



Mains Practice Question

Q. Analyse the factors and implications of India's exit from the Regional Comprehensive Economic Partnership (RCEP). (250 words)

12 Nov, 2019 GS Paper 2 International Relations

Approach

- Introduce by mentioning about RCEP and India's exit from it.
- Mention the factors which led to India's exit from RCEP.
- Mention the implications of the move.

Introduction

Recently, India decided to opt-out of the 16-nation **Regional Comprehensive Economic Partnership (RCEP)** trade deal, which is considered as the largest regional trade agreement contributing over a **quarter of world exports**, and makeup around **30% of the global Gross Domestic Product**.

Body

Factors which led to India's exit from RCEP:

- **The trade deficit with existing FTA partners:** Though trade has increased post-FTA with South Korea, ASEAN countries and Japan, imports have risen faster than exports from India resulting in widening the trade deficit.
- **Risk of dumping of Chinese goods:** RCEP would allow cheaper products from China to flood the Indian markets, which would be detrimental to domestic manufacturers.
- **Non-acceptance of Auto-trigger mechanism:** Opposition from other ASEAN countries to allow India to raise tariffs on products in instances where imports cross a certain threshold.
- **Protection of domestic industry:** There is stiff opposition from industry associations, trade bodies, and other civil society organizations on lowering and eliminating tariffs on several products like dairy, steel etc.
 - For instance, cheap imports of dairy products from Australia and New Zealand could ruin the rural economy of India.
- **Lack of consensus on Rules of Origin:** India was concerned about a "possible circumvention" of rules of origin which are the criteria used to determine the national source of a product.
 - Current provisions in the deal reportedly do not prevent countries from routing, through other countries, products on which India would maintain higher tariffs.

Implications of India's exit:

- **Protection to domestic manufacturers:** Refraining from RCEP will provide protection to the Indian domestic industry from cheap imports.
- **The missed opportunity of economic integration:** The global trade would be led by trade agreements like RCEP and Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP) in the recent future considering the strategic location of countries in the Indo-Pacific.

- India could miss on cheap capital, investor base, access to technological improvements, and more importantly trading opportunities considering that RCEP accounts for one-third of global trade.
- India missed out on huge job opportunities for the younger generation in the services sector like IT services, tourism, education, etc.
- **Loss of huge Indian market for other RCEP countries:** The vast Indian population would have served as a huge market for ASEAN products which could have been beneficial for regional development and growth.
- **Rising Chinese influence in the region:** RCEP is a China-backed trade deal, signing it without India will further strengthen China's economic power. It will affect India's neighbourhood as China already tries to influence the region through its deep pockets.
- **Impact on diplomatic engagements:** Since international relations are shaped by trade and economy, India's exit of RCEP may also affect **India's Act East policy.**

Conclusion

India should translate this withdrawal from the RCEP into a commitment for domestic reforms to prepare itself for the next opportunity to integrate itself into the global value chains and unleash Indian manufacturing.

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