



## India and RCEP

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*This article is based on "**India should act tough and exit RCEP**" which appeared in The Hindu BusinessLine on 6<sup>th</sup> August 2019. It talks about the pros and cons of India's membership to RCEP.*

Recently, an Indian delegation headed by Commerce Secretary attended the **Regional Comprehensive Economic Partnership** (RCEP) Ministerial meet in Beijing. This marks the change in India's stance from being stuck in a deadlock to listing out its demands individually to the partner countries of the RCEP in the bilateral meetings on the sidelines of the event.

### Advantages of RCEP for India

- RCEP is a proposed Free Trade Agreement (FTA) between ten ASEAN member states and their six FTA partners namely India, Australia, China, Japan, New Zealand and South Korea.
- It can **boost India's inward and outward foreign direct investment**, particularly export-oriented FDI.
- It would also **facilitate India's MSMEs** to effectively integrate into the regional value and supply chains.
- It presents a decisive platform for India which could enhance strategic and economic status in the Asia-Pacific region and can complement **its Act East Policy**.
- It can **augment India's existing free trade agreements** with the **Association of South-East Asian Nations (ASEAN)**.

It can address challenges emanating from implementation concerns vis-à-vis overlapping agreements of ASEAN(Noodle Bowl).

- The RCEP would help India streamline the rules and regulations of doing trade, which will **reduce trade costs**.
- India enjoys a **comparative advantage in the services sector** such as information and communication technology, healthcare, and education services etc. Thus, RCEP will create opportunities for Indian companies to access new markets.

**However, these are just stated benefits, the Indian domestic industry is lobbying against RCEP, due to disadvantages emanating from RCEP.**

## Disadvantages

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- **Widening Trade Deficit: NITI Aayog held that India's trade deficit with the ASEAN, Korea and Japan has widened post-FTAs.**
  - **Tariff elimination due to RCEP could worsen the trade deficit**, at \$105.2 billion in 2018-19.
  - Since import duties are also a source of revenue for India, it could experience a **disproportionate loss of customs revenue.**
- **Sensitive List:** Most of the RCEP countries have very high tariffs on certain products sensitive to them, such as rice, footwear, dairy products and honey, which they can continue to **shield through the sensitive lists.**
- **Services Sector:** India has demanded that the ASEAN countries should open up their services sector so that Indian professionals and workers can have easier entry into their market.

However, ASEAN countries are very **sensitive about protecting this sector** and have not offered much liberalisation even within the bloc to each-other.
- Almost every sector registered its apprehension that once the RCEP agreement was in place, **China would harm the domestic market** with its cheap exports and would also dump its products.

China already has a \$70 billion (approx.) trade surplus with India.
- **Agriculture:** It threatens farm livelihoods, autonomy over seeds and also endangers the country's self-sufficient dairy sector.
- **So, in terms of enhanced market access, India would benefit relatively less from its RCEP partners than the benefits given to them by it.**

## Should India Quit RCEP?

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India's entry into RCEP will strengthen its strategic weight but it may act as a **double-edged sword for India:**

- India can be **diplomatically pressurised** from trade partners like ASEAN, Japan, South Korea, with whom India already has FTAs.
- Given RCEP has the **year-end deadline** for implementing the pact, it poses a challenge for Indian economic policymakers.
- In the event of declining economic growth, India should not stay out of the **largest free-trade bloc in the world.**
- Apart from this, RCEP provides a chance for India to bring in **historic trade reforms**, which in itself will cement India's position as a major global economy and make Indian industry competitive.

## Way Forward

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- India will need **second-generation reforms of its domestic economic policies**, including those that reform its factor markets, to make its trade more competitive and export-oriented.
- These reforms will help India better access other markets and will mitigate some of the repercussions arising from the RCEP.
- So, it is important to ensure that the recent stance of the Indian government regarding the RCEP must not dissipate after the Beijing meeting.

The RCEP can be a stepping stone to India's Act East Policy, but at a time of growing protectionism and the US-China trade war, opening our market to China (through RCEP) can prove to be disastrous, given the structural issues in the Indian market.

Hence, it is important that India focuses on resolving the structural issues in the domestic market, before concluding the RCEP negotiations.

### ***Drishti input***

While RCEP might seem to be too big a market to ignore, India needs to negotiate the FTA keeping in mind its own interests first. Discuss.

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