

Why it is better to be in than out of RCEP

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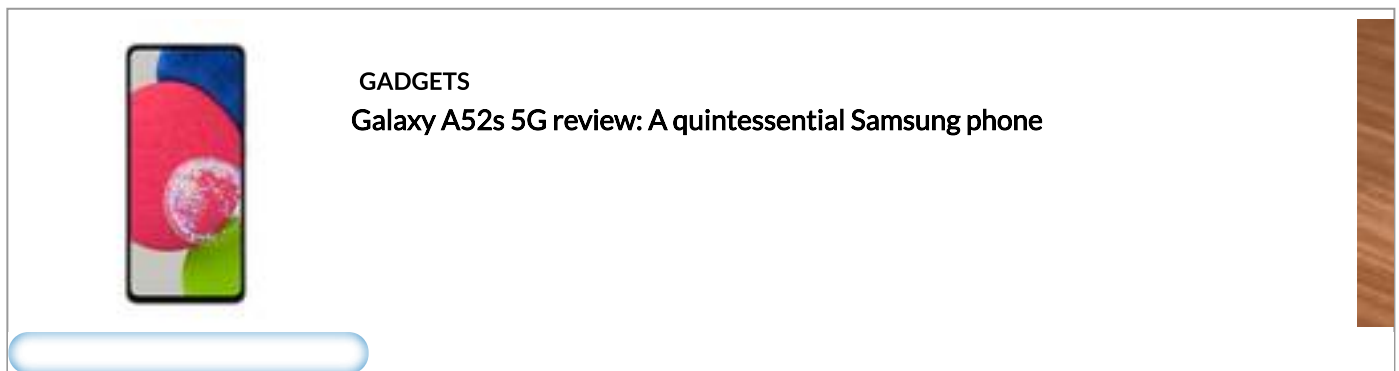


There will be some advantages and disadvantages of joining a grouping. India needs to negotiate them rather than stay out

On November 15 15 countries signed the Regional Comprehensive Economic Partnership (RCEP) agreement after the Association of South-East Asian Nations summit. RCEP has been described as the largest trade agreement till now, a trade agreement between all Asean nations along with Australia, China, Japan and New Zealand, accounting for 29 per cent of global gross domestic product (GDP) and almost one-third of the world's population. India, which was originally part of the 16 countries negotiating the agreement, opted out in November last year. India's decision of not joining RCEP has been appreciated and criticised equally.

After being part of the negotiations for seven years, India got out, as many of its “outstanding issues and concerns” were not resolved. It feared a surge in imports from China against which it has inadequate protection. India feared especially for the agricultural sector, particularly the dairy sector, which would not be able to compete against competitive imports from Australia and New Zealand.

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The other unresolved issues including on rules of origin; the fear was that some countries might route their products through RCEP members at low duties. India also wanted RCEP to remove the most-favoured-nation (MFN) obligation, as it did not want to give this benefit to nations with which it has border disputes. Also, there was no assurance to India on non-tariff barriers and market access issues and it was felt that sectors like steel, leather goods, electronics, and textiles will be affected by cheaper imports. India opting out of RCEP appears to be influenced by the industry lobby, which has preferred protectionism. India could have remained in the bloc and got its fears adequately assuaged with amendments to relevant clauses. Before joining the World Trade Organisation also, there were similar issues and these were rectified with India effectively leading developing countries at the WTO.

More protectionist

And, ever since India opted out of RCEP, its policies have become more protectionist. There has been a substantial increase in the import tariff on many product categories. The government has announced production-linked incentives (PLI) for 13 sectors with a financial commitment of

₹1.45 trillion. It wants these sectors to match up to international standards and has offered them protection via import tariffs. Such an industrial policy will make it difficult for India to enter RCEP (the doors are open for it), as the grouping mandates lowering of import tariff.

The arguments for the opting out have pointed to the limited advantage India has derived out of existing free trade agreements (FTAs). India has been running trade deficits with Asean, South Korea and Japan with whom it has FTAs. But take a closer look, many RCEP member-countries such as Indonesia, the Philippines and Vietnam also run trade deficits with China; many, including Japan, have territorial disputes with China. Yet, these countries decided to sign the pact.

Contrary to the view of many politicians who consider autarky to be a virtue and buying foreign goods as anti-national, viewing trade agreements from the point of trade balance alone is not appropriate. Running up more imports than exports may not necessarily be undesirable, especially for countries like India, which are still in developing stage. After all, it is the people of the country who benefit through free trade as they get access to better quality products at a cheaper price. Rising imports of key inputs is also a sign of a growing economy.

Remaining out of RCEP can also affect the bilateral trade relationship with RCEP members. It can, for instance, affect the Australia-India-Japan network in Indo-Pacific. The recent Supply Chain Resilience Initiative (SCRI), aimed as a trade bloc to counter China, promoted by Japan and endorsed by Australia and India, will also be impacted adversely.

Missing supply chains

By not joining RCEP, India's strategy of attracting international supply chains to India will get hit, as member-countries are more likely to establish different elements of value chains among themselves. Reason: components and parts manufactured in one country can be freely traded with other member-nations, without attracting any import tariff. If India

thinks that first it should protect the domestic industry and make it more competitive and join the trade bloc later, it may be too late. By that time the supply chains that are getting relocated would have established themselves elsewhere. There have been suggestions that India must now focus on joining the US-backed Trans-Pacific Partnership (TPP), which is likely to get priority with the incoming Biden Administration, and also focus on forging a trade agreement with the EU. Under the TPP, in Obama's regime, the US had proposed duty-free market access for many products to member-countries.

The TPP possibility

Signing up with the TPP can create challenges for the India's textile industry. Vietnam, a major competitor of India in the sector will, as a TPP member get free access to Indian markets. Also, there were several clauses in TPP related to the IPR regime and the digital economy that were not agreeable to India. If under the Biden Administration negotiations begin once again, then it would not only be difficult for India to join the TPP with the existing protectionist regime but also a challenge to safeguard the interest of several sectors.

The negotiation on the India-EU trade agreement is making little progress as India is pushing for a "mini deal" to begin with, while the EU has clearly stated that it will not sign anything less than a comprehensive trade and investment agreement. To play a strategic role in the Indo-Pacific region, India should focus on strengthening the Quad grouping (with Australia, the US, Japan) and explore the possibility of deepening its economic ties with neighbours such as Bangladesh, Sri Lanka, Nepal and Bhutan, which so far has not been given much importance.

Changing world order

It is essential to understand that in the current scenario, the economic world order is changing and countries are forging multilateral arrangements that will shape the future of Asian economies in the 21st

century. It is important to realise that forging FTAs with different regions or countries may bring some pain to some sectors for some time, but being part of open trade and getting integrated with a trading bloc will definitely be a superior alternative and pave the way for India to play an important role in the global economy and politics.

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Published on December 01, 2020

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