

## SAFE, FOR NOW: ON INDIA OPTING OUT OF RCEP

Relevant for: International Relations | Topic: RCEP and India

India eventually decided to play it safe by [pulling out at the last minute from the Regional Comprehensive Economic Partnership \(RCEP\) which was finalised by 15 countries](#) in Bangkok on Monday. The pressure mounted on the government and the Prime Minister by interest groups, ranging from farmers, small industries and traders, to political parties across the board, surely played a major role in the decision to stay out of the grouping. The country had little choice but to exit after its safeguard requests were not conceded. On the one side was the looming figure of China in the group and that country's desperate need to find newer markets for its products in the backdrop of its trade dispute with the U.S. That India runs a massive bilateral trade deficit of \$53 billion with China and the fact that China has not taken satisfactory efforts to whittle down the deficit certainly were major inputs in India's decision. Second, India's experience with countries with which it has signed free trade agreements till now is not exactly a happy one. Though trade has increased post-FTA with South Korea, ASEAN 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. More importantly, while exports to RCEP countries account for just 15% of India's total exports, imports from RCEP countries make up 35% of the country's total imports. Given this, it is obvious that in the immediate context the country had more to lose than gain from joining RCEP.

India's request for country-specific tariff schedules was rejected early in the negotiations. So was its suggestion of an auto-trigger mechanism to check a sudden surge in imports from particular partner countries. India also argued for stricter rules of origin, and rightly so too, but this too failed to pass muster. Movement of professionals was another area that saw an impasse. Given these, there was little chance of the political leadership agreeing to join the bloc. Policymakers must have reasoned that India has active FTAs with most members of the RCEP except China, Australia and New Zealand and there will be no economic impact. However, the fallout of India's decision is that it has burnished its image as a protectionist nation with high tariff walls. With a market of 1.3 billion people, there is bound to be more pressure on India to open its gates. The smart way to handle this is to initiate reforms on the export front, bring down costs in the economy and, simultaneously, increase efficiencies. India cannot miss out on being a part of global supply chains and this can happen only if tariff barriers are reduced. And the best way to balance the effect of rising imports is by promoting exports. Tariff walls cannot be permanent.

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