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Relevant for: International Relations | Topic: RCEP and India

On November 4, Prime Minister Narendra Modi, who was on the horns of an unenviable dilemma at the Leaders Summit in Bangkok, Thailand, finally decided to stay out of the 16-member Regional Comprehensive Economic Partnership (RCEP).

On the one hand, India registered a bilateral trade deficit with 11 of 15 RCEP participating countries in 2018-19. There was every reason to believe that these deficits would increase if India joined RCEP. An unmistakable pattern is evident in India's prior preferential trade agreements with East Asian countries. An uptick in overall exports is overshadowed by a larger rise in manufactured goods imports, which displaces many vulnerable domestic producers. The scale of deficit in electronic goods and related parts could have even tipped the economy towards a current account contingency. Economists will argue that plurilateral trade agreements, such as RCEP, are "welfare enhancing" for India. Be that as it may, without the politically challenging reform of India's factor markets, which would enable its small and medium enterprises to profitably slot themselves within East Asia's vibrant value chains, the likelihood of displacement and steep unemployment is high and cannot not be glazed over.

On the other hand, India desperately needs to sign-on to both an export-oriented growth model and a regional integration strategy if it is to ever stimulate its latent manufacturing prowess and overcome its steep development challenges. RCEP provided a gateway on both these fronts.

Export sophistication, i.e. the production of sophisticated tradable goods, has been shown to be the most important determinant of sustained growth in late-developing and industrialising economies. To the extent that the other standard determinants of growth raise an economy's growth potential, they do so insofar that they contribute to increasing the economy's production of sophisticated tradable goods. It is little wonder, then, that no major industrialising economy has maintained a 7% plus growth rate without a sharp and sustained growth in manufactured goods exports. Investment and exports acting in concert must become a key foundation of India's growth. RCEP furnishes a concerted liberalisation framework which, if paired with domestic factor market reforms, could have propelled the country towards its 'Make in India' targets in ways that no amount of tinkering with the 'Ease of Doing Business' rankings will achieve.

The implications of joining RCEP on the regional integration front and for Mr. Modi's 'Act East' policy were as acute. India does not participate in the Asia-Pacific Economic Cooperation forum, where best practices in trade and digital economy endeavours are formulated. It is not a member of the Chiang Mai Initiative, which has evolved from a currency swap arrangement into an embryonic form of Asian financial regionalism. It was excluded from the Comprehensive and Progressive Trans-Pacific Partnership negotiations, and is only marginally attached to the region by way of shallow economic partnership agreements with Japan, South Korea and the ASEAN countries. RCEP afforded a fleeting opportunity for New Delhi to hitch its wagon to the global epicentre of 'open regionalism' at a time when protectionism and populism are casting a pall over India's economic rise in the global system. Without an economic integration strategy in Asia, India will have no strategy in Asia and the sum total of its 'Act East' policy will amount to little more than becoming the naval doorman of the Indo-Pacific. By signing on to RCEP and instituting structural reforms at home, Mr. Modi had an opportunity to integrate India within Asian trade regionalism. To ensure that such an opportunity does not go abegging next time, he should pursue factor market reforms so that he will never have to face such a dilemma again.

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