

THE CHINA FACTOR IN INDIA'S RCEP MOVE

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Prime Minister Narendra Modi's ASEAN sojourn this year will be remembered for India finally rejecting the Regional Comprehensive Economic Partnership (RCEP) trade deal. Apart from the 10 member states of the Association of Southeast Asian Nations, the mega deal was to include the bloc's six free trade partners — China, India, South Korea, Japan, New Zealand and Australia. In his speech at the RCEP summit in Bangkok, Mr. Modi argued that while "India has been proactively, constructively and meaningfully engaged in the RCEP negotiations since inception," the draft RCEP agreement did "not fully reflect the basic spirit and the agreed guiding principles of RCEP" even as it did "not address satisfactorily India's outstanding issues and concerns."

The RCEP negotiations were launched in 2012 and, this year, there was a big push to get it finalised. After India's rejection, the remaining 15 members decided to go ahead and underlined their intent to sign a trade deal sometime next year, keeping the door open for India to join at a later date.

At a time of escalating Sino-U.S. trade tensions, China was particularly keen to see a successful conclusion of the RCEP summit and had been vigorously pushing for that. But that's precisely where the problem for India lay as well. India's demands at the RCEP negotiations included shifting the base year for tariff cuts from 2014 to 2019; avoiding a sudden surge in imports from China by including a large number of items in an auto-trigger mechanism; calling for stricter rules of origin to prevent dumping from China; and a better deal in services. The China factor, therefore, was key to New Delhi's assessment of costs and benefits.

While India runs large trade deficits with at least 11 of the 15 RCEP members, China alone accounts for \$53 billion of India's \$105 billion trade deficit with these. Given China's needs for greater access to Indian market to sustain its manufacturing industries, India was keen to protect its industry and farmers from a surge in Chinese imports.

India's experience with Free Trade Agreements (FTAs) has been underwhelming, with the Niti Aayog suggesting that FTA utilisation, which is in the 5%-25% range, was measly. Domestically, the RCEP generated considerable opposition with major stakeholders coming out against it, be it farmers, dairy industry or the corporate sector. The Opposition Congress Party, which joined the RCEP negotiations seven years ago, too decided that it was politically expedient to oppose the pact. Difficulties in the Indian economic landscape further compounded the problems. If global negotiations are a "two level" game, both the levels were facing severe challenges, making this rejection a veritable necessity.

Comprising half of the world population and accounting for nearly 40% of the global commerce and 35% of the GDP, the RCEP would have become the world's largest free trade area after finalisation, with India being the third-biggest economy in it. Without India, however, the RCEP does not look as attractive a trade pact as it had seemed during negotiations. Not surprising, therefore, that there are divisions within the ASEAN on moving ahead without India.

ASEAN has always been keen on a diversified portfolio of partners so that its member states can leverage their centrality in their dealings with major powers and maintain their strategic autonomy. While China's clout has been growing in the region, ASEAN member states have tried to keep the U.S. engaged in the region as well. But with the Trump administration giving mixed signals about Washington's commitment towards the region, ASEAN has been looking at

New Delhi with a renewed sense of anticipation.

The Modi government's proactive outreach to the region in the form of its 'Act East' policy has been well received. Anxious about China's increasingly overweening economic and security presence in the region, ASEAN member states have been keen on a substantive Indian involvement in the region. India's decision to keep away from the RCEP will, hence, certainly cause concerns about its larger game plan vis-a-vis the region. New Delhi's entire Indo-Pacific strategy might be open to question if steps are not taken to restore India's profile in the region. For China, this looks like a win at a time when the Trump administration is pushing Asia into making a choice in its favour by jettisoning Chinese largesse on infrastructure and technology.

Both geopolitically and geo-economically, China now looks set to dominate the Indo-Pacific, which may not be good news for the region and India. This is the reason why Japan is now suggesting that it would work towards a deal which includes India. Even as China is pushing for an early conclusion of RCEP among the remaining 15 members, Japanese Trade Minister Hiroshi Kajiyama made it clear that Tokyo "wants to play a leading role toward reaching an early agreement between all 16 countries, including India, with the aim of signing it in 2020."

Economic isolation is not an option for India and so there are reports that New Delhi will be moving towards bilateral trade pacts. India will have to prepare itself more fully to take advantage of such pacts. Domestic reforms will be the need of the hour. This is an age when the whole raison d'être of economic globalisation is being challenged. India needs a strategy that brings together the economic and political aspects of its strategic thinking. In rejecting the RCEP, New Delhi seems to be signalling that despite the costs, China's rise has to be tackled both politically and economically. How the rest of East and Southeast Asia responds to India's move will determine the future balance of power in the Indo-Pacific.

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