

TIME GOVT IMPROVED COMPETITIVENESS IN DOMESTIC BUSINESSES

Relevant for: International Relations | Topic: RCEP and India

The most controversial of concerns raised by India was liberalization of tariffs

Leaders of the 16 countries negotiating the Regional Comprehensive Economic Partnership (RCEP) had met in Bangkok to give the final push to the largest mega regional free trade agreement, which did not happen after India had made a strong pitch to get its many concerns addressed. The Joint Leaders' Statement issued at the end of the summit acknowledged that "India has significant outstanding issues, which remain unresolved". It went on to say that all "RCEP participating countries will work together to resolve these outstanding issues in a mutually satisfactory way. India's final decision will depend on satisfactory resolution of these issues". However, it did not provide any indication about the timeframe within which issues facing India would be resolved.

The ambiguities in the statement about India's stance was removed in the ministry of external affairs' response, which clarified that India was withdrawing from RCEP while expressing concerns about the fairness and balance of the agreement.

The government's decision was, therefore, an endorsement of the concerns raised in unison by major sections of the Indian agriculture, dairy and manufacturing sectors that deep cuts in tariffs demanded by several RCEP Participating Countries (RPCs) would have severe adverse impact on them.

Concerns were raised on several aspects of RCEP, but the most controversial was tariff liberalisation. Most of the RPCs, especially the more dominant members of Asean, had set their sights on deep integration between countries of East Asia. Thus, they expected India to eliminate tariffs on an overwhelming majority of imports, which the government was not willing to accept in the early days of the negotiations. The standard template for India's tariff negotiations was continued imposition of moderate levels of tariffs on a range of agricultural and manufacturing products that it considers sensitive. India's initial tariff offer in the RCEP negotiations reflected its past position. However, this offer was rejected by all RPCs.

The gap between the negotiating stance of RPCs and the comfort zone for the Indian government on tariff protection became significantly wider as several domestic industries lobbied for increasing tariffs. Since 2017, most of the major manufacturing sectors and a few agricultural commodities, have received higher levels of tariff protection. Interestingly, the rationale that the government gave for these tariff hikes was twofold: provide the desired level of protection from imports and help in making progress towards Make in India. As a result of the tariff hikes, India's average tariffs on manufactured products rose from less than 11% in 2017 to nearly 14% in 2018, while average tariffs on agricultural products increased from less than 33% to nearly 39%. It was the first time in many years that the direction of India's tariff liberalisation had been reversed.

Now that the government has freed itself from the yoke of stringent commitments under RCEP, especially the drastic reductions in tariffs, its focus must be to provide a transparent and a predictable set of policies for the promotion and protection of India's agriculture and manufacturing sectors. There must be a clear target set by the government to make domestic producers more efficient. The government must recognise that the lack of competitiveness of

Indian entities has prevented them from taking advantage of market access opportunities that were provided by the three free trade agreements with Asean, Korea, and Japan. Further, as India steps back from RCEP, policy makers must take note that it is the proactiveness of the governments that is central to the dynamism seen in East Asian economies; it is time that India follows this mantra.

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