff value for India's export to China for the textile is the highest compared to other commodities.

Table **3** shows the highest trade values of India's export to China. The highest trade value for India's export to China is salt with the total trade value

Table 4: The Top 10 Highest Duties of India's Export to China in 2017

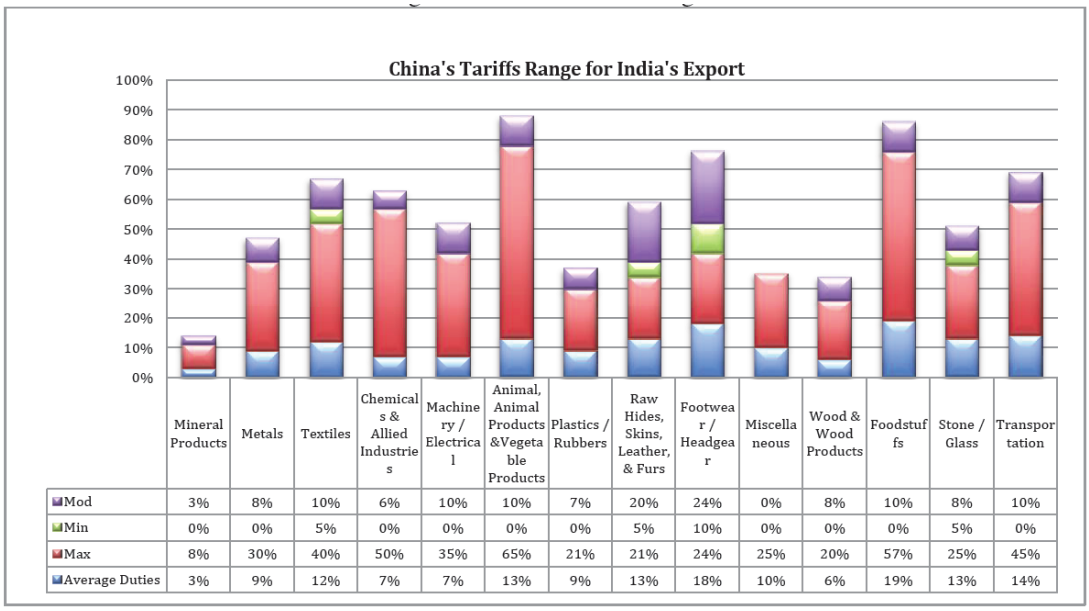
Commodity Code	Commodity	Duties	Trade Value (US$ Thousand)	Duties Values (US$ Thousand)
250100	Salt (including table salt and denatured salt)	1%	6,759,679	50,697
740311	Copper; refined, unwrought, cathodes and sections of cathodes	2%	2,143,615	42,872
151530	Vegetable oils; castor oil and its fractions, whether or not refined, but not chemically modified	10%	378,450	37,845
670300	Human hair, dressed, thinned, bleached or otherwise worked; wool or other animal hair or other textile materials, prepared for use in making wigs or the like	20%	125,592	25,118
271012	Petroleum oils and oils from bituminous minerals, not containing biodiesel, not crude, not waste oils; preparations n.e.c, containing by weight 70% or more of petroleum oils or oils from bituminous minerals; light oils and preparations	7%	269,542	18,868
520524	Cotton yarn; (not sewing thread), single, of combed fibres, 85% or more by weight of cotton, less than 192.31 but not less than 125 decitex (exceeding 52 but not exceeding 80 metric number), not for retail sale	5%	311,428	15,571
520512	Cotton yarn; (not sewing thread), single, of uncombed fibres, 85% or more by weight of cotton, less than 714.29 but not less than 232.56 decitex (exceeding 14 but not exceeding 43 metric number), not for retail sale	5%	307,269	15,363
390120	Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more	7%	152,685	9,924
411310	Leather; further prepared after tanning or crusting, including parchment-dressed leather, without hair on, whether or not split, other than leather of heading 41.14, of goats and kids	14%	65,708	9,199
720241	Ferro-alloys; ferrochromium, containing by weight more than 4% of carbon	2%	450,535	9,010

Data source: UN Comtrade 2018, authors' calculations.

6,759,679,773 US$. The salt commodity tariff is 1 percent with the total 50,697,598 US$ duty value. The second highest trade value is 740311 HS code with the commodity such as copper and cathodes. This total trade value is 2,143,615,811 US$ with the total duty 42,872,316 US$. Cooper and cathode are an important component for the electronics industry. It shows that China needs this commodity as part of the biggest trade value among other import commodities. China's electronics industry has used copper significantly to support their electronic production.

Table **4** shows the top ten highest duties of India's export to China. The first and the second highest commodities have the biggest trade values and duties values. It shows that both commodities are important significant commodities for China. The third high commodity duty value is vegetable commodity product with 10 percent of duty. The highest duty among the top is the commodity with HS code 67300. This commodity is human hair with duty value 25,118,566 US$ at 20 percent duty.

The highest of China's tariff is animal products and vegetable products. The highest duties are rice and cereals. The duty for these products is 65 percent. It shows that China protects the agriculture product, especially rice. China has imported cereals and rice from India with total trade value 9,876 US$. It means these products have 6,416 US$ duty that should be paid by exporter and consumer. The second high duty product is foodstuff commodity. Tobacco has been categorized as foodstuff commodity. Tobacco has 57 percent duty. India has exported tobacco to China with total trade value at 943,996 US$. It means the duty value for tobacco is 538,078 US$. The chemical and allied industry has 50 percent of duty. India has exported for commodities with HS code 310210 and 310530. These commodities are fertilizer, mineral or chemical. The total trade value for these commodities is 7,525 US$ with total duty at 3,762.5 US$. The transportation commodity has 45 percent as the maximum value duty. India has exported part of motorcycles and cycles with 45 percent duty attached to these products. The total trade value for these



	Mineral Products	Metals	Textiles	Chemicals & Allied Industries	Machinery / Electrical	Animal, Animal Products &Vegetable Products	Plastics / Rubbers	Raw Hides, Skins, Leather, & Furs	Footwear / Headgear	Miscellaneous	Wood & Wood Products	Foodstuffs	Stone / Glass	Transportation
Mod	3%	8%	10%	6%	10%	10%	7%	20%	24%	0%	8%	10%	8%	10%
Min	0%	0%	5%	0%	0%	0%	0%	5%	10%	0%	0%	0%	5%	0%
Max	8%	30%	40%	50%	35%	65%	21%	21%	24%	25%	20%	57%	25%	45%
Average Duties	3%	9%	12%	7%	7%	13%	9%	13%	18%	10%	6%	19%	13%	14%

Figure 1: China's Tariffs Range.

Data source: WTO 2018, authors' calculations.

products is 4,472,868 US$ with total duty value at 1,865,512 US$.

3.2. Export of China to India

The highest duty value for China export to India is machinery or electrical. The total trade value of machinery or electrical is 36,565,360,689 US$. The machinery or electrical total duties value is 1,067,039,669 US$ from 569 export items according to 6 digits HS code level. The second highest trade value is chemicals and allied industries commodity with the total trade value 7,528,218,594 US$. The total duties value for chemicals and allied industries is 572,194,647 US$ from 500 export items. The third highest trade value is metals. The total trade value of metals is

Table 5: Saving Potential for China's Export to India 2017

Commodities	HS Code	Trade Values (US$ Thousand)	Duties (US$ Thousand)
Animal, Animal Products &Vegetable Products	01-15	271,557	92,483
Foodstuffs	16-24	84,243	23,872
Mineral Products	25-27	855,871	41,790
Chemicals & Allied Industries	28-38	7,528,218	572,194
Plastics / Rubbers	39-40	1,849,926	167,068
Raw Hides, Skins, Leather, & Furs	41-43	341,407	33,816
Wood & Wood Products	44-49	3,453	336
Textiles	50-63	2,269,120	175,081
Footwear / Headgear	64-67	418,209	41,820
Stone / Glass	68-70	954,737	101,901
Metals	72-83	4,372,044	389,916
Machinery / Electrical	84-85	36,565,360	1,067,039
Transportation	86-89	1,312,765	157,857
Miscellaneous	90-96	3,102,395	268,530
Total		59,929,313	3,133,709

Data source: UN Comtrade 2018, authors' calculation.

Table 6: The Top Highest Trade Values of China's Export to India in 2017

Commodity Code	Commodity	Duties	Trade Value (US$ Thousand)	Duties Values (US$ Thousand)
851770	Telephone sets and other apparatus for the transmission or reception of voice, images or other data, via a wired or wireless network; parts	0%	9,389,694	0
854140	Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light-emitting diodes (LED)	0%	3,922,308	0
851712	Telephones for cellular networks or for other wireless networks	0%	3,310,631	0
847130	Automatic data processing machines; portable, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard, and a display	0%	2,583,497	0
851762	Communication apparatus (excluding telephone sets or base stations); machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	1%	1,219,507	15,243
852990	Reception and transmission apparatus; for use with the apparatus of heading no. 8525 to 8528, excluding aerials and aerial reflectors	8%	1,053,839	87,819
310530	Fertilizers, mineral or chemical; diammonium phosphate	5%	719,251	35,962
851769	Communication apparatus (excluding telephone sets or base stations); machines for the transmission or reception of voice, images or other data (including wired/wireless networks), n.e.c. in item no. 8517.6	1%	677,447	8,468
850440	Electrical static converters	8%	639,311	53,275
847330	Machinery; parts and accessories (other than covers, carrying cases and the like) of the machines of heading no. 8471	0%	617,010	0
852580	Television cameras, digital cameras, and video camera recorders	10%	493,397	49,339

Data source: UN Comtrade 2018, authors' calculations.

4,372,044,812 US$. The total duties value for metals is 389,916,556 US$ from 442 export items.

Table **6** shows that four export item duties are based on 0% tariff. These tariffs are included in the electrical commodity part. Some of the highest trade value duties of electronic export items range from 0% up to 10%. Most of the highest China's export trade values are included in the electronic export commodity except export item with 310530 HS code for chemical and allied industries. There are electronic commodities that might be used as a component IT products and important for India's electronics industry. These components could be one of the tariffs that need to be negotiated between India and China. The important component for a certain electronic product could lead to expensive electronic production for India electronics industry. India's electronics companies could gain the benefit of FTA if the electronic component has low or zero tariffs. For instance, the commodity with 852990 HS code. This commodity trade value is 1,053,839,925 US$ with 8 percent tariff line. Top China's export trade values have shown the significant high trade values that important for both India's market industries and India's end-user customers.

Table **7** below shows the top 10 highest duties of China's export to India. The highest duty value is 87,819,994 US$ for HS code 852990. This export item is included in the machinery or electronic export item commodity. The top 10 highest duties in the table above show that the trade duties values in each export items are high but the trade values are less than the highest trade values in Table **6** because of the high tariffs have been attached to each product.

Figure **2** shows that there are three highest tariffs among other tariffs. These three highest commodity tariffs are 150 percent tariff applies for some of the foodstuff commodity, 125 percent tariff applies for some of the transportation commodity, and 100 percent tariff applies for some of animal and vegetable products commodity. Some of the foodstuff commodity products that have 150 percent tariff are wine and whisky. Some of the transportation commodity products that have 125 percent tariff are vehicles with the capability to be charged by plugging and without the capability to be charged by plugging. Some of the transportation commodity products with the tariff range and trade values are shown in Table **8**. Some of the foodstuff commodity products that have 100 percent tariff are green tea, black tea, and dried grapefruit.

Table 7: The Top 10 Highest Duties of China's Export to India in 2017

Commodity Code	Commodity	Duties	Trade Value (US$ Thousand)	Duties Values (US$ Thousand)
852990	Reception and transmission apparatus; for use with the apparatus of heading no. 8525 to 8528, excluding aerials and aerial reflectors	8%	1,053,839	87,819
080810	Fruit, edible; apples, fresh	50%	122,561	61,280
850440	Electrical static converters	8%	639,311	53,275
852580	Television cameras, digital cameras, and video camera recorders	10%	493,397	49,339
850760	Electric accumulators; lithium-ion, including separators, whether or not rectangular (including square)	10%	430,623	43,062
710691	Metals; silver, unwrought, (but not powder)	10%	423,721	42,372
380899	Rodenticides and other similar products n.e.c. in heading no. 3808.9; other than containing goods specified in Subheading Note 1 in this Chapter, put up in forms or packings for retail sale or as preparations or articles	10%	415,108	41,510
310530	Fertilizers, mineral or chemical; diammonium phosphate	5%	719,251	35,962
841510	Air conditioning machines; comprising a motor-driven fan and elements for changing the temperature and humidity, of a kind designed to be fixed to a window, wall, ceiling or floor, self-contained or split-system	10%	336,053	33,605
890400	Tugs and pusher craft	10%	305,011	30,501

Data source: UN Comtrade 2018, authors' calculations.

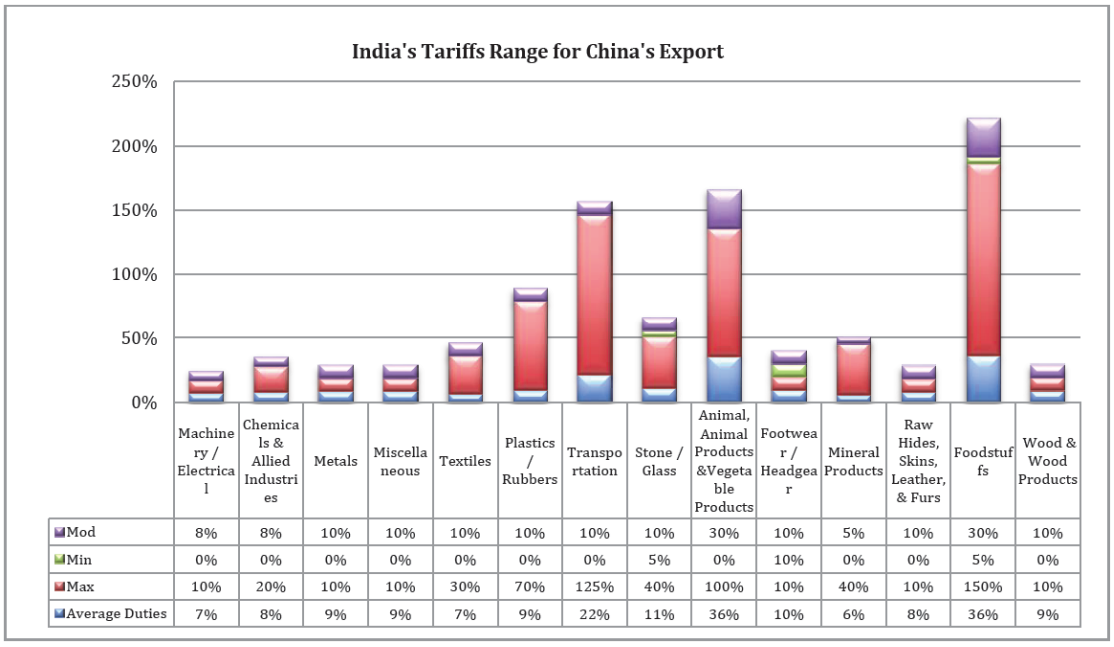


Figure 2: India's Tariffs Range.

Data source: WTO 2018, authors' calculations.

4. MAXIMUM SAVING POTENTIAL ANALYSIS FOR ALL THE TOTAL PRODUCTS

One of the objectives of the current paper is to calculate the maximum saving potential for India export to China and China export to India. The scenario will be used for the basic analysis of savings potential. The scenarios in this maximum savings potential analysis are based on the tariff of the rule of origin and utilization rate scenarios. These three scenarios are using 33 percent as low utilization rate, using 66 percent as medium utilization rate, and using 100

Table 8: The Highest Trade Values and Duties Values of Transportation Commodity

Commodity Code	Commodity	Duties	Trade Value (US$ Thousand)	Duties Values (US$ Thousand)
870340	Vehicles; with both spark-ignition internal combustion reciprocating piston engine and an electric motor for propulsion, incapable of being charged by plugging to the external source of electric power	125%	34	42
870370	Vehicles; with both compression-ignition internal combustion piston engine (diesel or semi-diesel) and the electric motor for propulsion, capable of being charged by plugging to the external source of electric power	125%	228	285
871110	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, with reciprocating internal combustion piston engine not exceeding 50cc, with or without side-cars; side-cars	100%	15	15
871120	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, reciprocating internal combustion piston engine, of the cylinder capacity exceeding 50cc but not exceeding 250cc, with or without side-cars; side-cars	100%	119	119
871130	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, reciprocating internal combustion piston engine, of a cylinder capacity exceeding 250cc but not exceeding 500cc, with or without side-cars; side-cars	100%	2,652	2,652
871140	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, reciprocating internal combustion piston engine of the cylinder capacity exceeding 500cc but not exceeding 800cc, with or without sidecars; side-cars	100%	2,287	2,287
871160	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, with an electric motor for propulsion, with or without side-cars; side-cars	100%	3,508	3,508
871190	Motorcycles (including mopeds) and cycles; n.e.c. in heading no. 8711, fitted with an auxiliary motor, with or without side-cars; side-cars	100%	178	178
	Total		9,025	9,091

Data source: UN Comtrade 2018, authors' calculations.

percent maximum utilization rate. These scenarios have been used in order to understand the different value of saving potential with different utilization rate. The previous scholars' study has found that the Switzerland exporters have utilized only 50 percent rate of FTA to Germany and another 40 percent of exports are based on the duty-free basis (Ziltener & Blind, 2015). These scenarios of free trade utilization rate as part of ex-ante analysis have been used to calculate the savings potential close to the real export transactions (Ziltener, 2016b). Based on Kawai & Wignaraja's (2011) study found that companies have yet to utilized 100 percent the benefit of FTA. Therefore, the calculation of utilization rate result shows how much value that could be attained from the successful implementation of FTA.

India has proposed to 20 years of dismantling tariff with non-FTA within RCEP member countries especially China, Australia, and New Zealand. India wants to have special dialogues with these three countries. India has an intention to dismantling tariff up to 20 years with these three non-FTA countries. This intention has been proposed to protect India's domestic industries. The dismantle tariff scenario is needed to calculate the savings potential tariff reduction year by year up to 10 years using 20 years dismantle scenario calculation into the formula. The scenario also has included the export growth in calculating the savings potential. The export growth assumption is 7.9 percent for China and is 11.2 percent for India. These exports growth for both countries has been measured with an average rate monthly growth data. These data have been accessed from CEIC, (2018). The monthly growth rate data for China is available from May 2009 up to September 2018. The monthly growth rate data for India is available from April 1991 up to September 2018. This growth export rate scenario has been used to measure the value of savings potential close to the realistic projection. Therefore, this paper has included the scenario to dismantle tariff up to 20 years and has

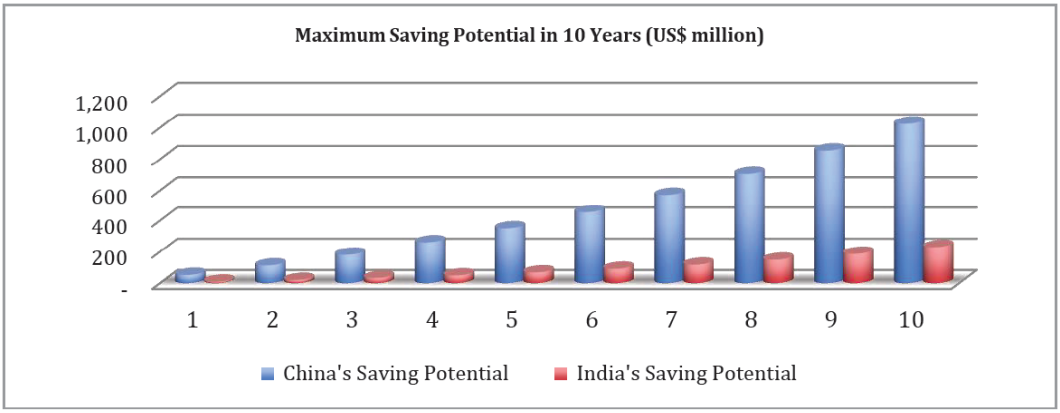


Figure 3: Maximum saving potential 10 years projection at 33% utilization rate based.
Data source: UN Comtrade 2018, authors' calculation.

measured the calculation with the export growth for the projection up to 10 years in 10 equal steps.

The export data in the year 2017 has been used as a baseline for India's export and China's export. Figure **3** above shows the calculation of maximum savings potential projection result using the utilization rate at 33 percent. Based on the 33 percent of FTA utilization rate, China's exporters will gain maximum saving potential at 350,427,720 in year 5 and 1,025,027,865 US$ in year 10. India's exporters will gain maximum saving potential at 67,795,681 US$ in year 5 and 230,545,133 US$ in year 10.

Figure **4** below shows the maximum saving potential projection for ten years at 66 percent utilization rate basis. The scenario was based on 66 percent of exporters utilize FTA benefit. If China's exporters utilize FTA at 66 percent rate, they will gain maximum saving potential at 700,855,440 US$ in year 5 and at 2,050,055,731 US$ in year 10. If India's exporters utilize FTA at 66 percent rate, they will gain maximum saving potential at 135,591,362 US$ in year 5 and at 461,090,266US$ in year 10.

Figure **5** below shows the most extreme scenario with a 100 percent utilization rate. This scenario was based on 100 percent of utilization rate for both countries exporters. The maximum savings potential for both countries is high to be compared with the first and second scenarios of the utilization rate. Based on this scenario, China's exporters will gain maximum saving potential at 1,061,902 US$ in year 5 and 3,106,145,047 US$ in year 10. India's will gain maximum saving potential 205,441,457 US$ in year 5 and 698,621,615 US$ in year 10.

5. CONCLUSION

India's tariffs are high. It shows that the Indian government protects the domestic industries by imposing the high tariff especially for import from

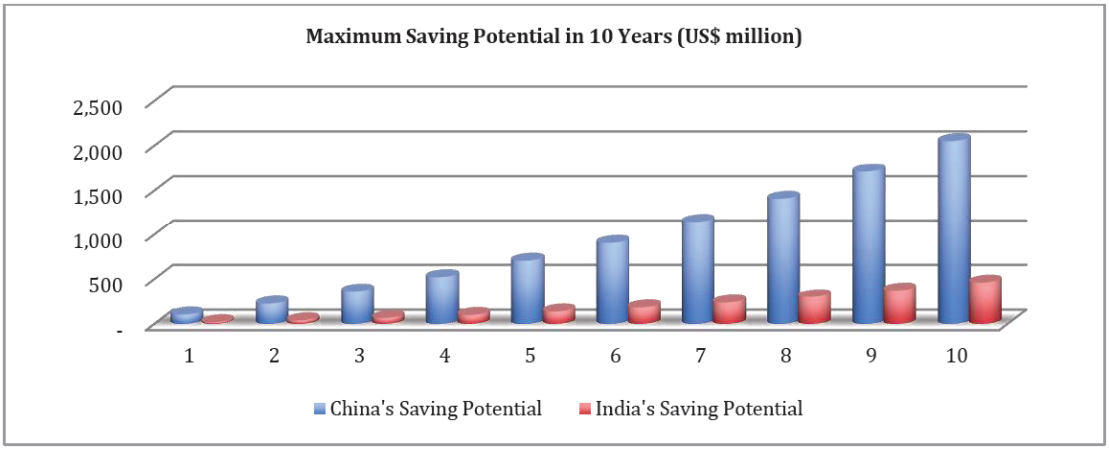


Figure 4: Maximum saving potential ten years projection at 66% utilization rate based.
Data source: UN Comtrade 2018, authors' calculation.

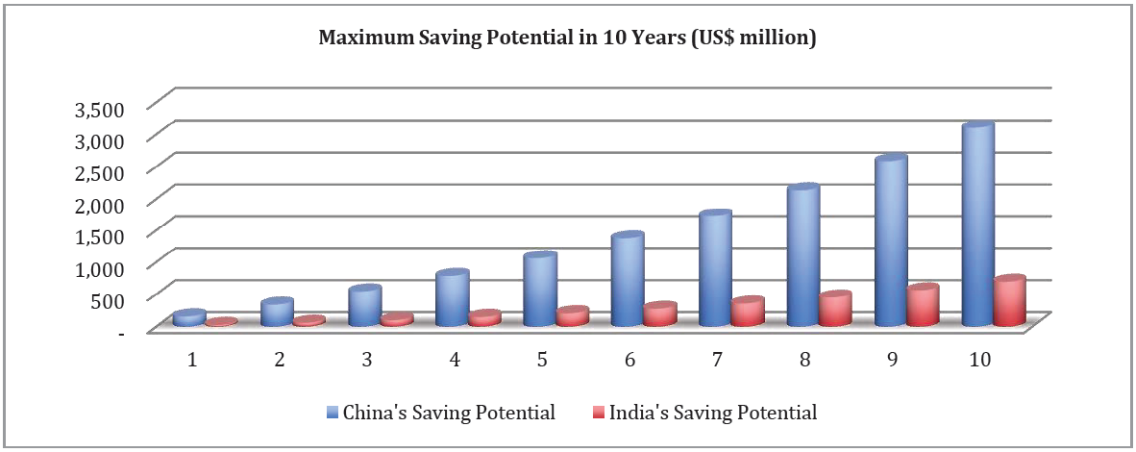


Figure 5: Maximum saving potential 10 years projection at 100% utilization rate based.
Data source: UN Comtrade 2018, authors' calculation.

China. The saving potential results above show that there might be a niche for India to reduce tariffs. There are some import commodities that are important for India's domestic industries as part of raw materials to produce their products such as chemicals, allied industries, metals and machinery or electrical. India's domestic industries could increase the level of competitiveness if they could get the low raw material price. The calculation results of the saving potential in this study show the detail result of each commodity total values and duties. Wignaraja's (2014) study has found that most of the companies lack FTA information. Kawai & Wignaraja's (2011) survey has found that some companies are not fully exploiting the benefit of FTA as the lack of specific tariff preferences. The calculation of the saving potential shows some of the commodities that might be needed for India's industries supplies. India has fear to open market for China's products. Therefore, the results of this study contribute to the detail information of the total trade and total duties that could be considered by the FTA decision makers. Both India and China could negotiate the trade agreement based on their need. Accordingly, the RCEP members have considered the possibility for the services linkages negotiation open for India, especially for their professional skill workers. It could lead the mutual adjustment among the RCEP members. India could not resist China's products. China needs India to support its economic development through trade. The interdependence of export and import between India and China shows that both countries are having tight economic relations.

India and China have their own interest to influence their power towards the RCEP formation. The Sino-Indian political rivalry has an impact on the RCEP conclusion. The economic development of India and China has been seen as the most dynamic that has influenced to the world economically and politically. India and China rivalry in terms of political, security and economy has been the prominent elements that slow down the RCEP conclusion.

There are two factors that should be considered to understand states behaviors towards international relations: internal factor and external factor ambitions. The internal factor can be seen from the political views in the domestic arena. The external factor can be seen from the other institutional integration such as TPP. India and China's domestic political factors have influenced their foreign policy. It has an implication towards their stance in the international playing field. India has strength in the service sector. India wants to liberalize their services. This element previously has been neglected in the RCEP negotiation, which has an implication for India to leave the RCEP negotiations. China has strength in terms of trade. This strength leads China to impose its interest on the tariff reduction of the other RCEP members. The external factor such as TPP has been a special concern for China to influence over Asia to rebalance with the US. Since US withdraw from the TPP, TPP does not seems as a significant factor for China to impose the RCEP conclusion. US-China trade war has become an external factor that influences China to encourage the RCEP conclusion.

India and China have special tension on the border and ocean interests. The military standoff over the border would be very sensitive issue that could lead both countries into war as the previous history wars between India and China. This element could be a

significant issue to be negotiating under RCEP, which could slow down the RCEP conclusion. Therefore, India and China should avoid this issue to be negotiated under RCEP. India and China's leaders have made several informal summits to talk about security issues. These meetings have been used as an anchor for both countries to build mutual trust and to create peace in the context of global uncertainty. Both countries have decided to have common view to enhance their mutual trust and cooperation. Sino-Indian border issues should be solved in order to reduce tension between both countries. Both countries have special dialogues to adjust their interest in order to gain mutual adjustment.

The international institution plays role to enhance mutual trust and peace among its member countries. India and China have tried to maintain their commitment to strengthen good mutual relations. Based on this commitment, India and China could have better attempted to promote cooperation through RCEP. The good relations between India and China could lead to gain momentum for economic development of the RCEP members. The international institution, in this regard RCEP initiative, has an important element that could bind India and China into economic interdependence through cooperation.

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