

THE PLAN TO GO WEST INSTEAD OF LOOK EAST

Relevant for: International Relations | Topic: RCEP and India

After India's withdrawal from RCEP, New Delhi has signalled its intent to accord special attention to trade ties with Western countries. Our expectations, though, need to be realistic

India this week sent out an emphatic message of a realignment of its external trade strategy by walking out of a trans-Asian trading bloc and signalling that it would instead seek closer ties with the West. This reassessment caps decades of a Look East policy that is increasingly seen to have delivered far less than its promise. Observers had been warning for some time that the country's trade push was at risk of stumbling on doubts over our domestic manufacturing competitiveness, evident in the poor export performance seen after New Delhi signed a raft of free trade agreements with smaller Asian countries. These treaties, which have typically involved a mutual lowering of import tariffs, have mostly been merchandise-heavy and thus unable to leverage India's advantage in services that have been raking in tidy hard currency earnings from Europe and North America. There is also the question of whether a patchwork of deals with assorted countries is too unwieldy for the local industry to adapt to. With the World Trade Organization faltering in its mission to foster barrier-free commerce across borders, the Asia-centric Regional Comprehensive Economic Partnership (RCEP) hoped to play that role in the eastern hemisphere. India's membership could have added heft to it and so New Delhi was seen in a position to drive a hard bargain at its trade talks. However, in the deal on offer, the likely injury to local producers from import rivalry was assessed to outweigh the potential export gains, and this, as Prime Minister Narendra Modi said, his conscience could not permit.

If the RCEP still wants India's inclusion, then it would have to address New Delhi's insistence on safeguards against a flood of cheaper Chinese and, by extension, Asian products, as also concerns about restricted access to the service markets of our would-be partners. Going by statements emanating from Beijing, their stance is not rigid and they may entertain further talks to discuss as much. China has a lot riding on the RCEP as its rising prosperity reduces the labour arbitrage that created "the factory of the world". It can deploy vast resources to gain a similar wage-cost edge in poorer parts of Asia, including India. However, Beijing exporting capital on that scale does not sit well with New Delhi. It has declined to join China's Belt and Road Initiative and does not want to be part of any arrangement that may turn out to be, in essence, a Chinese walled garden.

Yet, India's quest for greater market access in the West for service exports is unlikely to be easy. Drawn-out treaty negotiations with the European Union have this as a point of contention. The US under President Donald Trump, too, has lowered its tolerance of outsourcing. Intellectual property rights and preferential government purchases are also sticking points. If India is to gain from new deals with the West, these positions would need to be recalibrated. Much will also depend on progress of the US-China dialogue on tariffs. An abiding thaw in the trade war between the world's two largest economies could influence Washington's desire to engage an Asian counterweight. Multilateral negotiations have demonstrated the thorniness of trade in services, where non-tariff barriers have an undue influence, and India would do well to be circumspect in its expectations of what bilateral and regional trade talks with western countries can achieve. Unfortunately, Look West is no guarantee of an export surge either.

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