India Exits RCEP

Recently, India decided to opt-out of the 16-nation **Regional Comprehensive Economic Partnership (RCEP)** trade deal. India held that it will not become part of RCEP until **“significant outstanding issues”** are resolved.

The RCEP negotiations were kick-started during the 21st ASEAN Summit in Cambodia in November 2012 and all participating countries sought to finalise and sign a deal by 2020.

What is RCEP?

- The Regional Comprehensive Economic Partnership (RCEP) is a trade deal that was being negotiated between 16 countries.
- They include the 10 Association of Southeast Asian Nations (ASEAN) members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and the six countries with which the bloc has free trade agreements (FTAs) — India, Australia, China, Korea, Japan, and New Zealand.
- The RCEP is billed to be the **“largest” regional trading agreement.** The countries involved account for almost **half of the world’s population,** contribute over a **quarter of world exports,** and makeup around **30% of the global Gross Domestic Product.**

Reasons for India's Withdrawal

Unfavourable Balance of Trade

- Though trade has increased post-FTA with South Korea, ASEAN countries and Japan, imports have risen faster than exports from India.
- According to a paper published by NITI Aayog, India has a bilateral trade deficit with most of the member countries of RCEP.

Dumping of Chinese Goods

- India has already signed FTAs with all the countries of RCEP except China.
- This is the major concern for India, as after signing RCEP cheaper products from China would have flooded the Indian market.

Non-acceptance of Auto-trigger Mechanism

- In order to deal with the imminent rise in imports, India had been seeking an auto-trigger mechanism.
- **Auto-trigger Mechanism** would have allowed India to raise tariffs on products in instances where imports cross a certain threshold.
- However, other countries in the RCEP were against this proposal.

Protection of Domestic Industry

India had also reportedly expressed apprehensions on lowering and eliminating tariffs on several products like dairy, steel etc.
  - For instance, the dairy industry was expected to face stiff competition from Australia and New Zealand.
  - Currently, India's average bound tariff for dairy products is on average 35%.
  - The RCEP binds countries to reduce that current level of tariffs to zero within the next 15 years.

Lack of Consensus on Rules of Origin

- India was concerned about a "possible circumvention" of rules of origin.
- **Rules of origin** 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 of RCEP

- Exiting RCEP, India can still keep a check on China's dumping of goods in India. However, from needles to the turbine, Chinese goods are all over the Indian market.
- Refraining from RCEP will provide protection to the Indian domestic industry from cheap imports.
- 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.
- India envisages becoming a manufacturing hub. However, staying out of the RCEP reduces opportunities for trading with these countries, which together account for roughly a third of global trade.
  - Manufacturing today requires greater integration with global supply chains.
  - Signing the agreement would have signalled an embrace of freer trade, which could have aided in the shift of companies out of China to India.

- India's exit of RCEP may also affect **India's Act East policy.**
- India should have used this as an opportunity to push through contentious but necessary reforms that would boost competitiveness.

Way Forward

- India needs to work on reforms and frame policies to prepare the economy for facing global competition. This can be done by:
  - Easing land acquisition
  - Reforming Labor laws
  - Bridging Infrastructure deficit
- India should take note of China's devaluing its currency for maintaining the cost competitiveness of its exports. A devalued Rupee vis-à-vis Dollar will increase the cost competitiveness of Indian exports.
- Though the RCEP is billed to be the "largest" regional trading agreement, India should make necessary reforms and negotiate judiciously to get into RCEP.

Drishti Mains Question

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