India’s Position on RCEP

What is the issue?

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- Negotiations on the 16-member “Regional Comprehensive Economic Partnership” (RCEP) bloc agreeement have gone adrift.
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- India should carefully weigh the pros and cons of the trade bloc.
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What is India’s current trade situation with the RCEP bloc?

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- RCEP has a total of 16 members - China, ASEAN (10 countries), Australia, New Zealand, India, Japan and South Korea.
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- India’s trade engagement with these countries has not been favourable, when seen in terms of the trade deficit.
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- NITI Aayog has pointed out that trade deficits with the RCEP member countries has risen from $9 billion in 2004-05 to over $80 billion now.
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- India already has a “Free Trade Agreement” (FTA) with ASEAN, Japan and South Korea, which is largely the reason for the current unfair trade situation.
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- Significantly, even without an FTA, trade deficit with China rose from $0.6 billion to about $63 billion in 2017-18, or 60% of India’s overall trade deficit.
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- This surge in Chinese imports — from electrical, electronics, plastics, chemicals, boilers etc..., has undeniably hurt Indian manufacturing.
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- Notably, increase in imports from these countries hasn’t helped to increase the local manufacturing sector or technologies.

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What is ideal for India?

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- A government committed to ‘Make in India’ cannot be expected to embrace a deal that entails zero tariffs on over 70% of goods traded with China.
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- Further, while FTAs in itself hasn’t paid off sufficiently for India’s industry, a higher level of openness with ASEAN is undesirable.
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- While this is a protectionist view, it is also a product of both domestic and global circumstances, and hence not necessarily bad.
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- Given the discontent over lack of jobs and agrarian distress, this isn’t an opportune time to throw open sensitive sectors such as dairy products.
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- Hence, India needs to bargain hard and play tough to secure a better deal from RCEP members or consider foregoing the deal altogether.
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How does the future look?

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- The push for trade blocs has acquired a new urgency, with the Trump administration unleashing a trade war of sorts against China.
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- In this context, India too has reversed its years-long policy of reducing tariffs by raising them across the board in the last Budget.
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- Further, Malaysia’s new PM has mooted an ‘East Asian Economic Caucus’ to offset China’s economic might and trade surplus with the region.
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- In this context, India should seriously consider the impact of any exit from RCEP on its links to global supply chains and take a rational decision.
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Source: Business Line

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