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# AFTER RCEP RETICENCE, NEED FOR REFORM RECALIBRATION

Relevant for: International Relations | Topic: RCEP and India

Last Monday, on November 4, 2019, Prime Minister Narendra Modi announced that India would not sign on to the Regional Comprehensive Economic Partnership (RCEP) agreement. The agreement, which is dubbed as the world's biggest trade agreement, is expected to proceed with the 15 other members of the agreement, including Australia, China, Japan, New Zealand, South Korea, and the 10 member states of the Association of Southeast Asian Nations (ASEAN).

India's decision to withdraw at this stage, particularly in light of India's own articulation of its national interest and its ambitions internally and on the world stage, reflects an inability to translate ambitions into action.

A long-standing goal for India, articulated by multiple governments from across India's political spectrum, is to generate a high level of sustained economic growth. Such growth matters for two reasons: within India, it will create millions of jobs and secure a stable future for India's young population, and externally, to facilitate India's rise as one of the poles in a multipolar 21st century. The Prime Minister articulated this same vision, in 2014, in his first Independence Day speech as Prime Minister, arguing "India cannot decide its future by remaining isolated and sitting alone in a corner. The economics of the world have changed and, therefore, we will have to act accordingly." His path to "acting differently" was focused on "promot[ing] the manufacturing sector."

Soon after his speech, he launched the "Make in India" programme, encouraging global companies to manufacture products in India. He articulated the goal of the initiative as "We launched the Make in India campaign to create employment and self-employment opportunities for our youth. We are working aggressively towards making India a Global Manufacturing Hub." This articulation of India's economic interests is particularly relevant in the context of India's decision on RCEP.

In defending **India's withdrawal from the RCEP**, the government has articulated three key concerns. The first is the negative impact of joining the agreement in key constituencies in India, particularly farmers and small business owners. The second is the lack of concessions within the final agreement on key demands for India such as work visas and liberalisation in services. The final is regarding India's trade deficit, and how those deficits would expand under the RCEP, given that India currently runs deficits with 11 of the 15 other member states. This **concern is particularly acute when it relates to China**, with India fearing an influx of cheap Chinese imports into India.

These concerns, particularly on the fears of Chinese imports and its impact on Indian domestic manufacturers, are legitimate and well-founded. Indeed, the Minister for External Affairs, S. Jaishankar, has argued that India has faced "unfair restricted market access" from China when it exports to the country, and Foreign Secretary Vijay Gokhale has pointed to "millions of non-tariff barriers" in China while accusing China of dumping.

However, the answer to these concerns is not India's withdrawal from the agreement.

As academician James Crabtree has noted: "India had already won concessions, including implementation delays stretching into decades and safeguards to protect sensitive sectors like

agriculture." Moreover, as Arvind Panagariya, former Vice Chairman of NITI Aayog, stated in a TV interview, existing WTO rules "allow us to impose safeguard duties and anti-dumping," which India has used and can continue to use against China when it comes to unfair trade practices.

Beyond these concerns, India has enormous strategic and long-term economic imperatives to join the RCEP. India's ambitions to become a global hub for manufacturing means that it is the country's long-term national interest to be integrated into global value chains. However, in Asia today, there are effectively now two economic structures — the RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) — which will effectively determine global value chains for manufacturing in Asia for years to come. India, now a part of neither architecture, will continue to remain unintegrated in such supply chains, and will see its ambitions of becoming a global manufacturing hub further delayed.

Returning to India's articulation of its national interest, this delay in integrating with global value chains will impact India's internal and external ambitions. The World Bank found that when coupled with domestic reforms, joining such global value chains can "boost growth, create better jobs, and reduce poverty". India's own evidence shows that jobs linked to global value chains earn one-third more than those jobs focused on the domestic market. The inability to accede to the RCEP and ensure India's integration into these emerging global value chains means India will lose out on a key opportunity to create such high-quality, high-paying jobs. Moreover, India's absence in both of Asia's two key economic architectures will take away from India's goals as a regional and Indo-Pacific power, as well as a prospective global power.

Given India's own ambitions to generate growth and jobs through spurring manufacturing within India, and becoming a key player and rule-maker on the world stage, India's decision to withdraw from the RCEP is not ideal. India now faces a choice: does it translate this withdrawal from the RCEP into a commitment for domestic reforms to prepare itself for the next opportunity to integrate itself into the global value chains and unleash Indian manufacturing? Or does it revise its ambitions and, as the Prime Minister said, remain "isolated and sitting alone in a corner?" Hopefully, India chooses the former path.

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