

FOR INDIA, ECONOMIC CONCERNS OUTWEIGH LIKELY STRATEGIC GAINS

Relevant for: International Relations | Topic: RCEP and India

The Asean countries plus China account for almost 80% of India's trade deficit

India has opted out of the Regional Comprehensive Economic Partnership (RCEP) for the moment. The main fear seems to be economic domination by China, which would swamp the Indian market with its exports. A second issue is of agricultural exporters such as Australia and New Zealand affecting interests of Indian producers.

More generally, the opposition to RCEP seems to be purely on economic grounds. However, all regional trade agreements have both an economic and a strategic context. Trade agreements—multilateral or plurilateral—are about market access for each partner. It is expected that the loss to domestic producers would be matched by gains to exporters. Here, it must be clarified that, by and large, RCEP is focused mainly on trade in commodities (as in the case of the Indo-Asean agreement). In such a scenario, it is not rocket science to presume that Indian producers are likely to lose out. This is clear from the fact that the Asean countries plus China account for almost 80% of India's trade deficit. This is not because all exporters to India are predators. India has about the highest average manufacturing tariffs and any proportionate tariff reduction in an agreement would mean that the price advantages to Indian exporters would be far less than the price advantages to exporters in RCEP countries. This is something which was already happening, but since India's trade with the Asean bloc is less than 10% of its total trade, the "damage" has been minimum. If now China also enters the bloc, the "damages" would be substantially larger. In these global recessionary times, it is unlikely the arguments of gains from trade liberalization would be easily acceptable unless reduction of India's tariffs in critical commodities could be pushed towards the end of the RCEP horizon.

Coming to the agricultural front, since the days of the Uruguay round in 1995, India has, for political reasons, always protected its farm sector as is evident from its high bound tariffs in the World Trade Organization.

So, given the high Indian tariffs on manufactured goods, trade deals like RCEP will make Indian producers less competitive.

Where India could have some bargaining power is if a crucial chapter could be included to guarantee access to India's services exports. When the Asean agreement was initiated in 2005, it was noted that it would be subsequently extended to services. Yet, all South Asean countries (excluding Singapore) were extremely hesitant on this front, and it was only in 2015 that Asean agreed to begin talks around the modalities of services trade. Even the limited services deal, which is a part of the India-Singapore Comprehensive Economic Cooperation Agreement, has found very tardy implementation. While India's share in world trade in manufacturing is only about 1.7%, its share of world exports of commercial services is around 3.5%. Obviously, India's services sectors has some competitive edge and must find space in a deal.

But it must be realized that trade agreements also have a political/strategic context. For example, the expansion of US-Canada trade agreement to NAFTA had a clear political plan to bring the Americas closer to the US. Similarly, the expansion of EU15 to EU27 in the Maastricht treaty was guided by security concerns after eastern Europe broke away from the erstwhile Soviet Union. It is possible that RCEP has a similar strategic motivation, given India's policy on

economic posturing by China in the South China sea. However, it is doubtful that in the current economic situation, such a strategic objective would be easily acceptable. While this may certainly be the motivation behind RCEP, presently, such strategic gains will have to be subservient to the economic calculus. Till a strong service agreement is built in and the issue of non-tariff barriers in China is sorted out, India's participation in RCEP seems unlikely.

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